INDEPENDENT CASE STUDY | PUBLIC INFORMATION ONLY

Brighthouse / Aquarian

A $22 spread priced for failure

Merger-arbitrage assessment of Aquarian Capital's $70.00 cash offer for Brighthouse Financial (NASDAQ: BHF)
Figures in US$ unless noted
Spread, implied probability, break value, scenario tree, sizing, hedging and catalysts

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Not prepared for, reviewed by or affiliated with Brighthouse, Aquarian, Talcott or any employer or client. Not investment advice.

Recommendation: buy BHF at $47.80 with a 2% NAV starter (3% max), sized as an option on approval

The market implies a 15% chance that Aquarian closes; we put any close at 25%. The stock gains 46% if the deal closes and loses 7% if it breaks.

15.2%

Market-implied P(close)

Base break $44.50, carry to a 31-Jan-27 close. At signing it was 86%.

+6.7%

Expected return (PV)

Probability-weighted value $51.00; 17% annualised over 0.42 years

−0.37%

NAV at risk, low-case break

On the 2% starter if BHF falls to $39.02 (0.25x BV ex-AOCI). Base break: −0.14%

The spread is wide for a reason.

Delaware has hired outside experts and has questioned Aquarian's capital sources. The 6-Dec-2026 outside date is final unless amended, and no fee is owed to BHF if regulators refuse.

Textbook break prices sit above the stock.

The undisturbed multiple rolled forward gives $54.76 and the peer-adjusted price $61.45. The market is pricing a "damaged goods" break near $44.50.

The payoff is asymmetric.

+$22.20 to $70 against −$3.30 to the base break (6.7x). The trade breaks even with only a 5.2% chance of closing as signed.

Talcott gives a second way to win.

It bid $52.00 after diligence in 2025 and wrote to the board again in August 2026. A $2.50/sh tail fee is owed to Aquarian if BHF signs with Talcott within 12 months of terminating.

Source: Valuation date: close of 14-Oct-2026 (BHF $47.80). Model (model/BHF_merger_arb_model.xlsx); BHF 8-K 6-Nov-2025, DEFM14A 7-Jan-2026, Q2-26 release; Delaware DOI 17-Aug-2026; Bloomberg/Royal Gazette (Talcott); Yahoo Finance close 14-Oct-2026.

From sale process to a 46% spread: ten months to sign, then ten months of regulatory review

Shareholder, antitrust and FINRA conditions are done. Only the Delaware, New York and Massachusetts Form A approvals remain.



Implication: at 296 days since the Form A filings, no Delaware hearing notice has been posted. Delaware says a hearing is scheduled only once the application is complete, and the deal can close only after a final order. That notice is the catalyst that matters most.

Source: DEFM14A 7-Jan-2026 (background, Form A filing 22-Dec-2025); 8-Ks 6-Nov-2025, 12-Feb-2026; Q2-26 release 5-Aug-2026; Delaware DOI 17-Aug-2026; WSJ 17-Aug-2026; Bloomberg 21-May, 10-Sep, 22-Sep-2026; Royal Gazette 14-Oct-2026.

The contract protects Aquarian, not BHF, if the regulators say no

Financing is not a condition, but the $225.5M reverse fee applies only if Aquarian fails to close once all conditions are met.

Term	Detail
Consideration	$70.00 cash per share; about $4.1B. 37.0% premium to the $51.09 undisturbed close (27-Jan-2025)
Buyer and financing	Aquarian Holdings VI L.P. Equity commitment from Aquarian Capital, backed by a Mubadala Capital investment commitment (press: ~$3B), plus a bank debt commitment (press: $1.5B)
Conditions met	Stockholder vote (12-Feb-2026), HSR and FINRA: “all other conditions satisfied or waived” (Q2-26 release)
Conditions open	Form A approvals in Delaware, New York and Massachusetts (incl. investment-management agreements); no Burdensome Condition; no MAE
Outside date	6-Sep-2026, extended automatically to 6-Dec-2026 (13 months). No further automatic extension; any later date needs an amendment
Company fee (BHF pays)	$143.5M ($2.50/sh): change of recommendation or superior proposal; 12-month tail after an outside-date termination if a proposal was made
Parent fee (Aquarian pays)	$225.5M ($3.92/sh): only if Parent fails to close within 5 business days after conditions are met
Specific performance	BHF can force the equity funding and closing once conditions are met; it cannot enforce the debt commitment
Left outstanding	$1.75B of preferred (liquidation preference) and all senior and junior notes

