INDEPENDENT CASE STUDY | MERGER ARBITRAGE | PUBLIC INFORMATION ONLY

Brighthouse Financial / Aquarian

A $22 spread priced for failure

Merger-arbitrage assessment of Aquarian Capital's $70.00 cash acquisition of Brighthouse Financial (NASDAQ: BHF): deal terms, regulatory path, spread and implied probability, break value, scenarios, position sizing, hedging, catalysts and risks.

Snapshot	As of close 14-Oct-2026
Recommendation	**Long BHF, event-driven: 2% NAV starter, 3% max, with a 0.43x peer-basket hedge**
BHF close / offer	$47.80 / $70.00 cash
Gross spread	$22.20 (46.4%)
Market-implied P(close)	15.2% (our view of any close: 25%)
Base / low-case break	$44.50 / $39.02
Probability-weighted value (PV)	$51.00 (+6.7%; 17% annualised)
Breakeven P(close as signed)	5.2%
NAV at risk (2% starter)	−0.14% base break; −0.37% low case
Key catalyst	Delaware Form A hearing notice (needed by about 16-Nov for a 6-Dec close)

Prepared by Chafic Charafeddine | MS Finance, University of St. Thomas (2026) | CFA Level I candidate

Written report accompanying the 17-slide deck, the live-formula model (BHF_merger_arb_model.xlsx) and figures.json. Not prepared for, reviewed by or affiliated with Brighthouse, Aquarian, Talcott or any employer or client. Not investment advice. Report date: October 2026.

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ABOUT THIS REPORT

This is an independent case study built only from public information: SEC filings (the 6-Nov-2025 merger 8-K and agreement, the 7-Jan-2026 definitive proxy, later 8-Ks, the FY2025 10-K and Q2-2026 10-Q), company earnings releases, the Delaware Department of Insurance, state statute, market data and press reports. Press-only items are labelled as such.

One valuation date is used throughout: the close of Wednesday 14-Oct-2026 (BHF $47.80). The 15-Oct-2026 close was not final in the data feed at build time.

Every number in this report matches `figures.json` (192 figures with value, unit, as-of date and source URL or "assumption") and the deck. Probabilities and sizing limits are the author's assumptions and are flagged as such.

1. Executive summary and recommendation

15.2%	+6.7%	$22.20	−0.37%
Market-implied P(close), base break, with carry	Expected return (PV); 17% annualised	Gross spread (46.4%) to the $70 cash offer	NAV at risk, low-case break, 2% starter

Recommendation: buy BHF at $47.80 with a 2% NAV starter, capped at 3%, and hedge sector beta with a 0.43x short in a CRBG/JXN/LNC basket. We size this as an option on regulatory approval, not as a classic low-risk merger arbitrage.

- **The spread is wide for a reason.** Aquarian's $70.00 deal has cleared the stockholder vote, HSR and FINRA. But 296 days after the Form A filings, the Delaware Department of Insurance has hired outside experts, Bloomberg reports it has questioned Aquarian's capital sources, and no hearing notice has been posted. The 6-Dec-2026 outside date cannot extend again without an amendment, and BHF receives no fee if regulators refuse.
- **The market is pricing a failure.** At $47.80 the stock trades only $3.30 above our $44.50 break price. That implies a 15.2% chance of closing (with carry to a 31-Jan-2027 close), down from 86% at signing and 50% just before Delaware's 17-Aug statement.
- **Textbook break prices sit above the stock.** Rolling the undisturbed multiple forward gives $54.76; the peer-adjusted undisturbed price is $61.45. Either would imply a negative probability of closing. The market expects a "damaged goods" discount, and statutory capital (TAC −12.5% in a year) supports that view. We anchor the break on what an informed bidder offered, the fairness-opinion DDMs and a trough multiple.
- **The payoff is asymmetric.** Upside to $70 is $22.20; downside to the base break is $3.30, a 6.7x ratio. We put the chance of any close at 25%, and Talcott (which bid $52.00 in 2025) gives a second route to a profit. The probability-weighted value is $51.00 in PV terms, +6.7% above the price. The trade breaks even with only a 5.2% chance of closing as signed.
- **But the bear case is negative** (−4.6%), so size is set by a loss budget and a hard cap, not by Kelly. A 2% starter loses 0.14% of NAV in the base break and 0.37% in the low case; it gains 0.93% if the deal closes as signed.

DECISION RULES IN ONE LINE EACH

Enter: 2% NAV at or below $49, with a 0.85% NAV short of CRBG/JXN/LNC. **Add:** to 3% on a Delaware hearing notice or an NY/MA approval.

Hold: through 6-Dec if the parties amend the outside date. **Re-underwrite:** approval with conditions = re-price to the $63 renegotiation case.

Exit: terminated with no public, financed bid within 30 days. If Talcott bids publicly, hold for about $52.

2. Deal background

THE COMPANY

Brighthouse Financial is a U.S. annuity and life insurer separated from MetLife in 2017. Its three insurance subsidiaries are Brighthouse Life Insurance Company (domiciled in Delaware), Brighthouse Life Insurance

Company of NY (New York) and New England Life Insurance Company (Massachusetts). That is why the change of control needs Form A approvals from the Delaware Department of Insurance, the New York State Department of Financial Services and the Massachusetts Division of Insurance. At 30-Jun-2026 BHF reported book value of $84.35 per share, book value excluding AOCI of $156.10, statutory total adjusted capital (TAC) of $4.9B, a combined RBC ratio of 430-450% and $0.9B of holding-company liquid assets.

THE SALE PROCESS

The Financial Times reported a sale process in late January 2025; the last undisturbed close was **$51.09 on 27-Jan-2025**. The proxy's background section describes a competitive process. "Party C", which Bloomberg and the Royal Gazette identify as Talcott Financial Group (backed by Sixth Street), proposed $48.00 on 2-Sep-2025 and $51.10 on 11-Sep-2025, then agreed exclusivity at **$52.00** on 17/19-Sep-2025 after diligence, citing higher hedging costs. The board declined to extend that exclusivity on 16-Oct-2025.

