GA-COURTENAY SPECIAL SITUATIONS FUND
DECEMBER 2024 MONTHLY FACTSHEET

INVESTMENT OBJECTIVE

PROFESSIONAL INVESTORS ONLY

GA-Courtenay Special Situations Fund is a performance-orientated event driven strategy targeting consistent positive returns irrespective of market conditions. The fund predominantly allocates to a global portfolio of high impact merger arbitrage opportunities, and targets competitive advantage through extensive proprietary systems combined with a repeatable deep dive research process.

KEY INFORMATION

Fund Manager	**Adrian Courtenay**
Fund Type	**Irish UCITS**
Liquidity	**Daily**
Fund Size	**$43m**
Share Classes	**USD, GBP, EUR, CHF**
Fees	**Institutional share class:** **0.75% pa + 20% performance fee** **Retail share class:** **1.25% pa + 20% performance fee**

MONTHLY SUMMARY

- The GA-Courtenay Special Situations Fund USD I class returned 0.2% in December, contributing to a full year 2024 performance of 5.0%.
- The month saw the fund's average merger arbitrage spread remain wide – at 6.30% at month end December relative to the comparable figure of 6.61% at month end November.
- In the factsheet this month a merger arbitrage case study is reviewed, which was also subject to spread widening in the month, as indicative as to the form of events that can occur whilst an arbitrage timeline is progressing.
- The factsheet also reviews our blueprint for strong performance as we look to 2025 and beyond. Our outlook remains strong, and I look forward to this being demonstrated further in the coming year.

GA-COURTENAY SPECIAL SITUATIONS FUND PERFORMANCE (USD I SHARE CLASS)

Fund Performance by Year	Inception to date	Annualised since inception
GA-Courtenay Special Situations Fund (USD I)	+89.0%	+13.0%

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Full Yr
2024 Fund Performance by Month	+1.5%	+1.5%	+0.7%	-2.6%	+1.6%	+2.2%	+0.6%	-0.7%	+0.1%	+0.6%	-0.6%	+0.2%	+5.0%
2023 Fund Performance by Month	+7.6%	-3.2%	-5.4%	+0.6%	-6.6%	-4.1%	1.0%	-2.5%	-2.4%	-2.0%	+23.2%	+3.0%	+6.4%
2022 Fund Performance by Month	-1.2%	+2.0%	+2.3%	-3.1%	-6.7%	-6.1%	+1.5%	+7.7%	1.0%	-9.0%	-0.2%	-0.5%	-12.8%
2021 Fund Performance by Month	+7.7%	+4.2%	-3.2%	-0.3%	+0.5%	-4.7%	-1.9%	+2.5%	+3.0%	+17.6%	-2.1%	+1.6%	+24.4%
2020 Fund Performance by Month	+8.4%	-2.5%	-13.2%	+6.1%	+8.7%	+20.5%	+5.6%	-5.1%	+5.7%	-4.0%	-2.7%	+13.2%	+42.8%
2019 Fund Performance by Month										+0.6%	+4.0%	+4.4%	+9.1%

The performance of the GA-Courtenay Special Situations Fund is based on the USD I share class. Past performance is not a reliable indicator of future results.

GA-COURTENAY SPECIAL SITUATIONS FUND – MAJOR HOLDINGS AND SUMMARY FUND STATISTICS

Largest merger arbitrage holdings	133.7% of NAV
Loungers plc	9.37%
O3 Mining Inc.	9.16%
Spirent Communications plc	7.65%
HashiCorp, Inc.	5.16%
Kellanova	4.83%
Arcadium Lithium plc	4.63%
Juniper Networks, Inc.	4.44%
Eckoh plc	4.28%
Direct Line Insurance Group plc	4.18%
Covestro AG	4.17%
ANSYS, Inc.	3.97%
Doro AB (publ)	3.75%
Paramount Global	3.57%
Infinera Corporation	3.55%
Galaxy Gaming	3.43%
Melcor Real Estate Investment Trust	3.40%
American Creek Resources Ltd.	3.27%
Aquis Exchange PLC	3.17%
Markforged Holding Corporation	3.10%
TI Fluid Systems plc	3.01%

Gross exposure - total fund (% of NAV)	138.8%
Merger arbitrage long gross exposure	133.7%
Merger arbitrage short gross exposure	5.1%