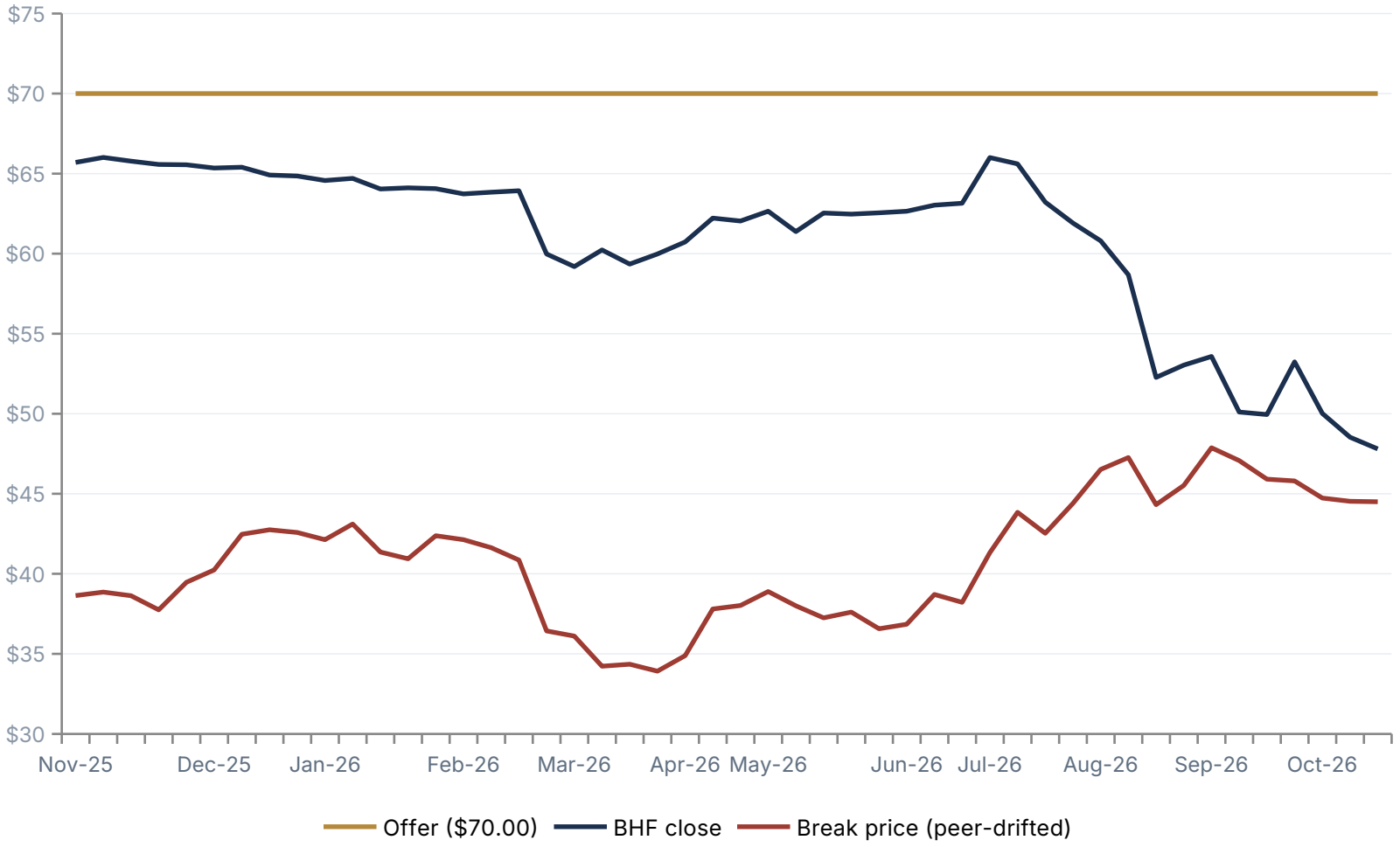
IF THE REGULATORS REFUSE OR STALL

- No fee to BHF: a regulatory failure is not a Parent breach.
- After 6-Dec either side may terminate. Extending needs both to agree, which gives Aquarian leverage.
- Aquarian need not accept a Burdensome Condition: capital or guarantees beyond its Business Plan, or new dividend limits. A demanding approval invites a price cut.
- Tail fee: if BHF agrees a deal with a bidder who approached it (e.g. Talcott) within 12 months, it owes Aquarian $2.50/sh.

Source: Merger agreement (Ex. 2.1 to 8-K 6-Nov-2025) s.6.3(f), 8.1, 8.3, 9.9; DEFM14A 7-Jan-2026 (fees, financing, specific performance); Q2-26 release (conditions status); press reports for financing amounts (Bloomberg via Kalkine, 10-Sep-2026).

The spread has widened from $4.30 to $22.20, most of it since Delaware went public in August

BHF weekly closes against the $70 offer and our break price, moved in line with the CRBG/JXN/LNC basket. The stock now trades only $3.30 above that break.



WAYPOINTS

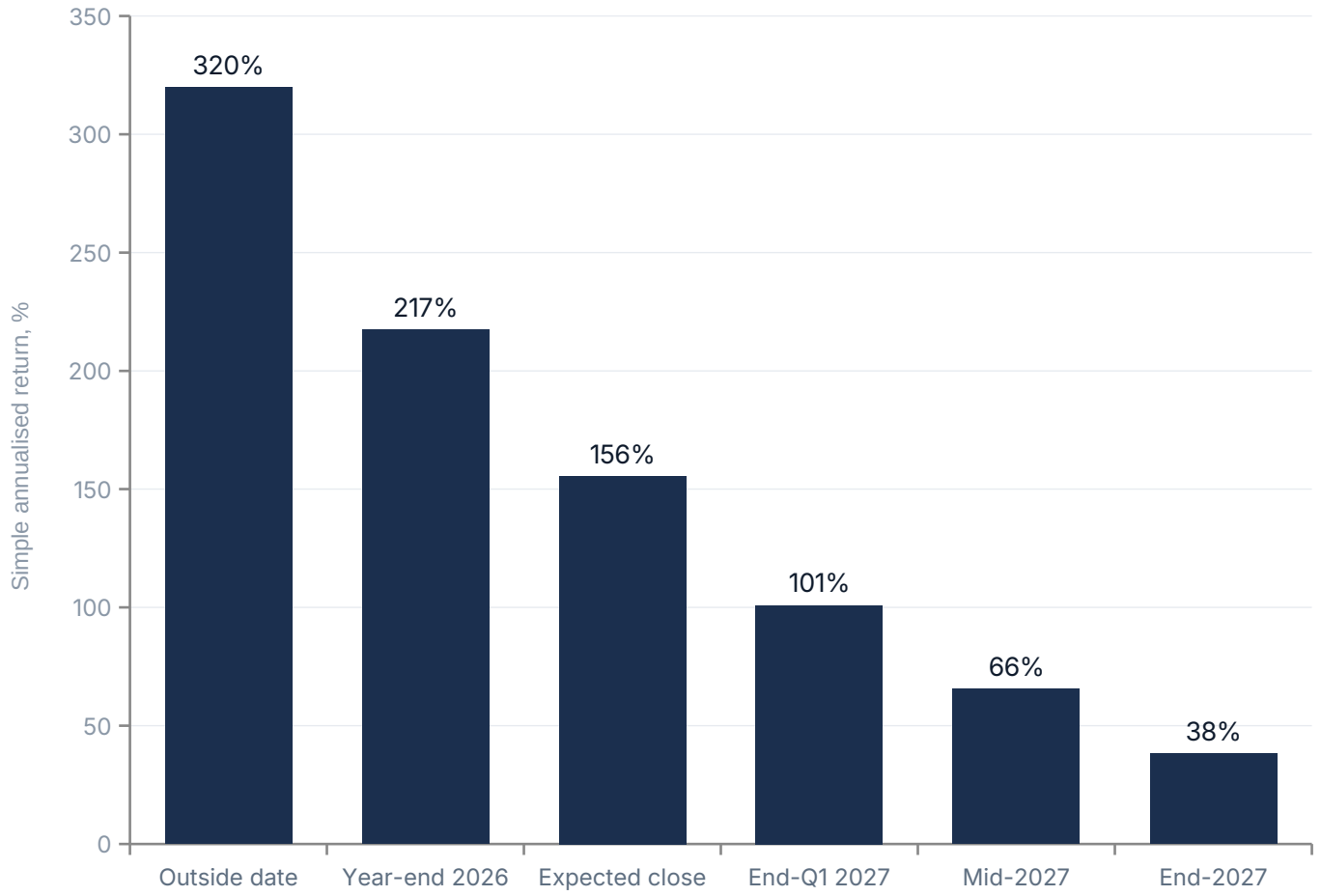
Date	BHF	Spread
06-Nov-25 (signing)	$65.70	$4.30
Peak weekly close	$66.01	$3.99
14-Aug-26 (pre-DE)	$58.68	$11.32
14-Oct-26 (now)	**$47.80**	**$22.20**

