
Constantia Capital Merger-Arbitrage Strategy March 2021 Commentary

Our composite returned 0.70% in March, bringing returns to 4.01% annualized for the past 5 years and 5.07% annualized since inception.

March saw equity markets rise while bonds continued to lose ground as interest rates rose. Merger-Arb once again proved to be a valuable diversifier for the fixed-income component of investors' portfolios.

Some of the highlights and lowlights of the month:

- Counterbid situations continued this month. Last month's biggest winner, Coherent, chose to merge with II-VI (pronounced Two-Six) after a total of nine counter bids in total. That was slightly disappointing to us since the bid from Lumentum (the original suitor) was slightly higher and had already received US anti-trust approval. The contribution for the month was 6 bps.
- Cubic, a defense contractor being acquired by Elliott Management. A counter bid caused Elliott to raise their bid from \$70 to \$75, contributing 15 bps for the month.
- Aegion, an infrastructure construction company being acquired by New Mountain Capital, saw its stock rise above the deal price on rumors of two counter-bids, causing New Mountain to raise their bid from \$26 to \$27, contributing 12 bps.
- Corelogic, a real-estate data services company, and last month's second best contributor, had been involved in a bidding war when suddenly Costar Group withdrew their bid. That led to a negative contribution of 12 bps for the month, but positive 8 bps in total over the life of the deal.
- Huya's acquisition of Doyu (both partially owned by Tencent), continued to recover as fears of Chinese government threats to the deal subsided, contributing 8 bps.
- The biggest positive contributor was Tilray's acquisition of Aphria, both cannabis stocks. The spread on the deal narrowed from 15% to 3% over the course of the month as Tilray stock became readily available to sell short and the deal is scheduled to close in the next few weeks. The contribution was 20 bps for the month.
- Semiconductor stocks Inphi and Marvel received Chinese approval for their deal, contributing 8 bps. That caused the spread on AMD's merger with Xilinx to narrow as well, contributing 6 bps.
- We bought very small positions in 12 SPACs (Special Purpose Acquisition Companies), for a total weight in the portfolio slightly less than 2%. SPACs are structured so that investors can sell their shares back to the sponsor at \$10 per share, and all of them contain warrants which become separately tradable. The average price for our purchases was \$9.99, hence these are basically free options on the sponsor finding a company to take public. However, so many SPACs have

been created that we estimate the chance of any one SPAC finding a company to merge with has fallen to around 1 in 20.

- Other notable detractors were the management buyout of Hollsys Automation, a Chinese company, and Rekor Systems merger with Iteris. The parties in both of these proposed deals may not be able to agree on definitive terms, costing 9 bps each.
- Magnachip Semiconductor, a South Korean company (stock trades in US) being acquired by a Chinese private equity firm, fell after the deal announcement on concerns that South Korea may block the deal, costing 6 bps.

The environment for Merger-Arb continues to be very positive. The number of deals is now over 110 (including the SPACs), and leverage is close to 130% (\$130 of long positions for every \$100 of capital). March saw 37 new deal announcements, very close to a record, while 25 closed.

Constantia Capital Merger-Arbitrage: Performance as of March 31, 2021

Benchmark	Reporting Period	Returns (Net) ^{2 3}	Bench-Mark ²	Excess (Net)	Volatility	Sharpe Ratio
LIBOR 3-month USD	Year-to-date	1.78%	0.05%	1.73%	N/A	N/A
	Latest 3 Years	3.87%	1.60%	2.27%	6.33%	0.36
	Latest 5 Years	4.01%	1.44%	2.58%	5.04%	0.51
	Since Inception ¹	5.07%	0.92%	4.15%	4.69%	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 1/31/2021