Net exposure - total fund (% of NAV)	22.5%
Merger arbitrages (beta est)	22.5%
Net exposure	22.5%

Special Opportunities	0.0% of NAV
Pershing Square SPARC Holdings, warrants	0.00%

(SSF owns 387,285 SPAR warrants; each warrant contains a call on two stock units upon merger announcement)

Merger arbitrage timeline stats (% of NAV)	
Completion date: < 1 month	20.5%
Completion date: 1-3 months	87.7%
Completion date: > 3 months	24.5%
Avg days to completion weighted by position size	76

Merger arbitrage other stats	
Percentage of deals cash versus stock	96.2%
Average gross spread weighted by position size	6.30%
Top 5 positions as % of NAV	36.2%
Top 10 positions as % of NAV	61.8%
Top 20 positions as % of NAV	92.1%
Total number of positions	47

Source: Green Ash Partners

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FUND MANAGER COMMENTARY

Monthly performance review

The GA-Courtenay Special Situations Fund USD I class returned +0.2% in December, contributing to a relatively modest overall full year result at +5.0%.

Key contributors to performance in the month included ANSYS/Synopsys (adding 17 bps), Tethys Oil (+14 bps), Spirent Communications (+14 bps), Doro (+12 bps) and Juniper Networks (+11 bps). The top five detractors were Markforged Holding (-84 basis points), American Creek Resources (-45 bps), Arcadium Lithium (-11 bps), Covestro (-11 bps) and Paramount Global (-4 bps).

The month saw the fund's average merger arbitrage spread remain wide – at 6.30% at month end December relative to the comparable figure of 6.61% at month end November. A relatively low number of takeovers completed – three, and as such, the duration to completion of our average holding also shortened to 76 days, from 92 days at month end November, in what would have otherwise been close to a full month's timeline shortening yet also partially offset by timeline extensions in several names.

During those periods where our average merger arbitrage spread remains wide and our average timeline to completion shortens, assuming all else equal, our run rate return rises: an embedded "catch up" becomes built within the fund's holdings. As per Figure 1 below, over the last three months not only has our average merger arbitrage spread risen from 4.97% to 6.30%, but our average days to completion has shortened from 84 days to 76 days.

The outcome, also as per the figure, is that our underlying monthly run rate of return (before adjusting for spread movement, crystalised gains or losses, deal breaks, leverage and fees) has risen to 3.38% as at month end December, relative to a figure of 2.12% three months prior (B).

Figure 1: Whilst December saw the fund's average merger arbitrage spread remain wide, all else equal this should lead to enhanced returns over forward months as the arbitrage spreads "catch up" with their expected timelines. The month saw positive KPIs in terms of the conclusions of various trades – the fund was exposed to no deal break costs, no loss crystallisations, and modest profit crystallisations[1]

	Sep-24	Oct-24	Nov-24	Dec-24
Path from gross spreads to monthly gross returns				
Average merger arbitrage spread at month end	4.53%	4.97%	6.61%	6.30%
Capital weighted average days to expiry	79	84	92	76
Annualised return of average arbitrage (A)	23.9%	24.8%	31.2%	36.7%
Long book leverage	17.50%	15.20%	19.80%	33.70%
Annualised return x long gross exposure	28.1%	28.6%	37.4%	49.1%
Monthly run rate (ann. return x long book gross exp) (B)	2.08%	2.12%	2.68%	3.38%
Path from monthly gross returns to fund net return				
To maturity path of gross spreads (assuming linear path)		2.08%	2.12%	2.68%
Profit (cost) of spreads tracking from linear path (C)		-0.57%	-0.89%	-2.78%
Profit (cost) of spread contraction or widening (D)		-0.44%	-1.64%	0.31%
Profits (costs) crystalised (excl. deal breaks) (E)		-0.19%	-0.18%	0.29%
Cost of deal breaks		0.00%	0.00%	0.00%
Cost of leverage		-0.07%	-0.10%	-0.16%
Cost of fund fees		-0.21%	0.09%	-0.12%
Actual monthly return (net)		0.60%	-0.60%	0.22%

Two additional rows from the table above are particularly worthy of focus each month: the cost of deal breaks, and the profits or costs otherwise crystalised (E). A well managed fund should have a low frequency of deal breaks, and also have close to zero costs crystalised (as thoroughly researched positions should not be subject to exiting by the manager at points of spread widening). And assuming both of these are achieved, then the performance detraction from months where spreads widen, or remain wide, will over time deliver a pleasing "catch up" and deliver enhanced profit in subsequent months. December saw the fund exhibit these favourable characteristics: no deal break costs, no loss crystallisations, and some modest profit crystallisations as the aforementioned handful of deals matured.