- 17-Aug: Delaware says it has hired outside experts. BHF closes down 5%, at its lowest since signing.
- 6-Sep: the original outside date passes; the deal extends automatically to 6-Dec.
- 10-Sep and 22-Sep: Bloomberg reports the regulator questioned Aquarian's capital sources, then Talcott's renewed interest.

Source: Yahoo Finance weekly (Friday) closes 6-Nov-2025 to 14-Oct-2026; model sheet SpreadHistory. Break line = $44.50 base break x equal-weight CRBG/JXN/LNC index (1.00 at the valuation date).

If it closes, the return is large on any timetable: 156% annualised to a January 2027 close

Gross spread of $22.20 (46.4%) on $47.80. No common dividend is paid before closing (merger covenant), so the spread is the whole return.



RETURN TO EACH CLOSE DATE

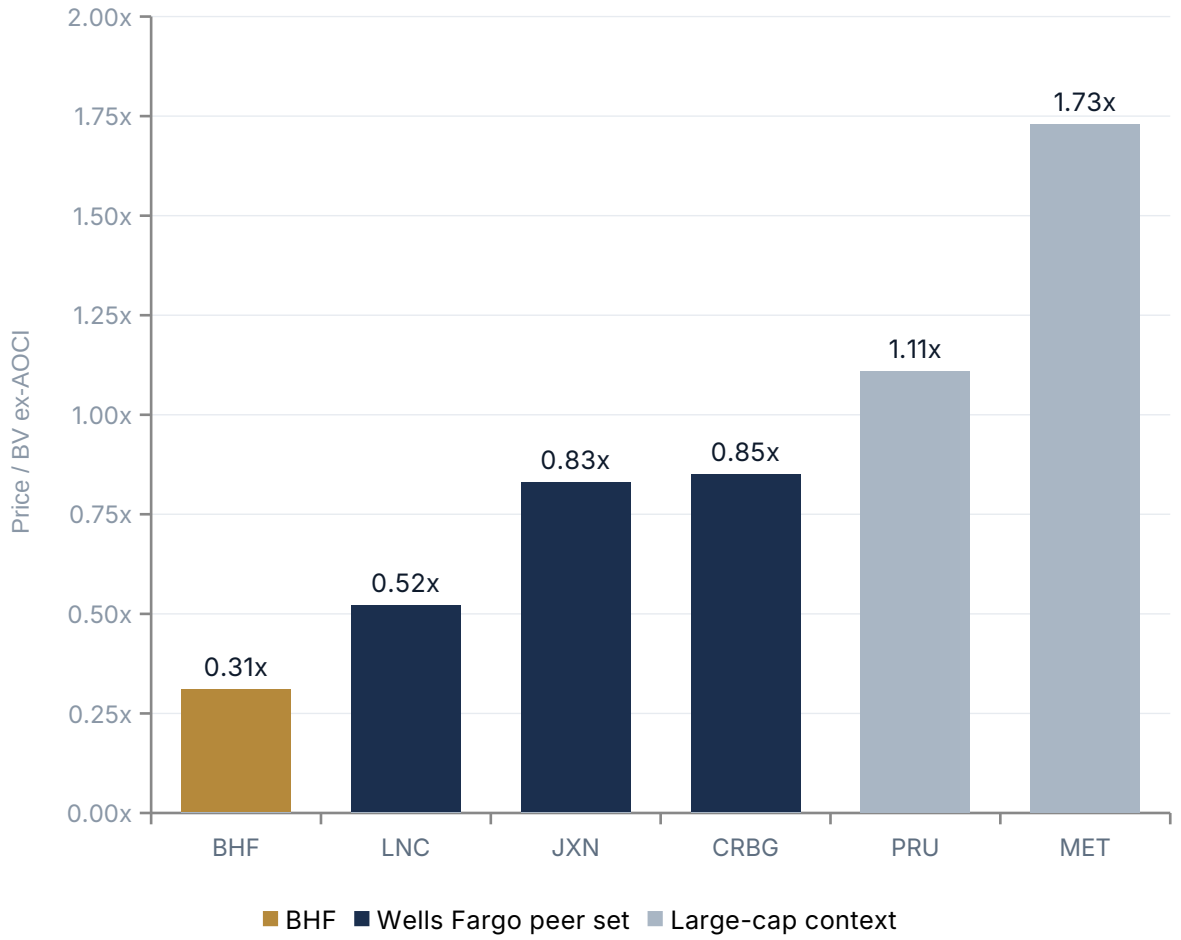
Close date	Years	Simple	Compounded	Less carry
06-Dec-26	0.15	320%	1283%	45.9%
31-Dec-26	0.21	217%	496%	45.6%
31-Jan-27	0.30	156%	259%	45.2%
31-Mar-27	0.46	101%	129%	44.6%
30-Jun-27	0.71	65%	71%	43.5%
31-Dec-27	1.21	38%	37%	41.5%

