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## Constantia Capital Merger-Arbitrage Strategy December 2021 Commentary

Our composite returned 1.15% in December, bringing returns to 9.19% year-to-date, 4.86% annualized for the past 5 years and 5.41% in just over ten years annualized since inception. That can be compared to a basket of 7 merger-arb mutual funds and ETF's (all such funds that we know of) which has returned 2.56% for 2021 and 3.78% annualized over the past 5 years. 2021 marks the best calendar year returns for our composite.

Stocks finished a strong year with an extremely strong December, while bonds finished a weak year with a weak December. The S&P 500 was the star performer of the major world equity indices with a 29% return, more than 10% ahead of the ACWI World Index (even though the USA makes up more than half of that Index). Despite inflation fears, interest rates in the US remain extremely low. Meanwhile our Merger-Arb portfolio posted another positive month thanks to a few bidding war situations and opportunistic trading, despite three deals being terminated. To further put the returns of our composite in perspective, below are the 2021 returns for several Morningstar fixed-income categories:

- |   |        |
|---|--------|
| ○ High Yield Bonds:                                     | 4.94%  |
| ○ Investment Grade Corporate Bonds (Intermediate Term): | -0.71% |
| ○ Municipal Bonds (Intermediate Term):                  | 1.60%  |
| ○ Bloomberg "Agg" (most common fixed income benchmark): | -1.69% |

For the year, we invested in over 500 different deals of which 75% had positive contributions. This emphasizes the point that Merger-Arbitrage (using the baseball analogy) is a strategy of many singles rather than swinging for the fences. Doing that enough times and minimizing the impact of blow-ups while benefiting from the occasional bidding war has been the key to our success over the years.

Some of the highlights and lowlights of the month:

- Canadian miner Noront Resources had been the subject of a bidding war between two Australian companies. Wyloo Metals finally increased its bid from C\$0.75 to C\$1.10, which was not matched by the other bidder. The contribution for the month was 30 bps.
- The second-best contributor for the month was paper products manufacturer Verso. Swedish company BillerudKorsnas' bid of \$27 was accepted as superior to the \$20 proposal by private equity company Atlas. The contribution was 13 bps.
- Last month's best contributor, RR Donnelley of Yellow Pages and other commercial printing fame, was the gift that kept on giving. After last month's bidding war appeared to be resolved suddenly a late month unsolicited bid appeared, resulting in a contribution of 7 bps.

- Healthcare Software company Cerner agreed to be acquired by Oracle earlier in the month. The market was slow to appreciate that this is a fairly low risk deal, resulting in a contribution of 7 bps.
- AMD announced in October that it expects Chinese approval of its acquisition of Xilinx before the end of the year. However, that did not happen, and AMD is now projecting a first quarter close and claiming progress in their discussions with Chinese regulators. We are confident the deal will close, but as a prudent risk management measure we reduced our position by 1/3 to around 1% of the portfolio. The deal contributed 7 bps for the month but has cost 30 bps over the life of the deal – the worst negative contribution of any deal for the year.
- Three separate deals were terminated for three different reasons. Anti-trust authorities blocked Great America Outdoors’ purchase of Sportsman’s Warehouse. The New Mexico Public Utility Commission voted against Avangrid’s purchase of PNM Resources. And Sciplay, 80% owned by Scientific Games, could not agree on terms for the purchase of the remaining 20% stake. In aggregate, those deals cost 35 bps for the month (but only 31 bps in aggregate over the life of those deals).

As has been the trend, deal flow continues to be extremely strong, with 26 new deals announced in December, while 31 deals closed. Diversification in the portfolio continues to be considerably above average. The number of deals has risen to 147, while leverage has dropped slightly to 135% (\$135 of long positions for every \$100 of capital) with a number of high profile/above average position size deals closing.

### Constantia Capital Merger-Arbitrage: Performance as of December 31, 2021

Benchmark	Reporting Period	Returns (Net) <sup>2 3</sup>	Bench-Mark <sup>2</sup>	Excess (Net)	Volatility	Sharpe Ratio
<b>LIBOR 3-month USD</b>	Full Year 2021	<b>9.19%</b>	0.15%	9.04%	N/A	N/A
	Latest 3 Years	<b>4.65%</b>	1.02%	3.63%	6.53%	0.56
	Latest 5 Years	<b>4.86%</b>	1.34%	3.52%	5.26%	0.67
	Latest 10 Years	<b>5.46%</b>	0.87%	4.59%	4.67%	0.98
	Since Inception <sup>1</sup>	<b>5.41%</b>	0.86%	4.55%	4.64%	0.98

<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 1/31/2021