

# Candriam Risk Arbitrage

## Market Overview

M&A activity in January was intense to start off 2024, following on from last December. The number of new deals was 22 (compared to 16 in December) - well above the average of the previous 24 months - of which five had an enterprise value above \$5 billion: Juniper Networks, Southwestern Energy, Ansys, Tricon Residential and Nustar Energy. The three themes identified in our December letter (pharma, IT and energy) represented nearly 60% of activity, with a predominance of the United States, with 16 announcements made in the US compared with six in Europe. In terms of average spreads, there was an easing and the expected yield increased by more than half a percent.

## Portfolio Highlights & Strategy Review

Despite a regulatory environment once again shaken by the opposition of the US and European authorities to the acquisition of iRobot by Amazon, performance held up well in January. This was largely due to the improved terms of Apollo's bid for Spanish company Applus Services. However, the average gap in the M&A universe has widened considerably. Seven of our positions were paid in January: Telefonica Deutschland, Echostar, Engagement SMart, Restaurant Group, Dechra Pharma, Bluegreen Vacations and RPT Realty. However, the large number of new deals (22 in January alone) allowed us to take advantage of new investment opportunities. As a result, leverage increased significantly to 63.3% (53.0% at the end of December). We initiated 12 new positions, while seven deals were paid, one was reduced due to lower expected returns and one was completed, representing a very limited loss. With 35 transactions in the portfolio (versus 32 at the end of December), the average size of our positions is once again on the rise, but our diversification remains satisfactory with regard to our management objectives.

Performance in January was positive, with the main contributors being Applus Services and Nordic Waterproofing.

The most significant moment in January was the new episode in the stock market battle for Applus Services. In June 2023, the investment fund Apollo initiated a tender offer for €9.50 per share. Three months later, in September 2023, a private equity consortium composed of I Squared Capital Advisor and TDR Capital responded with a counter-offer at €9.75 per share. We felt both offerings undervalued the company, which is why we invested in Applus Services. On 24 January, all the necessary approvals to open the official offer period being obtained, Apollo announced an increase in the terms of its offer to €10.65 per share (+12%). A few days later, the media reported the rival consortium's intention to come back with a new bid. By taking a significant position in this issuer, we took full advantage of the 11.9% rise in the share price recorded in January.

As part of the mandatory offer launched by Kingspan for Nordic Waterproofing, the shareholders anticipated a negative recommendation from the target's board of directors based on the low premium offered (around 15%) and made this clear by increasing the share price by more than 5% above the price proposed by Kingspan. We had positioned ourselves to benefit from a potential increase in the terms of the transaction and believe that Kingspan has every reason to want to pay up to 15% to 20% more in order to secure the majority of Nordic Waterproofing's shares and thus consolidate its operations. The offer remains open until 27 March 2024.



## Fund Outlook

While the regulatory environment unexpectedly tightened again in January, M&A momentum was very encouraging, with a remarkably high number of new deals announced and more to come, according to strategic and financial decision makers. Central banks reiterated their intention to ease funding conditions in 2024 - albeit a few months later than expected - which bodes well for our strategy. The widening of the average spread in our investment universe has given us the opportunity to increase our exposure and thus increase expected returns, while remaining attentive to the potential volatility of regulatory approvals in certain specific situations.

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Swiss paying agent: CACEIS Bank, Paris, succursale de Nyon/Suisse, Route de Signy, 35, CH-1260 Nyon. Place of performance: Route de Signy 35, CH-1260 Nyon. Place of jurisdiction: Route de Signy 35, CH-1260 Nyon.