On **6-Nov-2025** BHF signed with Aquarian Holdings VI L.P. (merger sub Aquarian Beacon) at **$70.00 per share in cash**, about $4.1B of equity value and a 37.0% premium to the undisturbed close. Goldman Sachs and Wells Fargo gave fairness opinions. Their standalone DDM ranges ($30.40-52.57 and $34.73-56.92) sit well below the offer. Holders approved by a wide margin: on 12-Feb-2026 holders cast 39.7M shares for and 0.05M against, 69.5% of shares outstanding.

THE BUYER AND ITS FINANCING

Aquarian is a private insurance-focused investment firm. The deal is funded by an equity commitment from Aquarian backed by a Mubadala Capital investment commitment and by a bank debt commitment. The proxy describes the commitment structure; the amounts come from press reports (Bloomberg via Kalkine): about **$3B** from Mubadala, a **$1.5B** loan and **$406M** of BHF cash. In May 2026 Bloomberg reported that Aquarian was seeking more backers to share Mubadala's commitment. Mubadala's sovereign ownership also brings a CFIUS filing. BHF's $1.75B of preferred stock (liquidation preference) and its senior and junior notes stay outstanding after the merger.

3. Merger agreement terms

The contract is well protected for the buyer and thin for BHF in the one scenario that now matters: a regulator that refuses or stalls.

Table 1. Key terms of the merger agreement

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, backed by a Mubadala Capital investment commitment (press: ~$3B) and a bank debt commitment (press: $1.5B). Financing is not a condition
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 (including investment-management agreements); no Burdensome Condition; no Material Adverse Effect
Outside date	6-Sep-2026 (10 months), extended automatically to 6-Dec-2026 (13 months) because only regulatory approvals were outstanding. No further automatic extension; a later date needs an amendment

Term	Detail
Company fee (BHF pays)	$143.5M ($2.50/sh): change of recommendation or superior proposal; 12-month tail after an outside-date termination if an acquisition proposal was made and not withdrawn
Parent fee (Aquarian pays)	$225.5M ($3.92/sh): only if Aquarian fails to close within 5 business days after all conditions are met. Not payable on a regulatory failure
Specific performance	BHF can force the equity funding (including the Mubadala investment) and closing once conditions are met; it cannot enforce the debt commitment
Burdensome Condition (s.6.3(f))	Aquarian need not accept capital contributions, guarantees or minimum capital beyond its Business Plan, dividend restrictions, changes to BHF's reinsurance subsidiary, or limits on investment management
Left outstanding	$1.75B of preferred (liquidation preference) and all senior and junior notes

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; Q2-26 earnings release (5-Aug-2026); press reports for financing amounts (Bloomberg via Kalkine).

WHAT THE TERMS MEAN FOR AN ARBITRAGEUR

- **No fee to BHF on a regulatory failure.** The reverse fee is a financing-failure fee, not a regulatory-failure fee. If Delaware refuses or stalls past 6-Dec, holders keep only the standalone value.
- **The outside date shifts leverage to Aquarian.** After 6-Dec either side may terminate. An extension needs both parties, so Aquarian can ask for concessions in return.
- **The Burdensome Condition is a price-cut lever.** If a regulator demands more capital or dividend limits than Aquarian's Business Plan allows, Aquarian can refuse to close, which invites a renegotiation. That is our scenario B ($63).
- **The tail fee taxes a Talcott deal, but only modestly.** If BHF agrees a deal with a bidder that approached it within 12 months of terminating, it owes Aquarian $2.50/sh, small next to a $52 bid.

4. Timeline

Figure 1. From sale process to a 46% spread: ten months to sign, then ten months of regulatory review



Source: DEFM14A 7-Jan-2026 (background); 8-Ks 6-Nov-2025 and 12-Feb-2026; Delaware DOI 17-Aug-2026; merger agreement s.8.1.

Table 2. Deal chronology

Date	Event	Source
27-Jan-2025	Last undisturbed close $51.09; FT reports a sale process the next day	DEFM14A
2 to 19-Sep-2025	Party C (reportedly Talcott) bids $48.00, $51.10, then $52.00 with exclusivity	DEFM14A

Date	Event	Source
16-Oct-2025	Board declines to extend Party C exclusivity	DEFM14A
6-Nov-2025	Merger agreement signed at $70.00 cash (~$4.1B)	8-K, joint release
19 / 22-Dec-2025	HSR filed; Form A filed in Delaware, New York and Massachusetts	DEFM14A
7-Jan-2026	Definitive proxy filed	DEFM14A
21 / 22-Jan-2026	Two disclosure suits filed in New York Supreme Court	DEFA14A 4-Feb-2026
12-Feb-2026	Holders approve: 39.7M for, 0.05M against	8-K
21-May-2026	Aquarian seeks more backers for Mubadala's ~$3B commitment	Bloomberg
5-Aug-2026	Q2-26 release: all conditions other than regulatory approvals satisfied or waived	Q2-26 release
17-Aug-2026	Delaware details its review and outside experts; BHF falls 5%	Delaware DOI; WSJ
6-Sep-2026	Initial outside date passes; automatic extension to 6-Dec-2026	Merger agreement; Q2-26 release
10-Sep-2026	Bloomberg: regulators question Aquarian's capital sources	Bloomberg
22-Sep / 14-Oct-2026	Talcott letter to the board reported (Bloomberg; Royal Gazette reprint)	Bloomberg Law; Royal Gazette
14-Oct-2026	Valuation date: BHF $47.80; spread $22.20 (46.4%)	Yahoo Finance
~5-Nov-2026 (est.)	Q3-26 results	MarketBeat (estimate)
6-Dec-2026	Extended outside date; no further automatic extension	Merger agreement

Source: As listed. Press items are not confirmed in SEC filings.

5. Regulatory path

With the vote, HSR and FINRA done, the deal now depends on three state insurance regulators. Delaware, as the domicile of the main operating company, is the gating item.