Adrian Courtenay is Managing Director at GreenAsh Partners, heading Special Situations Strategies, and is the Fund Manager of the GA-Courtenay Special Situations fund, established in 2019.

Prior to Green Ash, Adrian oversaw the fund at Odey Asset Management. Previously, Adrian was Vice President in the Special Situations Group at D.E. Shaw & Co.

Adrian, who is also a recognised speaker at Sohn investment conferences, has completed the Chartered Financial Analyst Program and is a graduate of Oriel College, Oxford, where he graduated with a 1st class MA and was a scholar.

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FUND MANAGER COMMENTARY

A closer look at the characteristics of the Markforged merger arbitrage

The Markforged merger arbitrage, which detracted 84 basis points during the month, is instructive to review as indicative as to the form of events that can occur whilst an arbitrage timeline is progressing, commensurate with potential impacts on security pricing even when the ultimate takeover outcome appears to remain robust.

The fund initiated our holding in Markforged at month end October, paying $4.585 per share. The takeover consideration offered was $5.00 per share in cash[2] and the expected completion both at our position purchase date and in terms of our current assessment remains mid-February 2025. As such, at purchase, Markforged offered a 33% annualised return to completion, and as measured before fund gearing.

Markforged specialises in 3D printing, and at the total takeover valuation $115m has been offered by peer Nano Dimension. Markforged at its last reported quarterly results (September 2024) also had a net cash balance of $59.3m, and as such, the takeover consideration excluding net cash drops to $55.7m[3]. For the FY2025 year, Markforged is anticipated by consensus to report revenue of $97m with close to breakeven economics[4].

The nature of the takeover from the perspective of acquirer Nano Dimension is somewhat akin to a liquidation of the target company, yet complete with capture of its intellectual property, current book of revenues, and net cash position and at a correspondingly low valuation of 0.57x EV/Sales. Acquirer Nano Dimension has a $760.5m net cash balance at end September 2024[5], and is reaching profitability in 2025[6].

The takeover is enforced by specific performance[7], which provides for unlimited monetary damages in favour of Markforged should Nano Dimension attempt to terminate the agreement assuming all of the conditions to the takeover are also met.

As at December 12th 2024, Markforged reported that all but one conditions to the merger had been met, the remaining condition being CFIUS clearance, which is the government entity in the United States overseeing foreign direct investment[8]. Nano Dimension is headquartered in the United States, however, it also has operations across the globe, and as such the US government will want to agree provisions with Nano Dimension to ensure that the 3D printing technology held by Markforged remains within US and US-friendly territories.

Nano Dimension has also already been cleared by CFIUS for prior US acquisitions, and as such, a reasonable working assumption is that CFIUS and Nano Dimension will be able to agree on the necessary provisions for the acquisition of Markforged to complete also.

However, the terms of the merger documentation add further weight to this assumption being correct. The documentation requires Nano Dimension to use “best efforts” to achieve CFIUS clearance and importantly mandates willingness to accepting a “hold separate agreement” should CFIUS demand it[9]. Such an agreement, whilst still transferring ownership of Markforged to Nano Dimension, would also require that Nano Dimension keeps all of the assets of Markforged separate from its own, and overseen by a CFIUS-approved independent board, and all but guaranteeing CFIUS approval.

As such, allocating to this arbitrage at the 33% annualised return offered appeared reasonable, and the position was established, on a cost basis, at 4% of NAV (at month end December pricing, marked at 3.1% of NAV).

In mid-December the Markforged arbitrage spread however widened when activist investors holding 7.1% of Nano Dimension called a special meeting and succeeded in removing key board members from Nano Dimension, including its CEO, to be replaced by activist nominees and a search for a new CEO[10]. Amongst other contentions, the activists have criticised the historic and current acquisition strategy of Nano Dimension[11]. And as a result, market participants appear to have developed a strong sense of concern that the Markforged deal completion is threatened.

