

Constantia Capital Merger-Arbitrage Strategy October 2021 Commentary

Our composite returned 0.82% in October, bringing returns to 7.41% year-to-date, 4.85% annualized for the past 5 years and 5.33% in ten years annualized since inception.

Equities had a banner month, with the S&P 500 returning 7% and the ACWI world index up 5.13%. However, fixed income asset classes did not fare as well, with ten-year bond yields rising slightly. The Vanguard Intermediate Term Bond Index fund returned -0.67% and high yield bond funds also posted negative returns on average. Meanwhile our Merger-Arb portfolio continues to march to its own drum with only one negative month year-to-date, far outperforming a broad suite of various fixed-income asset classes.

Some of the highlights and lowlights of the month:

- The best contributor was Kadmon Holdings, a biopharmaceutical company being acquired by Sanofi. With the prevailing nervous environment concerning the anti-trust approval process, many deals have been at trading at higher than usual spreads. The spread narrowed after the companies announced the expiration of the US Federal Trade Commission's "waiting period", contributing 15 bps (after losing 12 bps in September).
- Hill-Rom Corporation, a medical supplies company being acquired by Baxter International, rose after US anti-trust approval, contributing 6 bps.
- Raymond James Financial is acquiring Tristate Capital in a stock swap merger announced during the month. That deal contributed 6 bps thanks to opportunistic trading.
- AMD announced that it expects Chinese approval of its acquisition of Xilinx before the end of the year, turning a negative contribution into a slight positive for the month. That is the last outstanding approval required for this year-plus old deal.
- 51JOB Inc, a Chinese ADR where the deal is scheduled to close soon has seen its price drop significantly on no news, resulting in a negative contribution of 10 bps. As a prudent risk control measure, we reduced our position to less than 0.5% of the portfolio over the course of the month on the basis of the market's collective wisdom.
- Smartgroup, an Australian company, saw their proposed buyout by TPG withdrawn, resulting in a negative contribution of 6 bps.
- Adva Optical, a German communications equipment manufacturer being acquired by US company Adtran, has seen its spread widen, costing 7 bps.



As has been the trend, deal flow continues to be extremely strong, with 34 new deals announced in October, while an equal number of deals closed. Diversification in the portfolio continues to be considerably above average. The number of deals is 135, and leverage is close to 140% (\$140 of long positions for every \$100 of capital).

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

Benchmark	Reporting Period	Returns (Net) ^{2 3}	Bench-Mark ²	Excess (Net)	Volatility	Sharpe Ratio
LIBOR 3-month USD	Year-to-date	7.41%	0.13%	7.28%	N/A	N/A
	Latest 3 Years	4.84%	1.16%	3.68%	6.59%	0.56
	Latest 5 Years	4.85%	1.37%	3.48%	5.25%	0.66
	Since Inception ¹	5.33%	0.87%	4.46%	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