Table 3. Remaining approvals

Regulator	Entity	Status at valuation date
Delaware Department of Insurance	Brighthouse Life Insurance Company (main operating insurer)	Form A filed 22-Dec-2025. Outside experts hired; no hearing notice posted (17-Aug-2026 statement)
New York DFS	Brighthouse Life Insurance Company of NY	Form A filed 22-Dec-2025. No public update found
Massachusetts Division of Insurance	New England Life Insurance Company	Form A filed 22-Dec-2025. No public update found
CFIUS	Mubadala investment	Filing described in the proxy. No public update found

Source: FY2025 10-K (domiciles); DEFM14A 7-Jan-2026 (Form A filings, CFIUS); Delaware DOI release 17-Aug-2026.

HOW A DELAWARE FORM A WORKS

Under 18 Del. C. s.5003, the Commissioner must hold a public hearing on a Form A and give the applicant **at least 20 days' notice**. The statute also refers to a hearing within 45 days of filing and a decision within 30 days after the hearing. Delaware's 17-Aug-2026 statement, however, said a hearing will be scheduled only once the application is complete, and the deal can close only after a final order. The department has retained outside experts to review the application.

Arithmetic for the outside date. There are 53 days from the valuation date to 6-Dec-2026. A 20-day notice period, a hearing and a final order, followed by New York and Massachusetts approvals, means closing by 6-Dec needs a Delaware notice by about 16-Nov. If none appears, the parties must either amend the outside date or walk away. That is why our base case assumes a 31-Jan-2027 close, which itself needs an amendment.

WHAT THE REGULATORS APPEAR TO BE WEIGHING

- **Capital sources.** Bloomberg (10-Sep-2026) reports Delaware has questioned how Aquarian is funding the deal, including the Mubadala commitment and the reliance on debt and BHF cash.
- **Statutory capital trend.** Combined TAC fell from $5.6B (Q2-25) to $4.9B (Q2-26), −12.5%, while GAAP book ex-AOCI per share rose +8.3%. Regulators focus on the statutory number.
- **Sponsor-style ownership of a large annuity book.** Private-capital acquirers of life insurers have often faced conditions on capital maintenance, dividends and affiliated investment management. These are exactly the items the Burdensome Condition lets Aquarian refuse.

REGULATORY OUTCOMES AND HOW WE MODEL THEM

Approved broadly as filed → scenario A, $70 by 31-Jan-2027 (18%).

Approved with conditions beyond the Business Plan → scenario B, renegotiated to $63 by 30-Apr-2027 (7%).

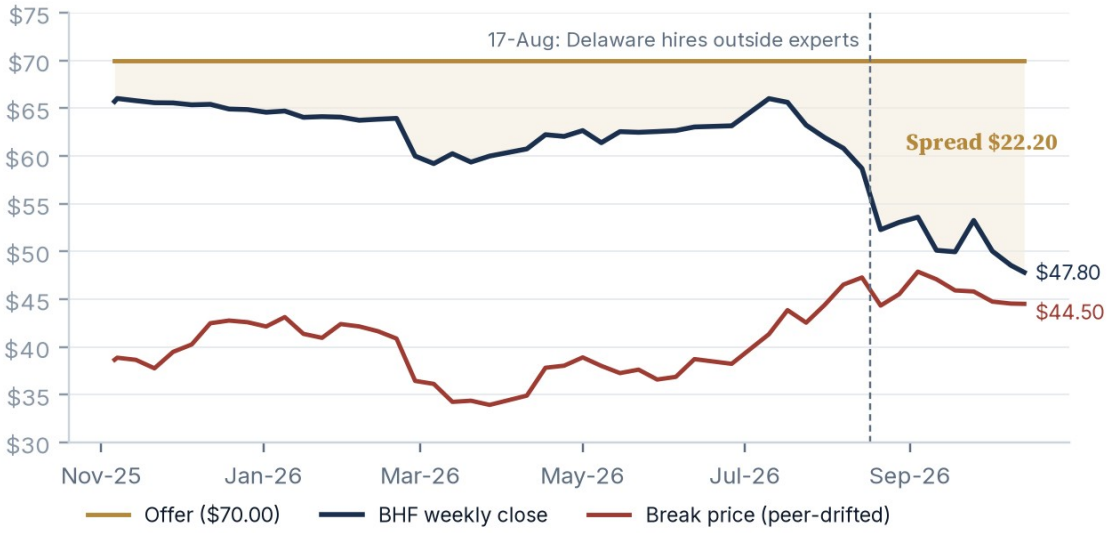
Refused, withdrawn or stalled past an un-amended outside date → scenarios C (Talcott or another bid at $52, 20%) and D (standalone break, 55%).

6. Spread and returns

The spread was $4.30 at signing and is now **$22.20 (46.4%)**. Most of the widening came after Delaware went public in August. Before that statement (14-Aug-2026) BHF closed at $58.68; the peak weekly close was $66.01. The break line in Figure 2 moves our $44.50 break with an equal-weight CRBG/JXN/LNC index, so it shows what a broken BHF would have been worth through time.

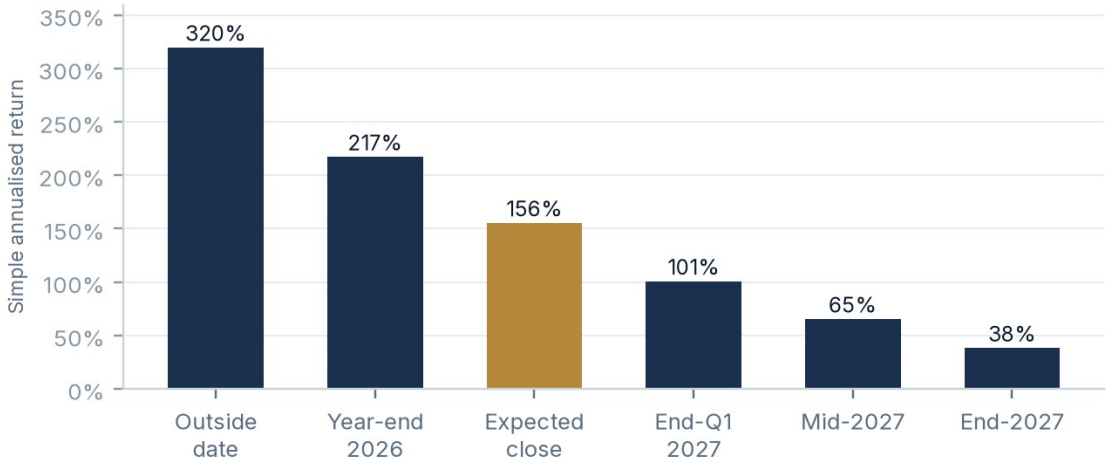
BHF pays no common dividend before closing (merger covenant), so the spread is the whole return. The headline annualised numbers are large on any timetable, but they are conditional on closing; Section 10 weights them by probability.

