MontLake

↑+0.57%*

Mygale Event Driven UCITS Fund

Event Driven

July 2020

Performance Returns

*The Mygale Event Driven UCITS Fund USD Institutional Class returned +0.57% during the month of July.

Investment Objective & Strategy

An active trading approach to European Focused Event Driven Equity.

The fund follows predominantly merger arbitrage and catalyst driven strategies. We hold 40-60 positions with a typical net exposure of up to 50% and gross of between 100% and 200%. Our trading approach has a three tiered methodology designed to capture additional alpha for every position. Trades are structured with the intention of embedding optionality and favourably skew risk, with sharpened timing and market feel from our trading background. We frequently question our investment thesis, and conduct fundamental in-house research with the understanding that company specialists may know more. We are not wedded to any positions and do not believe we have the 'information edge.' Therefore, we systematically consult the market through deep local broker relationships and industry specialists. We are constantly looking for trades with fundamental value, and situations with the possibility of counter bids and bump catalysts and try to avoid the 'home run' mentality.

Monthly Commentary

July continued in the same optimistic vein as the last few months, with global markets driven by a post-COVID rebound, emboldened by upbeat macroeconomic data, sanguine Q2 earnings and positive early stage vaccine results. The S&P 500 even managed to shrug off a persistent rise in new coronavirus infections in the US, which caused many states to reverse their reopening plans. Amidst this stock market rally it is notable that volatility continues to fall - with the VIX closing the month at 24%. With markets continuing to stabilise it is unsurprising to see conditions for M&A activity continue to ripen. Corporate balance sheets in the main are resilient and healthy, while private equity dry powder continues to accumulate. To mitigate valuation uncertainty, some acquirers have resorted to using their own paper as consideration in strategic deals – in July we saw this with Chevron/Noble and Analog/Maxim, to name but a few. With rising risk appetite reflected in a weakening USD, it is worth noting the strength in commodities – oil confirmed its recovery from negative pricing while gold bounced almost 11% over the month. This price activity is likely to lead to consolidation in these sectors as acquirers look to add assets to their portfolios, the agreed deal to buy UK listed Highland Gold announced at the end of the month, is perhaps small evidence of this.

Since the crisis took hold in March I have commented almost too frequently (in my mind!) about how I expect M&A deal flow to be resurgent once the initial impact of the crisis subsided, and over the last few months we have certainly seen this starting to play out. As we all know July, and August in particular, are traditionally the time when Europe decamps to the beach and deal making falls off a cliff. My suspicions a few months back were that this probably wouldn't be the case this year, and thankfully that has, in July at least, proven to be correct. Many companies have now changed their motivations from surviving the pandemic to making the most of both economic and business opportunities that now exist, many of which have been created as a result of the crisis. The positive deal momentum we saw start to emerge in June has continued through July with a number of new deal announcements as well as positive developments on existing portfolio investments.

Monthly Share Class Performance Breakdown

USD Ins.	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Y-T-D
2020	-0.24%	-0.24%	-3.75%	1.26%	-0.34%	0.15%	0.57%						-2.64%
2019	0.60%	0.19%	0.34%	0.51%	-0.20%	1.43%	0.67%	0.15%	0.16%	-0.11%	0.29%	0.28%	4.39%
2018	0.63%	0.96%	-0.23%	0.36%	-0.27%	0.63%	0.22%	0.06%	0.90%	-0.48%	0.42%	0.20%	3.43%
2017	0.00%	0.30%	0.47%	0.61%	0.04%	0.22%	0.46%	0.19%	0.26%	0.56%	0.16%	0.74%	4.06%
2016	0.97%	0.43%	0.02%	0.67%	0.47%	0.03%	2.83%	0.76%	0.84%	-1.56%	0.03%	1.02%	6.65%
GBP Ins. A Fou.	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Y-T-D
2020	-0.23%	-0.24%	-3.93%	1.30%	-0.26%	0.21%	0.64%						-2.56%
2019	0.54%	0.15%	0.33%	0.48%	-0.25%	1.37%	0.67%	0.12%	0.13%	-0.12%	0.28%	0.25%	4.04%
2018	0.65%	0.97%	-0.29%	0.37%	-0.28%	0.59%	0.23%	0.03%	0.90%	-0.40%	0.31%	0.15%	3.26%
2017	0.01%	0.28%	0.43%	0.62%	0.07%	0.21%	0.46%	0.19%	0.25%	0.57%	0.16%	0.72%	4.03%
2016	1.25%	0.47%	0.02%	0.69%	0.57%	0.18%	2.85%	0.83%	0.86%	-1.16%	0.05%	0.84%	7.65%