The headline returns are conditional on closing. Weighting each outcome by its probability, the expected return is +6.7% on a PV basis, or 17% annualised (slide 11).

Source: Model sheet Deal. Simple annualised = spread % / years; compounded = (1 + spread %)^(1/years) − 1; carry = 3-month T-bill (4.08%, ^IRX 14-Oct-2026). Close dates are illustrative, except the 6-Dec-2026 outside date.

BHF trades at 0.31x book ex-AOCI, a 63% discount to CRBG/JXN/LNC. Statutory capital explains why

GAAP book ex-AOCI rose 8.3% over the year to Q2-26, while statutory total adjusted capital fell 12.5%. Regulators and buyers price the statutory number.



BHF AT MARKET VS AT THE DEAL PRICE

Metric	At $47.80	At $70.00
Price / book value	0.57x	0.83x
Price / BV ex-AOCI ($156.10)	0.31x	0.45x
Equity value / statutory TAC ($4.9B)	0.56x	0.82x
P / LTM adj. EPS ($17.27)	2.8x	4.1x
Equity value ($M)	2,749	4,026

STATUTORY CAPITAL ($B, COMBINED)

	Q2-25	Q3-25	Q4-25	Q1-26	Q2-26
Total adjusted capital	5.6	5.4	5.3	5.0	4.9

RBC ratio 430-450% (target 400-450%); holding-company liquid assets $0.9B. Capital above 400% RBC: about $0.45B (derived from the TAC and the RBC midpoint).

Source: Company Q2-26 releases and supplements (BHF, CRBG, JXN, LNC, PRU, MET, EQH); Yahoo Finance closes 14-Oct-2026. CRBG, JXN and MET use company-defined adjusted BV ex-AOCI. EQH excluded: negative GAAP BV ($(6.79)/sh), 3.13x BV ex-AOCI.

Textbook break prices sit above the stock, so we anchor on what an informed bidder offered: $44.50

If $54.76 or $61.45 were the break, the implied odds of closing would be negative. The market expects a failed-sale discount.

Method	Basis	$/sh	Weight
M1 Bidder-implied	Talcott's $52.00 diligenced 2025 bid / (1 + 20.9% median premium)	$43.01	1/3
M2 Fairness-opinion DDM	Midpoints of the Goldman and Wells Fargo DDM ranges (30-Jun-2025)	$43.66	1/3
M3 Trough multiple	0.30x Q2-26 BV ex-AOCI (low end of the WF precedent range)	$46.83	1/3
Base break price		**$44.50**	
Low case	0.25x BV ex-AOCI (low end of the Goldman range)	$39.02	stress
R1 Textbook: multiple roll-forward	Undisturbed 0.351x (51.09 / 145.63) x $156.10	$54.76	high case
R2 Textbook: peer-adjusted	$51.09 x CRBG/JXN/LNC basket return since 27-Jan-25 (20.3%)	$61.45	reference

