

MontLake Abrax Merger Arbitrage UCITS Fund

Global Merger Arbitrage

July 2021

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.

Portfolio Commentary for July

July was definitely a month of two parts, a reasonably benign first three weeks followed by a turbulent last week on the back of the unexpected termination of the Willis Tower/AON deal on July 24th. Abrax did have a position in this deal but was actually equally hit by the broader market sell off as spreads widened across the board. As a result, the fund lost -2.36% (YTD +4.46%) vs the HFRXMA Index which was -1.9% in July (YTD +2.28%). Since its peak on June 11th where the HFRXMA index was up +5.15% YTD, the index has lost 60% of its YTD 2021 performance, in less than 50 days, with 47 days of negative P&L in that period and it is now only up 2.28% YTD.

To put this into a broader context, 47 days of negative P&L is an abnormally long period and is unprecedented in merger arbitrage. Clearly many of these price moves are overdone and this derisking/forced selling trend should come to an end shortly as was the case in all the of the previous dislocation periods, whether it was 2008, 8/2011, 8/2016, Q4 2018 or 3/2020.

Willis Tower (WTLW)

In terms of Willis Towers, around 20% of its market cap was owned by Hedge Funds, making it a crowded trade amongst the merger arbitrage community as a whole and some funds had large positions. We knew this and sized our position to be smaller to reflect this – we don't like crowded traded generally and the potential volatility that can go with them. But this was a highly consensual trade which reflected the strong expectation of an imminent settlement, which was also confirmed by various sources the week before the termination. As it is, AON now has to pay a \$1bn termination fee and has lost out on what would have been a highly strategic, accretive deal.

Whilst Abrax did not therefore have a significant position, the spread widened to up to \$81.6 on July 28th, while the « break-spread » (based on the prices of the Willis Tower and AON share prices pre the deal on March 6th 2020) was at circa \$40, some 50% lower (which was already the highest level ever, due to the March 2020 market collapse), while the spread had actually traded in the \$0 to \$20 range for the past 5 years. This extreme price action is the result of forced sellers distorting the market and another reason for us taking our time to come out of the position on the most favourable terms.

The impact on the broader market

Almost all spreads sharply widened post the WT termination and some examples of this include : XLNX/AMD -9%, COHR/IIVI -6%, CHANGE HEALTHCARE -6%, MAGNACHIP -10%, as forced selling became widespread. As a result, more than 50% of our positions had a negative P&L contribution in July.

But opportunities remain compelling...

We believe this dislocation has actually created some interesting opportunities to invest which we are exploiting judiciously and should convert into a strong, short term rebound in performance. It is also worth noting that despite the broader spread widening detailed above, it did not completely stop ever more compelling bidding wars and price increases around certain deals including :-

- Inhalator producer VEC LN, which was acquired by Carlyle for GBP1.36, received a 10% higher counteroffer of GBP 1.5 from Philip Morris on July 9th.
- Aligroup firmed up its counteroffer of \$24 for WBT US on July 14th, trumping the Middleby 100%-stock offer of circa \$22.
- Second price increase for the tender offer for CA Immobilien, from 35 EUR to 37 EUR by Starwood Capital.

M&A Market Review for July

July was a particularly robust month for M&A with volumes worth \$500bn (+20% MoM) being announced (vs a LTM monthly average M&A volume of \$380bn).

Five9 Inc/Zoom Video Communications (\$14,3bn), Hill-Rom Holdings /Baxter International (\$11bn - proposed), Stamps.com /Thoma Bravo (\$5,5bn), Medallia /Thoma Bravo (\$5,5bn), Covanta Holding /EQT AB (\$5,2bn), Welbilt /Aligroup (\$4,8bn), Investors Bancorp /Citizens Financial (\$3,6bn), Retail Properties of America /Kite Realty (\$2,9bn), Monmouth Real Estate /Starwood Capital (\$2,8bn - proposed), State Auto Financial /Liberty Mutual (\$2,4bn), Steadfast Apartment REIT /Independence REIT (\$1,9bn).

Europe was also very active in July. Announced deals included ; Wm Morrison Supermarkets /GIC,Canada Pension Plan, Fortress (\$12,8bn), Atotech Ltd/MKS Instruments Inc (\$7bn), Europcar Mobility /Volkswagen (\$6,1bn), Ultra Electronics /Cobham Ltd (\$3,5bn - proposed), Iliad SA/Private Investor (\$3,2bn), Veoneer Inc/Magna International Inc (\$3,1bn), GCP Student Living /Gemini Jersey (\$1,7bn), Neles /Valmet (\$1,5bn).