However, in our analysis and in line with the combination of legally binding specific performance and hold separate provisions laid out, there is not a probable scenario – activist willed or not – that Nano Dimension can breach the requirements it is held to by the merger documentation, and as such, the takeover in our judgement is still expected to complete in the coming quarter.

The Markforged situation exemplifies the breadth of skillset that the prospectively higher return merger arbitrages can demand, including fundamental valuation, business trajectory appraisal under standalone and merged scenarios, regulatory clearance assessments, legal enforcement assessment, spread volatility tolerance combined with appropriateness of initial position sizing, and combined with an activist investor dimension. However, the requirement for these assessments in combination is also a reason why merger arbitrages can produce unusually high return opportunities: at month end December, Markforged traded at a 37% discount to the $5.00 takeover consideration.

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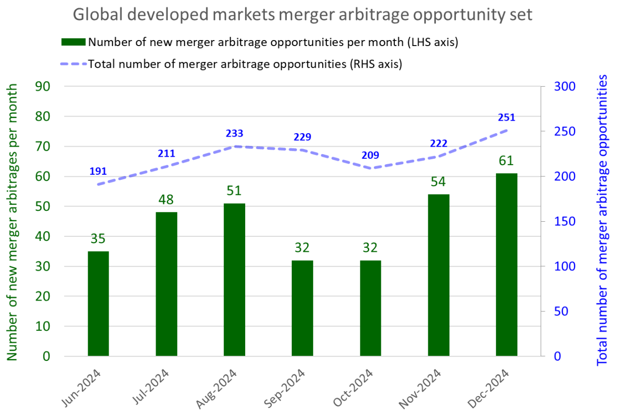
FUND MANAGER COMMENTARY

Merger arbitrage volumes continued to be healthy in December, continuing what may be the beginning of a sustained increase in M&A activity given the expected favourable regulatory environment under the Trump administration

Global merger activity continued its 2024 ascent in December with 61 new arbitrageable definitive merger agreements announced. The activity level represented a high for the year, and continued to signal what may be the beginning of a sustained increase in M&A activity given the expected favourable regulatory environment under the incoming Trump administration. The total value of US transactions was up 11% in 2024, rebounding from the prior year's decade low[12].

Figure 2: Global merger activity rose in November with 61 new arbitrageable definitive merger agreements announced[13]



The universe of opportunities continues to be differentiated by size, and by its nature should, all else equal, hand advantage to smaller and potentially more nimble funds. Of the more than 250 arbitrageable definitive merger agreements existing on global public markets at month end December, 62% had a market capitalisation below $1bn, and 51% below $500m. And – within the subset of those arbitrages offering an annualised return exceeding 10% to the base case deal completion price and date, 66% had a market capitalisation below $1bn, and 55% below $500m.

Our blueprint for strong performance in 2025 and beyond

Our aim is high returns, yet at reasonably low volatility, and more generally, positive absolute annual returns

Whilst 2024 was a modest year for the fund – our result of 5.0% for the year is well outside of the higher double digit percentage category of outcome that I continue to dedicate my work to achieve – it is instructive to also review the result in terms of our overall returns mission.

Our aim is high returns, yet at reasonably low volatility. And more specifically, in general, positive absolute annual returns. That means that whilst some other designs of funds may have very strong years from time to time, and we would target the same, if those other funds also accompany strong years with years which deliver large drawdowns, then this is where our mission statement diverges from them. We would like to deliver all years positive, some years very positive, other years inevitably more mundane, but still positive. As such, the result in 2024 is within the outcomes that the fund aims for, although certainly well below the average outcome that the fund aims for.