Figure 2. The spread has widened from $4.30 to $22.20, most of it since Delaware went public in August



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).

Figure 3. If it closes, the return is large on any timetable: 156% annualised to a January 2027 close



Source: Model sheet Deal. Simple annualised = spread % / years. Close dates are illustrative except the 6-Dec-2026 outside date.

Table 4. Return to each close date

Close date	Years	Simple annualised	Compounded	Return less carry
06-Dec-26 (outside date)	0.15	320%	1,283%	45.9%
31-Dec-26	0.21	217%	496%	45.6%
31-Jan-27 (base)	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%

Source: Model sheet Deal. Compounded = (1 + spread %)^(1/years) − 1; carry = 3-month T-bill (4.08%, ^IRX 14-Oct-2026).

7. Market-implied probability

The market-implied probability of closing is (price – break) / (offer – break). With carry to the expected close, our headline is **15.2%**; without carry it is 12.9%. The weekly series in Figure 4 uses the peer-drifted break and no carry: it fell from 86% at signing to 50% before Delaware's statement and to 13% today.

Figure 4. The market's implied odds of closing fell from 86% at signing to 15% today



Source: Model sheets SpreadHistory and Implied; Yahoo Finance weekly closes.

Table 5. Implied P(close): break price x close date (with carry)

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%

Source: Model sheet Implied. Carry at the 3-month T-bill (4.08%).

Table 6. Other readings of the market price

Reading	P(close)
Base break, no carry	12.9%
Probability of a $70 close if Talcott is given 20% at $52 (three-state)	9.3%
Low-case break $39.02	30.2%
Textbook roll-forward break $54.76	−41.9%
Textbook peer-adjusted break $61.45	−152.8%

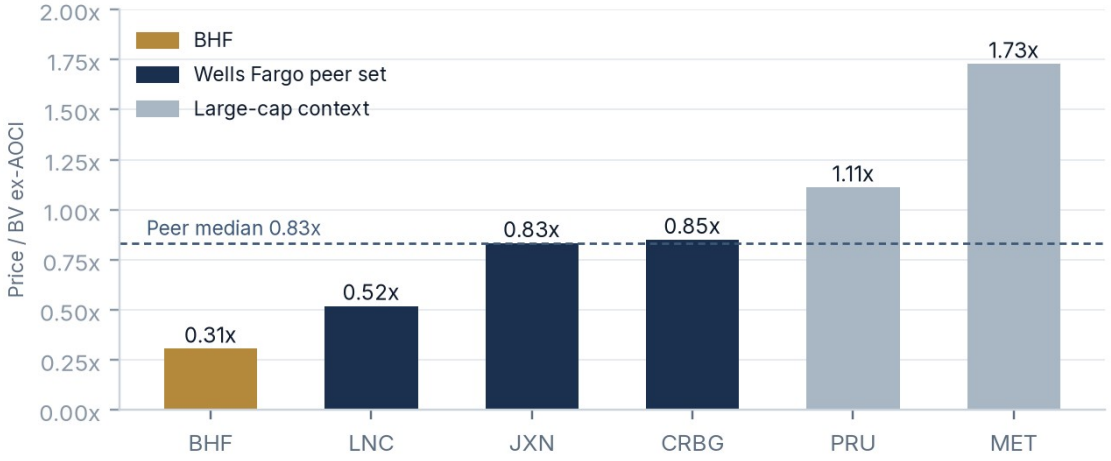
Source: Model sheet Implied.

The negative readings with the textbook breaks are the key diagnostic: if those were the right break prices, BHF would be trading below its standalone value with a live $70 bid, which makes no sense. The market must therefore be using a much lower break price, which Section 9 explains.

8. Standalone and peer valuation

BHF trades at **0.31x book value ex-AOCI**, a 63% discount to the 0.83x median of the Wells Fargo peer set (CRBG, JXN, LNC). Even the deal price is only 0.45x. The discount is not new, but it has widened as BHF's statutory capital has fallen.

Figure 5. BHF trades at 0.31x book ex-AOCI, a 63% discount to CRBG/JXN/LNC



Source: Company Q2-26 releases; Yahoo Finance closes 14-Oct-2026. CRBG, JXN and MET use company-defined adjusted BV ex-AOCI. EQH excluded (negative GAAP BV).

Table 7. Peer multiples (Q2-26 book values, prices at the valuation date)

Company	Price	BV/sh	BV ex-AOCI/sh	P/BV	P/BV ex-AOCI	Basis
BHF	$47.80	$84.35	$156.10	0.57x	0.31x	BV ex-AOCI/sh
CRBG	$33.95	$22.79	$39.93	1.49x	0.85x	Adjusted BV/sh (ex-AOCI, Fortitude Re adj.)
JXN	$130.03	$136.10	$156.12	0.96x	0.83x	Adjusted BV/diluted sh (ex-AOCI)
LNC	$40.22	$53.68	$77.39	0.75x	0.52x	BV/sh ex-AOCI
PRU	$113.49	$90.50	$102.14	1.25x	1.11x	GAAP BV ex-AOCI/diluted sh
MET	$99.72	$38.59	$57.71	2.58x	1.73x	Adjusted BV/sh
EQH	$52.88	−$6.79	$16.89	n.m.	3.13x	BV/sh ex-AOCI (AB at book)
Median CRBG/JXN/LNC				**0.96x**	**0.83x**	

Source: Company Q2-26 earnings releases and supplements (URLs in Appendix C); Yahoo Finance. EQH is shown for completeness but excluded from the median.

