

Constantia Capital Merger-Arbitrage Strategy November 2022 Commentary

Our composite returned -0.57% in November, bringing returns to 0.88% year-to-date, 3.91% annualized for the past 5 years and 5.04% annualized in 11 years since inception.

New news on the inflation front during the month sent US bond yields lower, which in turn sent equity indices higher and the US Dollar lower. Boosted by the rise in their currencies and hopes that draconian COVID rules in China would be eased, Emerging Markets returned 15.5%, leading World Equity indices. The All-World Index rose 7.8%, exceeding the 5.6% of the S&P 500. Bonds, as measured by the Bloomberg US Agg, posted positive returns of 3.7%. The classic 60/40 Equity/Bond benchmark (All World Index, Bloomberg US Aggregate Bond Index) rose 6.2% for the month but has returned -13.7% year-to-date.

Our Merger-Arbitrage portfolio was hurt by two deals that were terminated. Some of the highlights and lowlights of the month:

- DuPont terminated their acquisition of Rogers Corp. With the underlying value of Rogers having fallen significantly since the deal was signed, DuPont took advantage of the Chinese delay in granting the approval to terminate the deal on the “walk date”. Most analysts had expected a renegotiation of the price – as a result DuPont’s action caught us by surprise. Rogers stock price fell by over 50%, resulting in a negative 44 bps contribution.
- In a similar vein, OceanFirst Financial and Partners Bancorp mutually agreed to terminate their merger on the walk date as regulators were dragging their feet. The resulting negative contribution was 18 bps.
- Canadian industrial equipment auctioneer Ritchie Brothers announced a deal to acquire IAA, a US truck and car retailer, in a stock-swap deal that requires shareholder approval by both companies. Within days of the announcement, Carvana’s earnings announcement indicated that used car prices had fallen significantly. The spread on the deal has widened on no specific news, probably due to fears the acquirer shareholders will not support the deal, resulting in a negative contribution of 16 bps.
- Amazon has agreed to acquire iRobot, the manufacturer of robotic vacuum cleaners. Any deal involving a company as large as Amazon is subject to intense anti-trust scrutiny, especially in the current environment. During the month, iRobot released earnings showing revenue that dramatically missed expectations and the year-ago quarter. The stock dropped on expectations that if the deal were terminated, iRobot’s stock would be worth considerably less than before the deal was announced, resulting in a negative 13 bps contribution. One could argue that the

earnings news shows that iRobot competes in a highly competitive market, which would increase the probability of regulatory approvals.

- Despite the negative news on Rogers, other deals that require Chinese approvals made positive contributions after talks between Presidents Biden and Xi appeared to reduce tension between the US and China. MaxLinear’s acquisition of Silicon Motion and Intel’s acquisition of Tower Semiconductor resulted in positive contributions of 10 and 5 bps respectively.
- Two small biotechs, Rocket Pharmaceuticals and Renovacor, are merging in a deal schedule to close in early December. The spread narrowed as the closing date neared, contributing 11 bps.
- Turquoise Hill Resources, a Canadian company that operates a copper mine in Mongolia, is 51% owned by Rio Tinto. The companies agreed to a proposal for Rio Tinto to buy the remaining 49% stake, but faced minority shareholder opposition on the basis that the price undervalued Turquoise Hill. After raising the deal price, it now appears likely the deal will be approved, resulting in a contribution of 7 bps.

New deal announcements were 22 for the month, while 21 closed and 2 were terminated. Diversification in the portfolio remains high at 87 deals. Leverage remains approximately 0% (\$100 of long positions for every \$100 of capital).

Constantia Capital Merger-Arbitrage: Performance as of November 30, 2022

| Benchmark | Reporting Period | Returns (Net) ^{2 3} | Bench-Mark ² | Excess (Net) | Volatility | Sharpe Ratio |
|----------------------|------------------------------|------------------------------|-------------------------|--------------|------------|--------------|
| LIBOR 3-month USD | Year-to-date | 0.88% | 2.09% | -1.20% | N/A | N/A |
| | Latest 3 Years | 3.28% | 1.00% | 2.27% | 6.68% | 0.34 |
| | Latest 5 Years | 3.91% | 1.53% | 2.38% | 5.37% | 0.44 |
| | Latest 10 Years | 4.85% | 1.04% | 3.82% | 4.68% | 0.82 |
| | Since Inception ¹ | 5.04% | 0.98% | 4.06% | 4.54% | 0.89 |

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