In December, in the US, Immedica Pharma AB announced a binding agreement to acquire Marinus Pharmaceuticals, Inc. for $0.03bn. Casago announced a binding agreement to acquire Vacasa, Inc. for $0.1bn. New Enterprise Associates announced a binding agreement to acquire NeueHealth, Inc. for $0.1bn. Prosus N.V. announced a binding agreement to acquire Despegar.com, Corp. for $1.5bn. Nordstrom family announced a binding agreement to acquire Nordstrom, Inc. for $3.6bn. Tripadvisor, Inc. announced a binding agreement to acquire Liberty Trip Advisor for $0.4bn. Gentex Corporation announced a binding agreement to acquire VOXX International Corporation for $0.2bn. Berkshire Hills Bancorp, Inc. announced a binding agreement to acquire Brookline Bancorp, Inc. for $1.1bn. Northwest Bancshares, Inc. announced a binding agreement to acquire Penns Woods Bancorp, Inc. for $0.2bn. Independent Bank Corp. announced a binding agreement to acquire Enterprise Bancorp, Inc. for $0.5bn. Gen Digital Inc. announced a binding agreement to acquire MoneyLion Inc. for $1.0bn. Apollo Global Management, Inc. announced a binding agreement to acquire Pactiv Evergreen Inc. for $3.1bn. Patient Square Capital (private equity) announced a binding agreement to acquire Patterson Companies, Inc. for $2.0bn. Omnicom Group Inc. announced a binding agreement to acquire The Interpublic Group of Companies, Inc. for $11.3bn. Aya Healthcare announced a binding agreement to acquire Cross Country Healthcare, Inc. for $0.6bn. In Canada, World Wide Technology Holding announced a binding agreement to acquire Softchoice Corporation for $1.0bn. Fiserv, Inc. announced a binding agreement to acquire Payfare Inc. for $0.1bn. MBO including by Chairman and CEO announced a binding agreement to acquire Banxa Holdings Inc. for $0.03bn. Vitesse Energy, Inc. announced a binding agreement to acquire Lucero Energy Corp. for $0.2bn. Alpayana S.A.C. announced a binding agreement to acquire Sierra Metals Inc. for $0.1bn. Agnico Eagle Mines Limited announced a binding agreement to acquire O3 Mining Inc. for $0.1bn. Cenovus Energy announced a binding agreement to acquire Gear Energy Ltd. for $0.1bn.

In Great Britain, FTV VIII, L.P. announced a binding agreement to acquire Windward Ltd. for $0.2bn. Aviva plc announced a binding agreement to acquire Direct Line Insurance Group plc for $3.9bn. Surgical Science Sweden AB (publ) announced a binding agreement to acquire Intelligent Ultrasound Group plc for $0.1bn. Media Concierge (Holdings) Limited announced a binding agreement to acquire National World Plc for $0.1bn. JC Flowers consortium announced a binding agreement to acquire Equals Group plc for $0.3bn. Warpaint London PLC announced a binding agreement to acquire Brand Architekts Group plc for $0.02bn. Metals Exploration plc announced a binding agreement to acquire Condor Gold Plc for $0.1bn. General Atlantic announced a binding agreement to acquire Learning Technologies Group plc for $1.0bn. Aviva plc announced a binding agreement to acquire Direct Line Insurance Group plc for $3.9bn. In other Western European nations, The Carlyle Group Inc. announced a binding agreement to acquire SNP Schneider-Neureither & Partner SE for $0.5bn. The March family announced a binding agreement to acquire Corporación Financiera Alba, S.A. for $5.2bn. Brookfield Corporation announced a binding agreement to acquire Alstria Office REIT-AG for $1.4bn. Gewiss announced a binding agreement to acquire Beghelli S.p.A. for $0.1bn. Zalando SE announced a binding agreement to acquire About You Holding SE for $0.7bn. CVC (private equity) announced a binding agreement to acquire CompuGroup Medical SE & Co. KGaA for $1.2bn. In Norway, Entrust Global announced a binding agreement to acquire Belships ASA for $0.4bn. SoftwareONE Holding AG announced a binding agreement to acquire Crayon Group Holding ASA for $1.1bn. In Sweden, Pharming Group N.V. announced a binding agreement to acquire Abliva AB (publ) for $0.1bn. In Denmark, Nykredit announced a binding agreement to acquire Spar Nord Bank A/S for $3.3bn. In Switzerland, Sawiris family announced a binding agreement to acquire Orascom Development Holding AG for $0.3bn. OEP 80 B.V. announced a binding agreement to acquire Cicor Technologies Ltd. for $0.3bn.

