

## Constantia Capital Merger-Arbitrage Strategy June 2024 Commentary

Our composite returned 0.90% in June, bringing returns to 2.53% year-to-date, 4.64% annualized for the past 10 years and 5.12% annualized in more than 12 ½ years since inception.

In world markets, equities continued their upward trend of the past year. World equities rose 2.3%, led by US stocks again as the S&P 500 returned 3.6%. The Bloomberg Aggregate Bond Index posted returns of 0.9% for the month as inflation data was mixed. The classic 60/40 Equity/Bond benchmark (All World Index, Bloomberg US Aggregate Bond Index) returned 1.7% for the month.

New deal announcements have continued at their strong pace, with 31 new deals for the month, while 25 closed. The number of deals in our portfolio increased again and is currently at 141 compared to 91 at the start of the year. Leverage has increased as well, and we now have \$133 of long positions for every \$100 of capital. The last time we had had that combination of high diversification and leverage was 2021, which was the best year on record for our strategy.

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

- The largest positive contributor was Transphorm, a maker of power conversion switches. The company was acquired by Renesas Electronics, and the deal closed during June, contributing 10bps. The spread had remained wider than average ahead of the closing possibly because the Renesas had terminated a separate deal recently (see February commentary).
- Alcoa is acquiring Australian alumina producer Alumina. The two companies are joint venture partners in an alumina producer. The deal received Brazilian approval and does not require Australian approval due to the nature of the joint venture. Thanks to timing differences in trading on US and Australian exchanges and by trading opportunistically, we have been able to unwind most of our position at a premium, contributing 10 bps.
- Contango Ore, a US gold, copper and silver miner is acquiring Canadian gold miner HighGold Mining. The spread has narrowed over time, helped by HighGold shareholder approval of the deal, contributing 10 bps.
- Catalent, a contract drug manufacturer, is being acquired by Novo Holdings, the foundation that is the majority shareholder of Novo Nordisk. The stock has gained on optimism regarding antitrust approval and also since one of Catalent's largest clients received FDA approval for a gene therapy drug. The contribution for the month was 7 bps.
- Hawaiian Airlines is being acquired by Alaska Air. During May, the companies certified "substantial compliance" with an antitrust request for additional information. However, airline

stocks are highly correlated, and negative earnings news from American pressured the whole sector, resulting in a negative impact of 6 bps.

- First Advantage is acquiring Sterling Check. Both companies have technology solutions for background checks and identity verification. As a result, antitrust concerns are increasing despite there being numerous competitors for those services, resulting in a negative impact of 5 bps.

Note that a significant portion of our returns for the month came in the last two days, and approximately 15 bps can be attributed to quirky prices related to the annual Russell reconstitution, which took place on the last business day of June. As a result, we would not be surprised to see some amount of reversal early in the new month.

### Constantia Capital Merger-Arbitrage: Performance as of June 30, 2024

Benchmark	Period	Returns (Net) <sup>2 3</sup>	Benchmark <sup>2</sup>	Excess (Net)	Volatility	Sharpe Ratio
<b>LIBOR/SOFR</b>	Year-to-date	<b>2.53%</b>	2.63%	-0.10%	N/A	N/A
3-month USD	Latest 3 Years	<b>4.56%</b>	3.45%	1.12%	2.64%	0.42
	Latest 5 Years	<b>4.46%</b>	2.40%	2.05%	5.29%	0.39
	Latest 10 Years	<b>4.64%</b>	1.81%	2.82%	4.37%	0.65
	Since Inception <sup>1</sup>	<b>5.12%</b>	1.50%	3.62%	4.32%	0.84

<sup>1</sup> Returns annualized, since inception date 11/1/2011      <sup>2</sup> Returns annualized for periods in excess of one year      <sup>3</sup> Net returns after performance fee, which a small number of qualified clients have elected.