CARMIGNAC MERGER ARBITRAGE: LETTER FROM THE PORTFOLIO MANAGERS

09/10/2024 | FABIENNE CRETIN-FUMERON, STÉPHANE DIEUDONNÉ

Dear investors,

After a slightly difficult start to the year, during which we managed to preserve our investors' capital, the performance of our funds rebounded sharply in the 3rd quarter: **1.1% for Carmignac Portfolio Merger Arbitrage (I EUR Acc shareclass) and 1.6% for Carmignac Portfolio Merger Arbitrage Plus (I EUR Acc shareclass).**

QUARTERLY PERFORMANCE REVIEW

Most of the performance was due to the tightening of most merger arbitrage spreads. These included Ansys, Cerevel Therapeutics, Catalent and Southwestern Energy. On the other hand, some fairly large discounts continued to diverge, mainly because of problems linked to pressure from the competition authorities. These included Hess, Spirent Communications and Shinko Electric Industries.

This good performance was not achieved without volatility.

Firstly, at the beginning of August, the fall in equity markets, particularly in Japan, had a slight impact on merger arbitrage spreads, but this was quickly absorbed over the following days. Then, the US administration's uncertainty over Nippon Steels' acquisition of United State Steel led to sharp swings in the US steelmaker's shares: down 23% in early September, followed by a rebound of almost 20% over the course of the month! As usual, following this spike in volatility, we observed a move to reduce the risk in portfolios, which resulted in the widening of certain merger arbitrage spreads.

GOOD MOMENTUM IN M&A ACTIVITY DURING THE QUARTER

Overall, M&A activity remained buoyant in Q3 2024: +28% in volume and +36% in value compared with the same period last year. The upturn observed in the 2nd half of last year thus seems to be confirmed in 2024. However, there are regional disparities.

Growth was more modest in the US: +5% in volume terms in the 3rd quarter, which is not surprising given the increased pressure from the antitrust authorities at the start of the year, especially a few months before the presidential elections. Generally speaking, **the slowdown in M&A activity before the US elections is recovered in the first few quarters of the following year.**

However, **the number of deals announced in Europe rose sharply, by 63% compared with the same period last year. The main driver of M&A activity continues to be the United Kingdom,**where the undervalued equity market following Brexit is proving particularly attractive to foreign buyers.

Asia is also showing a strong rebound, with an annual volume growth of 55% compared to the same period last year. As we indicated in our previous letters, **the change in stock market regulations in Japan has led to an increase in the number of announced M&A deals.**One example is the almost $40bn offer, currently hostile, by the Canadian company Alimentation Couche Tard for Seven & i, Japan's iconic local supermarket chain. Such a deal would have been unthinkable before the change in regulations.

The last point to note is **the return of Private Equity funds.** In the 3rd quarter of 2024, **financial companies accounted for 39% of buyers, compared with 14% in the same period last year.**The stabilisation of interest rates, followed by the start of the downturn from the 2nd quarter, largely explains the rise in this category of buyers.

SUSTAINED LEGAL ACTIVITY AND BRIGHT OUTLOOK

In the US, when the antitrust authorities decide to block a transaction, the final decision lies in the hands of the court. After listening to the lawyers of the FTC (Federal Trade Commission) and those of the companies involved in the transaction, a judge appointed specifically for the case decides whether or not to authorise the transaction, generally within a period of a few weeks to a few months.

Two cases are currently under review by the US courts: Kroger's $25bn takeover of Albertson in the food retail sector and Tapestry's $10bn takeover of Capri in the luxury handbag sector.

While the two cases are obviously different, they are both representative of the increased pressure being brought to bear by the FTC, and in particular its Chair Lina Khan, on M&A transactions likely to have a negative impact on the American consumer.

The hearings in each case took place in September. Decisions are expected in the 4th quarter of 2024.

It seems that the lawyers representing Albertson and Kroger were convincing in their demonstration of the benefits of the transaction for the American consumer and for employment in the sector. However, in order to obtain the FTC's approval, the parties had to divest certain assets, and questions remain about the sustainability of the solution proposed by the buyer, In the case of Capri/Tapestry, the heart of the matter lay in the definition of the ‘affordable luxury handbag’ market used by the FTC to assert that the merger would lead to abuse of dominance. It appears that the FTC had difficulty convincing the parties of the relevance of its very narrow market definition. One of the parties' main arguments was that no one in the industry (customers, wholesalers or competitors) had complained about the impact of the merger on future handbag prices. This argument appears to have been successful.

The outcome of these trials will have implications at several levels.

Firstly, obviously, in terms of merger arbitrage spreads for the transactions concerned. It is interesting to note the difference in investors' perception of the two situations. The market is fairly optimistic about Capri/Tapestry's chances of success, with an implied probability of 60%. By contrast, the consensus is more pessimistic about Albertson/Kroger, with an implied probability of success of 10%.

Secondly, if the FTC fails, we can expect a reduction in antitrust pressure on current and future M&A deals. Indeed, after Activision, Horizon Therapeutics and Seagen last year, a new failure for the FTC would tend to invalidate the aggressive approach of its chairwoman Lina Khan against business combinations.