In Japan, BASE, Inc. announced a binding agreement to acquire Estore Corporation for $0.1bn. Nidec Corporation announced a binding agreement to acquire Makino Milling Machine Co., Ltd. for $1.6bn. SoftBank Group Corp. announced a binding agreement to acquire BEENOS Inc. for $0.3bn. In Hong Kong, Dafeng Port (HK) Development Limited announced a binding agreement to acquire Dafeng Port Heshun Technology Company Limited for $0.1bn. Chairman and CEO Yang Lin announced a binding agreement to acquire Vesync Co., Ltd for $0.8bn. Chairman Ma Ting Hung announced a binding agreement to acquire VCREDIT Holdings Limited for $0.1bn. A management buy out entity announced a binding agreement to acquire Goldlion Holdings Limited for $0.2bn. China Mobile Limited announced a binding agreement to acquire HKBN Ltd. for $0.9bn. Starwood Capital Group, Sixth Street and SSW Partners announced a binding agreement to acquire ESR Group Limited for $6.4bn. In Singapore, Tamarind Health Limited announced a binding agreement to acquire TalkMed Group Limited for $0.4bn. Green Esteel announced a binding agreement to acquire HG Metal Manufacturing Limited for $0.04bn. Cheng Buck Poh (Chairman) announced a binding agreement to acquire Hai Leck Holdings Limited for $0.1bn. Gordon and Celine Tang announced a binding agreement to acquire Suntec Real Estate Investment Trust for $2.6bn. In Taiwan, SinoPac Financial Holdings Company Limited announced a binding agreement to acquire King's Town Bank Co., Ltd. for $1.7bn.

In Australia, SEQ Hospitality Group announced a binding agreement to acquire Eumundi Group Limited for $0.1bn. Northern Star Resources Limited announced a binding agreement to acquire De Grey Mining Limited for $2.9bn. And in South Africa, Zahid Group and its local partners announced a binding agreement to acquire Barloworld Limited for $1.1bn.[14]

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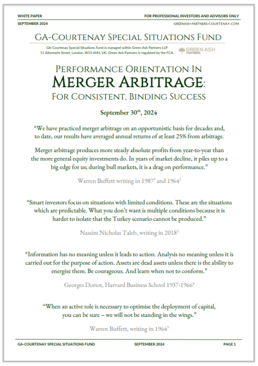
FUND MANAGER COMMENTARY

A performance outcome results when an investment strategy harnesses multiple pillars of competitive advantage, decorrelates, and combines this with the ability to deploy leverage

Capturing strong performance in the future will not simply arise however from solely an aspiration nor aim. Instead, success is the output of preparation. And those who have followed the fund closely over the last few years will be well versed in the systems infrastructure build undertaken, and foundational research undertaken, to ensure that all preparatory steps have been completed to return the fund to strong performance.

Figure 3: Multiple pillars of competitive advantage are required to drive the performance outcome[15]

- Comprehensive search
- Antitrust history systems
- Spread behaviour history systems
- Shareholder activism
- Competitive bidding situations
- Contingent value rights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GA-COURTENAY SPECIAL SITUATIONS FUND

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PERFORMANCE ORIENTATION IN
MERGER ARBITRAGE:
FOR CONSISTENT, BINDING SUCCESS

September 30th, 2024

"We have practiced merger arbitrage on an opportunistic basis for decades and, to date, our results have averaged annual returns of at least 25% from arbitrage.

Merger arbitrage produces more steady absolute profits from year-to-year than the more general equity investments do. In years of market decline, it piles up to a big edge for us; during bull markets, it is a drag on performance."

Warren Buffett writing in 1987[1] and 1964[2]

"Smart investors focus on situations with limited conditions. These are the situations which are predictable. What you don't want is multiple conditions because it is harder to isolate that the Turkey scenario cannot be produced."

Nassim Nicholas Taleb, writing in 2018[3]

"Information has no meaning unless it leads to action. Analysis no meaning unless it is carried out for the purpose of action. Assets are dead assets unless there is the ability to energise them. Be courageous. And learn when not to conform."

Georges Doriot, Harvard Business School 1937-1966[4]

"When an active role is necessary to optimise the deployment of capital, you can be sure – we will not be standing in the wings."

Warren Buffett, writing in 1964[5]

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The computing systems infrastructure utilised by our operating method includes systems in opportunity search, antitrust and enforcement clause history systems, and merger arbitrage spread history systems. In my assessment the fund has taken these systems further than others.

