

## **Constantia Capital Merger-Arbitrage Strategy April 2023 Commentary**

Our composite returned 0.68% in April, bringing year-to-date returns to 1.03%, 4.23% annualized for the past 5 years and 4.95% annualized in 11 1/2 years since inception.

Better than feared earnings from a few large-cap US stocks (JP Morgan, Microsoft, Meta) helped equities post a positive month. However, fear of bank failures still hangs over the markets and news reports indicated that First Republic Bank was about to be taken over by the FDIC as the month closed. The S&P 500 posted returns of 1.56%, slightly ahead of the MSCI World Index, which returned 1.48%. Bonds posted positive returns as the battle between recession fears and persistent inflation resulted in interest rates falling very slightly for the month. The Bloomberg Aggregate Bond Index returned 0.61%. The classic 60/40 Equity/Bond benchmark (All World Index, Bloomberg US Aggregate Bond Index) returned 1.13% for the month.

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

- The highest profile announcement was that British antitrust authorities effectively blocked Microsoft's acquisition of Activision Blizzard. (There is a small chance that the decision will be overturned since the parties can appeal, but the same antitrust panel acts as adjudicator of the appeal, and such appeals have historically had a near zero success rate.) Activision dropped 10% on the news, costing 6 bps for the month. The announcement came as a surprise since recent statements by British regulators had indicated they were leaning toward approval and most analysts had upped their estimate of the deal closing to over 70%. Nevertheless, we had always regarded this as a somewhat risky deal and held our weight to a below average 60 bps, mitigating the magnitude of our loss.
- Moneygram International, the international payment processor being acquired by private equity firm Madison Dearborn, is waiting for approval by Indian authorities. The companies had expected that last approval months ago, but the delay caused nervous traders to sell MGI, and it had fallen 7% at one point during the month on no specific news before recovering part of that fall. The negative impact was 4 bps.
- InvoCare, an Australian funeral services company, was the target of a proposal by TPG Capital, a private equity firm. However, TPG withdrew the proposal after the companies could not agree on price, resulting in a cost of 5 bps for the month. Note that unlike the US, where most deals are definitively signed agreements, Australian deals invariably begin with a proposal at a certain price and a request for due diligence.

- Emerson Electric proposed in January to purchase National Instruments at \$53 per share. However, the presence of other interested suitors caused them to increase the bid to \$60 and the companies signed a definitive agreement. That resulted in a contribution of 10 bps.
- Provention Bio was acquired by Sanofi in a deal announced in mid-March and closed six weeks later, resulting in a positive contribution of 6 bps.
- Neovasc, a Canadian/Israeli medical device maker was acquired by Shockwave Medical. The deal closed, contributing 4 bps for the month and 10 bps overall. A contingent value right (CVR) was included in the deal, and was valued at \$2.80/share when the deal closed, but could be worth as much as \$12 per share (representing an addition 36 bps) if the various milestones are met by 2027, or we could lose all 10 bps if none of the milestones are met.

New deal announcements were 26 for the month, while 16 closed and one was terminated. Diversification in the portfolio remains high at 88 deals. The portfolio remains slightly unlevered (approximately \$90 of long positions for every \$100 of capital).

### Constantia Capital Merger-Arbitrage: Performance as of April 30, 2023

Benchmark	Reporting Period	Returns (Net) <sup>2 3</sup>	Bench-Mark <sup>2</sup>	Excess (Net)	Volatility	Sharpe Ratio
LIBOR/SOFR 3-month USD	Year-to-date	1.03%	1.60%	-0.57%	N/A	N/A
	Latest 3 Years	5.37%	1.46%	3.90%	2.94%	1.33
	Latest 5 Years	4.23%	1.76%	2.48%	5.32%	0.47
	Latest 10 Years	4.16%	1.22%	2.93%	4.54%	0.65
	Since Inception <sup>1</sup>	4.95%	1.12%	3.84%	4.47%	0.86

<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 three qualified clients have elected as of the date above