

Constantia Capital Merger-Arbitrage Strategy February 2022 Commentary

Our composite returned 0.22% in February, bringing returns to 4.75% annualized for the past 5 years and 5.30% in just over 10 years annualized since inception.

With the war in Ukraine adding to negative pressure from inflation fears, February was a continuation of the January trend with most asset classes posting another month of negative returns. The S&P 500 fell 3% for the month while the ACWI World Stock Index fell 2.55%. Bonds fell on continued inflation fears but recouped some of those losses as the Russian invasion of Ukraine sparked fears of a global slowdown. The Bloomberg Aggregate Index posted returns of -1.12%.

Despite that turmoil, our Merger-Arb strategy managed a positive return for the month.

Some of the highlights and lowlights of the month:

- The best contributing deal for the month was US Communications Equipment manufacturer Adtran's acquisition of small-cap German company ADVA Optical. The deal had been a top contributor in January after receiving two important approvals and continued to perform well in February as it progresses toward closing. The contribution was 8 bps.
- TV station owner TGNA formalized a deal to be acquired by Standard General, a hedge fund that owns the LA Times as well as other TV stations. The deal had been proposed many months ago at a lower price and as a result we owned a small position. The definitive announcement resulted in a contribution of 8 bps.
- Cerner, a healthcare software company being acquired by Oracle, received antitrust clearance, resulting in a contribution of 5 bps.
- Zendesk's acquisition of Momentive was terminated after the shareholders of both companies voted against the deal. The shareholder votes were anticipated by the market and as a result we exited our position ahead of the vote, but nevertheless the negative contribution was 12 bps.
- Our largest position is Goldman Sachs' acquisition of Greensky, a relatively small data processing company. The spread on the deal widened slightly over the course of the month on no specific news, resulting in a negative contribution of 8 bps. The deal is expected to close during March.
- Swedish telecoms company Ericsson is acquiring Vonage in a deal that should have been non-controversial. Suddenly news broke that Ericsson paid ISIS to gain access to cell routes in Iraq a number of years ago. Vonage suddenly fell 10% on fears that CFIUS would not approve the deal. We took no action on the news, and the stock has regained most of that loss, but nevertheless the news cost 5 bps for the month.

New deal announcements returned to the breakneck pace of 2021, with 25 new deals announced in February, while 27 closed. Diversification in the portfolio continues to be considerably above average. The number of deals is 123, while leverage has remained at 135% (\$135 of long positions for every \$100 of capital).

Constantia Capital Merger-Arbitrage: Performance as of February 28, 2022

Benchmark	Reporting Period	Returns (Net) ^{2 3}	Bench-Mark ²	Excess (Net)	Volatility	Sharpe Ratio
LIBOR 3-month USD	Year-to-date	-0.27%	0.07%	-0.34%	N/A	N/A
	Latest 3 Years	3.94%	0.89%	3.05%	6.53%	0.47
	Latest 5 Years	4.75%	1.32%	3.43%	5.27%	0.65
	Latest 10 Years	4.98%	0.87%	4.11%	4.61%	0.89
	Since Inception ¹	5.30%	0.86%	4.44%	4.61%	0.96

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