

Constantia Capital Merger-Arbitrage Strategy July 2022 Commentary

Our composite returned 0.66% in July, bringing returns to -0.74% for the year-to-date, 3.72% annualized for the past 5 years and 5.04% in just over 10.5 years annualized since inception.

Both equities and bonds bounced back during July, with the S&P 500 posting an extremely strong 9% return for the month, reducing its loss for the year to -12.5%.

Some of the highlights and lowlights of the month:

- The Spirit Air saga continued with a twist, since shareholders rejected the deal with Frontier and the next day jetBlue entered a definitive deal to buy Spirit for \$33.50/share. We were correct in thinking that jetBlue would prevail, at least in the short run, since antitrust concerns hang heavily over this deal. However, we were caught off guard by the strength of the short covering rally in Frontier, with the stock up 25% in the two days since deal termination. We covered a third of our short position. The net result has been a negative contribution of 27 bps for the month, although +15 bps since inception. We have reduced our holding in Spirit to a 1.2% position, but the market remains highly skeptical due to antitrust concerns and Spirit is trading at a 30% spread to the jetBlue offer – Spirit stock rose only a few percent after the Frontier deal was terminated and the jetBlue offer accepted.
- The worst contributing deal for the month was Therapeutics MD. The acquirer, EW Healthcare, was forced to terminate the deal after an insufficient number of shares were tendered. Apparently, there are investors out there who would rather have \$5 than \$10!! Looking back in our records, this is the first time in ten years that we've seen this scenario for a US deal. The negative contribution was 43 bps.
- The best contributing deal was Ericsson's acquisition of Vonage. In a previous commentary we had pointed out that the spread had widened due to concerns the CFIUS (the US Committee for Foreign investments) would block the deal due to Ericsson's dealings with ISIS a number of years ago. However, as we had expected, approval was granted, resulting in a 16 bps contribution.
- Unity Software announced the acquisition of IronSource during the month. We were able to take advantage of a reasonably wide spread when the deal was initially announced, resulting in a positive contribution of 11 bps.
- MKS Instruments received Chinese antitrust approval for their acquisition of Atotech, resulting in a 10 bps contribution for the month.
- Insurance company Lemonade closed its deal to acquire auto insurer MetroMile resulting in a positive contribution of 12 bps for the month and 37 bps over the life of the deal.

- The saga of Elon Musk’s purchase of Twitter continues. Musk announced he is terminating the deal, and Twitter sued in Delaware court. So far, the judge has ruled for an expedited trial beginning on October 17, which favors Twitter. The stock rose 10% for the month and is now (only!!) at a 31% discount to the definitive deal price of \$54.20 for a positive contribution of 7 bps for the month (but -27 bps since announcement). We increased our position to 0.75 percent of the portfolio. We continue to feel confident that the deal will close, most likely at the agreed-on price. A recent news article said that ultimately Musk is simply looking for a price reduction, and a settlement around \$50 is also a high probability outcome.

New deal announcements continued at an above average pace with 23 new deals announced in July, while 27 closed. Diversification in the portfolio continues to be considerably above average, although the number of deals decreased slightly to 117. Leverage is currently 125% (\$125 of long positions for every \$100 of capital), having fallen by 5% as a few above average size deals closed.

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

Benchmark	Reporting Period	Returns (Net) ^{2 3}	Bench-Mark ²	Excess (Net)	Volatility	Sharpe Ratio
LIBOR 3-month USD	Year-to-date	-0.74%	0.81%	-1.54%	N/A	N/A
	Latest 3 Years	3.62%	0.80%	2.82%	6.59%	0.43
	Latest 5 Years	3.72%	1.36%	2.36%	5.30%	0.44
	Latest 10 Years	4.69%	0.92%	3.77%	4.65%	0.81
	Since Inception ¹	5.04%	0.89%	4.15%	4.57%	0.91

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