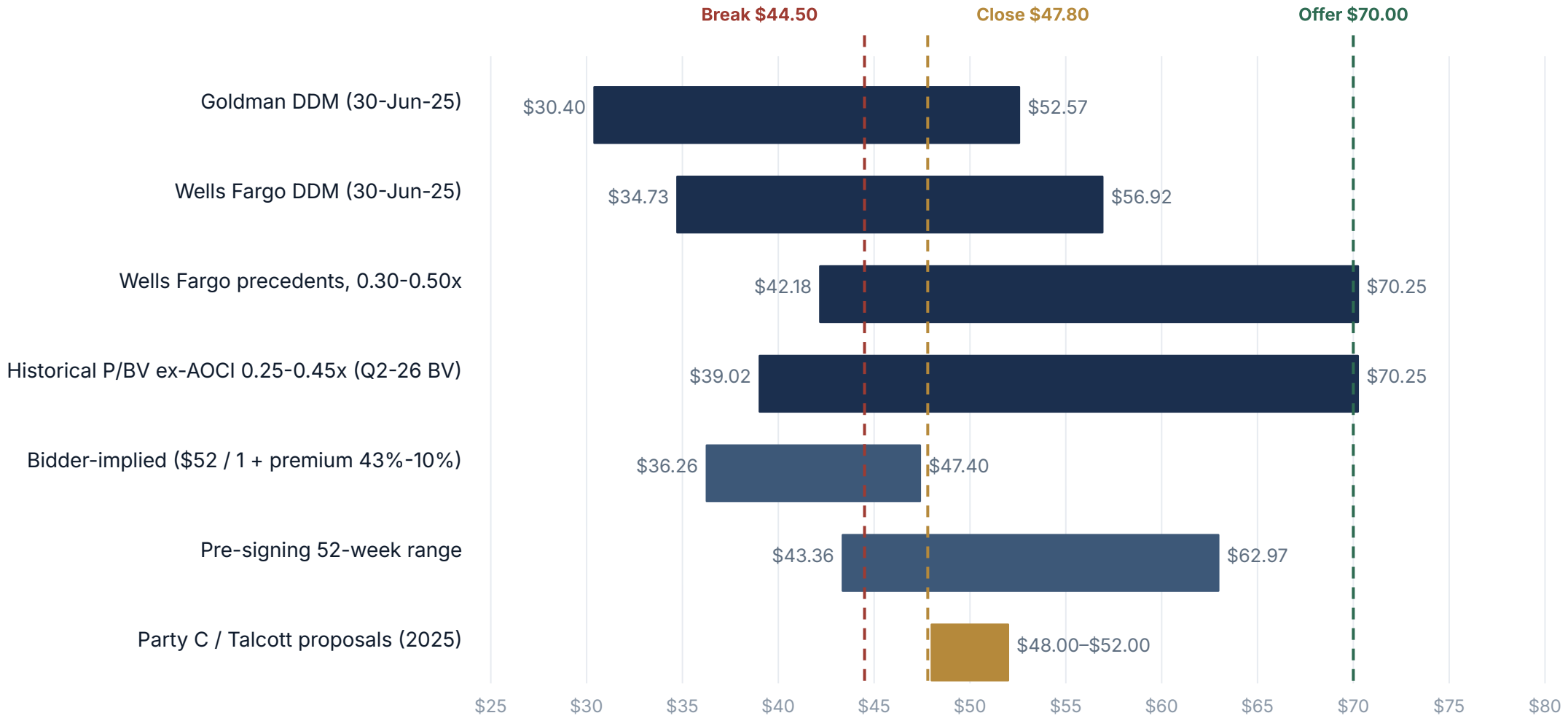
WHY WE DE-WEIGHT THE TEXTBOOK

- Statutory capital fell $0.7B (−12.5%) in a year in which the peers re-rated; BHF did not keep pace.
- Talcott, the only rival with a financing plan in 2025, bid just $48-52 after full diligence and cited higher hedging costs.
- In a break, the regulator's doubts about a sponsor-style buyer also weigh on Talcott, and event-driven holders would sell.
- Cross-check: at $44.50, BHF would trade at 0.29x BV ex-AOCI and 0.52x TAC.

Source: DEFM14A 7-Jan-2026: Party C $52.00 exclusivity price; Goldman 706-deal median premium 20.9% (75th pct 43.4%); GS DDM $30.40-52.57; WF DDM $34.73-56.92; WF precedents 0.30-0.50x. BV ex-AOCI $145.63 (31-Dec-24) and $156.10 (30-Jun-26): BHF releases. Model sheet Break.

Standalone methods cluster in the low-to-mid $40s; only control bids and peer multiples get near $70

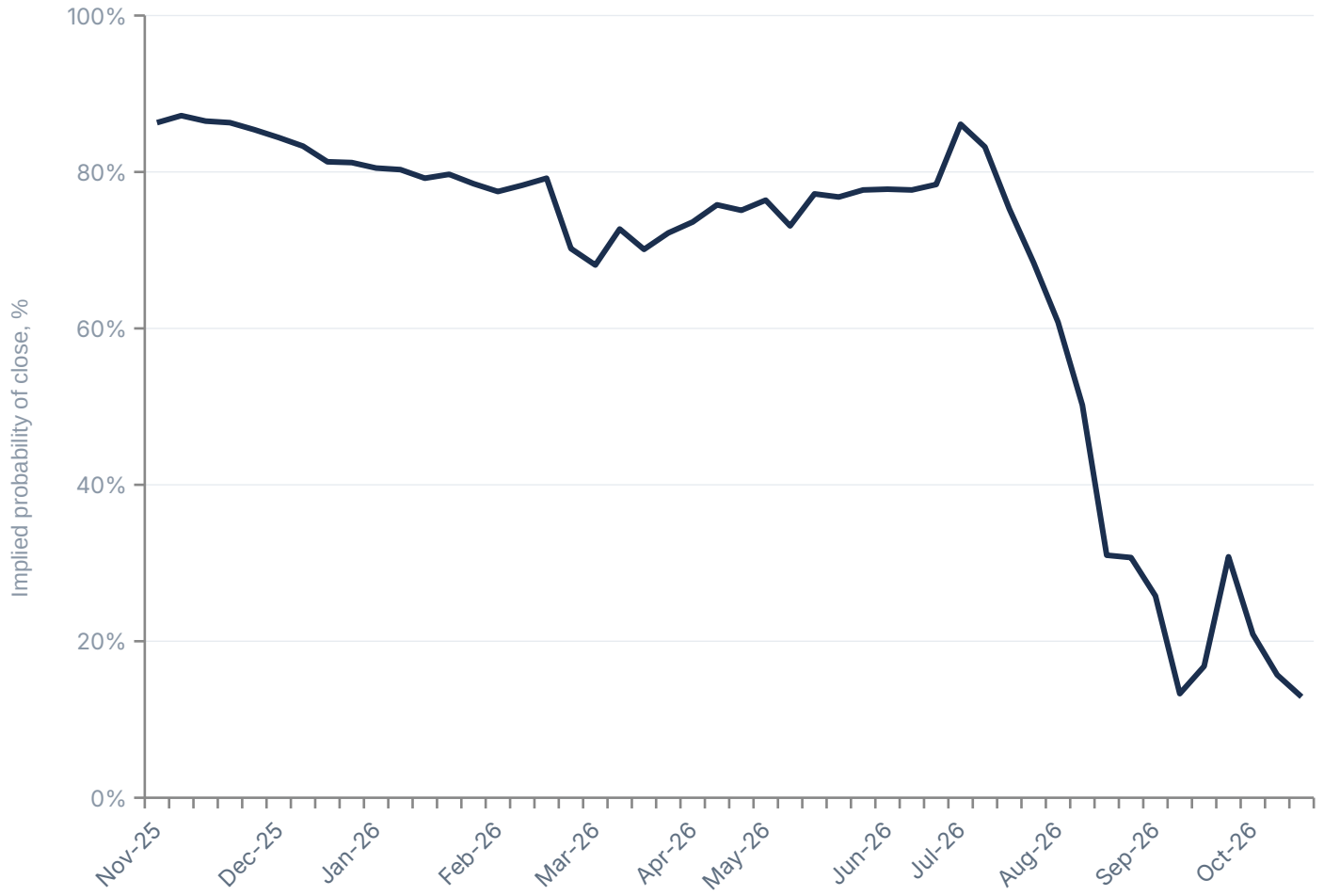
Break-value football field, $ per BHF share. Dashed lines: base break $44.50, close $47.80 and the $70.00 offer.



