

## Constantia Capital Merger-Arbitrage Strategy July 2024 Commentary

Our composite returned 1.08% in July, bringing returns to 3.63% year-to-date, 4.55% annualized for the past 10 years and 5.18% annualized in more than 12 ½ years since inception.

In world markets, equities continued their upward trend of the past year with a return of 1.64% for the All-Country World Index, ahead of 1.2% for the S&P 500. However, fixed-income, as represented by the Bloomberg Aggregate Bond Index, had an even stronger month, posting returns of returns of 2.34% for the month as inflation data was better (lower) than expected. The classic 60/40 Equity/Bond benchmark (All World Index, Bloomberg US Aggregate Bond Index) returned 1.9% for the month.

New deal announcements continued at their strong pace, with 32 new deals for the month, while 35 closed. The number of deals in our portfolio increased again and is currently at 148 compared to 91 at the start of the year. Leverage has increased as well, and we now have \$138 of long positions for every \$100 of capital. The last time we had that combination of high diversification and leverage was 2021, which was the best year on record for our Merger-Arb strategy.

For the month, some of the highlights and lowlights were:

- The largest positive contributor was Australian software company Task Group, which was acquired by Par Technology of the US. The deal closed during July, resulting in a contribution of 30 bps. Note that the new security we have received from the corporate action has not yet started trading and was marked by our custodian at a higher price than where Par Technology closed at month end.
- Hollysys Automation, a Chinese manufacturer of factory automation equipment, finally saw the closing of their deal to be acquired by Ascendent Capital, contributing 11 bps.
- Cleveland Cliffs, an iron and steel producer, announced the acquisition of Canadian steel producer Stelco Holdings. The spread has narrowed in the two weeks since deal announcement, resulting in a contribution of 8 bps.
- Catalent, a contract drug manufacturer, is being acquired by Novo Holdings, the foundation that is the majority shareholder of Novo Nordisk. The stock has continued to gain on optimism regarding antitrust approval. The contribution for the month was 8 bps.
- Finnish communications equipment manufacturer Nokia is acquiring Infinera, also a communications equipment manufacturer. Infinera's focus is on optical networks and there appear to be many competitors such as Cisco and Ciena, but not Nokia. Nevertheless, the spread on the deal has widened, resulting in a negative impact of 7 bps.

- US Steel, being acquired by Nippon Steel, has been under pressure due to opposition from both Democratic and Republican politicians in an election year. However, news that Nippon Steel had hired Mike Pompeo as a lobbyist was seen as a positive, resulting in a contribution of 6 bps.

## Constantia Capital Merger-Arbitrage: Performance as of July 31, 2024

Benchmark	Reporting Period	Returns (Gross) <sup>2</sup>	Returns (Net) <sup>2 3</sup>	Bench-Mark <sup>2</sup>	Excess (Gross)	Excess (Net)	Volatility	Sharpe Ratio
US\$ LIBOR/SOFR	Year-to-date	3.97%	3.63%	3.07%	0.90%	0.57%	N/A	N/A
	Latest 3 Years	5.81%	5.21%	3.59%	2.22%	1.61%	2.61%	0.62
	Latest 5 Years	5.12%	4.53%	2.45%	2.67%	2.08%	5.30%	0.39
	Latest 10 Years	5.12%	4.55%	1.85%	3.27%	2.69%	4.34%	0.62
	Since Inception <sup>1</sup>	5.74%	5.18%	1.52%	4.22%	3.65%	4.31%	0.85

<sup>1</sup> Returns annualized, since inception date 11/1/2011

<sup>2</sup> Returns annualized for periods in excess of one year

<sup>3</sup> Net returns after performance fee, which a small number of qualified clients have elected as of the date above