

Constantia Capital Merger-Arbitrage Strategy January 2021 Commentary

Our composite returned 0.14% in January, bringing returns to 3.90% annualized for the past 5 years and 4.98% annualized since inception.

We were on our way to an above average month when suddenly the Gamestop/Reddit story unfolded, cutting into most of our gains in just three days during the last week of January. The likely culprit is hedge fund margin calls, where hedge funds were forced to liquidate positions to raise cash to cover other losses induced by “short squeezes” on Gamestop and other heavily shorted stocks targeted by the Reddit crowd. We have lived through similar scenarios multiple times and invariably markets stabilize and/or the deals close.

Some of the highlights and lowlights of the month:

- The wildest story of January was Acacia, being bought by Cisco. The deal was waiting for Chinese approval. In addition, the walk date was set at January 8. The stock was trading at a slight premium to the \$70 deal price on the expectation that Cisco may increase their bid in return for extending the walk date (given that tech stocks had generally risen dramatically since the deal was signed 18 months ago). On the day of the walk date, Acacia announced they were “walking”, and Cisco announced they had received Chinese approval. The companies sued each other. Meanwhile the stock rose about 10% and we sold our position, fearing that Cisco would force the deal to close at \$70. However, a week later, the parties agreed to a new price of \$115, 64% above the original price. The contribution was 5 bps for the month and more than 20 bps overall, but could have been much more than that.
- We earned back part of that lost opportunity by trading opportunistically in two very small-cap deals where the target price traded briefly at a healthy premium on no news. Those were Newater Technology (a Chinese wastewater company) and Aytu Biosciences acquisition of Neos Therapeutics.
- Cellular Biomedicine, a Chinese health care company, jumped 10% on CFIUS approval, contributing 10 bps.
- Google closed its acquisition of Fitbit, claiming that all regulatory approvals had been received after the waiting period for US anti-trust approval expired. The US Department of Justice said that was not the case, but from our perspective the money has been paid, contributing 5 bps for the month.
- There were two other counterbid situations from which we had meaningful contributions. Collectors Universe, a seller of sports and other memorabilia, is being acquired by Steve Cohen

(new owner of the Mets) saw an increased bid in the face of activist shareholders. Signature Aviation which services the private jet market, is the subject of counterbid rumors. The combined contribution was 14 bps.

- However, that was offset by two deals were terminated or are on life support. Genworth, being acquired by China Oceanwide did not formally terminate their deal, but they did not extend the “walk date”. Australian fund administrator Link saw its proposed buyout offer by US-based SS&C Technologies withdrawn. Both of those were fairly small positions in the portfolio.
- The biggest negative contributor was Huya’s acquisition of Doyu (both partially owned by Tencent), as Chinese government threats to limit the size of certain very large companies caused the spread to widen, and as a result we reduced our position to 1% of the portfolio, costing 20 bps.

Looking forward, the environment continues to be very positive for our strategy. The number of deals remains over 100, and leverage is close to 120% (\$120 of long positions for every \$100 of capital). After the torrid deal pace of December, another 26 deals were announced, while 18 closed.

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

Benchmark	Reporting Period	Returns (Net) ^{2 3}	Bench-Mark ²	Excess (Net)	Volatility	Sharpe Ratio
LIBOR 3-month USD	Year-to-date	0.14%	0.02%	0.12%	N/A	N/A
	Latest 3 Years	3.09%	1.71%	1.38%	6.35%	0.22
	Latest 5 Years	3.90%	1.45%	2.45%	5.03%	0.49
	Since Inception ¹	4.98%	0.93%	4.05%	4.72%	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 12/31/2020