RECAP 2022
OUTLOOK 2023

SYQUANT Capital
Helium Funds

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RECAP 2022 – Event Driven Strategies stood out by their resilience

2022 will be remembered by investors as "particularly trying" for the markets and more particularly for interest rates. A decade of ultra-accommodative monetary policies and negative interest rates came to an end. As compared to previous bond market crashes in the 80's or 90's, in 2022 surprisingly it is the short part of the curve that suffered the most with a 2-year swap going from -0.3% to +3.4% in the euro zone and from +0.7% to +4.4% in the US.

On credit, the € Xover credit protection index rose from 241 to 474 points in Europe, reflecting a sharp increase in default risk expectations in the high yield segment. Strong tension on interest rates naturally led equities into a tail-spin, the S&P500 falling by -20% and the Nasdaq by -33%. The European market (Stoxx600: -11%) was relatively spared, helped by a weak euro and a much lower weight of "tech" stocks in European indices.

Illustrated by the graph opposite, the 2022 vintage has been one of the worst in the last 150 years in terms of returns! (graph opposite - source Financial Times)

For Event Driven strategies, after an exceptional 2021, the corporate deal-flow and opportunity set 2022 was down but still proved to be resilient. For instance, global M&A volumes remained above their 10 year historic average. (see below) announced World M&A transactions- source: Bloomberg). Such resilience in a very difficult market context is a very good signal for the year 2023.

M&A opportunities remained numerous, particularly in the US market, however the European M&A offered the most attractive risk/reward where regulatory visibility was better compared to the current US antitrust policy.

The investment universe became more restricted in the second half, mainly due to a lack of visibility for buyers on financing conditions and banks more reluctant to finance LBO funds.

For 2022, noteworthy contributors are the Aker BP take-over of Lundin Energy, the acquisition of the British avionics supplier Meggit by Parker Hannifin, our position in Atlantia (road infrastructure) jointly acquired by the Benetton family /Blackstone and the minority stake buy-back of EDF by the French state in H2 2022.

For the soft catalyst strategies, the IPO of Porsche, the capital increase of ALD, the Equity Capital Market (ECM) activity in the Middle East and of course the position on the Eurostoxx50 2023 dividends were amongst the most significant contributors.

Despite a generally troubled environment, the Helium funds navigated advantageously as PMs maintained a generally lower exposure and focused the portfolio on very short-dated events. Despite a negative mark to market on the "cash-management", an honorable performance in 2022 as all the equity Event Driven strategies were not only positive but on target.

HELIUM Funds	Support	2022 Performance	3 year data				AUM EUR
			Annualised Performance	Volatility	Sharpe	Max. Drawdown	
OPPORTUNITES A	EQUITY	+0.55%	+2.7%	3.2%	0.9	-6.4%	638M
FUND A	EQUITY	+0.21%	+2.4%	2.5%	1.1	-6.6%	738M
PERFORMANCE A	EQUITY	+0.45%	+3.5%	3.8%	1	-10.5%	1259M
SELECTION A	EQUITY	+2.99%	+7.2%	6.1%	1.25	-16.4%	469M
INVEST A	CREDIT	-4.41%	4.7%	4.9%	1	-9.9%	206M

Source : SYQUANT Capital; Data as of 30/12/22; Past performance is not indicative of future performance

As mentioned in the various newsletters in 2022, the Helium funds suffered mark to market losses on the *cash management* portfolio. A normally inert portfolio component which invest the excess cash in short-dated (max. 2yr duration) IG bonds. Rising rates and widening credit spreads triggered MtM (Mark to Market) losses. Much of those MtM losses will be recovered in 2023 as rates stabilize and/or as the short-dated bonds converge and mature at par. PMs are confident that in addition to the usual contributions from Event Driven strategies, *cash management* should contribute positively to the global performance as the portfolio recovers the 2022 MtM losses in 2023..

Helium Invest, the Event Driven Credit fund (positioned mainly on corporate bonds and convertible bonds), suffered the negative impact from rising rates and widening credit spreads on both segments: "Event Driven Credit" and the "Short Dated Credit". The depressed credit markets offered attractive entry points for many corporate bonds which the PMs seized throughout 2022. The current portfolio positions across the fund offers an IRR of around 6%p.a. gross. In addition, the potential of a strong recovery in corporate activity may turn 2023 into a record year for the Helium Invest fund. Hence the Helium Invest fund benefits of two performers driver: the "carry trade" on the "Short Dated Bonds" and the "event driven trade" on the "Event Driven Credit" portfolio.

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Outlook 2023 – under a good omen?

