

Constantia Capital Merger-Arbitrage Strategy August 2021 Commentary

Our composite returned 1.93% in August, bringing returns to 6.42% year-to-date, 4.59% annualized for the past 5 years and 5.33% annualized since inception. That is significantly ahead in all periods of an average of 7 other Merger-Arb mutual funds and ETF's that we monitor.

The strong month was due to a number of counter-bid situations, well-executed trading (if we may say so ourselves) and a reversal of some of last month's oversold situations.

Some of the highlights and lowlights of the month:

- The best contributing stock was Veoneer, an auto parts company that also produces autonomous driving software. The company agreed to be bought by Canadian car parts manufacturer Magna for \$31 per share, but earlier this month, Qualcomm offered \$37 per share, resulting in a contribution of 30 bps.
- In the ongoing rail saga of Kansas City Southern (KSU) being acquired by a Canadian suitor, the month started with Canadian Pacific (CP) increasing their bid, but still to a level lower than Canadian National's (CNI) bid. We took advantage of the opportunity to take profits and reduced our position from 3% to 1.5% of the portfolio. Then on the last day of the month, the Surface Transportation Board ruled that CNI's bid would not fall under their jurisdiction. That will cause the deal approval process to drag out over more than a year and increase the chances of the deal not being approved. Nevertheless, the CP offer acts as a floor to the value of KSU, especially since CP's offer has been approved for fast-track (pun intended) approval by the Surface Transportation Board. All of that resulted in a 10 bps contribution for the month.
- Hollysys Automation, a Chinese automation equipment manufacturer contributed 15 bps as a group including its founder proposed a buyout at a higher price than the existing management buyout proposal.
- Penn National Gaming, a casino operating, is buying Score Media and Gaming. We were able to trade opportunistically on the day the deal was announced, contributing 15 bps.
- We were able to trade out of our position in a deal involving two small biotechs that are merging, Xeris Pharmaceuticals acquisition of Strongbridge BioPharma, contributing 9 bps (after a similar positive contribution during July).
- Zoom Video's stock-swap purchase of Five9 contributed 10 bps as Zoom Video fell 15% after poor earnings and the deal spread contracted.

- Chinese Steel Producer Ossen contributed 9 bps. The stock had fallen during July in the broad selloff of Chinese stocks and ADR's, but bounced back in August as the deal now appears to be closing imminently.
- The biggest negative contributor was Soliton, a medical equipment manufacturer being acquired by mega-cap medical company Abbvie. The US anti-trust regulator has issued a "second request" for more information, spooking the market and causing a negative impact of 8 bps.
- South Korean Magnachip Semiconductor's deal to be acquired by Chinese private equity firm Wise Road, already on life support, was dealt what is probably a fatal blow as CFIUS (Committee for Foreign Investments in the US) rejected the deal in its current form. We had already significantly reduced our position, and hence the negative impact was only 7 bps.

As has been the trend, deal flow continues to be extremely strong, with 29 new deals announced in August, while 25 deals closed. Diversification in the portfolio continues to be extremely high. 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 August 31, 2021

Benchmark	Reporting Period	Returns (Net) ^{2 3}	Bench-Mark ²	Excess (Net)	Volatility	Sharpe Ratio
LIBOR 3-month USD	Year-to-date	6.42%	0.11%	6.32%	N/A	N/A
	Latest 3 Years	4.48%	1.29%	3.19%	6.60%	0.48
	Latest 5 Years	4.59%	1.39%	3.20%	5.26%	0.61
	Since Inception ¹	5.33%	0.89%	4.44%	4.71%	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