The performance figures quoted above for the USD Share Class represents the performance of the Mygale Event Driven UCITS Fund USD Institutional Share Class and the GBP Share Class represents the performance of the GBP Institutional Class A F Share Class since launch. These performance figures refer to the past and past performance is not a reliable guide to future performance.

The Manager

MYGALE

Neil Tofts has over 20 years' experience successfully running event driven portfolios and funds, and 23 years in derivatives. As Managing Director and Head of Event Driven Investments for Merrill Lynch in London, he was responsible for a European focused, Global Event Driven portfolio. From 2007 he was Head of Global Event Driven Investments at KBC Alternative Investment Management in London where he established and ran a 4 person team. Prior to this in 2000, Neil founded the London office of Deephaven Capital Management. He has also managed Event Driven investments at Paribas and NatWest Markets. He graduated with a BA (Hons) in Business Studies from Oxford Brookes University.

Ken Li Chung was previously a Vice President at Bank of America Merrill Lynch in London where, most recently, he had full responsibility for the European Event Driven trading franchise. He has over nine years of investment experience, having joined BAML in 2008 and has also been responsible for a European focused fundamental equity portfolio as well as index and portfolio trading. Ken Li graduated with a BA (Hons) in Economics from the London School of Economics and Political Science, and is a CFA Charterholder.

Fund Facts

Structure	UCITS Fund
Domicile	Ireland
Liquidity	Daily
Fund AUM	$302 million
Inception	1 January, 2016

Share Class	Institutional/Institutional Pooled
Currency	EUR/USD/CHF/GBP
Mgt. Fee	1.50%
Perf. Fee	20.00%
Min Init. Sub.	1,000,000
ISIN Codes	EUR: IE00BYRPFQ61/IE00BYRPFV15 USD: IE00BYRPFT92/IE00BYRPFY46 CHF: IE00BYRPFS85/IE00BYRPFX39 GBP: IE00BYRPFR78/IE00BYRPFW22

Share Class	Institutional F/Retail Pooled
Currency	EUR/USD/CHF/GBP
Mgt. Fee	1.25%/2.00%
Perf. Fee	15.00%/20.00%
Min Init. Sub.	10,000,000/10,000
ISIN Codes	EUR: IE00BYRPG302/IE00BYRPFZ52 USD: IE00BYRPG633/IE00BYRPG294 CHF: IE00BYRPG526/IE00BYRPG187 GBP: IE00BYRPG419/IE00BYRPG070

Monthly Commentary continued

Most notable portfolio performance this month came from our investment in the takeover of Ubi Banca by Intesa. This is a situation where we had an opposing view to many in the market who had initially wrongly thought the deal would not close due to significant opposition from the main Italian foundations who held shares in Ubi Banca. In total, the foundation's held just short of 20% and have been against the merger since it was launched in early March. Despite this, the spread traded within a relatively tight range and hence proved fertile ground for brokers to push investors to 'reverse' the spread. Some did this, not fully understanding what was happening behind the scenes to overcome this hurdle. We felt from the very beginning that the foundations were correct, the price was low. However, we also understood that this was a deal actively encouraged by the ECB to support the stability of the banking system in Italy and resultantly creating the 3rd largest bank in Europe (by mkt. cap.), a deal that also had the backing of Italy politically. Intesa hold an incredibly powerful position in Italy, and people underestimated this as well as the efforts they went to in order to convince foundations and local entrepreneur shareholders to change their minds. They employed some very senior, powerful and well-connected people who spent a significant amount of time meeting with the various different shareholders and they were successful in 'convincing' them of the merits of the deal. Intesa then added a cash element of 57 cents to the bid price (an 18% bump). This proved more than enough to get the foundation shareholders on-side and achieve the necessary target of 2/3rds acceptance, thus heralding the deal a success.

