Merger agreement at Sculptor Capital Management

December 2023

**Company:** Sculptor Capital Management, Inc. (Sculptor)

**Meeting date:** November 16, 2023

**Proposal:** Item 1 – Approve merger agreement; Item 2 – Approve nonbinding compensation proposal

**How the funds voted**

In November 2023, at a special meeting at Sculptor Capital Management (Sculptor), an institutional alternative asset manager, the Vanguard-advised funds supported Sculptor’s merger with Rithm Capital Corporation (Rithm), another investment manager. The funds also supported an advisory proposal regarding Sculptor’s potential severance payments to its executives, also known as “golden parachutes.”

**Analysis and voting rationale**

At the special meeting, Sculptor management sought shareholder approval of its merger agreement with Rithm. Under the terms of the agreement, Rithm would acquire Sculptor for $12.70 per share, an approximate 35% premium compared with Sculptor’s unaffected price—that is, its market value before the transaction was announced. Our analysis of the proposed transaction included a review of publicly available materials, including Sculptor’s proxy statement and supplemental proxy filings for the special meeting. In addition, we engaged with the independent chair of the Sculptor board, who also served as a member of the independent

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1 Vanguard’s Investment Stewardship program is responsible for proxy voting and engagement on behalf of the quantitative and index equity portfolios advised by Vanguard (together, “Vanguard-advised funds”). Vanguard’s externally managed portfolios are managed by unaffiliated third-party investment advisors, and proxy voting and engagement for those portfolios are conducted by their respective advisors. As such, throughout this document, “we” and “the funds” are used to refer to Vanguard’s Investment Stewardship program and Vanguard-advised funds, respectively.
special committee to review the merger, and
two Sculptor executives. This engagement
allowed us to better understand the board’s
perspective on the transaction and glean insights
that supplemented our initial research, further
informing our analysis of the matters to be voted
upon.

Valuation
We concluded that the value of the transaction
was fair to Sculptor’s shareholders. We primarily
considered the sale price to be paid by Rithm
under the merger agreement, especially its
premium to the unaffected share price, as well
as whether the sale price had been negotiated,
whether an independent fairness opinion had
been issued, and market reaction to the proposed
transaction. As outlined in the proxy statement,
the offer from Rithm was not the highest sale
price that Sculptor received, but the special
committee and the board determined Rithm’s
offer was the strongest overall and had the
greatest certainty of execution when considering
all deal terms and circumstances.

Strategic rationale
Based on our analysis, we concluded that the
strategic rationale behind the deal was logical
and strong. During our engagement with Sculptor
leaders, and as noted in the company disclosures,
they shared that Sculptor faced substantial
challenges as a standalone company that could
ultimately threaten its ability to remain a viable
ongoing enterprise.

Board process
Our review found that the Sculptor board
underwent a lengthy, thorough, and rigorous
assessment of the proposed merger. The board
formed a special committee solely composed
of independent directors and advised by
independent external advisors. The special
committee and its advisors reportedly held
a significant number of meetings during the
process to evaluate strategic alternatives,
engaged with numerous other potential bidders
(several of which submitted offers to acquire the
company or certain of its assets), and negotiated
with Rithm multiple times to increase Rithm’s
initial offer.

Governance profile of surviving company
Because Sculptor shareholders did not receive
shares of Rithm stock, Rithm’s governance
structure was not a significant consideration
in the merger, and our analysis revealed no
significant concerns with Rithm’s governance
profile.

As a result of our analysis of the valuation,
strategic rationale, and board process, we
determined that the deal was in the best
interests of shareholders, and the funds
consequently supported the transaction.

In conjunction with the merger, Sculptor was
also required to seek advisory approval from
shareholders for its severance arrangements with
executives. Based on our holistic review of these
provisions, our engagement with the company,
and the board’s adequate oversight, the funds
supported these severance arrangements.

What we look for from companies
on this matter
On behalf of the investors in Vanguard-advised
funds, we look for boards to represent the
interest of long-term shareholders and to
adequately oversee company strategy and
risk, including corporate actions. We analyze
all mergers and acquisitions on a case-by-case
basis, focusing on the fairness of the valuation
to shareholders, the strategic rationale behind
the deal, whether the board’s review process was
comprehensive and thorough, the governance
profile of the surviving company (if applicable),
and any other pertinent factors that could inform
our vote determination.
Vanguard publishes Investment Stewardship Policy and Voting Insights to promote good corporate governance practices and to provide public companies and investors with our perspectives on important governance topics and key votes. This is part of our growing effort to enhance disclosure of Vanguard’s investment stewardship voting and engagement activities. We aim to provide additional clarity on Vanguard’s stance on governance matters beyond what a policy document or a single vote can do. Insights should be viewed in conjunction with the most recent region- and country-specific voting policies.

The funds for which Vanguard acts as investment advisor (Vanguard-advised funds) retain the authority to vote proxies that the funds receive. To facilitate the funds’ proxy voting, the boards of the Vanguard-advised funds have adopted Proxy Voting Procedures and Policies that reflect the fund boards’ instructions governing proxy voting. The boards of the funds that are advised by managers not affiliated with Vanguard (external managers) have delegated the authority to vote proxies related to the funds’ portfolio securities to their respective investment advisor(s). Each external manager votes such proxies in accordance with its own proxy voting policies and procedures, which are reviewed and approved by the fund board annually.