



Constantia Capital Merger-Arbitrage Strategy November 2021 Commentary

Our composite returned 0.50% in November, bringing returns to 7.95% year-to-date, 4.78% annualized for the past 5 years and 5.31% in ten years annualized since inception. That can be compared to a basket of 7 merger-arb mutual funds and ETF's (all such funds that we know of) which has returned less than 2% year-to-date and 3.75% annualized over the past 5 years.

The Omicron variant turned a solid month for equities into a losing month while bonds had the exact opposite experience. Fears of inflation suddenly gave way to the “stay-at-home trade” and the yield curve flattened dramatically. Meanwhile our Merger-Arb portfolio posted another positive month thanks to an above average number of bidding war situations.

Some of the highlights and lowlights of the month:

- The best contributor was RR Donnelley of Yellow Pages and other commercial printing fame. An original proposal at \$7.50 that the market did not take seriously has now seen the latest bid at \$10.25 resulting in a contribution of 22 bps.
- NortonLifelock's acquisition of Avast received a boost in the form of US anti-trust approval, contributing 16 bps.
- Two British software companies, Prism and Playtec, have each been the subject of multiple bids, contributing 13 bps and 10 bps respectively.
- Canadian company Millennial Lithium had agreed to be bought by Chinese battery maker CATL, but then agreed to a higher bid from Lithium Americas, contributing 7 bps.
- Two biotech stocks, Flexion Therapeutics and Adamas Pharmaceuticals, saw deals with CVR's (contingent value rights) close. Interactive Brokers marked the CVR's at zero, even though both stocks were trading above the deal price on their last trading day. For now that shows up as a mark-to-market loss of 9 bps for the month, but the CVR's could be worth as much as 80 bps in the best case scenario if their various milestones are achieved over the next few years.
- AMD announced in October that it expects Chinese approval of its acquisition of Xilinx before the end of the year. However, that has not yet transpired, and AMD's stock rose 31% (!) in November while Xilinx rose only 26% resulting in the largest negative contribution for the month of 17 bps.
- Zendesk has agreed to buy Momentive (best known for Survey Monkey). Jana Partners, a Zendesk shareholder, announced their opposition to the deal, costing 10 bps for the month.
- Chinese car parts manufacturer Hollysys Automation announced a change of auditor, never a good sign. The resulting negative market reaction impacted the portfolio by 16 bps.

- Mattress maker Casper Sleep agreed to be acquired by a private equity firm. However, the price has fallen since the deal announcement date on no specific news resulting in a negative contribution of 7 bps.

As has been the trend, deal flow continues to be extremely strong, with 36 new deals announced in November, while 31 deals closed. Diversification in the portfolio continues to be considerably above average. The number of deals has risen to 140, and leverage is close to 140% (\$140 of long positions for every \$100 of capital).

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

Benchmark	Reporting Period	Returns (Net) ^{2 3}	Bench-Mark ²	Excess (Net)	Volatility	Sharpe Ratio
LIBOR 3-month USD	Year-to-date	7.95%	0.14%	7.81%	N/A	N/A
	Latest 3 Years	4.28%	1.09%	3.19%	6.52%	0.49
	Latest 5 Years	4.78%	1.35%	3.43%	5.25%	0.65
	Since Inception ¹	5.31%	0.87%	4.44%	4.67%	0.95

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