Qiagen again performed well this month, following Thermo Fisher increasing its offer from €39 to €43 per share, whilst at the same time lowering the acceptance level from 75% to 66.67%. As mentioned last month, Qiagen's results in early May highlighted the importance of the company's test kits and it's improving outlook going forward. Prior to Covid, Thermo Fisher was expecting a growth rate of 3-4% from Qiagen, yet sales for 2020 are now expected to grow by 15-18% and are expected to see continued increases over the next 3 years. As a result, there is now significant shareholder opposition emerging, and there exists a real likelihood of deal failure should Thermo not increase their bid further. Over in Australia, our investment in Zenith Energy progressed as we had hoped and a few days before the scheme vote the PE buyers determined that there was sufficient opposition to the bid price that warranted their increasing the terms from $1 to $1.04 per share. The scheme vote was subsequently successful. Our other main Australian investment is in Infigen, and following a heated bidding war between Ayala and Iberdrola, which started at $0.80 per share, Ayala all but conceded defeat by allowing it's $0.92 offer to lapse. Iberdrola's current unconditional bid of $0.92 has so far reached 44% acceptance. What is not known here is what Ayala's end game is, as it managed to amass a 19.9% stake.

July wasn't all about existing portfolio positions though, there were also a significant number of new situations added to the portfolio. During the month Chevron announced the takeover of Noble Energy, in a deal that gives it not only access to more Permian and Colorado basin acreage but also enables it to increase its leading position in the Eastern Mediterranean natural gas fields off the coast of Israel and Cyprus. Back in Europe, there were a number of deals announced including, for example, Cello, a global healthcare focused advisory business being bought by private equity firm Arsenal Capital Partners, artificial intelligence spinal surgery business Medicrea, being acquired by Medtronic for e7 per share in cash and Italian packaging machinery company IMA being bought by BC Partners, to name but a few. In all, we added 11 new investments and saw only 3 come off the portfolio during July.

Clearly, having moved beyond the fear that froze economies back in March, people are now thinking how they can build scale and resilience, and this is one of the driving factors of the returning deal activity. Our view remains that deals with strategic logic that were in the pipeline pre-Covid are still likely to go ahead at some point in the near future, and both these and newly hatched deals are being given further momentum by an element of opportunism. With valuations rocked by Covid, or whole industry mechanics changed, opportunities have now been created that didn't exist pre the crisis. We expect the momentum to continue.

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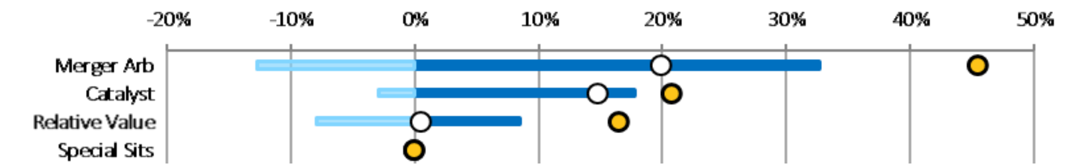
Portfolio Exposures

