

Constantia Capital Merger-Arbitrage Strategy October 2023 Commentary

Our composite returned -0.44% in October, bringing year-to-date returns to 3.73%, 4.17% annualized for the past 5 years and 4.97% annualized in 12 years since inception.

The Hamas terrorist attack in Israel with its concomitant fear of a widening conflict together with the Fed's continued restrictive posture pressured the financial markets. World equities were negative for the third month in a row, giving back more of their strong gains for the year. The MSCI World Index posted returns of -3.0% for October. (The US makes up approximately 60% of the index, and the S&P 500 returned -2.1%.) The Bloomberg Aggregate Bond Index posted negative returns, returning -1.6% for the month and now -2.8% for the year-to-date. The classic 60/40 Equity/Bond benchmark (All World Index, Bloomberg US Aggregate Bond Index) returned -2.4% for the month.

Within our Merger-Arb composite, we were adversely affected by the highly unusual confluence of three specific categories of events, 1) regulatory issues, 2) shareholder actions and 3) geopolitical events, specifically the war in Israel/Gaza. Some of the highlights and lowlights of the month were:

- In the category of regulatory issues, Canadian pump and flow control equipment manufacturer Velan was being acquired by US competitor Flowserve. The deal was terminated after France blocked the deal on national security grounds relating to use of Velan equipment in French nuclear defense and power generation. We had reduced our position in August when the news of the French security review broke. Velan stock fell by approximately 50% on the news of the termination, resulting in a negative impact of 25 bps.
- Also in the regulatory category, Israeli credit card services company, Isracard, being acquired by Harel, an Israeli financial services company. Isracard's stock fell 20% during the month on concerns that the walk date was approaching and anti-trust approval was delayed. The negative impact was 12 bps. As a risk control measure we reduced our position in Isracard from 50 bps to 25 bps. We believe the war was at most a minor factor in this situation.
- Liontown Resources, an Australian lithium miner, had indicated it would support a proposal to be acquired by Albermarle, a US chemical producer with a focus on energy storage. Due diligence was nearing completion when Australia's richest person, mining heiress Gina Rinehart, accumulated a 19.9% stake (as noted in our September commentary, we sold part of our position as the stock traded at the deal price). Investors initially interpreted Rinehart's actions as preparing for a counter-bid, but it turned out she was simply spending a small percentage of her net worth to block the deal - she announced she would be voting against Albermarle's bid and Australian takeover rules usually require 75% of shares being voted in favor. Albermarle abandoned their proposal and Liontown stock fell 50% resulting in a negative impact of 25 bps.

- The privatization of IMAX China by its parent, IMAX Corporation, was terminated after failing to win sufficient minority shareholder support. A group of dissenting shareholders argued that the deal undervalued the company, despite proxy advisory firms ISS and Glass-Lewis supporting the deal. The negative impact was 10 bps for the month and 20 bps overall. Postscript: the dissenting shareholders may turn out to be correct someday, but for now they own shares valued at HK\$7.27 compared to the HK\$10 they (and we) could have had.
- Broadcom's acquisition of VMWare was a noted positive contributor in September, but gave up 6 bps in October as China-US tension was seen as the cause of a delay in Chinese approval.
- JetBlue's acquisition of Spirit Airlines is moving to trial starting on October 31. Spirit Airlines stock has fallen on concerns the government will prevail in court, and also due to larger than expected losses at both airlines. Despite cutting our position to only 20 bps in the portfolio, the negative impact was 10 bps.
- Neogames, an internet gambling software provider based in Israel is being acquired by Aristocrat Leisure, an Australian casino services company. Neogames has operations and customers in many countries and the deal requires multiple approvals. As a result, the companies initially estimated that the deal would take a year to be completed, which is May 2024. Neogames has fallen 4% for the month, most likely due to concerns about being an Israeli company, detracting 9 bps from performance.
- Sculptor Capital Management, a hedge fund manager founded by Dan Ochs, agreed to be acquired by Rithm Capital. A bidding war has caused Rithm to raise their bid from \$11.15 to \$12 and again to \$12.70. Even though that is lower than the prevailing counter-bid, we believe that Rithm's bid will prevail since it has Dan Ochs' support. The contribution for the month was 16 bps and 30 bps since inception.
- Point Biopharma is being acquired by Eli Lilly for \$12.50 per share. The tender offer filing indicated that Point accepted Lilly's bid despite the existence of more lucrative bids. Point is trading above the offer price as investors hope that LLY will be forced to increase its bid, contributing 6 bps for the month. We are doubtful (but hopeful) that will transpire, and as a result have taken profits and reduced our position from 2% of the portfolio to 1%.

New deal announcements were 34 for the month, while 32 deals closed. Diversification is well above average with the number of deals at 110. Leverage remains slightly above zero (approximately \$100 of long positions for every \$100 of capital).



Constantia Capital Merger-Arbitrage: Performance as of October 31, 2023

Benchmark	Reporting Period	Returns (Net) ^{2 3}	Bench-Mark ²	Excess (Net)	Volatility	Sharpe Ratio
LIBOR/SOFR 3-month USD	Year-to-date	3.73%	4.29%	-0.56%	N/A	N/A
	Latest 3 Years	5.09%	2.30%	2.78%	3.08%	0.90
	Latest 5 Years	4.17%	2.05%	2.13%	5.36%	0.40
	Latest 10 Years	4.00%	1.48%	2.53%	4.53%	0.56
	Since Inception ¹	4.97%	1.29%	3.68%	4.41%	0.83

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