Constantia Capital Merger-Arbitrage Strategy
March 2023 Commentary

Our composite returned -0.12% in March, bringing year-to-date returns to 0.35%, 3.48% annualized for the past 5 years and 4.93% annualized in 11+ years since inception.

The fear of bank failures became the latest anxiety to spook markets after Silicon Valley Bank (SVB) and two other banks went bankrupt early in March. In our opinion, SVB's failure can be blamed primarily on the bank's management as they bought long-dated Treasury bonds with the proceeds of their deposits, which are short term in nature. As interest rates rose, the Treasury bonds lost value. Many banks make similarly risky duration mismatched investments, but SVB was an outlier in the percentage of their assets invested in that way. It is surprising that more banks have not failed. The net result of these bank failures is that recessionary fears increased, causing interest rates to fall and the fear of inflation to recede slightly. Falling interest rates enticed investors back into risky stocks and the Nasdaq QQQ index rose over 9% for the month. That helped the S&P 500 post returns of 3.7%, slightly ahead of the MSCI World Index, which returned 3.1%. Bonds also posted positive returns as interest rates fell, with the Bloomberg Aggregate Bond Index returning 2.5%. The classic 60/40 Equity/Bond benchmark (All World Index, Bloomberg US Aggregate Bond Index) returned 2.9% for the month.

For our Merger-Arb strategy, some of the highlights and lowlights of the month were:

- Negative bank news hurt performance by more than 50 bps. Before the SVB news broke, First Horizon Bank, being acquired by TD Bank, announced that delays in the regulatory approval process would cause the deal to miss the "walk date". The stock dropped on the news at which point we sold half our position based on the increase in riskiness of the deal, then dropped further on the SVB news, down 28% for the month. German company Aareal Bank, being acquired by private equity firm Advent International in a deal announced a year ago, fell 7% for the month partly due to similarities between its capital structure and that of Credit Suisse.
- VA-Q-TEC, a small-cap German company that manufacturers insulation products, is being acquired by private equity firm EQT. The German anti-trust authorities have requested more information based on a potential overlap between VA-Q-TEC and one of EQT's portfolio companies. That resulted in a negative impact of 25 bps for the month.
- Vivint Smart Home is being acquired by NRG in a deal that closed during the month. The deal was a detractor last month after Vivint was found to have stolen a competitor's customers, and investors were concerned that NRG would attempt to negotiate a lower price. Those concerns turned out to be unfounded, and the deal closed without incident, resulting in a positive contribution of 10 bps, offsetting February's loss.

- Two deals where CVS Health was the acquirer were granted anti-trust approval during the month, resulting in a positive contribution of 12 bps. Signify Health focuses on shifting services towards the home to reduce costs. That deal closed during March. Oak Street Health is a primary care company helping older adults and should close shortly after its shareholder vote next month.
- Activision Blizzard is involved in a high-profile deal, being acquired by Microsoft. The US Department of Justice has already sued to block the deal, but Microsoft will challenge that in court. However, British regulators have made statements to indicate they are leaning toward approval, which may influence European regulators. The spread *narrowed* to 11% as analysts now estimate a 70% chance of the deal being cleared. Our position is below average at 0.6% and the contribution of the month was 6 bps
- The oldest deal in the portfolio, Canadian Rogers Corp acquisition of Shaw Communications, will be closing imminently as the final approval was granted on the last day of the month. The deal had been announced 2 years ago.

New deal announcements were 26 for the month, while 23 closed. Diversification in the portfolio remains high at 88 deals. The portfolio remains slightly unlevered (approximately $90 of long positions for every $100 of capital).

Constantia Capital Merger-Arbitrage: Performance as of March 31, 2023

Benchmark	Reporting Period	Returns (Net)[2] [3]	Bench-Mark[2]	Excess (Net)	Volatility	Sharpe Ratio
LIBOR/SOFR	Year-to-date	**0.35%**	1.19%	-0.84%	N/A	N/A
3-month USD	Latest 3 Years	**6.57%**	1.34%	5.22%	3.66%	1.43
	Latest 5 Years	**4.02%**	1.71%	2.31%	5.33%	0.43
	Latest 10 Years	**4.48%**	1.18%	3.30%	4.68%	0.71
	Since Inception[1]	**4.93%**	1.09%	3.84%	4.49%	0.86

[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 the date above