Source: DEFM14A 7-Jan-2026 (Goldman and Wells Fargo analyses; Party C proposals; pre-signing 52-week range); BHF Q2-26 release (BV ex-AOCI $156.10). Model sheet Football. Goldman's precedent range ($37.96-171.53) omitted as uninformative.

The market's implied odds of closing fell from 86% at signing to 15% today

Implied P(close) = (price – break) / ($70 – break). The weekly series uses the peer-drifted break and no carry; the headline adds carry to the expected close.



IMPLIED P(CLOSE): BREAK PRICE X CLOSE DATE

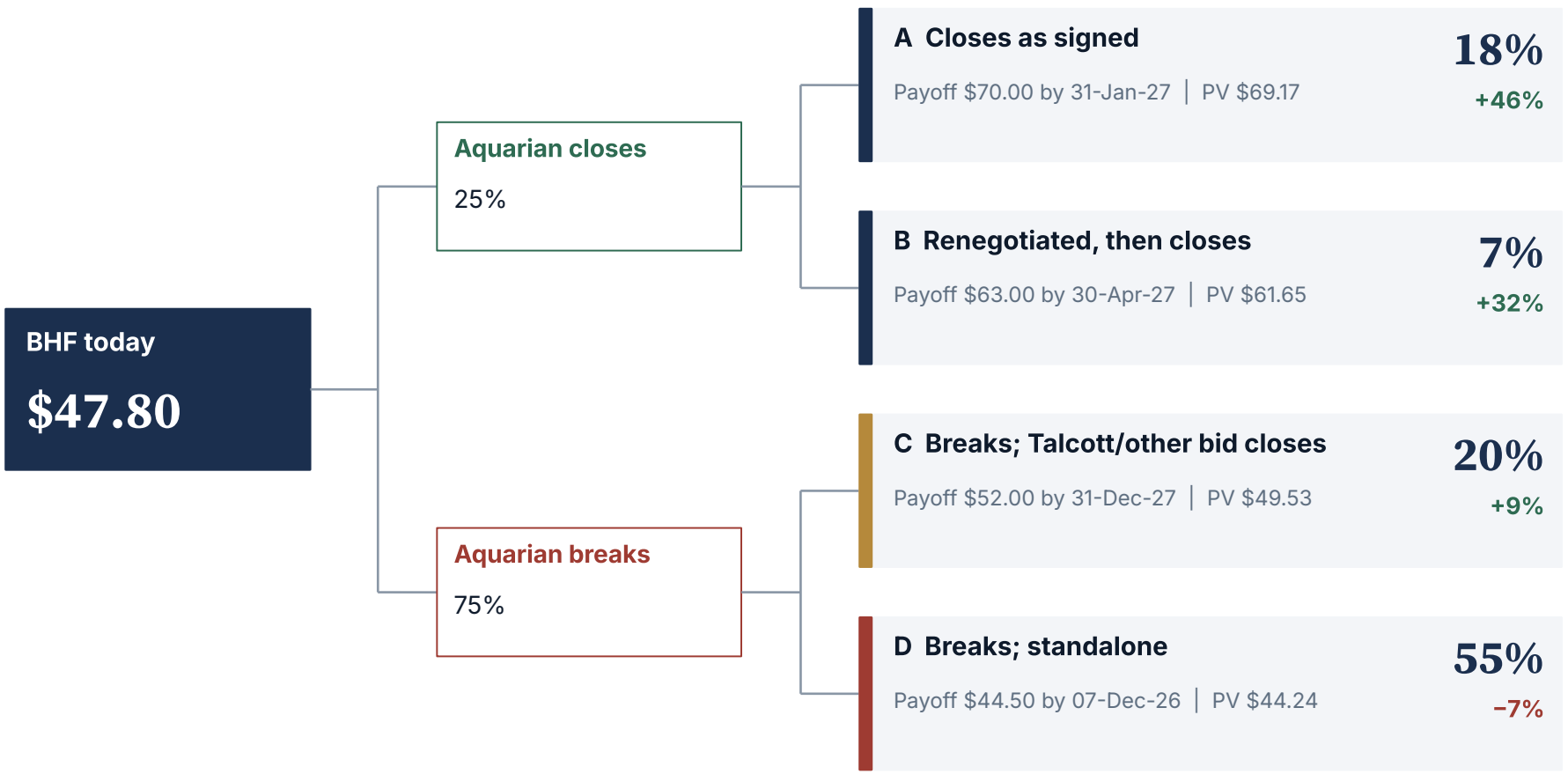
Break \ close	06-Dec-26	31-Jan-27	30-Jun-27
$39.00	29%	30%	33%
$42.00	22%	23%	26%
$44.50 (base)	14%	**15%**	18%
$47.00	5%	6%	10%
$50.00	-10%	-8%	-4%

Other readings	P(close)
No carry, base break	12.9%
P($70) if Talcott is 20% at $52	9.3%
Low-case break $39.02	30.2%
Textbook break $54.76	-41.9%

Source: Model sheets SpreadHistory and Implied. Yahoo Finance weekly closes. Carry at the 3-month T-bill (4.08%). Expected close 31-Jan-27 (assumption).

