MontLake Abrax Merger Arbitrage UCITS Fund

Global Merger Arbitrage

June 2020

Performance Returns

The MontLake Abrax Merger Arbitrage UCITS Fund gained -3.41% for the month of June (USD Institutional Founder Class), bringing YTD performance to -2.15%.

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

Against a volatile market back drop, where general indices were making on average daily moves of +/-1% on the back of Covid-19 and macro headlines, the merger arbitrage universe proofed to be highly frustrating, with an unprecedented disruption in mergers and acquisitions sweeping across a myriad of industries, from travel, retail, real estate and energy to even seemingly sheltered sectors such as finance and technology.

In the last couple of weeks alone, not only have more than $6 billion worth of deals been renegotiated (reducing any offer consideration to target shareholders), also more than 10 agreed deals worth about $20 billion have been terminated by mutual consent by buyer and seller, with the latest significant addition to the list being Ally Financial Inc., which last month terminated its $2.65 billion deal to buy the subprime credit card lender CardWorks Inc., citing "unprecedented economic and market conditions resulting from the Covid-19 global pandemic."

Although the Fund had been highly successful navigating during this storm (*displayed by a ~3% positive performance in the last quarter despite this unprecedented number of deal breaks/deal renegotiations*), avoiding the disproportionate amount of deal breaks (and especially all the mutually agreed deal breaks), given the extreme focus on strong merger agreements, locked in financings and strategic deals***, there has been a number of situations in June where buyers are now taking the gamble of legal path / litigation trying to get out of deals despite extremely tightly worded merger agreements – a dynamic that unfortunately impacted the Fund this month***.

Portfolio Commentary for June

The Fund's negative performance has been mainly attributed to 2 deal termination attempts in 2 strategic deals, which are now headed to litigation. Given in general, deal spreads continue to trade wide with limited deal spread tightening in absence of real strong deal catalysts, there were no significant positive P&L contributors for the month (except for one situation which obtained a last required, regulatory approval needed for deal closing).

Furthermore, given a general risk aversion environment with continued nervousness following the termination attempts of $87bn worth of deals since the start of Covid-19 pandemic, spreads have traded back near their wide(r) levels of March, translating into only 25% of the Fund's positions being positive P&L contributors for the month. This is in stark contrast with our historical average of 70% of positive positions per month since the Fund's inception. An unfortunate absence of strong catalysts and deal closings this month didn't help neutralise some of the spread widening, with a number of catalysts (in the form of certain regulatory approvals) and deals closing now slightly pushed back to 3Q20.

Whilst the significant amount of (especially lower quality) deals termination attempts has not been unexpected in the last 4 months (with the Fund having successfully navigated this extremely tough environment), what is surprising this month are the commencement of litigation processes following the termination attempts in highly strategic deals with extremely tightly worded, legal merger agreements (with specific carving out of pandemics In their respective Material Adverse Clauses and strong transaction enforceability provisions in these contracts) – which have impacted the Fund this month: we remain convinced that the legal gambles these buyers are taking will eventually backfire with either buyers to be forced to close on original deal terms or be on the hook for significant damages to their respective targets.

The first negative contributor i) Taubman Centers: after mall landlord giant Simon Property Group announced its acquisition for its much smaller rival Taubman in February for $3.6bn, Simon this month said it wants to scrap the tie-up setting up the fight for litigation with Taubman holding firm, accusing Simon of "a classic case of buyer's remorse – the reason for our investment in Taubman was not a) only the strategic nature of deal (magnified by Simon's pursuit of Taubman for almost 20 years), b) the fact that the offer price had already been reduced by more than 10% from the original agreed price to account for COVID risk, c) the low pro-forma leverage but d) most importantly the extremely tight merger agreement. With Simon's termination attempt, which we found lacking a lot of merit and showing simply buyer's remorse, we continue to be invested in the situation, given chance for near-term renegotiation or for a win by Taubman in the expedited court hearings in Michigan. The second negative contributor for the month was Cineplex , the Canadian cinema operator, which is equally headed now to litigation in Canada after its UK suitor is equally showing the same classic buyer's remorse - with Cineplex now suing Cineworld for damages -which could be as high as the difference between the $34 cash offer price and the post-termination attempt break price – given the longer nature of litigation in Canada, we have been more actively trading this name.

