

↑ +0.28%*

Mygale Event Driven UCITS Fund

Event Driven

December 2019

Performance Returns

*The Mygale Event Driven UCITS Fund USD Institutional Class returned +0.28% during the month of December.

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

In this, our final newsletter of the decade, it's interesting to look back to this time last year, where we discussed our expectations of continued geopolitical uncertainty and the likely inability of PM Theresa May to push her Brexit proposals through parliament. Clearly this played out as we expected with 2019 proving a tumultuous year for British politics. We probably should have read the warning signs of what was to follow back in January when parliament decisively voted down PM May's Brexit withdrawal deal. It wasn't only Brexit providing the uncertainty however as the China-US trade war continued to prove unsettling, yet again, in 2019. Despite this, global equity markets shrugged off these concerns and produced a storming performance to finish the decade at record levels. Q4 itself finally delivered significant progress toward a resolution to both the Brexit and trade war issues. In December, the long-awaited agreement on a China-US 'Phase One' trade deal materialised and we saw the S&P rally 2.9% on the month, up over 29% on the year. Similarly, in the UK, the decisive victory won by Boris Johnson in the General election saw the FTSE100 add 2.7% on the month. Q4 as a whole saw strong equity market performance, doubtless driven by the pending resolution of both these issues. Logically, this had a knock-on effect to the Event Driven space where we saw increasing confidence contribute to a much more active environment for corporate activity in Q4, as global deal volume increased significantly.

Despite these ongoing uncertainties, the value of M&A globally totalled about \$3.9trn in 2019, making it the fourth strongest on record (although admittedly slightly lower than in 2018). We saw a rise in large deals, with transactions worth more than \$10bn up 8% on the year, the highest since 2015. This helped to offset a plunge in cross border transactions in 2019, down 25% year on year to a level not seen since 2013. As we expected, the continuance of the geopolitical uncertainty made corporate boards very cautious of expanding beyond their home markets. The Brexit saga, combined with some macroeconomic headwinds in key European markets, meant that deal flow in Britain, Europe's largest M&A market, dropped by 4% year-on-year. In fact, it's very apparent that this uncertainty has particularly played in to the hands of private equity and infrastructure funds who have been extremely active this year in taking companies such as Sophos and Merlin Entertainment, as well as many others, private.

Merger activity most definitely accelerated into year end. December was again an active month with a number of new deals both in Europe and the US. We were particularly active in Just Eat, which contributed positively to the portfolio during the month, as Prosus continued their fight for control with Takeaway.com. Early in the month Prosus increased their cash bid to 740p, yet again a price promptly rejected by Just Eat. The ensuing silence led us to believe an auction process was likely, only for Prosus to buckle first and bid against itself raising its bid price to 800p, whilst at the same time reducing the minimum acceptance level to 50% and declaring their bid full and final. As we frequently see, the words 'full and final' are a bit of a double-edged sword as it enables the competing party to know exactly how far they have to go to win the day - a tactic I frequently fail to see the logic in. Prosus also announced its intention to conduct a 'sweep' in the market that same day at 800p. Unfortunately, however, they were somewhat let down by their bankers, who seemingly knew nothing about this process and most definitely missed their chance to secure a decisive holding. Takeaway however, were better organised and responded quickly, increasing its bid to 0.1211 TKWY shares per Just Eat, reduced the minimum acceptance level to 50% (which considering it already had irrevocables for 46% meant they already had the upper hand) and instantly put themselves in a position to win the contest.

Prior to Christmas, Fiat and Peugeot finally confirmed they had reached a binding agreement to merge in a \$50bn deal that will create the 4th largest OEM globally by annual sales. The terms were broadly the same as those telegraphed in late October although one area where we expected to see upside as a Fiat shareholder, the Comau spin out that was due to go to FCA holders, is now being retained and the value shared by the two entities shareholders. This is a small disappointment as we expected Comau to have significantly higher value than was initially ascribed (up to €1bn as opposed to €250m) but clearly PSA recognised this extra value and successfully negotiated for it to be shared. The deal makes strategic sense for both parties - FCA desperately needing exposure to EV technology and PSA benefitting from FCA's strong presence in the US. We expect to be active in this situation over the coming year as the deal progresses through a myriad of regulatory clearances globally. The automotive sector itself is particularly interesting as it faces a secular move toward technology enabled vehicles, combined with a rising tide of environmental legislation over coming years. This will force companies to embark on mergers, joint ventures and alliances as manufacturers and suppliers alike prepare themselves for a more sustainable and more automated future. This expected buoyant activity did not materialise in 2019 however as the automotive sector mirrored a backdrop seen across the merger market more generally due to the ongoing global geopolitical issues. We expect significantly more activity in the automotive and parts supplier sectors in the coming years.

Looking ahead to 2020 we anticipate that the removal of geopolitical headwinds will provide stability and confidence, empowering corporate CEO's and dealmakers to drive company growth ambitions forward. This, combined with continued low rates and ongoing technology disruption across many sectors, will fuel a healthy deal flow pipeline. There remains a tremendous amount of capital needing to be deployed by corporates, particularly so in Europe where companies have been very timid in their approach to acquisition and financial sponsors alike. Private equity activity was at record high levels in 2019 and we see no reason for this not to continue. Financial players such as Blackstone and Carlyle Group have amassed almost \$1.5trn in unspent capital, the highest on record, and whilst 2019 saw around \$450bn of private equity deals, it wouldn't be at all surprising to see that exceeded in 2020.