Risk Metrics

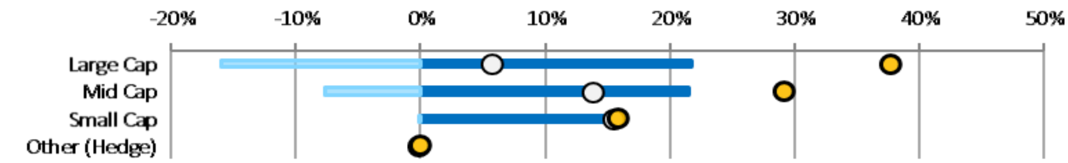
LONG EXPOSURE[2]	59.06%
SHORT EXPOSURE[2]	-23.63%
GROSS EXPOSURE[2]	82.68%
NET EXPOSURE[2, 4]	18.47%
SHARPE RATIO[3]	1.22
SORTINO RATIO[3]	1.74
VOLATILITY[3]	2.79%
VAR[1]	4.72%
NO OF POSITIONS	59

1. VaR is calculated using a confidence level of 99% and a holding period of 20 working days. The VaR model used by the Sub-Fund typically uses data from the last 200 weeks or greater, but a shorter observation period may be used in instances of recent significant changes in price volatility.
2. Based on information from the administrator and as a percentage of the fund AUM in USD including currency hedge for share classes.
3. Based on monthly net portfolio performance
4. The net figure excludes cash merger deals.

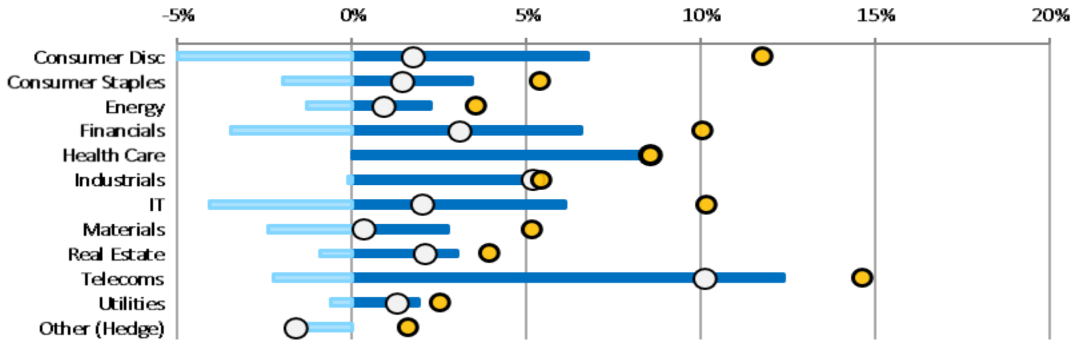
Exposure By Strategy[2]



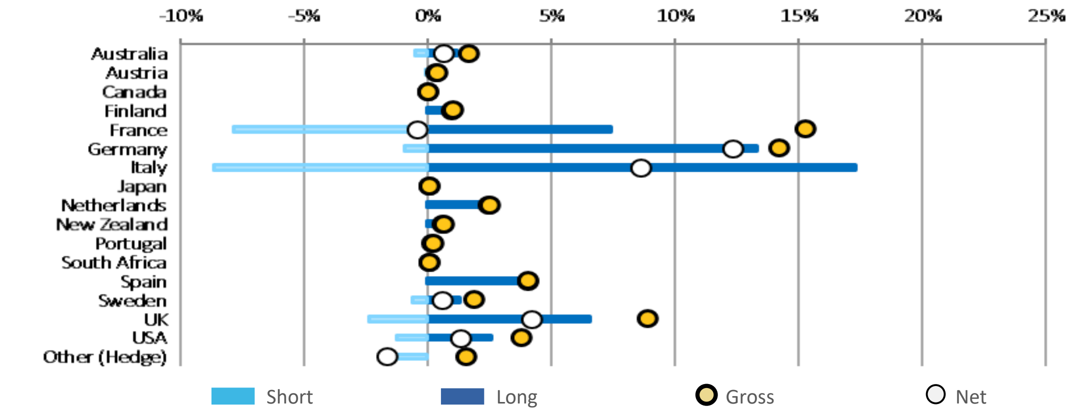
Exposure By Market Cap[2]



Exposure By Sector[2]



Exposure By Geography[2]



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