

# MontLake Abrax Merger Arbitrage UCITS Fund

## Global Merger Arbitrage

July 2020

### Performance Returns

The MontLake Abrax Merger Arbitrage UCITS Fund gained +1.7% for the month of July (USD Institutional Founder Class), bringing YTD performance to -0.5%.

### 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 proved 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 July

*Further building to last quarter’s ~3% positive performance, with encouraging monthly performance on the back of an increased offer for one of our core positions, combined with an agreed settlement to a previously terminated deal, in a recovering M&A market, allowing the Fund for significantly new opportunities/positions*

July was a highly encouraging month for the Fund, firstly not only because the vindication of a settlement in one of the multiple Covid-19 impacted buyer’s remorse situations (highlighting the pressure on bidders stemming from the legal strength of merger agreements/contracts), but secondly a renewed pick-up in large(r) scale M&A activity in both US and Europe.

**Not only did the Fund benefit from the renewed focus on potential settlement outcomes (in situations that have headed to litigation), the fact that our M&A universe is broadening again, meant we have initiated the largest new number of monthly positions since the beginning of the year, whilst merger arbitrage deal spreads – mainly in pre-pandemic announced merger situations – continue to trade at much wider levels versus historical norms.**

The Fund’s positive performance in July was mainly attributed to 2 positive catalysts, namely an increased offer announcement and an ultimate settlement in the form a newly agreed cash offer for a deal, where the private equity bidder had earlier unilaterally attempted to terminate their deal (and was heading for Delaware court action). A number of other spreads tightened in sympathy with the latter settlement deal news. There were no significant negative contributors for the month.

Overall 55% of the Fund’s positions were positive P&L contributors, where 4 of our positions closed during the month while initiating 8 new positions, the highest number of new monthly situation initiations since the beginning of the year - highly reflective of the increasing opportunity set of new M&A.

The first positive contributor of note for the month was Qiagen NV : following extremely strong 2Q numbers and 3Q outlook on the back of its Covid-19 testing capabilities, its US suitor Thermo-Fischer announced a 10.3% increase to the offer consideration from EUR 39 to 43, while reducing the required tender threshold from 75% to 66 2/3%. Nevertheless, despite the offer price increase, further vocal opposition remains to the new terms, given the new terms still only represents a meagre exit premium to the fundamental valuation, whose value has grown significantly given Qiagen’s new sales growth outlook of 16-21% for 2020 on the back of elevated demand for its coronavirus test products. The second positive contributor for the month was Forescout Technologies , a deal we got involved after its UK private equity buyer Advent International announced in May that it would not be proceeding to consummate its \$ 33 cash /ps offer – nevertheless following an aggressive campaign between Forescout and its UK PE suitor and just before their Delaware court process would have kicked off, parties agreed to a reduced USD 29 cash offer. Not only did this outcome vindicate the relative strength of the merger agreement (and the relative difficulties bidders face in trying to find ways to get out of their legal contracts), this equally shows *(which have written numerous times in the last number of months)* that bidders are using legal gambles / avenues to put pressure and to extract price cuts from their targets.

Other situations that tightened in sympathy with the settlement news on Forescout were i) Taubman Centers, the other high profile US deal which is scheduled for trial in Michigan in early November, where its bidder, Simon Properties, is trying to back out of its deal despite an extremely tight merger agreement; and ii) Tiffany, where its suitor, LVMH, announced at its late July earnings call, that it would honour its legal buyer’s contract.

### Market commentary

With about 2,300 new deals worth almost USD 320bn, newly announced M&A activity during July was highly encouraging, following the 1H period of where M&A volumes had been down 50% YoY for 1H2020. We saw the return of the \$1bn+ deals in the form of Maxim integrated /Analog Devices (\$20bn); Noble Energy / Chevron Corp (\$13bn); National General Holding /Allstate Corp (\$4bn) & Vivint Solar / Sunrun (\$3.0bn) in the US and Neles / Alfa Laval (\$2bn) & IMA Industria Macchine / PE consortium (\$2bn) in Europe.

A number of M&A advisors expect the M&A recovery to be much faster than in prior downturns - with healthy balance sheets at both corporate & financial institutions. Additionally, private equity players sit on \$1.5 tr (trillion!) of dry powder, and are expected to take a much more active role in the next /upcoming M&A cycle. A number of structurally growing trends (European consolidation, digitalisation, and pandemic driven reinvention of business models will only facilitate a renewed M&A wave.