The only notable positive contributor for the month was Adesto Technologies, the US semiconductor memory device manufacturer deal by UK based Dialog Semiconductor which received US CFIUS approval – well ahead of expectations.

M&A Market and Opportunity Set

Although the Fund's performance in June has been frustrating through the combination of spread widening and delay of closing/positive catalyst, this temporary mark to market should be recovered through the delayed occurrence of these hard catalysts.

Despite new M&A activity level remaining muted, current spread levels still offer highly attractive investment opportunities, and we have nevertheless witnessed a small recovery in M&A activity in June, compared with declines in both April and May – with Europe leading the way as being the first region with decent new activity. At time of writing this, we already saw a number of new $2bn+ deals announced in US in early July.

Going into July, we remain highly optimistic not only on i) the current opportunity set (which continues to trade much wider than historic norms, with deal spreads to continue trading 10%+ annualised even in the latter stages of deal closing); ii) the legal system in North-America (which we believe will ultimately prove the strength of merger agreements) but also on iii) anticipated new M&A activity for 2H20 given recent first witnessing of newly announced M&A green shoots.

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%	0.50%	-3.41%							-2.15%
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.

ABRAX Merger Arbitrage

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	$65.6 million
Fund AUM	$25.6 million
Inception	24th 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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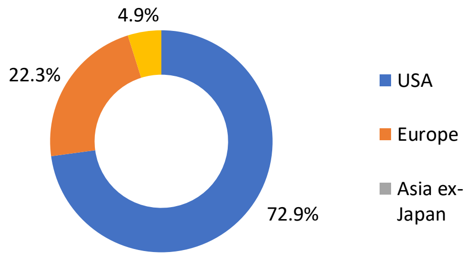
Global Merger Arbitrage

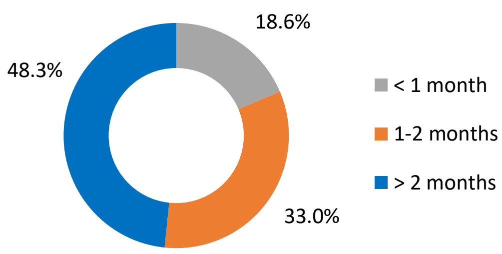
June 2020

Portfolio Exposure

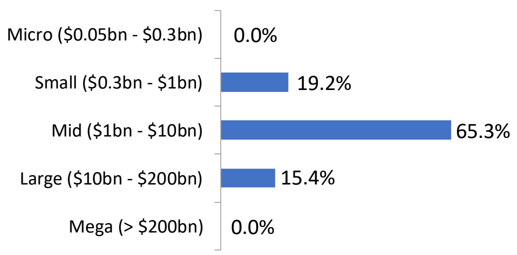
EXPOSURE BY GEOGRAPHY - TARGET



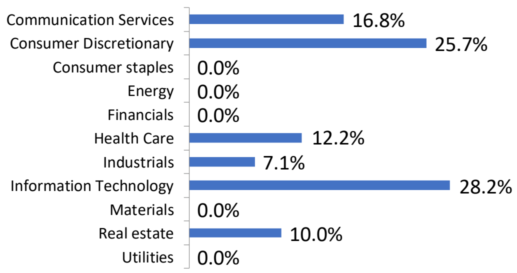
EXPOSURE BY DEAL CLOSING



EXPOSURE BY MARKET CAP



EXPOSURE BY SECTOR



CURRENT FUND POSITIONING (% of NAV)

Long	62.2%
Short	4.9%
Gross	67.1%
Net	57.4%
Leverage	0.67x

CONCENTRATION (% of gross exposure)

Top 5 long positions	36.4%
Top 10 long positions	70.7%

DIRECTION (positions)

Long	16	New situations	3
Short	3	Situations closed	0

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%

Contact Details

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