



Constantia Capital Merger-Arbitrage Strategy May 2021 Commentary

Our composite returned 1.05% in May, bringing returns to 5.77% year-to-date, 4.62% annualized for the past 5 years and 5.4% annualized since inception.

The solid start to the year continues. One interesting quirk of Merger-Arb is that every deal has an embedded free option for the target company to accept a higher bid while the original bid acts as a floor to the stock price (assuming a definitively signed deal, and subject to anti-trust and shareholder approvals). This free option has been especially valuable as the economy recovers from the pandemic - we've witnessed the number of counterbids and revised offers being much higher than average.

Some of the highlights and lowlights of the month:

- Welbilt, a manufacturer of food products machinery had agreed to be acquired by Middleby, a larger competitor. On the last trading day of the month Welbilt received an offer from Italian company Ali Group at \$23, compared to \$20 where it had been trading. Sensing a bidding war, Welbilt closed at \$24.70, contributing 25 bps.
- Mainstream Group, a highlight stock from last month, continued to see a bidding war unfold, contributing 8 bps.
- Global Cord, a Chinese company that specializes in stem cell services (umbilical cord storage and testing), is trading well above the price of a proposed deal on no specific news, contributing 9 bps.
- 51Job, a Chinese H.R. services company, saw its proposed buyout by a Chinese private equity firm become definitive, contributing 7 bps.
- Slack, being acquired by Salesforce.com, contributed 7 bps as investors became more confident the deal will receive regulatory approvals and the spread narrowed from 6% to 3%.
- The biggest negative contributor was Magnachip Semiconductor of South Korea, being acquired by a Chinese private equity firm. Magnachip has consistently claimed that Korean regulatory approval is not required, but "the market" thinks that is not the case, costing 7 bps.

Diversification in the portfolio continues to be extremely high. The number of deals remains more than 120, and leverage is close to 135% (\$135 of long positions for every \$100 of capital). May saw 28 new deal announcements while 24 closed.



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

Benchmark	Reporting Period	Returns (Net) ^{2 3}	Bench-Mark ²	Excess (Net)	Volatility	Sharpe Ratio
LIBOR 3-month USD	Year-to-date	5.77%	0.08%	5.70%	N/A	N/A
	Latest 3 Years	4.86%	1.48%	3.38%	6.49%	0.52
	Latest 5 Years	4.62%	1.42%	3.20%	5.18%	0.62
	Since Inception ¹	5.40%	0.91%	4.50%	4.72%	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