Probability-weighted value is $51.00 (PV), 6.7% above the price

Four outcomes. Probabilities are our judgement and are flagged as assumptions; payoffs are discounted to today at the T-bill rate.



EXPECTED VALUE

	Value
EV, nominal	$51.88
EV, PV	**$51.00**
vs price	+6.7%
Annualised	17%
Horizon (yrs)	0.42
Std. dev. ($)	9.89

Our total chance of closing (25%) is above the market's 15%: financing is committed, every other condition is met, and regulators usually impose conditions rather than reject outright.

Source: Model sheet Scenarios. A: $70 per merger agreement. B: assumed 10% cut via the Burdensome Condition lever. C: Talcott's 2025 $52 price, tail fee absorbed by the bidder, new Form A cycle. D: base break $44.50.

The trade loses money only if the odds of closing fall below 5% or the break is below $38.64

Expected PV return by the probability of closing as signed (rows) and the standalone break price (columns). B and C held at 7% and 20%; D takes the rest.

P(A) \ break	$39.00	$42.00	$44.50*	$47.00	$50.00
8%	−6.0%	−1.9%	+1.5%	+4.9%	+8.9%
13%	−2.8%	+1.0%	+4.1%	+7.2%	+11.0%
18% (base)	+0.4%	+3.8%	**+6.7%**	+9.6%	+13.0%
23%	+3.6%	+6.7%	+9.3%	+11.9%	+15.0%
28%	+6.8%	+9.6%	+11.9%	+14.3%	+17.1%

* Base break price. Shaded red: negative expected return; green: above +8%.

BREAKEVENS AND STRESS

Measure	Value
Breakeven P(close as signed)	5.2%
Market-implied P(close)	15.2%
Breakeven standalone break	$38.64
Upside / downside, base break	6.7x
Upside / downside, low break	2.5x
Bear-case expected return	−4.6%

The bear case is negative: if both the odds and the break are worse than our base, the edge disappears. That is why the position is small.

Source: Model sheet Scenarios (grid computed live in the workbook). Bear case = P(A) 10% with the $39.02 low-case break.

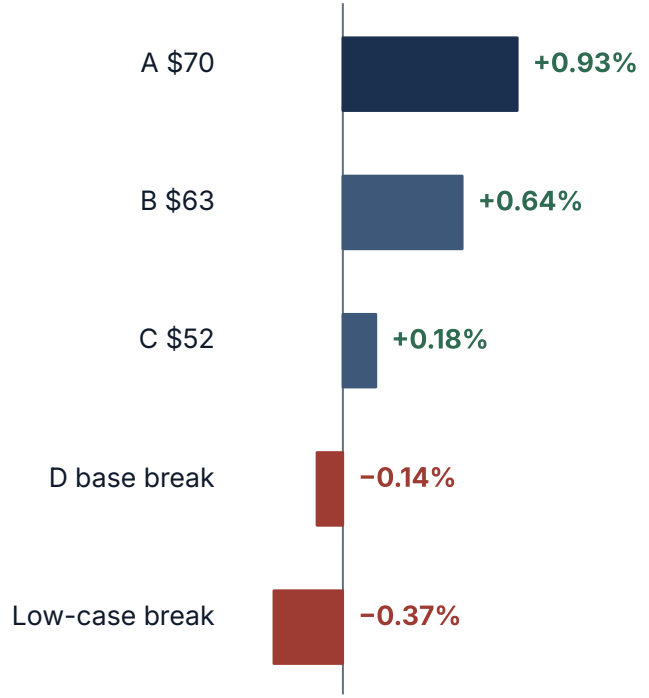
Size it as an option: 2% of NAV risks 0.14% in the base break and 0.37% in the low case

Kelly supports far more in the base case but zero in the bear case, so a loss budget and hard cap set the size; a peer short hedges sector beta.

FROM KELLY TO A POSITION

Step	% NAV
Full Kelly, base case	292%
Full Kelly, bear case	0%
Quarter-Kelly (base)	73%
Loss budget 0.60% / 18.4% low-case loss	3.27%
Hard cap (single event)	3.0%
Maximum position	**3.0%**
Starter position	**2.0%**

NAV P&L BY OUTCOME, 2% STARTER



Change in fund NAV if each outcome occurs

Nominal payoffs. Expected NAV contribution: +0.13% (PV).

HEDGING

Measure	Value
Undisturbed beta to peer basket	0.78
Correlation	0.70
Hedge ratio = beta x P(D)	0.43
Basket short at 2% starter	0.85% NAV
Basket short at 3% max	1.28% NAV

- The short hedges the sector move in the break value, not the jump itself. Close it out if the deal closes.
- Puts or put spreads on BHF would cap the jump risk. We have not priced them because we had no options data.
- The listed preferreds and notes stay outstanding after the merger, so they do not hedge the common.

Source: Model sheets Sizing and Hedge. Kelly = argmax of E[ln(1 + f r)] over the scenario PV returns (grid in workbook). Beta: 105 weekly returns of BHF vs equal-weight CRBG/JXN/LNC, 2023 to 24-Jan-2025 (undisturbed). Loss budget and cap are assumptions.

What to watch: a Delaware hearing notice before 6-Dec is the signal that changes the odds

Forward catalysts and how the position responds to each. Dates marked (est.) are not confirmed by the company.



Now — 14-Oct-26	~5-Nov-26 (est.) — Q3-26 results	Any time — DE hearing notice	Any time — NY / MA decisions	6-Dec-26 — Outside date	Dec-26 to Dec-27 — Talcott window
WHAT IT TELLS US BHF $47.80; implied P(close) 15%	**WHAT IT TELLS US** RBC, TAC, holdco liquidity; deal-timing language	**WHAT IT TELLS US** Means Delaware considers the Form A complete	**WHAT IT TELLS US** Approvals, or conditions that trigger a Burdensome Condition	**WHAT IT TELLS US** Either party may terminate. An amendment means both still want the deal	**WHAT IT TELLS US** A deal agreed within 12 months triggers a $2.50/sh tail fee
POSITION **Enter 2% NAV starter with peer hedge**	**POSITION** **Falling TAC or softer language: trim**	**POSITION** **Add to 3% max**	**POSITION** **Conditions: model a price cut (B)**	**POSITION** **Amended: hold. Terminated: see next**	**POSITION** **Public Talcott bid: hold for C. None in 30 days: exit**

Days to outside date: 53. Days since Form A filings: 296. Delaware law requires at least 20 days' notice of the hearing, so closing by 6-Dec needs a notice by about 16-Nov.

