

# MontLake Abrax Merger Arbitrage UCITS Fund

## Global Merger Arbitrage

April 2020

### Performance Returns

The MontLake Abrax Merger Arbitrage UCITS Fund gained +6.0% for the month of April (USD Institutional Founder Class), bringing YTD performance to +0.8%.

### Investment Objective & Strategy

The MontLake Abrax Merger Arbitrage UCITS Fund is a global merger arbitrage and hard catalyst only focused investment fund managed by a highly experienced team.

Through in-depth research, judicious selection of deals, active trading and disciplined risk management, the Fund is focused on late stage M&A situations with firm merger agreements in place. The Fund only invests in developed markets, with strong regulatory frameworks.

Through selection of the best risk/reward merger arbitrage deals and not taking exposure to special situations or pre-event deals, the MontLake Abrax Merger Arbitrage UCITS Fund has a targeted annual net return of 6 to 8%, with a strong focus on capital preservation with low correlation to the wider equity markets.

### General Merger Arbitrage Commentary

Given the ongoing volatility on the back of the COVID-19 pandemic, in general merger spreads continue(d) to trade much wider versus historical norms, attributed to both disproportionately higher deal termination attempts and reduced market visibility/break downside(s).

Given the current environment of growing number of headlines on deal terminations (*a multitude of deal breaks due to COVID-19 in the last couple of weeks*), we believe a highly selective analysis driven, legally focused investment approach is of even more paramount importance now, understanding both the financial/strategic rationale, the structure & pro-forma leverage and the strength of the underlying merger agreements for our invested deals.

Nevertheless despite ongoing deal and market risks/uncertainties, April showed us that deals continue to close – and although we are seeing headlines of buyer's remorse on an almost daily basis in some of the smaller, private deals with in the majority of cases a financial/PE buyer involved, the larger, listed, strategic deals continue to move forward and close.

### Portfolio Commentary for April

Following up from our Fund Positioning in March, the Fund benefited from our short-dated approach in a dislocated spread environment: the monthly performance was positively impacted by 3 deal closings in April, in conjunction with some spread tightening on some of the other dislocated spreads. Overall 80% of the Fund's positions were positive P&L contributors, where 6 of our positions closed during the month while initiating 7 new positions.

During the month of April, we saw the deal closings of i) Tallgrass Energy, the buyout of a US midstream oil company by its largest shareholders, whose share price had significantly declined in March on the back of a collapse in oil pricing, but nevertheless and highly unproblematically closed following the shareholders vote; ii) Mellanox, the long-running semiconductor acquisition by Nvidia, and which obtained conditional China's SAMR clearance, subject to a number of behavioural remedies; and iii) Cypress Semiconductors, which equally closed following a similar conditional clearance by SAMR.

The above deal closings (*with the subsequent reinvestment proceeds dynamics*) together with some marginally improved deal confidence also lead to some general spreads tightening in the rest of our strategic deal focused investment portfolio, with no significant, negative contributors.

### Abrax Merger Arbitrage Fund Positioning with Highly Selective Investment Approach

The Fund's highly selective investment approach (as described more in detail in our March newsletter) on more late stage deals (18 situations with short terms catalyst within 30-60 days) with strong regulatory frameworks and solid merger agreements helped the significant performance recovery in the month of April.

Nevertheless, in an environment where we observe increasing buyer's remorse & deal breaks (although much more geared towards the smaller / financial buyers' end of the spectrum), we not only continue to be much more focused on short dated and strategic deals (minimising windows for deal risks), we also continue to get better compensated for our invested deals – where deals continue to trade at super wide levels – even up to the last day(s) before deal closing date (*as observed e.g. in our closed position in Tallgrass where the deal spread traded at almost 30% gross levels (!) one week before deal close without any single, negative or buyer's remorse comment*).

We wanted to accentuate again that the Fund had 0 exposure to the multitude of deal breaks in the last 3 months ranging from the larger Boeing deal with Embraer, the aviation tie-up between Hexcel & Woodward to the smaller, listed deals of Condor Hospitality & L-Brands selling of Victoria Secret in the US, the acquisition of Metlifecare by EQT in Asia-Pacific or the EOS Imaging deal by Alphatec in France and as we write this letter, the mutually terminated deal between Front Yard Residential and Amherst Holdings.

We continue to opportunistically add on strategic, safe and late stage deals which we believe disproportionately move on other, lower quality deal break headlines (where bidders try to exit their legally binding deal agreements from a multiple of angles including normal business conduct, indebtedness breach through credit draw, or breach of reps and warranties).

### M&A market and opportunity set

Although obviously, newly announce, M&A activity has continued to slow down during April -given the uncertainty on the depth and spread of the COVID19 pandemic, we are observing a number of growing dynamics which could further facilitate a new uptick in new M&A activity in 3Q/4Q. Indeed ; (i) zero interest rate environments (ii) huge multi-billion war chests being raised by Private Equity (with renewed PE activity a precedent before strategic M&A), attractive valuation levels and more realistic asks by selling companies are likely to be very strong catalyst for new M&A volumes/deals to significantly pick up. Although the large, strategic, transformational \$10bn+ new deal activity could continue to take a breather, similar as post 2008/2009, we would expect a new wave of (opportunistically) driven medium-sized (\$1 to 10bn) deals with mainly cash considerations.

Not only are smaller, cash consideration deals by strategic acquirers easier to complete (lower antitrust risk, lower bidder interloper/shareholder approval risk vs share consideration deals), PE buyers (deals we currently have much lower exposure to), would most likely carry much higher equity financing components, also reducing some of the current financial buyer risks in the future.