### 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%	6.00%	0.50%	-3.41%	1.66%						-0.54%
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	\$68.6 million
Fund AUM	\$26.6 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

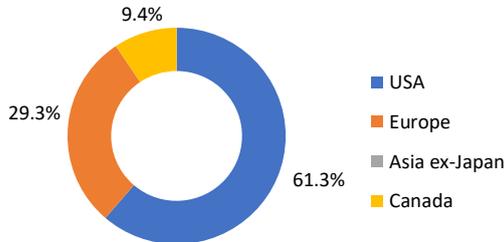
# MontLake Abrax Merger Arbitrage UCITS Fund

## Global Merger Arbitrage

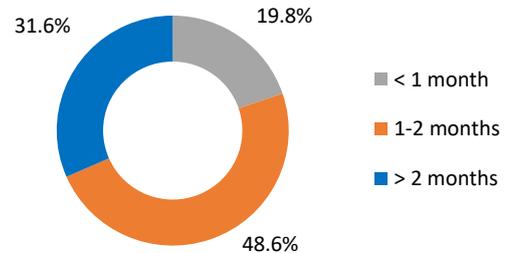
July 2020

### Portfolio Exposure

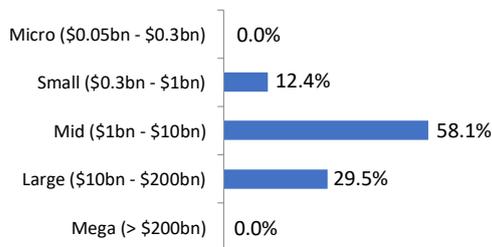
EXPOSURE BY GEOGRAPHY - TARGET



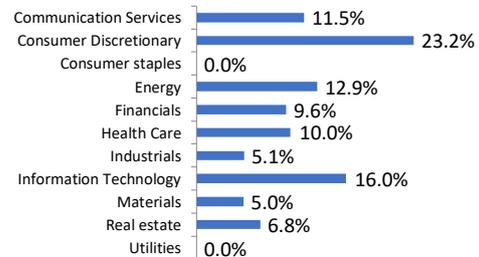
EXPOSURE BY DEAL CLOSING



EXPOSURE BY MARKET CAP



EXPOSURE BY SECTOR



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

Long	83.6%
Short	14.2%
Gross	97.8%
Net	69.4%
Leverage	0.98x

#### CONCENTRATION (% of gross exposure)

Top 5 long positions	25.7%
Top 10 long positions	45.7%

#### 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	19	New situations	8
Short	3	Situations closed	4

### 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

### Disclaimer

**RISK WARNING:** Past performance is not a reliable indicator of future results, prices of investments and the returns from them may fall as well as rise. Investments in equities are subject to market risk. Changes in exchange rates may have an adverse effect on the value price or income of the product. The MontLake Abrax Merger Arbitrage UCITS Fund (the "Fund") may use higher leverage and financial derivative instruments as part of the investment process. The distribution of this report does not constitute an offer or solicitation and this notice shall not be construed as an offer of sale in any other fund managed or advised by AUM Asset Management Ltd or MontLake Management Limited ("ML"). Any investment in the Fund should be based on the full details contained in the Fund's Supplement Prospectus and Key Investor Information Document which together with the MontLake UCITS Platform ICAV Prospectus may be downloaded from the MontLake website ([www.montlakeucits.com](http://www.montlakeucits.com)). Information given in this document has been obtained from, or based upon, sources believed by us to be reliable and accurate although neither ML nor AUM Asset Management Ltd accepts liability for the accuracy of the contents. ML does not offer investment advice or make recommendations regarding investments. The Manager of the Fund is MontLake Management Ltd, a company regulated by the Central Bank of Ireland. The Investment Manager for the fund, AUM Asset Management Ltd is authorised and regulated by the Malta Financial Services Authority. The state of the origin of the fund is Ireland. This document may only be distributed in Switzerland to qualified investors within the meaning of art. 10 para. 3, 3bis and 3ter CISA. The Representative in Switzerland is ARM Swiss Representatives SA, Route de Cité-Ouest 2, 1196 Gland, whilst the paying agent is NPB Neue Privat Bank AG, Limmatquai 1/am Bellevue, P.O. Box, CH-8024 Zurich. The basic documents of the fund as well as the annual and, if applicable, semi-annual report may be obtained free of charge from the representative. In respect of the units distributed in or from Switzerland, the place of performance and jurisdiction is at the registered office of the representative. Past performance is no indication of current or future performance. The performance data do not take account of the commissions and costs incurred on the issue and redemption of units. The MontLake UCITS Platform ICAV is registered and regulated as an open-ended Irish collective asset-management vehicle with segregated liability between sub-Funds formed in Ireland under the Irish Collective Asset management Vehicles Act 2015 and authorised by the Central Bank as a UCITS pursuant to the UCITS Regulations. This notice shall not be construed as an offer of sale in the Fund. The state of the origin of the Fund is the Republic of Ireland. The performance data do not take account of the commissions and costs incurred on the issue and redemption of units. Authorised and Regulated by the Central Bank of Ireland. This is a marketing document.

For more information visit [www.montlakeucits.com](http://www.montlakeucits.com)