



Constantia Capital Merger-Arbitrage Strategy June 2021 Commentary

Our composite returned -0.53% in June, bringing returns to 5.21% year-to-date, 4.43% annualized for the past 5 years and 5.30% annualized since inception.

The solid start to the year took a breather.

Some of the highlights and lowlights of the month:

- Approximately 20 bps of our underperformance was due to Interactive Brokers revising the price of a CVR (contingent value right) that was received last year when Progenix (PGNX) merged with Lantheus (LNTH), both biotech companies. We effectively received the CVR for free, and when the merger closed, IB marked them at \$0.50 based the prices of the two stocks on that day. Then suddenly, during last month, they decided to mark the CVRs at zero. We contacted the company, and they confirmed that the drug that underlies the CVR is on track for FDA approval later this year. Hence there has been no change in the economic value of the CVR, simply an accounting change.
- Two Chinese deals each cost us approximately 20 bps. Tarena International, a private education company may see its management buyout terminated or renegotiated due to a new law reducing the hours that these companies may operate, hence invoking a material adverse event clause.
- Doyu is being acquired by Huya, both are internet streaming companies with ties to Tencent. Concerns are growing that Chinese authorities will block the deal based on Tencent being perceived as being too powerful in that space.
- Two other deals that had been involved in bidding wars both gave up some of their gains. Welbilt, an industrial company being acquired by Middelby had risen well above the deal price during May on a counter-bid by ALI group of Italy. However, in an absence of news, much of that gain has dissipated, costing 8 bps for the month.
- Kansas Southern, being acquired by Canadian National Railway after a bidding war with Canadian Pacific, saw the spread on the deal widen as investors now expect the deal to take approximately 18 months to close due to extra review steps required for mergers in the rail sector.
- The best positive contributor was a biotech deal where Chiasma is merging with Amryt Pharma in a stock swap deal. The initial wide spread has narrowed over time, contributing 7 bps.
- At Home Group, being acquired by Hellman and Friedman, saw the acquirer raise their bid from \$36 to \$37 due to pressure from an activist shareholder, contributing 5 bps.



Diversification in the portfolio continues to be extremely high. The number of deals has risen to 130, and leverage is close to 135% (\$135 of long positions for every \$100 of capital). June saw 27 new deal announcements while 28 closed.

Constantia Capital Merger-Arbitrage: Performance as of June 30, 2021

Benchmark	Reporting Period	Returns (Net) ^{2 3}	Bench-Mark ²	Excess (Net)	Volatility	Sharpe Ratio
LIBOR 3-month USD	Year-to-date	5.21%	0.09%	5.12%	N/A	N/A
	Latest 3 Years	4.34%	1.42%	2.92%	6.50%	0.45
	Latest 5 Years	4.43%	1.41%	3.02%	5.19%	0.58
	Since Inception ¹	5.30%	0.90%	4.40%	4.71%	0.93

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 1/31/2021