This is then accompanied by the broader skillset and knowledge set research and accumulation underpinning the activities of this fund that also raises our performance potential above that achievable prior. This includes the fundamental value skillset, and where many other arbitrageurs are weaker, that in my view is also necessary as the parallel skillset for a large proportion of the most profitable opportunities, and at a sufficiently experienced level that that allows value appraisals to be carried out with agility to capture competitive bidding situations, and make judgements relating to activist opportunities, or, based on fundamental deal accretion, judge acquirer determination to continue with an acquisition even in the face of unexpected negative developments (i.e. larger than anticipated antitrust divestiture requirement, or a lower level of shareholder tenders). All of these fundamental value judgements must be made within the limited durations of merger arbitrages. Furthermore, the fund also has the potential for macro protection deployments, further increasing the safety of our operations at the same time raising our suitability for modestly higher leverage.

The result is that we do possess multiple pillars of competitive advantage in our operating method, and this not only allows us a very full capture rate of merger arbitrages and related opportunities, but also allows the fund to be operated with a sophisticated risk management framework including suiting it to modest increases in leverage from current levels. And the combination of all of these factors, as we look forward to 2025 and beyond, should not only drive performance but also drive performance in a way which is largely uncorrelated to the broader equity markets.

A modest increase in fund leverage will add a further amplification to our performance outcomes

As unitholders can observe from Figure 1, moderately increasing leverage has been a function of the fund now for some months. As at December month end, fund gearing had increased to 33.7%, more than double the level of the fund gearing three months prior at 15.2%. As we look to 2025, and as I have mentioned on the recent quarterly webinars and factsheets, we will be able to modestly further increase fund leverage and yet with a far greater degree of safety and efficiency in hedging than would have been achievable prior.

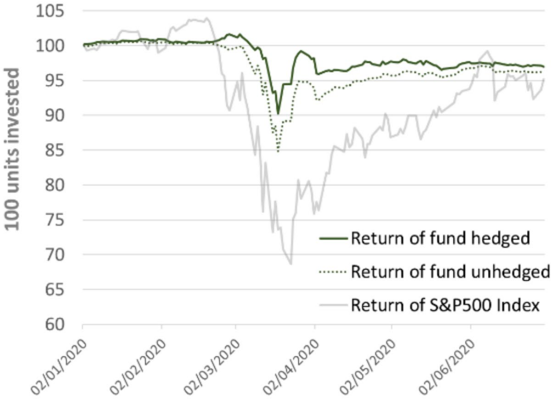
FUND MANAGER COMMENTARY

Our premise is that the use of leverage must be *intelligent*. In particular, for merger arbitrage allocations the leveraged practitioner must in raise the astuteness of their operations by possessing spread behaviour history systems. These systems should capture merger arbitrage spread behaviour through diverse market conditions, but in particular through high amplitude historic market dislocation events. The result is that a comprehensive understanding of the form of systematic spread widening behaviour that can occur is achieved by the merger arbitrage fund manager, and therefore cost-efficient put option protection can be deployed in advance of periods coincident with higher fund leverage.

Building on our merger arbitrage spread behaviour history systems, our work has also determined that a theory structure can be established to accurately predict the magnitude of arbitrage spread widening relative to the severity of the market dislocation event. Possessing such a framework allows this fund to more precisely define the efficient level of market index put option purchases required to limit a portfolio's exposure to a hypothetical market dislocation.

Figure 4 shows the system output for the fund at current, in the scenario that the market conditions of the 2020-covid crash are repeated. As can be seen, the beta of merger arbitrages is far lower than the market in general – the 32% decline in the S&P500 would, the model estimates, result in a far lower 15% decline in this fund's NAV should those conditions repeat. It is this knowledge of the probabilistic beta of merger arbitrages that then allows the fund to deploy the optimal volume of protection and as such, operate efficiently.

Figure 4: GA-Courtenay Special Situations Fund: modelling through replica of 2020-covid shock[16]



The conclusion of our work is that, even should leverage levels be raised modestly higher, our fund's maximum intermittent loss potential in the extreme "covid-type" scenario can still be limited to 10% of the fund's net asset value – represented by the hedged line in the above graph, and at the same time as our hedging costs are highly efficient, limited to 2-3% of net asset value per year.