Source: Merger agreement s.8.1 and 8.3 (outside date, tail fee); Delaware DOI 17-Aug-2026 (hearing process); 18 Del. C. s.5003 (20-day hearing notice); MarketBeat (Q3-26 date estimate, unconfirmed); Q2-26 release. Reactions are the case study's rules, not forecasts.

The main risks are regulatory, and each has a rule written into the position

Ranked by expected damage to the position. Impacts are per BHF share from today's $47.80.

Risk	Likelihood	Impact	Mitigant / rule
Delaware rejects, or stalls past 6-Dec with no amendment	High	Base break ($3.30) (−6.9%); low case ($8.77)	Small size (2% NAV) and a loss budget that holds at the low-case break. Exit if no bidder appears within 30 days of termination.
Approval with heavy conditions leads to a price cut	Medium	Scenario B: $63 (+32%)	Still profitable from $47.80. Watch the NY/MA orders for capital, guarantee or dividend terms that go beyond the Business Plan.
Aquarian's financing weakens (syndication, CFIUS on Mubadala)	Medium	Raises the odds of D	BHF can force the equity funding once conditions are met; the reverse fee ($3.92/sh) applies to a failure to close. Track Mubadala and CFIUS news.
Break value lower than modelled (holders sell, capital drift)	Medium	Every $1 lower = 2.1% more loss	The peer-basket short (0.43x) hedges sector drift. Trim if Q3-26 shows TAC still falling.
Talcott does not follow through, or the tail fee deters it	Medium	C falls away; more weight on D	Hold for C only on a public, financed proposal. The $2.50/sh tail is small next to a $52 bid.
Litigation or an RBC shock before closing	Low	Delay; MAE argument	Two NY disclosure suits were filed in Jan-2026. Q2-26 RBC of 430-450% is in the target range; watch market-driven RBC moves.

Source: Model sheets Scenarios and Sizing; merger agreement s.6.3(f) (Burdensome Condition), s.8.3 (fees); DEFM14A (CFIUS filing on Mubadala's commitment; specific performance); Bloomberg 10-Sep-2026 (regulator questions on capital).

Buy BHF with a 2% starter, add to 3% on a hearing notice, and exit a dead deal quickly

This is an event option, not a classic low-risk arbitrage. The rules below keep losses small if the deal breaks and capture the upside if it closes.

1

Enter

Buy 2% of NAV at or below $49; short 0.85% NAV of CRBG/JXN/LNC

2

Add

On a Delaware hearing notice or an NY/MA approval, go to the 3% cap

3

Hold

Through 6-Dec if the parties amend the outside date

4

Re-underwrite

Approval with conditions: re-price to scenario B ($63) and resize

5

Exit

Terminated with no public financed bid within 30 days: sell. Talcott bid: hold for $52

WHY LONG, NOT PASS

- The expected PV return is +6.7% (17% annualised), and it stays positive above a 5.2% chance of closing.
- The downside is bounded by fundamentals: $44.50 is 0.29x BV ex-AOCI with RBC at 430-450%.
- Two routes to a profit: Aquarian at $70, or Talcott at about $52.

WHAT WOULD MAKE US PASS OR EXIT

- A public Delaware statement or order that rejects the Form A, or Aquarian walking away from conditions
- Q3-26 TAC below $4.7B or RBC below 400%, which would lower the break price
- BHF above about $53 with no new regulatory news: the asymmetry narrows (implied odds near 30%)

Source: Model (all figures); rules are the case study's own and are illustrative. Not investment advice.

Appendix: key assumptions and what could not be verified

Every input is in the Inputs sheet and figures.json with its unit, as-of date and source URL, or is marked as an assumption.

KEY ASSUMPTIONS

Assumption	Value
P(A) close as signed / P(B) renegotiated	18% / 7%
P(C) Talcott / P(D) standalone	20% / 55%
Renegotiated price / Talcott price	$63.00 / $52.00
Expected close (A / B / C)	31-Jan-27 / 30-Apr-27 / 31-Dec-27
Trough / low-case P/BV ex-AOCI	0.30x / 0.25x
Discount rate for payoffs	3M T-bill 4.08%
Kelly fraction; loss budget; cap	0.25; 0.60% NAV; 3.0% NAV
Peer basket for drift and hedge	CRBG, JXN, LNC (Wells Fargo set)

NOT VERIFIED FROM PRIMARY SOURCES

- That Party C in the proxy is Talcott (Bloomberg/Royal Gazette say so, citing a filing and a source).
- The terms of Talcott's August 2026 letter: no price has been disclosed.
- Financing amounts (Mubadala ~$3B, $1.5B loan, $406M of BHF cash): press-reported.
- Status of NY and MA reviews and of CFIUS: no public update found.
- Q3-26 results date (~5-Nov-2026): third-party estimate.
- The Royal Gazette page returned a site error when fetched; its text was confirmed via a search index and the Bloomberg Law original.
- The 15-Oct-2026 close was not final in the data feed at build time (indicative $48.70), so the valuation date is 14-Oct.

Source: figures.json; model/BHF_merger_arb_model.xlsx (check.py: 0 mismatches). Press-reported items (financing amounts, Talcott letter, regulator questions) come from Bloomberg, WSJ and Royal Gazette and are not confirmed in SEC filings.