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Vanguard Investment Stewardship Voting Insights

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.[1] The funds also supported an advisory proposal regarding Sculptor's potential severance payments to its executives, also known as "golden parachutes."

The funds' proxy voting policies

Vanguard's Investment Stewardship team, on behalf of the Vanguard-advised funds, analyzes corporate mergers and acquisitions on a case-by-case basis. We seek to understand the board's process for overseeing the proposed corporate action and how the board assesses the impact on shareholders.

Our analysis of mergers and acquisitions focuses on four key areas: (i) whether the value of the transaction is fair to the company's shareholders, (ii) whether the strategic rationale behind the deal is reasonable and sound, (iii) whether the board process to oversee the merger was thorough and rigorous, and (iv) if applicable, an assessment of the surviving company's governance profile compared with the company's current governance profile.

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

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.

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