



Constantia Capital Merger-Arbitrage Strategy October 2022 Commentary

Our composite returned 1.70% in October, bringing returns to 1.46% year-to-date, 3.97% annualized for the past 5 years and 5.13% annualized in 11 years since inception.

World Equity indices rebounded, led by US stocks as non-tech earnings announcements have exceeded expectations. However, Emerging Markets were negative for the month as investors reacted negatively to political developments and weak economic data from China. Bonds, as measured by the Bloomberg US Agg, posted negative returns as inflation remained stubbornly high. The classic 60/40 Equity/Bond benchmark (All World Index, Bloomberg US Aggregate Bond Index) rose 3.1% for the month but has returned -18.7% year-to-date.

We continue to emphasize that Merger-Arb does have a positive correlation with equities which helped performance during October but has been a large headwind year-to-date. In addition, our strategy does have small duration risk, but much less than other fixed income investment options. The fact that our strategy has posted positive returns for the year-to-date in an extremely negative environment shows the value of Merger-Arb as an overall portfolio and fixed-income diversifier.

Some of the highlights and lowlights of the month:

- The Twitter deal closed at the originally agreed on price of \$54.20 after many volatile months. We had increased our position to 2% of the portfolio by early October resulting in a contribution of 29 bps for the month.
- Spirit Air, being acquired by JetBlue Airways, rebounded during October, resulting in a 16 bps contribution. Strong earnings in the airline sector improved confidence that JetBlue will be able to consummate the merger if approved.
- Change Healthcare was acquired by UnitedHealth Group after prevailing in court against the Department of Justice. This was an important decision in Merger-Arb land since it shows that despite government regulator statements implying strict anti-trust enforcement, there are established rules that govern anti-trust and the courts will enforce them. The contribution for the month was 11 bps.
- Bank deals continue to be approved, although approvals are taking longer than the historical average. One of the largest detractors was the acquisition of Partners Bancorp by OceanFirst. The spread widened as the “walk date” has been approaching, resulting in a negative contribution of 9 bps. On the other hand, Frist Horizon, being acquired by Toronto-Dominion Bank, contributed 9 bps as confidence of deal approval increased.

- Chinese approvals continue to weigh on certain deals as tension between the US and China persists. MaxLinear’s acquisition of Silicon Motion, Intel’s acquisition of Tower Semiconductor and Dupont’s acquisition of Rogers Corp resulted in negative contributions of 15, 3 and 3 bps respectively.

Not surprisingly for a bear market, new deal announcements slowed down to 19 for the month, while 31 closed. Diversification in the portfolio continues to be high, although the number of deals has now decreased to 87. Leverage decreased as the number of deals has fallen, down to 0% (\$100 of long positions for every \$100 of capital).

Constantia Capital Merger-Arbitrage: Performance as of October 31, 2022

Benchmark	Reporting Period	Returns (Net) ^{2 3}	Bench-Mark ²	Excess (Net)	Volatility	Sharpe Ratio
LIBOR 3-month USD	Year-to-date	1.46%	1.72%	-0.25%	N/A	N/A
	Latest 3 Years	3.54%	0.93%	2.61%	6.64%	0.39
	Latest 5 Years	3.97%	1.48%	2.49%	5.35%	0.47
	Latest 10 Years	4.94%	1.00%	3.94%	4.67%	0.84
	Since Inception ¹	5.13%	0.95%	4.18%	4.54%	0.92

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 7/31/2022