MontLake Abrax Merger Arbitrage UCITS Fund

Global Merger Arbitrage

May 2020

Performance Returns

The MontLake Abrax Merger Arbitrage UCITS Fund gained +0.5% for the month of May (USD Institutional Founder Class), bringing YTD performance to +1.3%.

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

Despite general market strength – attributed to both improving data points related to the Covid-19 pandemic and governmental and central banks' stimulus packages – the general merger arbitrage environment continued to be extremely difficult during the month, where there was a continued trend of buyer's remorse and deal termination attempts: during the month, three $1bn+ deals were either terminated or attempted to be terminated in the US, namely 2 private equity deals (Front Yard Residential and ForeScout Technologies) and the banking merger between Texas Capital and Independent Bank Group.

Both our continued, highly selective analysis driven, legally focused investment approach AND focus on strategic (rather than financial / private equity) deals proved to be highly important for the month, in navigating and avoiding the disproportionate amount of deal breaks.

Nevertheless, what was most important for the month and for our selective approach, is that the larger, listed, strategic deals continue to move forward and close (most notably witnessed by our larger position exposure in Allergan / Abbvie – the huge $60bn+ pharma tie up closed following their deal announcement almost 1 year ago), and that even on any contractual disagreement between merging parties, strategic deals still aim for renewed (price cut) agreements rather than fully abandoning their deals (witnessed first by the automotive parts tie up between Delphi Automotive and Borgwarner, where parties ultimately agreed on a slightly lower share ratio offer consideration in early May rather than fully backing away from their Jan-20 originally agreed transaction).

Portfolio Commentary for May

The Fund benefited from 2 deal closings and from 2 dislocated spreads that had widened on display of buyer's remorse which nevertheless tightened significantly after the Fund's new involvement. The positive performance was somehow held back by 1 negative position. Overall 71% of the Fund's positions were positive P&L contributors, where 5 of our positions closed during the month while initiating 4 new positions.

During the month of May, we saw the deal closings of i) Allergan / Abbvie, the$60bn+ pharma tie up following receipt of regulatory approval from all government authorities required by the transaction agreement and approval by the Irish High Court; and ii) Wabco, the long-running automotive acquisition by Gremany's privately owned ZF Friedrichshafen, which obtained conditional China's SAMR clearance, subject to a number of behavioural remedies. The Fund also benefited from its positions in i) Delphi Automotive, which ultimately agreed to a mere 5% reduction in the share offer consideration from its suitor BorgWarner following a brief disagreement on a credit draw from Delphi; and ii) Forescout Technologies, a PE deal we shorted given the tight spread and bad quarterly numbers reporting, where the PE buyer Advent ultimately said it would not be proceeding to consummate the acquisition

The only notable negative contributor for the month was Cineplex, the Canadian cinema operator whose share price further depreciated in absence of news on the crucial Investment Canada (ICA) approval by its UK suitor Cineworld – although Covid-19 has obviously further complicated both the bidder's financial position and the ICA review process for this Transatlantic cinema deal – resulting in a 130%+ deal spread, we nevertheless remain invested with our small-sized position given a) improving break /downsides; b) strong merger agreement with strong position for Cineplex in any potential litigation; and c) still outside scenario for ultimate ICA June approval –with potential for an ultimate revised, agreed offer.

M&A Market and Opportunity Set

Newly announced M&A activity remained highly muted for the month- with the exception of a couple of new pharma deals in the US (Stemline Therapeutics / Menarini & Portola Pharmaceuticals / Alexion Pharmaceuticals) and the first new multibillion deal in Europe (the 3bn+ MasMovil acquisition in Spain by a PE consortium), deal makers are nevertheless already preparing for a rapid rise in activity in the second half of the year: according to Goldman Sachs heads of Global M&A, quoting "What we have learned from the past is that sharp declines in the M&A market have led to sharp recoveries".