If this were to happen, we could expect to see a tightening of spreads on other pending transactions that are currently subject to antitrust risk. These include Juniper, Catalent, HashiCorp, Surmodics and ChampionX. On the other hand, **with the role of the current FTC perceived as being less important by potential acquirers, it would also be possible to envisage a return to more sustained growth in the US M&A cycle in the medium term.**

The Merger Arbitrage Team

CARMIGNAC PORTFOLIO MERGER ARBITRAGE I EUR ACC

(ISIN: LU2585801090)

SFDR - Fund Classification** :

Article 8

LOWEST RISK — HIGHEST RISK

1	2*	3	4	5	6	7

Recommended minimum investment horizon 3 YEARS

MAIN RISKS OF THE FUND

EQUITY: The Fund may be affected by stock price variations, the scale of which is dependent on external factors, stock trading volumes or market capitalization. **ARBITRAGE**: Arbitrage seeks to benefit from such price differences (e.g. in markets, sectors, securities, currencies). If arbitrage performs unfavorably, an investment may lose its value and generate a loss for the Sub-Fund. **RISK ASSOCIATED WITH THE LONG/SHORT STRATEGY**: This risk is linked to long and/or short positions designed to adjust net market exposure. The Fund may suffer high losses if its long and short positions undergo simultaneous unfavourable development in opposite directions. **LIQUIDITY**: Temporary market distortions may have an impact on the pricing conditions under which the Fund might be caused to liquidate, initiate or modify its positions.

The Fund presents a risk of loss of capital.

*Risk Scale from the KID (Key Information Document). Risk 1 does not mean a risk-free investment. This indicator may change over time. **The Sustainable Finance Disclosure Regulation (SFDR) 2019/2088 is a European regulation that requires asset managers to classify their funds as either 'Article 8' funds, which promote environmental and social characteristics, 'Article 9' funds, which make sustainable investments with measurable objectives, or 'Article 6' funds, which do not necessarily have a sustainability objective. For more information please refer to https://eur-lex.europa.eu/eli/reg/2019/2088/oj.

FEES

Entry costs : We do not charge an entry fee.

Exit costs : We do not charge an exit fee for this product.

Management fees and other administrative or operating costs : 0,62% of the value of your investment per year. This estimate is based on actual costs over the past year.

Performance fees : 20,00% when the share class overperforms the Reference indicator during the performance period. It will be payable also in case the share class has overperformed the reference indicator but had a negative performance. Underperformance is clawed back for 5 years. The actual amount will vary depending on how well your investment performs. The aggregated cost estimation above includes the average over the last 5 years, or since the product creation if it is less than 5 years.

Transaction Cost : 0,30% of the value of your investment per year. This is an estimate of the costs incurred when we buy and sell the investments underlying the product. The actual amount varies depending on the quantity we buy and sell.

PERFORMANCE (ISIN: LU2585801090)

Calendar Year Performance (as %)	2023
Carmignac Portfolio Merger Arbitrage	+2.7 %

Annualised Performance	1 Year	3 Years	Since launch
Carmignac Portfolio Merger Arbitrage	+3.4 %	- %	+3.6 %

Source: Carmignac at 29 Nov 2024.
Past performance is not necessarily indicative of future performance. Performances are net of fees (excluding possible entrance fees charged by the distributor).

CARMIGNAC PORTFOLIO MERGER ARBITRAGE PLUS I EUR ACC

(ISIN: LU2585801330)

SFDR - Fund Classification** :

Article 8

LOWEST RISK | HIGHEST RISK

1	2	3*	4	5	6	7

Recommended minimum investment horizon: 3 YEARS

MAIN RISKS OF THE FUND

EQUITY: The Fund may be affected by stock price variations, the scale of which is dependent on external factors, stock trading volumes or market capitalization. **ARBITRAGE**: Arbitrage seeks to benefit from such price differences (e.g. in markets, sectors, securities, currencies). If arbitrage performs unfavorably, an investment may lose its value and generate a loss for the Sub-Fund. **RISK ASSOCIATED WITH THE LONG/SHORT STRATEGY**: This risk is linked to long and/or short positions designed to adjust net market exposure. The Fund may suffer high losses if its long and short positions undergo simultaneous unfavourable development in opposite directions. **LIQUIDITY**: Temporary market distortions may have an impact on the pricing conditions under which the Fund might be caused to liquidate, initiate or modify its positions.

The Fund presents a risk of loss of capital.

*Risk Scale from the KID (Key Information Document). Risk 1 does not mean a risk-free investment. This indicator may change over time. **The Sustainable Finance Disclosure Regulation (SFDR) 2019/2088 is a European regulation that requires asset managers to classify their funds as either 'Article 8' funds, which promote environmental and social characteristics, 'Article 9' funds, which make sustainable investments with measurable objectives, or 'Article 6' funds, which do not necessarily have a sustainability objective. For more information please refer to https://eur-lex.europa.eu/eli/reg/2019/2088/oj.

FEES

Entry costs : We do not charge an entry fee.

Exit costs : We do not charge an exit fee for this product.

Management fees and other administrative or operating costs : 1,11% of the value of your investment per year. This estimate is based on actual costs over the past year.

Performance fees : 20,00% max. of the outperformance if the performance is positive and the net asset value exceeds the high-water mark. The actual amount will vary depending on how well your investment performs. The aggregated cost estimation above includes the average over the last 5 years, or since the product creation if it is less than 5 years.

Transaction Cost : 0,84% of the value of your investment per year. This is an estimate of the costs incurred when we buy and sell the investments underlying the product. The actual amount varies depending on the quantity we buy and sell.

PERFORMANCE (ISIN: LU2585801330)

Calendar Year Performance (as %)	2023
Carmignac Portfolio Merger Arbitrage Plus	+3.2 %

Annualised Performance	1 Year	3 Years	Since launch
Carmignac Portfolio Merger Arbitrage Plus	+2.6 %	- %	+3.5 %

Source: Carmignac at 29 Nov 2024.
Past performance is not necessarily indicative of future performance. Performances are net of fees (excluding possible entrance fees charged by the distributor).

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INVESTING IN YOUR INTEREST