Table 8. BHF at market vs at the deal price

Metric	At $47.80	At $70.00
Price / book value ($84.35)	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 adjusted EPS less notables ($17.27)	2.8x	4.1x
Equity value ($M)	2,749	4,026

Source: Q2-26 release (book values, TAC); 10-Q cover (57,511,563 shares at 31-Jul-2026); quarterly releases Q3-25 to Q2-26 (adjusted EPS less notables $4.54, $3.93, $4.35, $4.45).

STATUTORY CAPITAL EXPLAINS THE DISCOUNT

Figure 6. Statutory capital fell while GAAP book rose



Source: BHF quarterly earnings releases Q2-25 to Q2-26 (preliminary combined TAC).

Combined TAC fell 12.5% in the year to Q2-26 while book ex-AOCI per share rose 8.3%. The RBC ratio of 430-450% is inside the 400-450% target, but capital above 400% RBC is only about **$0.45B** (derived from TAC and the RBC midpoint), and holding-company liquidity is $0.9B. At 2.8x earnings and 0.56x TAC, the market is telling us it does not believe BHF can convert GAAP earnings into distributable capital at peer rates. Regulators and buyers price the statutory number, and so should the break price.

9. Break-value analysis

The break price is the most important input in a merger-arb model: it sets both the downside and the implied probability. The two textbook approaches give prices above today's stock, so we use three methods anchored on informed, recent evidence and keep the textbook results as reference points.

Table 9. Break-price methods

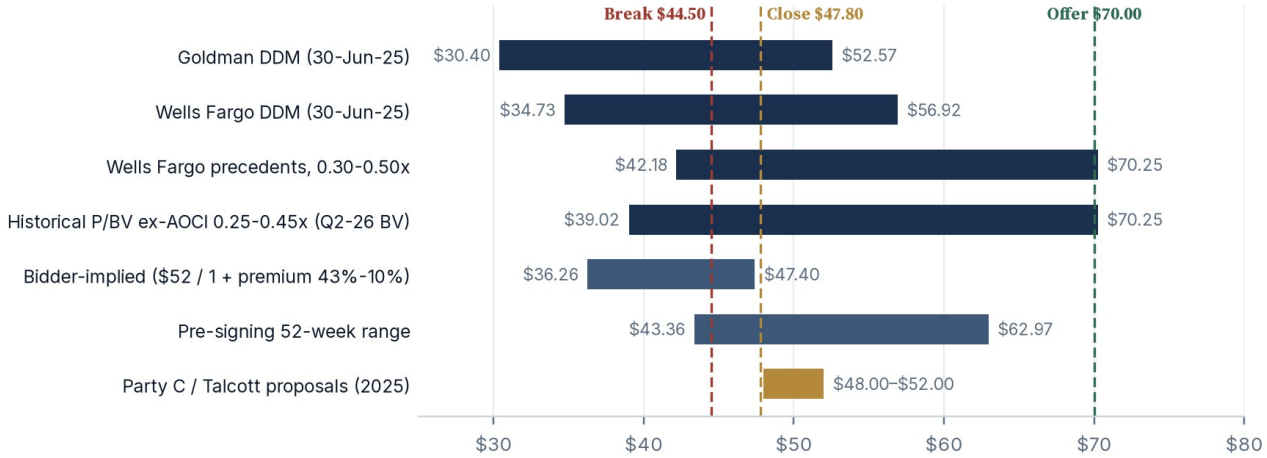
Method	Basis	$/sh	Weight
M1 Bidder-implied	Talcott's $52.00 diligenced 2025 bid / (1 + 20.9% median premium)	$43.01	1/3
M2 Fairness-opinion DDM	Midpoints of the Goldman and Wells Fargo DDM ranges (30-Jun-2025)	$43.66	1/3
M3 Trough multiple	0.30x Q2-26 BV ex-AOCI (low end of the WF precedent range)	$46.83	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

Source: DEFM14A 7-Jan-2026 (Party C price; Goldman 706-deal premium study: median 20.9%, 75th percentile 43.4%; GS DDM $30.40-52.57; WF DDM $34.73-56.92; WF precedents 0.30-0.50x); BHF releases (BV ex-AOCI). Model sheet Break.

WHY WE DE-WEIGHT THE TEXTBOOK

- **Capital deteriorated.** Statutory capital fell $0.7B (−12.5%) in a year in which the peers re-rated; BHF did not keep pace, so rolling the undisturbed multiple forward or applying peer returns overstates standalone value.
- **The best informed bidder priced it low.** Talcott, the only rival with a financing plan in 2025, bid just $48-52 after full diligence and cited higher hedging costs. Backing out a median control premium gives $43.01.
- **A failed sale damages the stock.** 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, close to the pre-deal trough of the 52-week range ($43.36).

Figure 7. Standalone methods cluster in the low-to-mid $40s; only control bids and peer multiples get near $70