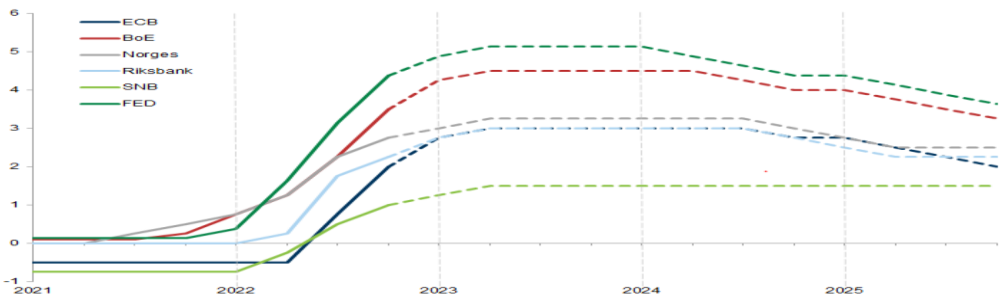
The usual macro-economic consensus amongst economists and strategists seems to be absent in 2023, torn between the recessionary environment (an economic "hard landing" across continents, downward revision of corporate earnings, further rate hikes) and a more positive economic scenario (reopening of China, drop in energy prices, rates stabilize or drop). If uncertainties seem to prevail, a certain number of indicators seem encouraging for Event Driven strategies:

i) The resilience of corporate deals in 2022 should encourage us to believe that in a more stable environment, the deal flow should pick up significantly. All the more that investment bankers are indicating that companies are eager to reduce the 2022 corporate deal backlog.

ii) Recessionary fears are fading, which should encourage corporate activity (M&A, spin-off, IPO, etc.).

iii) ECM/DCM activity totally absent in 2022 should reawaken at some point in 2023. Past experience shows, notably in April 2020, that ECM/DCM is the first market to awaken after a crisis. The first signs of a reignition are appearing – especially in the CBs !! A solid pipeline of new issues in the CB market !!

As rates rises slow or may even stabilize (see graph below), investment bankers are expected to work long hours to clear the backlog of corporate deals.



Source: Goldman Sachs

Private Equity (PE) funds should continue to be aggressive players notably on the M&A scene. The accumulated dry powder, more attractive valuations are powerful ingredients to fuel a competitive M&A bonanza. The only drawback is the cost of funding for the more aggressively leveraged PE related deals. We have however no doubt that the most sophisticated players will find very innovative financing techniques to achieve their aims. Noteworthy are some recent PE deals with innovative financing: Equity Commitment letter (Ping, ForgeRock, UserTesting), recourse to debt funds (Sailpoint, Maxar, Anaplan) or subscription to the debt by the acquiring fund (Nielsen).

Sustained activity in the health sector, with buyers aflush with cash and little debt are eying the attractively priced biotech sector which on average shed 20% of its market cap in 2022 (-20% for the Nasdaq Biotechnology since its peak). As an illustration Johnson&Johnson snapped up Abiomed or Horizon purchased by Amgen - we expect sustained activity in this sector. The Tech sector could be another target of astute buyers and could see a movement of consolidation after the massive declines in the valuations of listed companies.

Much of the M&A talk in 2021, following the arrival of the new Biden administration, was the change in attitude of US regulators (FTC or Department of Justice) which was significantly more cautious on anti-trust issues, but in 2022 both regulators and the courts of justice provided proof that the US remains a very "pro-business" zone and consolidates the US market as the most important M&A region.

Conclusion

Both Merger Arbitrage and Soft Catalyst strategies proved, despite market turbulence, their resilience and remained relatively uncorrelated to markets. Both strategies contributed positively throughout 2022. Their positive contributions did not however off-set the Mark-to-Market losses which emerged from the cash management portfolio which had exposure to both short term rates and credit spreads.

As rates stabilize, corporate activity should "kick-in" and the enormous backlog in corporate deals from 2022 should assure a dense pipeline of deals in 2023.

2023 seems to be off to a better start, as illustrated by the successful reopening of the primary bond markets in Europe. In the US, announcements of M&A transactions are gaining momentum. Without falling into excessive optimism, but 2023 offers the ingredients for a strong recovery in corporate deals and hence we are reasonably confident to achieve the upper end of our return targets.

As detailed below all our return targets are always in excess of the risk free rate (ESTR) !

- Our performance objectives are always expressed in a "spread" above the risk-free rate (see table).
- With short term rates rising (1 yr swap rate at 3%) the performance objective of Helium Fund / Opportunities would be 5.50% (risk-free rate + 250bps) and 9.00% for Helium Selection (600bps over the risk-free rate).

	Helium Fund/ Helium Opp	Helium Performance	Helium Selection	Helium Invest
Performance target	ESTR + 250 bps	ESTR + 400 bps	ESTR + 600bps	ESTR + 500bps
Volatility Target	1% - 2%	2% - 4%	4% - 6%	3%- 5%
Perf target with ESTR at 3%	**5.50%**	**7%**	**9%**	**8%**

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We look forward to hosting you at our upcoming web-conferences.

Please let us know if we can be of further assistance.

Our very best wishes for 2023 !

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