

Constantia Capital Merger-Arbitrage Strategy September 2021 Commentary

Our composite returned 0.10% in September, bringing returns to 6.53% year-to-date, 4.58% annualized for the past 5 years and 5.29% annualized since inception.

Those returns are against a backdrop of most other major asset classes falling for the month, with the S&P 500 down -4.65%. The TLT, an ETF that tracks long dated US government bonds down almost 3%, once again illustrating the point that Merger-Arb has almost zero duration risk (sensitivity to changes in interest rates) and low correlation to other asset classes in general.

Some of the highlights and lowlights of the month:

- Zoom Video's stock-swap purchase of Five9 was the best contributor at 18 bps (following a strong August) as the market perceived that Zoom will have to increase its stock offer as a result of Zoom's poor stock performance since the deal was announced. We took profits, reducing our position to less than 1% of the portfolio from almost 3%. (Postamble: Five9 shareholders voted to reject the deal at the shareholder meeting, which had been scheduled for late in the day on September 30, and the deal was subsequently terminated. We have now exited the position entirely with minimal impact relative to the September 30 close.)
- The acquisition of small-cap Canadian gold miner Abitibi Royalties by fellow Canadian Gold Royalty contributed 12 bps as the spread narrowed since deal announcement earlier in September.
- German online pet supplies retailer ZooPlus is involved in a bidding war between two private equity firms, contributing 9 bps.
- AMD's purchase of Xilinx contributed 9 bps as the spread on that deal narrowed awaiting Chinese antitrust approval. All other shareholder and regulatory approvals have been obtained.
- Square's acquisition of Australian payment services company Afterpay contributed 8 bps as the spread on that deal narrowed.
- Kadmon Holdings, a biotech whose sole approved drug is used in the treatment of a rare disease, is being acquired by Sanofi. Nevertheless, following various statements by the Biden administration, the market is concerned about antitrust issues, causing a negative contribution of 12 bps.
- Veoneer, an auto parts company that also produces autonomous driving software was the best performer in August following a counter bid by Qualcomm. After almost six weeks, the Qualcomm deal still has not become definitive, resulting in a negative contribution of 9 bps for September.

- Norton Lifelock is acquiring cyber-security company Avast, a Czech company that trades on the London Stock Exchange. This a highly competitive industry, but the companies estimate a closing date in mid-2022 indicating that multiple time-consuming approvals will be required. The deal had a negative 9 bps contribution for the month.
- Sanderson Farms is being bought by a division of Cargill. They are respectively the 3rd and sixth largest chicken producer in the country, sparking antitrust concerns by a few politicians. That resulted in a negative contribution of 6 bps.

As has been the trend, deal flow continues to be extremely strong, with 23 new deals announced in September, while 25 deals closed. Diversification in the portfolio continues to be way above average. The number of deals remains at 140, and leverage is close to 140% (\$140 of long positions for every \$100 of capital).

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

Benchmark	Reporting Period	Returns (Net) ^{2 3}	Bench-Mark ²	Excess (Net)	Volatility	Sharpe Ratio
LIBOR 3-month USD	Year-to-date	6.53%	0.12%	6.42%	N/A	N/A
	Latest 3 Years	4.47%	1.23%	3.24%	6.60%	0.49
	Latest 5 Years	4.58%	1.38%	3.20%	5.26%	0.61
	Since Inception ¹	5.29%	0.88%	4.41%	4.69%	0.94

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