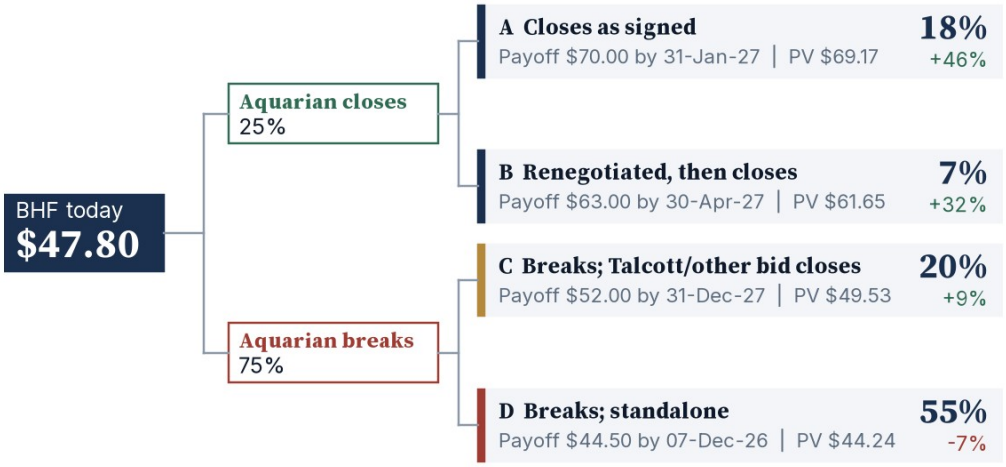


Source: DEFM14A 7-Jan-2026 (Goldman and Wells Fargo analyses; Party C proposals; pre-signing 52-week range); BHF Q2-26 release (BV ex-AOCI $156.10). Model sheet Football. Goldman's precedent range ($37.96-171.53) omitted as uninformative.

10. Scenario tree and expected value

We use four outcomes. The probabilities are our judgement and are flagged as assumptions; payoffs are discounted to today at the T-bill rate. Our total chance of closing (25%) is above the market's 15% because financing is committed, every other condition is met, and regulators more often impose conditions than reject outright. We are well below the 86% the market priced at signing, because Delaware's public statement and the capital questions are real negative information.

Figure 8. Probability-weighted value is $51.00 (PV), +6.7% above the price



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.

Table 10. Scenarios, payoffs and expected value

Scenario	Prob.	Payoff	Date	PV	Return
A. Closes as signed	18%	$70.00	31-Jan-27	$69.17	+46%
B. Renegotiated, then closes	7%	$63.00	30-Apr-27	$61.65	+32%
C. Breaks; Talcott/other bid closes	20%	$52.00	31-Dec-27	$49.53	+9%
D. Breaks; standalone	55%	$44.50	07-Dec-26	$44.24	−7%
Expected value, nominal	100%	$51.88			+8.5%
Expected value, PV			**0.42 yrs**	**$51.00**	**+6.7%**
Annualised / standard deviation				sd $9.89	17%

Source: Model sheet Scenarios. Probability-weighted horizon 0.42 years.

SENSITIVITY

Table 11. Expected PV return by P(close as signed) and break price (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%

Source: Model sheet Scenarios (grid computed live in the workbook). * Base break. Red: negative expected return; green: above +8%.

Table 12. 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: P(A) 10%, low-case break $39.02	−4.6%

Source: Model sheet Scenarios.

The trade loses money only if the chance of closing as signed falls below 5.2% or the break is below $38.64 (each with the other inputs at base). But if both the odds and the break are worse than our base, the edge disappears: the bear case returns −4.6%. That is why the position is small.

11. Position sizing and hedging

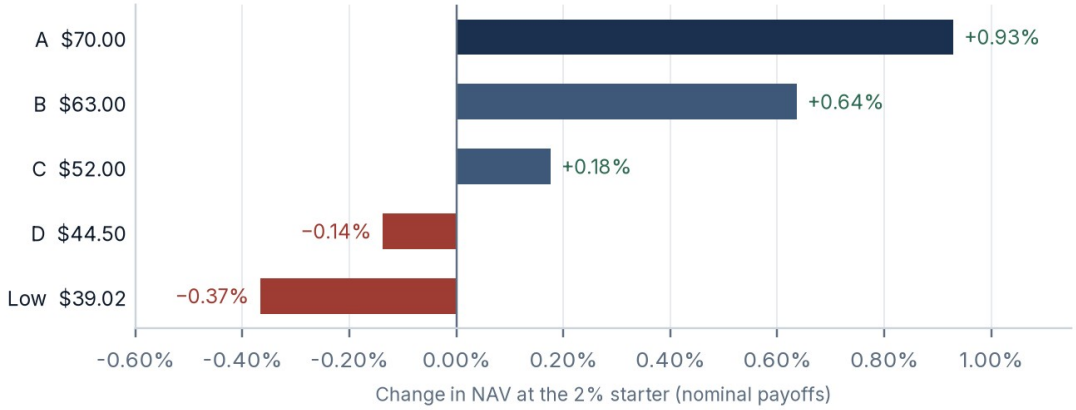
Kelly supports far more than any risk manager would allow in the base case, but zero in the bear case. We therefore treat Kelly as an upper bound and let a loss budget and a hard single-event cap set the size.

Table 13. From Kelly to a position

Step	% NAV
Full Kelly, base case	292%
Full Kelly, bear case	0%
Quarter-Kelly (base, fraction 0.25)	73%
Loss budget 0.60% NAV / 18.4% low-case loss	3.27%
Hard cap (single event, model uncertainty)	3.0%
Maximum position	**3.0%**
Starter position (before a Delaware hearing notice)	**2.0%**

Source: Model sheet Sizing. Kelly = argmax of E[ln(1 + f r)] over the scenario PV returns. Loss budget and cap are assumptions.

Figure 9. At a 2% starter, NAV risk is 0.14% in the base break and 0.37% in the low case



Source: Model sheet Sizing. Expected NAV contribution +0.13% (PV). At the 3% max the low-case loss is 0.55% of NAV.

HEDGING

In a break, BHF falls to a standalone value that moves with the sector. We hedge that sector component with an equal-weight short in CRBG/JXN/LNC. BHF's undisturbed beta to the basket was **0.78** (correlation 0.70; 105 weekly returns, 2023 to 24-Jan-2025). Because the hedge only matters if the deal breaks, the hedge ratio is beta x P(D) = **0.43**.

Table 14. Hedge

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

Source: Model sheet Hedge (weekly prices with SLOPE/CORREL formulas).