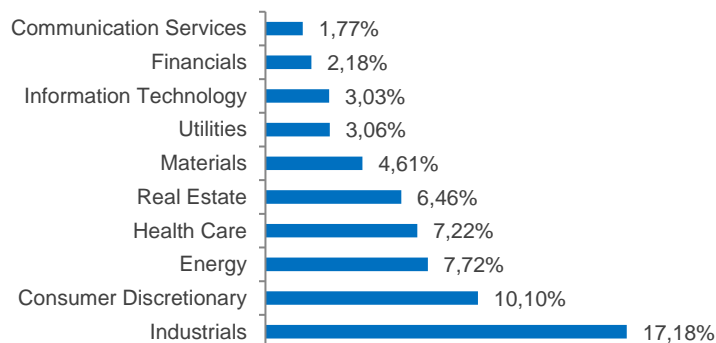
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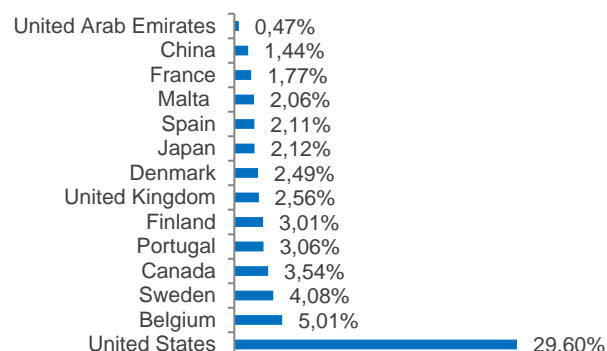
I Share class	2019	2020	2021	2022	2023	YTD
Candriam Risk Arbitrage	0.90%	-0.39%	0.95%	-1.98%	1.68%	0.14%
€STR	-0.40%	-0.47%	-0.49%	-0.01%	3.29%	0.35%
Excess Return	1.30%	0.08%	1.44%	-1.97%	-1.61%	-0.21%

## PORTFOLIO EXPOSURES

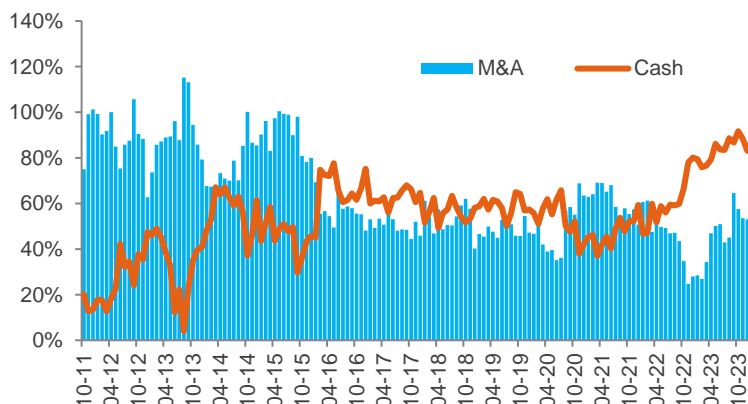
### SECTOR BREAKDOWN



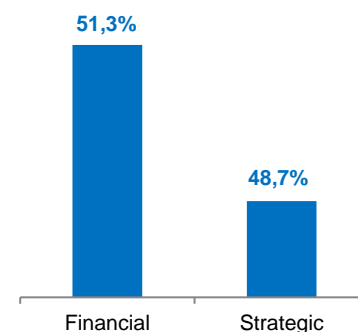
### GEOGRAPHICAL BREAKDOWN OF RISK



### HISTORICAL EXPOSURE BY STRATEGY



### EXPOSURE BY ACQUIRER TYPE



## PORTFOLIO UPDATE

Main Positions Entered		Main Positions Sold	
PGT INNOVATIONS INC	3.65%	TELEFONICA DEUTSCHLAND HOLDI	3.00%
TRICON RESIDENTIAL INC	3.54%	ECHOSTAR CORP-A	2.45%
CARROLS RESTAURANT GROUP INC	2.53%	ENGAGESMART INC	2.29%
CHR HANSEN HOLDING A/S	2.49%	RESTAURANT GROUP PLC	1.58%
KINDRED GROUP PLC	2.06%	RPT REALTY	0.45%

AUM(€M)	58
NUMBER OF STRATEGIES	35
GROSS INVESTMENT	63%