UCITS Monthly Performance (USD Institutional Founder Class)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Y-T-D
2021	1.96%	1.79%	0.82%	0.90%	1.15%	0.20%	-2.36%						4.46%
2020	0.49%	0.57%	-5.90%	5.95%	0.54%	-3.41%	1.65%	0.18%	-1.98%	0.54%	7.46%	0.97%	6.55%
2019	-	-	-	-	-	-	-0.05%	0.68%	0.49%	0.55%	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.

Olivier Baccam

Olivier Baccam has 15 years' event driven/merger arbitrage investment experience at Candriam (Dexia Asset Management) where he was Senior Portfolio Manager, Senior Investment Analyst as well as Management Committee member.

Fund Facts

Structure	UCITS Fund
Domicile	Ireland
Liquidity	Daily
Strategy AUM	\$115.6 million
Fund AUM	\$68.5 million
Inception	24 th July 2019

Share Class Institutional Class

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

ISIN Codes	USD: IE00BZ00XM70
	GBP: IE00BZ00XK56
	EUR: IE00BZ00XJ42
	CHF: IE00BZ00XL63

Share Class Retail Class

Currency	EUR/USD/CHF/GBP
Mgt. Fee	2.00%
Perf. Fee	20.00%
Min Init. Sub.	10,000

ISIN Codes	USD: IE00BZ01DF31
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	EUR: IE00BZ01DB92
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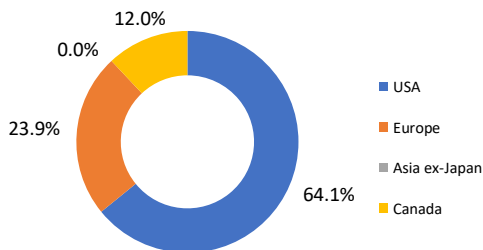
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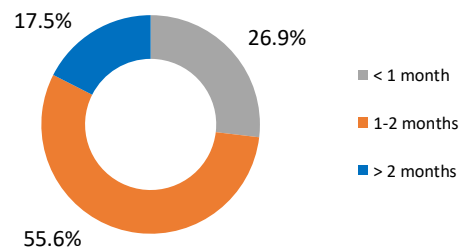
July 2021

Portfolio Exposure

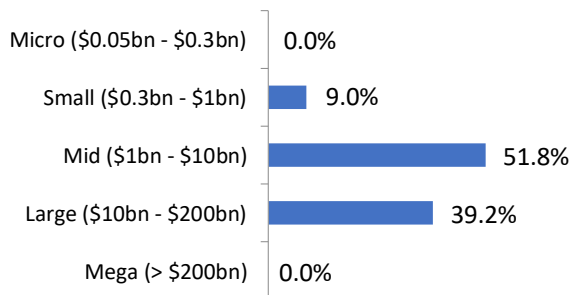
EXPOSURE BY GEOGRAPHY - TARGET



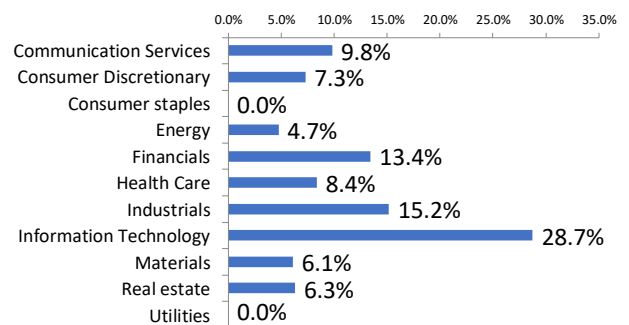
EXPOSURE BY DEAL CLOSING



EXPOSURE BY MARKET CAP



EXPOSURE BY SECTOR



CURRENT FUND POSITIONING
(% of NAV)

Long	132.1%
Short	25.4%
Gross	157.5%
Net	106.6%
Leverage	1.57x

CONCENTRATION
(% of gross exposure)

Top 5 long positions	19.3%
Top 10 long positions	31.9%

DIRECTION (positions)

Long	31	New situations	2
Short	7	Situations closed	4

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%

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