

Constantia Capital Merger-Arbitrage Strategy September 2023 Commentary

Our composite returned 0.30% in September, bringing year-to-date returns to 4.19%, 4.21% annualized for the past 5 years and 5.05% annualized in almost 12 years since inception.

World equities were negative for the month, giving back some of their strong gains for the year. The MSCI World Index posted returns of -4.1%, with non-US outperforming US stocks (the S&P 500 returned -4.8%). Fears that interest rates will remain higher for longer caused the Bloomberg Aggregate Bond Index to post negative returns, returning -2.5%. The classic 60/40 Equity/Bond benchmark (All World Index, Bloomberg US Aggregate Bond Index) returned -3.5% for the month.

Despite returns for our Merger-Arb strategy being in-line with our benchmark of short-term cash, and no contributions of larger than 10 bps, there were a number of interesting situations. Some of the highlights and lowlights of the month were:

- The FTC (Federal Trade Commission) under chairwoman Lina Kahn has a history of losing in court after overstepping its bounds in the merger review process. As noted last month, the US FTC withdrew its previously scheduled in-house trial with Amgen of their takeover of Horizon Therapeutics, and then on September 1, announced they had resolved their differences with Amgen. The resulting contribution was 3 bps for the month, after a larger gain in August.
- Broadcom's acquisition of VMWare is moving closer to completion. Antitrust approval by China is now the only remaining obstacle. At 6 bps, this was the largest single contributor for the month.
- US lithium mining company Albemarle has proposed to acquire Australian lithium miner Liontown Resources. For reasons that are not clearly obvious, Liontown briefly traded above the deal price, allowing profit-taking and resulting in a positive contribution of 4 bps.
- The biggest detractor was the privatization of IMAX China by its parent, IMAX Corporation, which involves the parent buying back the 28% it does not already own. One shareholder, owning 1.7% of shares (6% of the remaining 28%), has stated that the deal price undervalues the company and will vote against the deal. The deal price is a 40% premium to the price before the deal was announced, but lower than pre-Covid levels. The stock has fallen 14% since the minority holder voiced their objection, costing our portfolio 10 bps. Since that time, influential proxy voting advisory firm ISS has come out in support of the deal ahead of next month's shareholder meeting.

New deal announcements were 27 for the month, while 21 deals closed. Diversification is well above average with the number of deals remaining above 110. Leverage is slightly above zero (approximately \$100 of long positions for every \$100 of capital).

Constantia Capital Merger-Arbitrage: Performance as of September 30, 2023

Benchmark	Reporting Period	Returns (Net) ^{2 3}	Bench-Mark ²	Excess (Net)	Volatility	Sharpe Ratio
LIBOR/SOFR 3-month USD	Year-to-date	4.19%	3.83%	0.35%	N/A	N/A
	Latest 3 Years	5.62%	2.16%	3.46%	3.05%	1.13
	Latest 5 Years	4.21%	2.00%	2.21%	5.34%	0.41
	Latest 10 Years	4.17%	1.43%	2.74%	4.53%	0.60
	Since Inception ¹	5.05%	1.26%	3.78%	4.42%	0.86

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 a small number of qualified clients have elected as of the date above