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

12. Catalysts

Table 15. Forward catalysts and the position response

When	Event	What it tells us	Position response
Now (14-Oct-26)	BHF $47.80	Implied P(close) 15%	Enter 2% NAV starter with peer hedge
~5-Nov-26 (est.)	Q3-26 results	RBC, TAC, holdco liquidity; deal-timing language	Falling TAC or softer language: trim
Any time (by ~16-Nov for 6-Dec)	Delaware hearing notice	Delaware considers the Form A complete	Add to 3% max
Any time	NY / MA decisions	Approvals, or conditions that trigger a Burdensome Condition	Conditions: model a price cut (B)
6-Dec-26	Outside date	Either party may terminate; an amendment means both still want the deal	Amended: hold. Terminated: see next
Dec-26 to Dec-27	Talcott window	A deal agreed within 12 months triggers the $2.50/sh tail fee	Public Talcott bid: hold for C. None in 30 days: exit

Source: Merger agreement s.8.1 and 8.3; Delaware DOI 17-Aug-2026; 18 Del. C. s.5003; MarketBeat (Q3-26 date estimate, unconfirmed). Responses are the case study's rules, not forecasts.

Days to outside date: 53. Days since the Form A filings: 296. The single most informative event is a Delaware hearing notice: it would mean the department considers the application complete, and it would likely move the implied probability sharply higher. Its absence by mid-November is itself information.

13. Risks and mitigants

Table 16. Risk register (ranked by expected damage to the position; impacts per BHF share from today)

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 NY/MA orders for capital, guarantee or dividend terms 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
Model risk: probabilities are judgement	n.a.	EV sign can flip (bear case)	Breakevens published (5.2% / $38.64); size capped at 3% regardless of Kelly

Source: Model sheets Scenarios and Sizing; merger agreement s.6.3(f), s.8.3; DEFM14A (CFIUS; specific performance); DEFA14A 4-Feb-2026 (litigation); Bloomberg 10-Sep-2026.

14. Decision rules

1. **Enter:** buy 2% of NAV at or below $49; short 0.85% of NAV of an equal-weight CRBG/JXN/LNC basket.
2. **Add:** on a Delaware hearing notice or an NY/MA approval, go to the 3% cap (and scale the hedge to 1.28% NAV).
3. **Hold:** through 6-Dec if the parties amend the outside date.
4. **Re-underwrite:** if approval comes with conditions, re-price to scenario B ($63) and resize.
5. **Exit:** if the deal is terminated with no public, financed bid within 30 days, sell. If Talcott bids publicly, hold for about $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 as signed.
- The downside is bounded by fundamentals: $44.50 is 0.29x BV ex-AOCI with RBC at 430-450%.
- There are 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 a third).

Appendix A. Key assumptions

Every input that is not taken from a filing, a regulator or market data is an assumption. All are listed in the Inputs sheet and in figures.json with source "assumption".

Assumption	Value	Rationale
trough_mult	0.30x	Trough P/BV ex-AOCI for a failed-sale BHF (low end of Wells Fargo 0.30-0.50x precedent range)
low_mult	0.25x	Low-case P/BV ex-AOCI (low end of Goldman 0.25-0.45x range)
exp_close	31-Jan-27	Expected closing date if approved (hearing + 3 state orders; may need outside-date amendment)
p_A	18%	P(close as signed at $70)
p_B	7%	P(renegotiated price, then close)
p_C	20%	P(Aquarian deal breaks, Talcott/other signs and closes)
px_B	$63.00	Renegotiated price (10% cut)
px_C	$52.00	Topping/alternative bid (Talcott 2025 exclusivity price; tail fee absorbed)
dt_B	30-Apr-27	Expected close date, renegotiated deal
dt_C	31-Dec-27	Expected close date, alternative bid (new Form A cycle)
dt_D	07-Dec-26	Date the break is realised (outside date passes / termination)
kelly_frac	0.25x	Kelly fraction applied
loss_budget	0.60% NAV	Max loss budget in low-case break
cap	3.00% NAV	Hard position cap (single event, model uncertainty)
size_start	2.00% NAV	Starter position before a Delaware hearing notice

Source: figures.json; model sheet Inputs.

Appendix B. Methodology and formulas

- **Implied probability (simple):** p = (P − B) / (X − B), with P the BHF price, B the break price and X the $70 offer.
- **Implied probability (with carry):** p solves P = [p X + (1 − p) B] / (1 + r t), with r the 3-month T-bill (4.08%) and t the years to the expected close.
- **Three-state reading:** $P = p_1 \times 70 + p_2 \times 52 + (1 - p_1 - p_2) \times B$ with p_2 fixed at 20%, solved for p_1 (discounted).
- **Scenario PV:** PV_i = payoff$_i$ / (1 + r)^t_i (r = 3-month T-bill); EV = Σ p_i PV_i; annualised return = (EV / P)^(1/$\bar{t}$) − 1, with $\bar{t}$ the probability-weighted horizon.
- **Kelly:** f* = argmax over f of Σ p_i ln(1 + f r_i) on a 0-10x grid (1,001 rows in the workbook); position = min(quarter-Kelly, loss budget / low-case loss, hard cap).
- **Hedge ratio:** beta of BHF weekly returns to an equal-weight CRBG/JXN/LNC basket over the undisturbed period, multiplied by P(D).
- **Peer-drifted break:** B_t = B x mean over i of ($P_{i,t}$ / $P_{i,}$valuation date) for CRBG, JXN and LNC.
- **Bidder-implied break:** Talcott's $52.00 / (1 + median premium 20.9%); the football-field range uses premia from 10% to the 75th percentile (43.4%).