### UCITS Monthly Performance (USD Institutional Founder Class)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Y-T-D
2020	0.49%	0.57%	-5.90%	6.0%									0.80%
2019	-	-	-	-	-	-	-0.05%	0.68%	0.50%	0.56%	0.27%	1.08%	3.05%

The performance figures quoted above represent the performance of the MontLake Abrax Merger Arbitrage UCITS Fund, USD Inst. Founder class since launch on 24-Jul-2019. These performance figures refer to the past and past performance is not a reliable guide to future performance.



### Xavier Robinson

Xavier Robinson has been the Manager of the Abrax strategy since 2011. He has almost 25 years experience in M&A Investment Banking and Asset Management with senior roles at Dexia Asset Management, Lehman Brothers, Citigroup and BNP Paribas.

### Peter Germonpre

Peter Germonpre has 15 years' event driven/merger arbitrage investment experience with senior roles at Halcyon Asset Management, Burren Capital Advisors, Sandell Asset Management and Silver Point Capital.

### Fund Facts

Structure	UCITS Fund
Domicile	Ireland
Liquidity	Daily
Strategy AUM	\$66.5 million
Fund AUM	\$22.9 million
Inception	24 <sup>th</sup> July 2019

Share Class	Institutional Class Founder / Pooled
Currency	EUR/USD/CHF/GBP
Mgt. Fee	1.00%
Perf. Fee	10.00%
Min Init. Sub.	1,000,000
ISIN Codes	USD: IE00BZ00Y245 / IE00BGLJXS63 GBP: IE00BZ01D866 / IE00BZ01D973 EUR: IE00BZ00XN87 / IE00BZ00Y351 CHF: IE00BZ00Y138 / IE00BGLJXR56

Share Class	Institutional Class / Pooled
Currency	EUR/USD/CHF/GBP
Mgt. Fee	1.50%
Perf. Fee	15.00%
Min Init. Sub.	100,000

ISIN Codes	USD: IE00BZ00XH28 / IE00BZ00XM70 GBP: IE00BZ00XF04 / IE00BZ00XK56 EUR: IE00BZ00XD89 / IE00BZ00XJ42 CHF: IE00BZ00XG11 / IE00BZ00XL63
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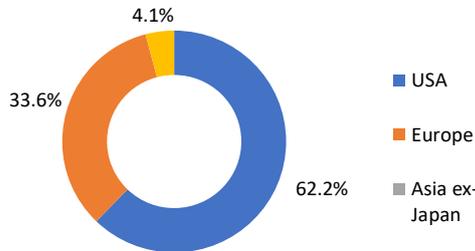
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## Global Merger Arbitrage

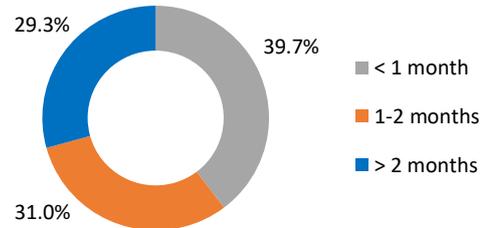
April 2020

### Portfolio Exposure

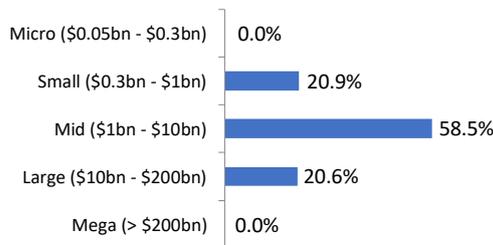
EXPOSURE BY GEOGRAPHY - TARGET



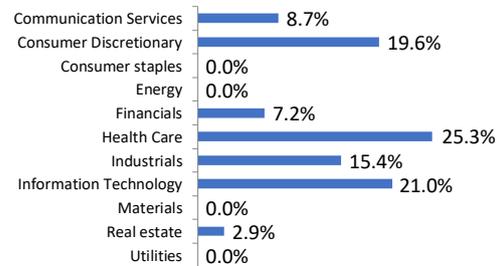
EXPOSURE BY DEAL CLOSING



EXPOSURE BY MARKET CAP



EXPOSURE BY SECTOR



#### CURRENT FUND POSITIONING (% of NAV)

Long	85.6%
Short	4.8%
Gross	90.4%
Net	80.9%
Leverage	0.90x

#### CONCENTRATION (% of gross exposure)

Top 5 long positions	39.2%
Top 10 long positions	66.1%

#### LIQUIDITY BREAKDOWN (% of gross exposure)

< 1 day	100.0%
2-5 days	0.0%
6-10 days	0.0%
11-20 days	0.0%
> 20 days	0.0%

#### DIRECTION (positions)

Long	20	New situations	6
Short	2	Situations closed	7

### Contact Details

#### Investor Contact

**MontLake Funds (UK) Ltd**  
Park House, 116 Park Street  
London, W1K 6AF  
T: +44 20 3709 4510  
investorrelations@montlakefunds.com

#### Management Company

**MontLake Management Ltd**  
23 St. Stephen's Green  
Dublin 2, Ireland  
T: +353 1 533 7020  
investorrelations@montlakefunds.com

#### Investment Manager

**AUM Asset Management Ltd**  
148/2, Tower Road  
Sliema SLM 1604, Malta  
T: +356 2713 9851  
investorrelations@aum-am.com

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