Whilst we don't expect the removal of the geopolitical headwinds to result in an instantaneous flurry of deal flow, we look forward to a continued increase in corporate activity as we progress through 2020. In fact, it might just be 2021 that proves the stronger of the two years as companies take time to rediscover their appetite for strategic deal making as the most efficient way to gain access to new markets, talent and technology. Again, we thank you for your continued support of Mygale and look forward optimistically to 2020 and beyond.

Monthly Share Class Performance Breakdown

USD Ins.	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Y-T-D
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 F	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Y-T-D
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 Founder Share Class since launch. These performance figures refer to the past and past performance is not a reliable guide to future performance.

The Manager



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	\$369 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: IE00BYRPF92/IE00BYRPFY46
 CHF: IE00BYRPF85/IE00BYRPFX39
 GBP: IE00BYRPF78/IE00BYRPFW22

Share Class Institutional Founder/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

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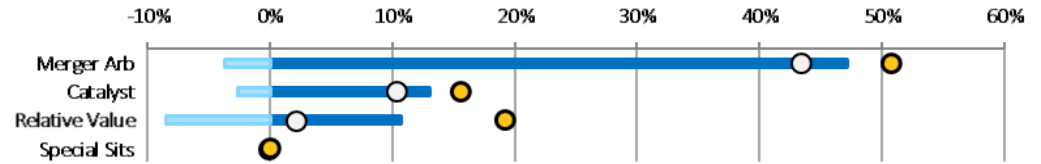
Portfolio Exposures

Risk Metrics

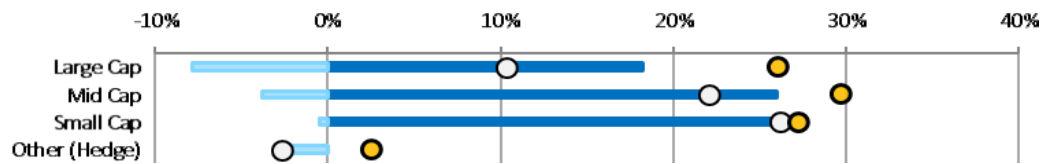
LONG EXPOSURE ²	70.99%
SHORT EXPOSURE ²	-16.39%
GROSS EXPOSURE ²	85.71%
NET EXPOSURE ^{2,4}	16.39%
SHARPE RATIO ³	2.23
SORTINO RATIO ³	2.32
VOLATILITY ³	2.04%
VAR ¹	3.47%
NO OF POSITIONS	66

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.

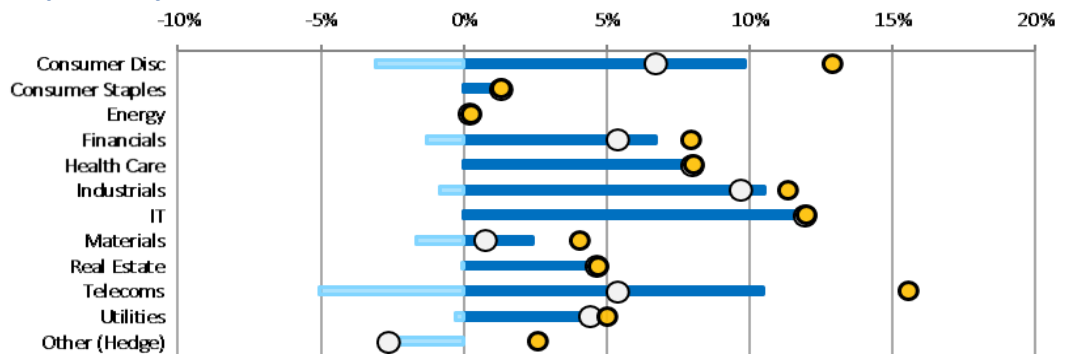
Exposure By Strategy²



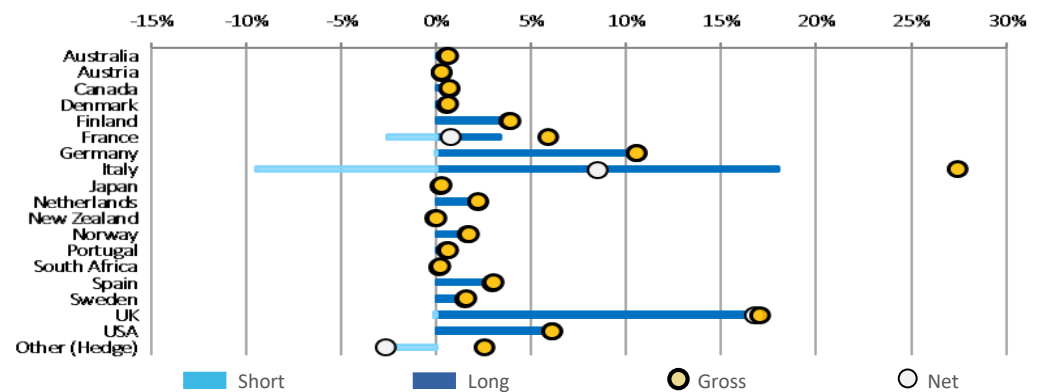
Exposure By Market Cap²



Exposure By Sector²



Exposure By Geography²



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