Appendix C. Sources

Primary documents (SEC EDGAR unless stated), regulator and statute:

Merger 8-K, 6-Nov-2025
https://www.sec.gov/Archives/edgar/data/1685040/000168504025000065/bhf-20251106.htm

Agreement and Plan of Merger (Ex. 2.1), 6-Nov-2025
https://www.sec.gov/Archives/edgar/data/1685040/000168504025000065/ex21agreementandplanofmerg.htm

Joint press release (Ex. 99.2), 6-Nov-2025
https://www.sec.gov/Archives/edgar/data/1685040/000168504025000065/ex992jointnewsreleaseofbri.htm

Definitive proxy (DEFM14A), 7-Jan-2026
https://www.sec.gov/Archives/edgar/data/1685040/000114036126000522/ny20060599x2_defm14a.htm

Supplemental disclosures (DEFA14A), 4-Feb-2026
https://www.sec.gov/Archives/edgar/data/1685040/000168504026000003/paris-supplementaldisclosu.htm

Vote results 8-K, 12-Feb-2026
https://www.sec.gov/Archives/edgar/data/1685040/000168504026000005/bhf-20260212.htm

Form 10-K FY2025
https://www.sec.gov/Archives/edgar/data/1685040/000168504026000011/bhf-20251231.htm

Form 10-Q Q2-2026
https://www.sec.gov/Archives/edgar/data/1685040/000168504026000028/bhf-20260630.htm

Q3-25 earnings release
https://www.sec.gov/Archives/edgar/data/1685040/000168504025000069/q32025bhfearningspressrele.htm

Q4-25 earnings release
https://www.sec.gov/Archives/edgar/data/1685040/000168504026000009/q42025bhfearningspressrele.htm

Q1-26 earnings release
https://www.sec.gov/Archives/edgar/data/1685040/000168504026000017/q12026bhfearningspressrele.htm

Q2-26 earnings release
https://www.sec.gov/Archives/edgar/data/1685040/000168504026000026/q22026bhfearningspressrele.htm

Delaware DOI statement, 17-Aug-2026
https://news.delaware.gov/2026/08/17/delaware-insurance-department-details-review-of-brighthouse-acquisition/

18 Del. C. s.5003 (Form A)
https://law.justia.com/codes/delaware/title-18/chapter-50/section-5003/

Corebridge (CRBG) Q2-26 release
https://www.sec.gov/Archives/edgar/data/1889539/000188953926000137/corebridgefinancial-pressr.htm

Jackson (JXN) Q2-26 release
https://www.sec.gov/Archives/edgar/data/1822993/000182299326000123/exhibit991-2q26.htm

Lincoln (LNC) Q2-26 release
https://www.sec.gov/Archives/edgar/data/59558/000005955826000058/a2q2026lncearningspr.htm

Equitable (EQH) Q2-26 release
https://www.sec.gov/Archives/edgar/data/1333986/000133398626000035/eqh2q2026earningsrelease.htm

Prudential (PRU) Q2-26 supplement
https://www.sec.gov/Archives/edgar/data/1137774/000113777426000170/exhibit992-2q26qfs.htm

MetLife (MET) Q2-26 release tables
https://www.sec.gov/Archives/edgar/data/1099219/000109921926000048/ex991earningsreleasetables.htm

Market data: Yahoo Finance daily and weekly closes (BHF, peers, ^IRX)
https://finance.yahoo.com/quote/BHF/history/

Press and secondary sources (not confirmed in SEC filings):

Bloomberg, 21-May-2026: Aquarian seeks more backers
https://www.bloomberg.com/news/articles/2026-05-21/aquarian-seeks-more-backers-for-4-1-billion-brighthouse-deal

Bloomberg, 10-Sep-2026: takeover drags as regulators dig in
https://www.bloomberg.com/news/articles/2026-09-10/brighthouse-s-4-1-billion-takeover-drags-as-regulators-dig-in

Bloomberg Law, 22-Sep-2026: Sixth Street revives Brighthouse bid
https://news.bloomberglaw.com/mergers-and-acquisitions/sixth-street-revives-brighthouse-bid-as-rival-deal-delayed-1

Royal Gazette, 14-Oct-2026: Talcott seeks to renew bid
https://www.royalgazette.com/reinsurance/business/article/20261014/talcott-seeks-to-renew-bid-for-us-life-insurer-brighthouse/

WSJ live coverage, 17-Aug-2026
https://www.wsj.com/livecoverage/stock-market-today-dow-sp-500-nasdaq-08-17-2026/card/6ItANFRWsngMmgv6ua91

Kalkine (citing Bloomberg): financing amounts
https://kalkine.com/news/financial/brighthouse-financial-nasdaqbhf-stock-edges-up-as-the-delayed-aquarian-buyout-remains-under-review

Charlotte Business Journal, 14-Sep-2026
https://www.bizjournals.com/charlotte/news/2026/09/14/brighthouse-financial-sale-aquarian-delay.html
MarketBeat: Q3-26 results date estimate
https://www.marketbeat.com/earnings/reports/2026-11-5-brighthouse-financial-inc-stock/

Appendix D. What could not be verified

- That Party C in the proxy is Talcott. Bloomberg and the Royal Gazette say so; the proxy does not name it.
- The terms of Talcott's August-2026 letter to the board. No price has been disclosed.
- Financing amounts (Mubadala ~$3B, $1.5B loan, $406M of BHF cash). These are press-reported, not in SEC filings.
- Status of the New York and Massachusetts Form A reviews and of CFIUS. No public update was found.
- The Q3-26 results date (~5-Nov-2026), which is a third-party estimate.
- The Royal Gazette article (14-Oct-2026) returned a site error when fetched; its text was confirmed via a search index and the Bloomberg Law original. It describes BHF trading in a "$50 to $55" range, but BHF closed at $47.80 on 14-Oct-2026.
- 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-2026.
- No Delaware hearing notice was found as of the report date.
- No options data were available, so put hedges are discussed but not priced.
- All scenario probabilities, scenario prices and dates, trough multiples and sizing limits are assumptions (Appendix A).

Appendix E. Reproducibility

All figures flow from one Python model to the workbook, the deck, this report and figures.json, so they cannot drift.

File	Role
model/model.py	Single source of truth; writes model_output.json
model/BHF_merger_arb_model.xlsx	Live-formula workbook (11 sheets); reconciled by check.py (164 values, 0 mismatches)
figures.json	192 figures with value, unit, as-of date and source URL or "assumption"
deck/BHF_Aquarian_merger_arb_deck.pdf	17-slide deck
report/build_charts.py, build_report.py, build.sh	This report: charts (matplotlib), docx (python-docx), PDF (LibreOffice)

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