Not only as governments reopen economies ravaged by the pandemic, recent studies by Accenture have shown that firstly although new mega-deal activity might remain limited, many new small / mid-sized deals will continue – for which the Fund's strategy is highly adaptive given its lesser requirement for significant new deal flow (in new large cap /mega-deals) given its high flexibility versus deal size and highly selective approach - and secondly that CEOs who make merger moves during uncertain times see a 22% total shareholder return in the three years that followed versus those that did not.

Abrax Merger Arbitrage Fund Positioning with Continued Highly Selective Investment and Opportunistic Approach

The Fund's highly selective investment and opportunistic trading approach on more late stage deals (18 situations with short terms catalyst within 30-60 days) with strong regulatory frameworks and solid merger agreements helped our continued performance progress – in a difficult merger arbitrage environment where we continue to see increased levels of buyer's remorse and deal breaks – for which the Fund has had 0 exposure to during the course of the Covid-19 pandemic.

Although new M&A activity levels remain muted (albeit with the first green shoots appearing again and expectations of strong rebound in 2H20), we observe continued volatility and much wider deal spreads in the existing live deal universe, not only allowing for the Fund to much more opportunistically add/trade deals , but also allowing for positions to generate positive performance in any scenario where offer prices are reduced (rather than fully abandoned).

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%								1.30%
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	$67.8 million
Fund AUM	$25.5 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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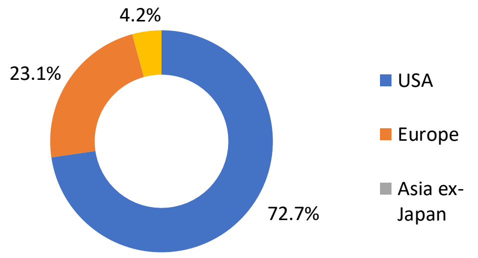
Global Merger Arbitrage

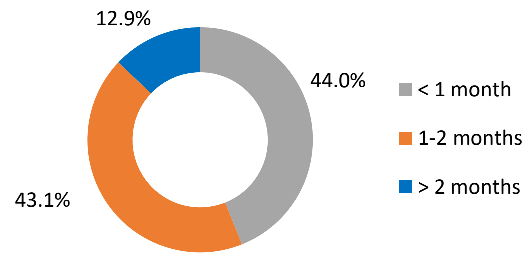
May 2020

Portfolio Exposure

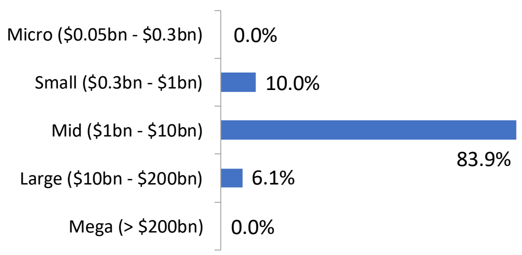
EXPOSURE BY GEOGRAPHY - TARGET



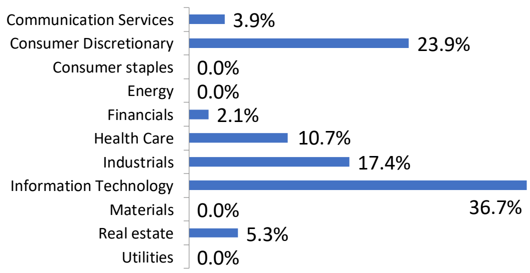
EXPOSURE BY DEAL CLOSING



EXPOSURE BY MARKET CAP



EXPOSURE BY SECTOR



CURRENT FUND POSITIONING (% of NAV)

Long	66.3%
Short	6.0%
Gross	72.3%
Net	60.2%
Leverage	0.72x

CONCENTRATION (% of gross exposure)

Top 5 long positions	34.6%
Top 10 long positions	64.8%

DIRECTION (positions)

Long	19	New situations	4
Short	2	Situations closed	5

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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