I believe this is a further distinct competitive advantage that we possess, and which, by allowing an increase in fund leverage to be deployed intelligently and efficiently, will be an important additional performance driver as we progress through 2025 and beyond. For many other peer group funds, absent our understanding of spreads through dislocation events, their leverage risks either loss crystallisation at disadvantageous pricing during rare yet volatile market periods, or the permanent over-expensing of put option protection, both of which impair long term performance outcomes.

<u>There remain ample allocation candidates within the fund's universe of opportunities, resulting from our wide search competency, ability for activism, as well as our retaining of the ability to consider selected, albeit rarer, non-arbitrage deployments</u>

As seen in Figure 2, our systems are currently detecting more than 250 merger arbitrage opportunities within global developed markets. By comparison, the number of fund holdings is 47, and as such we are currently participating in c. 19% of identified opportunities.

Naturally, only a minority of merger arbitrage opportunities will be attractive. However, my sense is that we can still increase our holding count to between 50 to 70 names whilst still retaining a highly differentiated pool of selections within the global opportunity set, yet at the same time the increased name count providing justification for moderately further increasing leverage from its current levels.

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FUND MANAGER COMMENTARY

Our ability to increase leverage is therefore also a function of our advantage in global search systems which have been further built out in 2024, which thereon provide the necessary tool to increase portfolio name count in a manner that can still limit allocations to the most robust opportunities.

Without identifying the more than 250 merger arbitrage opportunities that we detect, deploying leveraged capital in our manner would entail higher stock specific exposure, resulting in more volatile outcomes. However, with our approach, we can increase deployment whilst still maintaining average position size at less than 3% of NAV, and as such not expose the fund to elevated stock-specific exposure despite increasing leverage.

An additional feature that holders may observe during 2025 may be, and in particular relating to our largest holdings, some instances of shareholder activism. Shareholder activism in merger arbitrage situations in general remains low, and in my view is a less well appreciated yet fertile ground from which alpha can be targeted even when the headline spread to completion appears only modest. As such, activism in merger arbitrage can also be thought of a tool we have to even further expand our opportunity set. Successful activism in merger arbitrage does not necessarily require the activist to oversee a large capital base, as thoughtful corporate governance advocacy in the form of either private or public advocacy can influence outcomes even at modest capital deployment.

Finally, the fund does retain the ability for non-arbitrage allocations, or investments, however I continue to appraise that these will remain limited given the many dimensions of competitive advantage that we possess in merger arbitrage, combined with the low-risk profile of merger arbitrages, their high consistency in returns, low market beta, their higher suitability for leverage, and the relative advantages in merger arbitrages that smaller funds can uniquely capitalise on.

These factors in combination result in well selected merger arbitrages remaining highly attractive in comparison to, in my appraisal, most other forms of opportunity. This is particularly the case to the extent that the broader market indices today possess elevated risk due to well above average CAPE ratio earnings multiples[17] and also the inherent uncertainties relating to earnings growth sustainability within the current backdrop of Western government indebtedness which remains at multi-decade highs[18].

Adrian Courtenay

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Footnotes

1. Source: GA-Courtenay internal systems
2. Nano Dimension to Acquire Markforged [link]
3. Markforged Announces Third Quarter 2024 Results [link]
4. Source: Bloomberg consensus
5. Nano Dimension Announces Q3/2024 Results [link]
6. Source: Bloomberg consensus
7. Definitive merger agreement, Markforged and Nano Dimension [link]
8. Markforged confirms only remaining condition for Nano Dimension merger is CFIUS approval [link]
9. Definitive merger agreement, Markforged and Nano Dimension [link]
10. Nano Dimension Announces Changes in Board Composition [link]
11. Murchinson Sends Letter to Nano Dimension Shareholders [link]
12. Merger-Arb World Sees Bottom-Dwelling Trade Reviving Under Trump, Bloomberg [link]
13. Source: GA-Courtenay internal systems
14. Source: corporate disclosures, GA-Courtenay internal systems
15. Figure source: GA-Courtenay white paper, Performance Orientation in Merger Arbitrage [link]
16. Source: GA-Courtenay internal systems
17. S&P 500 Shiller CAPE Ratio [link]
18. Western government indebtedness as percent of GDP is close to 100 year highs [link]

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