



Constantia Capital Merger-Arbitrage Strategy March 2022 Commentary

Our composite returned 0.74% in March, bringing returns to 0.47% for year-to-date, 4.70% annualized for the past 5 years and 5.33% in just over 10 years annualized since inception.

Equities rallied despite the prevailing negative news of the war in Ukraine adding to negative pressure from inflation fears. However, by the end of the month the price of oil had stabilized. Bonds fell, continuing their recent trend. For the quarter, the major asset classes all posted negative returns, as listed below:

S&P 500:	-4.60%
ACWI World Equity Index:	-5.26%
EEM (Emerging Markets):	-7.57%
Bloomberg Bond "Agg" Index:	-5.93%
High Yield Bonds (Morningstar Avg):	-4.53%

Despite that turmoil, our Merger-Arb strategy managed a positive return for the month and the quarter.

Some of the highlights and lowlights of the month:

- The best contributing deal for the month was gaming company Take Two Interactive's acquisition of Zynga. The cash and stock deal has a collar structure with the shares increasing as the price of the acquirer falls. We were able to initiate our position so that it became a free put, and with Take Two falling during the month the result was a contribution of 11 bps.
- Arena Pharmaceuticals was acquired by Pfizer in a deal that closed during the month. With the prevailing atmosphere of caution about anti-trust decisions the deal had traded on a wider than usual spread. The anti-trust approval resulted in a contribution of 7 bps.
- 51Job, a Chinese online recruiting company, rose on expectations that its deal to go private will close soon, resulting in a contribution of 7 bps.
- Carl Icahn is attempting to buy utility Southwest Gas and raised his hostile tender offer price from \$75 to \$82.50 per share, resulting in a contribution of 6 bps.
- The largest negative contributor was Norton Lifelock's acquisition of Avast, which trades on the London Stock Exchange. British anti-trust authorities decided to perform an in-depth review of the deal based on an analysis that excluded Microsoft as a competitor, whereas the deal had been approved in every other jurisdiction including the US. The negative contribution was 20 bps.

- MKS Instruments’ acquisition of Arotech is awaiting Chinese approval, which analysts expect that to be granted. However, the “walk date” of the deal is pending, and there is a concern the parties may terminate the deal. That uncertainty resulted in a negative contribution of 8 bps. Our position is slightly below 1% of the portfolio. (Postscript: on April 1, the companies extended the walk date to September 30, 2022.)
- A proposal to buy casino and online gaming company, Bally’s, by their largest shareholder, Standard General, appears to be a victim of the recent market volatility, costing 8 bps.
- Three situations involved Contingent Value Rights during the month. In all three cases, we “paid” zero for the CVRs. In one case (Alder Biopharmaceuticals), a CVR met its milestone, while in a second case (Aratana Therapeutics) it did not. The net result of those two was a 2 bps mark-to-market loss. In the third case (Zogenix), where the deal closed during March and the CVR expires up to two years in the future, Interactive Brokers marked the CVR at zero even though the implied value on the last day of trading was \$0.68 and the potential value is \$2 per CVR, resulting in a small mark-to-market loss.

New deal announcements continued at a strong pace with 24 new deals announced in March, while 29 closed. Diversification in the portfolio continues to be considerably above average, although the number of deals has fallen slightly to 117, while leverage is now 125% (\$125 of long positions for every \$100 of capital).

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

Benchmark	Reporting Period	Returns (Net) ^{2 3}	Bench-Mark ²	Excess (Net)	Volatility	Sharpe Ratio
LIBOR 3-month USD	Year-to-date	0.47%	0.15%	0.32%	N/A	N/A
	Latest 3 Years	4.18%	0.85%	3.33%	6.53%	0.51
	Latest 5 Years	4.70%	1.31%	3.39%	5.26%	0.64
	Latest 10 Years	5.06%	0.87%	4.19%	4.61%	0.91
	Since Inception ¹	5.33%	0.86%	4.47%	4.59%	0.97

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