

Constantia Capital Merger-Arbitrage Strategy February 2023 Commentary

Our composite returned 0.41% in February, bringing year-to-date returns to 0.47%, 3.85% annualized for the past 5 years and 4.98% annualized in 11+ years since inception.

Inflation fears spooked the markets again causing both stocks and bonds to fall. The S&P 500 posted returns of -2.4%, slightly ahead of the MSCI World Index, which returned -2.8%. Bonds also posted negative returns on the inflation news and also an extremely robust jobs report for January, with the Bloomberg Aggregate Bond Index returning -2.6%. The classic 60/40 Equity/Bond benchmark (All World Index, Bloomberg US Aggregate Bond Index) returned -2.7% for the month.

For our Merger-Arb strategy, some of the highlights and lowlights of the month were:

- Amazon's purchase of 1Life Healthcare and United Healthcare's of LHC Group were both approved, contributing 11 bps each. Neither should have posed much of an anti-trust concern, but in both cases the acquirers are extremely large and in the crosshairs of the current anti-trust regulators.
- British food casing manufacturer Devro saw its acquirer increase their bid in order to incentivize certain shareholders to vote in favor of the deal, contributing 12 bps.
- Two Contingent Value Rights (CVR's) from deals that closed more than a year ago both expired. Dova Pharmaceutical's CVR expired worthless, while the Zogenix CVR achieved its milestone. Together the two CVR's contributed 7 bps (CVR's are typically marked at small valuations – the contributions were -2 bps and 9 bps respectively).
- Vivint Smart Home is being acquired by NRG in a deal that should have been a slam dunk since that the acquirer was well capitalized and there were no anti-trust concerns. However, the deal closing was delayed while waiting on a ruling regarding Vivint's two classes of stock (the ruling, announced on February 28, was favorable). However, while awaiting the ruling, in a separate case, Vivint was found to have stolen a competitor's customers, resulting in compensatory and punitive damages of an amount equal to almost 10% of its market cap. Rumors that the price of the deal would be renegotiated caused a drop in Vivint's stock price, costing 12 bps for the month.
- Broadcom's acquisition of VMware has been facing opposition from European regulators, resulting in a -12 bps impact. As the deal has become riskier, we have reduced our position to approximately 0.5% of the portfolio.
- Tegna, a TV and radio station operator, received anti-trust clearance for their deal to be acquired by Standard General, a media company. However, a few days later the FCC moved to block the deal. Our position in Tegna was quite small and the impact was -6 bps.

- The Department of Justice is about to make an anti-trust ruling in the Spirit Airlines ongoing saga to be acquired by JetBlue. Almost everyone believes the DoJ will rule against the deal, and that the parties will take the DoJ to court in an attempt to reverse that ruling. The deal was already trading at a very large spread, but Spirit's stock price fell 8% for the month. Our position in Spirit is also below average size and the resulting impact was -4 bps.

New deal announcements were 20 for the month, while 20 closed. Diversification in the portfolio remains high at 93 deals. The portfolio remains slightly unlevered (approximately \$90 of long positions for every \$100 of capital) as new positions were smaller weights in the portfolio than the positions that closed. As noted previously, we earn just over 4% on US Dollar balances when available. In addition, we have bought short-term bond ETF's that should generate returns in excess of 4% annualized with a portion of our excess cash. As a reminder, even at \$100 of long positions for \$100 of capital, we typically have net positive US dollar balances since many of our deals are denominated in foreign currencies.

Constantia Capital Merger-Arbitrage: Performance as of February 28, 2023

Benchmark	Reporting Period	Returns (Net) ^{2 3}	Bench-Mark ²	Excess (Net)	Volatility	Sharpe Ratio
LIBOR/SOFR 3-month USD	Year-to-date	0.47%	0.78%	-0.31%	N/A	N/A
	Latest 3 Years	3.28%	1.25%	2.03%	6.65%	0.30
	Latest 5 Years	3.85%	1.67%	2.18%	5.36%	0.41
	Latest 10 Years	4.65%	1.15%	3.51%	4.69%	0.75
	Since Inception ¹	4.98%	1.06%	3.91%	4.50%	0.87

¹ Returns annualized, since inception date 11/1/2011

² Returns annualized for periods in excess of one year

³ Net returns after performance fee, which three qualified clients have elected as of the date above