



Constantia Capital Merger-Arbitrage Strategy April 2021 Commentary

Our composite returned 2.83% in April, bringing returns to 4.57% annualized for the past 5 years and 5.33% annualized since inception.

I've been ending my commentary for the past many months with the point that the environment for Merger-Arb continues to be extremely compelling. Excluding April 2020, when the strategy recovered some of the previous month's losses, April 2021 has been the best month for our strategy in the past five years. As a result, we've had the best start to a year on record, exceeding our goal for the year of 4% over short-term interest rates in just four months. And that in an environment where other fixed-income strategies have been hurt by rising interest rates.

Some of the highlights and lowlights of the month:

- Counterbid situations continued this month. Kansas City Southern, a railroad company, agreed to be acquired by Canadian Pacific. Later in the month, Canadian National Railway announced a bid approximately 20% higher, contributing 40 bps.
- Mainstream Group, an Australian Information Technology company, agreed to be acquired by US-based SS&C Technologies for A\$2 per share. SS&C then raised the bid to A\$2.25 and then again to A\$2.35 to fend off an unnamed third party. However, on the last day of the month, British based Apex Group announced an A\$2.55 bid, and Mainstream stock closed at A\$2.65, an implication that the market expects the bidding war to continue. The contribution has been 30 bps.
- Astrazeneca is acquiring Alexion Pharmaceuticals. The spread of the deal narrowed after the announcement of US anti-trust approval, contributing 12 bps.
- Mackinac Financial is being acquired by Nicolet Bankshares. The deal premium was unusually large for a bank merger, and the market appeared slow to digest the information allowing for a contribution of 10 bps. Bank deals have consistently been approximately 15% of the portfolio, mostly small banks merging to gain scale, but it is unusual for any of them to be worthy of a special mention.
- The long running saga of French water utilities Veolia buying Suez should be coming to an end as political issues have been resolved and Veolia increased their bid from EUR 18 to EUR 20.5, contributing 8 bps.
- Specialty Chemical maker W.R. Grace finally accepted a proposal from their largest shareholder after the bid was increased from \$60 to \$70, contributing 7 bps.

- Counter-bid situations are always welcome and helpful, and the situations mentioned above contributed almost 100 bps to performance. The more important point is that the remaining 180 bps came from unspectacular performance from the remaining 100-plus positions in our portfolio, highlighting our conviction that we are currently experiencing a very positive environment for Merger-Arbitrage.

Diversification in the portfolio continues to rise. The number of deals is now more than 120, and leverage is close to 135% (\$135 of long positions for every \$100 of capital). April saw 37 new deal announcements, probably a record, while 28 closed.

Constantia Capital Merger-Arbitrage: Performance as of April 30, 2021

Benchmark	Reporting Period	Returns (Net) ^{2 3}	Bench-Mark ²	Excess (Net)	Volatility	Sharpe Ratio
LIBOR 3-month USD	Year-to-date	4.67%	0.06%	4.61%	N/A	N/A
	Latest 3 Years	4.95%	1.54%	3.42%	6.49%	0.53
	Latest 5 Years	4.57%	1.43%	3.14%	5.17%	0.61
	Since Inception ¹	5.33%	0.91%	4.42%	4.73%	0.93

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