Serafin Diversified Arbitrage Fund

The Power of Arbitrage: A World of Investment Possibilities

Reasons to invest

- Multiple arbitrage opportunities provide flexibility within different market environments.
- Bottom-up risk/return-focused allocation process to maximize the outcome for investors.
- Experienced Investment Team that worked together in the past, brings specific knowledge to the product.

Investment philosophy and approach

The investment approach consists of combining a series of arbitrage strategies, most notably in **merger arbitrage**, **convertible bond arbitrage**, and **event-driven soft catalysts**.

Merger arbitrage

When a merger or acquisition is announced, the stock price of the target company usually rises, reflecting the premium offered by the acquiring company. However, the target company's stock price might not immediately reach the offer price due to uncertainties and risks associated with the deal, such as regulatory approvals or shareholder acceptance.
The fund aims to profit from this price differential. We buy shares of the target company at a price lower than the offer price, expecting that the stock price will converge to the offer price upon successful completion of the deal.
These are typically short-term investments, and their success relies on accurate analysis of the deal's likelihood of completion and the potential risks involved. The ability to quickly assess the deal's progress and react accordingly is vital for maximizing returns and minimizing losses.

Convertible bond arbitrage

Convertible bond arbitrage aims at monetizing the discrepancy between the market price and the fair value of convertible bonds while benefitting from the positive carry offered by the coupons or yields. The fund invests in bonds that are deemed cheap in relation to fair model value and hedges the underlying equity exposure by opening a short position in the underlying shares.
Close attention is paid to various risk factors, such as changes in interest rates, stock price movements, credit quality of the issuer, and the overall market sentiment. These factors can influence the potential returns and risks associated with the strategy. Generally speaking, this strategy profits from the increase in valuation of the bonds, the increase in volatility of the underlying stock, and the yield generated from the bonds, without taking direct equity market exposure.

Event-driven soft catalysts

The event-driven soft catalyst strategy aims to monetize anomalies in the pricing of holding structures, or capital structures. It also allows the fund to profit from recurring price patterns during spin-offs and index rebalancing, as well as opportunities in dividend arbitrage when the expected dividends priced in derivatives differ from realized payouts.

Risk management and profile

We believe that price inefficiencies in M&A situations exist due to...

The behavior of existing shareholders:

Following the announcement of an acquisition, investors typically sell the target company, choosing to lock in current gains and forego the relatively small remaining upside.

We therefore take a contrarian position to capture the spread between the target's current share price and the deal price.

The perceived risk of deal failure:

The merger arbitrage risk/return profile is asymmetric (i.e., there is a greater downside should a deal fail than an upside should a deal succeed). The potential downside in case of deal failure is usually too big for the average investor to tolerate.

We therefore avoid investing in risky deals by focusing on deals that have low/medium spreads. We diversify the risk by holding a large number of transactions.

We believe that price inefficiencies in convertible bonds exist due to...

The convertible market is rather thin, complex, and inefficient. Market prices tend to drift away from theoretical valuations most notably because of market flow in a relatively illiquid market.
Primary market offerings often tend to be priced slightly below theoretical valuations to appeal to the market.
Convertible bonds are often oversold in periods of risk-off markets as non-dedicated fixed income investors exit their positions to avoid equity exposure, causing big gaps in theoretical valuations.

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We buy undervalued convertible bonds both on the secondary and primary markets and sell short a proportion of underlying shares (delta hedge) creating positive carry. This hedge eliminates the equity risk component, while we wait for the bond to trade back to its fair valuation, capturing the mispricing. In the event of large equity moves, we can benefit both ways. We are also able to hedge credit and duration risk to some extent.

Key benefits

Combining merger arbitrage with convertible bond arbitrage strategies can offer several key benefits, as it allows investors to diversify their portfolios and potentially enhance risk-adjusted returns.

Diversification: By combining different arbitrage strategies, investors can reduce their exposure to specific market risks. These strategies can have different risk profiles and perform differently under various market conditions, leading to enhanced portfolio diversification.

Reduced Market Sensitivity: Both merger arbitrage and convertible bond arbitrage are considered market-neutral strategies. By combining these two strategies, investors can enhance their ability to generate consistent returns in various market environments.

Lower Volatility: Each strategy may exhibit its level of volatility. However, combining them can potentially lead to a more stable overall portfolio performance, as the returns from one strategy may help offset the volatility of the other.

Income Generation: Convertible bond arbitrage strategies often generate income through interest payments from the convertible securities held and the short equity component. This income stream can complement the returns from merger arbitrage, which primarily come from the price appreciation of the target company's stock as the deal progresses.

Flexibility and Adaptability: By employing multiple strategies, investors can adapt to changing market conditions and opportunities. If market conditions become less favorable for one of the strategies, the ability to allocate capital to the more promising strategy can enhance overall portfolio performance.

1 Diversified arbitrage offers **yield pick-up** versus bond investments, with a comparable risk level.

2 **Arbitrage spreads** are higher than in the pre-pandemic world and CB **valuations** are historically cheap on a relative basis.

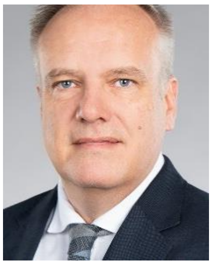
3 High diversification, high gross exposure + high spreads/yields should allow an **attractive performance**.

4 Diversified arbitrage strategies provide **non-correlated returns** in times of directional uncertainty.

SERAFIN
ASSET MANAGEMENT

Team and experience

The Serafin Asset Management AG team responsible for this strategy consists of two highly experienced managers. They each have over 25 years of experience in the industry with a special focus on convertible bonds, mergers and acquisitions, event-driven and total return investment strategies. After many years of investment banking experience on the buy side and sell side as well as in asset management, they are now pooling their talents to launch a new diversified arbitrage fund.



Jonathan Stanford
Investment Manager

Before joining Serafin Asset Management in 2023, Jonathan Stanford was managing the Convertible Bond fund at GAM. Between 1994 and 1997 he was trading equities and derivatives at BCI (Suisse) and then joined UBS as Executive Director of convertible bond sales until 2007. He then joined hedge fund Arkos Capital to launch a dedicated convertible bond UCITS. Arkos Capital was acquired by GAM in 2012 where he remained as investment manager of the Convertible Alpha fund.

Roberto Bottoli
Investment Manager

Before joining Serafin Asset Management in 2023, Roberto Bottoli was managing the M&A Arbitrage fund at GAM. Before that, he spent 17 years at Allianz Global Investors, first in Milan, and then in Frankfurt. During his time at Allianz, Roberto was responsible for absolute return and multi-asset portfolios. He also launched and managed a risk-constrained, UCITS-compliant merger arbitrage strategy as part of a wider absolute return investment process. He joined Allianz in 1999 working in the field of risk management. Later he moved to the quantitative management team, where he was involved in the launch of the first directly managed product with a capital guarantee.

For more information about the Serafin Diversified Arbitrage Fund please visit our website:

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Subscriptions for fund shares can only be accepted based on the relevant fund documents. The fund prospectus contains detailed risk information. Please read the relevant fund documents before making a final investment decision. The relevant fund documents are available to investors in Switzerland free of charge from Serafin Asset Management AG, Bahnhofstrasse 29, CH-6300 Zug, and at www.serafin-am.com or from the Swiss representative, Artico Partners AG, Stockerstrasse 50, CH-8002 Zurich.

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