Constantia Capital Merger-Arbitrage Strategy
July 2023 Commentary

Our composite returned 0.42% in July, bringing year-to-date returns to 2.24%, 3.95% annualized for the past 5 years and 4.95% annualized in 11 3/4 years since inception.

World equities posted strong returns in July, continuing the trend for the year. The MSCI World Index returned 3.69%. Both US Small-Caps and Emerging Markets returned over 6% for July. The S&P 500 had a strong month, returning 3.21%, but that lagged other equity indices. The Federal Reserve raised US rates again as inflation remains above desired levels, although recent data appear to show inflation moderating toward targeted levels. The Bloomberg Aggregate Bond Index was effectively flat, posting a return of -0.07%. The classic 60/40 Equity/Bond benchmark (All World Index, Bloomberg US Aggregate Bond Index) returned 2.19% for the month.

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

- The best contributor was Liminal, a small-cap Canadian biotech, being acquired by Canadian billionaire Peter Thomson. Thomson currently owns 36% of the company, and we invested in a small position after he proposed buying the remainder at $6.50. The deal became definitive after the bid was raised to $7.50, resulting in a contribution of 11 bps.
- Neogames, a US listed, Israeli based provider of software for state lotteries is being acquired by Australian casino service provider Aristocrat. The spread narrowed during July after the acquirer provided clarity about the timing of the deal, which is scheduled to close in mid-2024. The contribution was 7 bps for the month, but approximately zero since inception.
- The largest detractor for the month also one of the strangest deal sagas we have witnessed. Maxlinear is acquiring Taiwanese semiconductor manufacturer Silicon Motion (SIMO). Approval by Chinese anti-trust authorities was the final outstanding regulatory approval required to close the 14-month-old deal. The cash and stock deal was worth approximately $105 on July 1, but SIMO was trading at $71, the wide spread reflecting the risk that approval would not be granted. As a result of the perceived risk, our position was reasonably small at about 40 bps. However, during June, rumors were flying that approval was imminent, but renewed tension between the US and China caused SIMO's stock to fall to $52. Then suddenly the deal was approved. The stock traded up to $94, when that same day the acquirer announced they were terminating the deal, claiming a Material Adverse Effect. SIMO's stock traded wildly, and we liquidated our entire position at $58. The very next day, Silicon Motion announced they would sue to enforce the merger agreement, but the stock continued falling to $53, at which time we bought back a very small position. SIMO then announced their quarterly earnings, reporting decent revenue growth and projecting robust revenue growth. The earnings report does not lead one to believe that SIMO's businesses had suffered a Material Adverse Effect. We added to our very small position,

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so that our new average price is $56. SIMO closed out the month at $63.40. The whole saga resulted in a negative contribution for the month of 17 bps.

- Johnson and Johnson is splitting off consumer health company Kenvue in a process that will be completed on August 18. Splitoffs behave very similarly to stock swap mergers since J&J shareholders who elect to convert their shares receive Kenvue shares at a discount. The official ratio will only be finalized two days before the splitoff ex-date, but we initiated the trade to ensure that we were able to borrow Kenvue stock, which needs to be sold short as if it were the acquirer in a stock swap trade. However, bad news concerning J&J's talc powder litigation has pressured the stock, resulting in a negative 10 bps contribution. All previous split-off trades have been very profitable, and we expect the same for this situation by the time it closes later in August.
- iRobot, being acquired by Amazon, is a fairly small position in the portfolio, but makes up for that in newsworthiness. In June, it was a positive contributor after British anti-trust authorities surprised the markets by announcing approval of the deal. In July, the struggling company took out a $200 million lifeline loan which allowed Amazon, under terms of the merger agreement, to reduce the deal price from $61 to $51.75 costing 4 bps for the month.

New deal announcements were 25 for the month, while deals 20 closed. Diversification remains high and the number of deals remains at approximately 100. Leverage is close to zero (approximately $100 of long positions for every $100 of capital).

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

Benchmark	Reporting Period	Returns (Net)[2] [3]	Bench-Mark[2]	Excess (Net)	Volatility	Sharpe Ratio
LIBOR/SOFR 3-month USD	Year-to-date	**2.24%**	2.93%	-0.69%	N/A	N/A
	Latest 3 Years	**5.28%**	1.88%	3.40%	3.01%	1.13
	Latest 5 Years	**3.95%**	1.90%	2.05%	5.32%	0.39
	Latest 10 Years	**4.22%**	1.35%	2.87%	4.54%	0.63
	Since Inception[1]	**4.95%**	1.20%	3.75%	4.44%	0.84

[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