
Constantia Capital Merger-Arbitrage Strategy March 2024 Commentary

Our composite returned 0.73% in March, bringing returns to 0.81% year-to-date, 4.04% annualized for the past 10 years and 5.09% annualized in over 12 years since inception.

In world markets, US Equities continued their recent strong run, with the S&P 500 returning 3.22%, helping world equities to a gain of 3.14%. The Bloomberg Aggregate Bond Index posted returns of 0.92% for the month as the Fed has indicated that it will begin cutting rates later this year, with a plan for three rate cuts. The classic 60/40 Equity/Bond benchmark (All World Index, Bloomberg US Aggregate Bond Index) returned 2.25% for the month.

As noted last month, a high number of deals coupled with a small amount of leverage is typically a predictor of above benchmark returns. Some of the highlights and lowlights were:

- The best contributing deal for the month was Everbridge, a software company being acquired by private equity firm Thoma Bravo. The acquirer raised their bid by more than 20% to ward of a potential counter bid, resulting in a contribution of 23 bps for the month.
- Atmus Filtration was split off by Cummins Engine. These situations give special preference to “odd-lot” shareholders. While they are not mergers, they behave exactly the same as stock-swap deals. Due to our separate account structure, we are able to take advantage of these situations. The contribution was 8 bps. (Historically split-offs have been very profitable, but due to an adverse court settlement, Cummins stock was extremely volatile during the period of the split-off. As a result, this specific event was less profitable than average for our strategy.)
- Karuna Therapeutics, a biotech company, was acquired by Bristol-Myers in a deal that closed during the month, contributing 11 bps.
- The worst contributing deal was Nippon Steel’s acquisition of US Steel. President Biden indicated that he was not in favor of the deal. It was not clear if his opposition was related to national security concerns, in which case his opinion could influence the CFIUS review. However, our interpretation is that union issues and jobs are his priority and that ultimately Nippon Steel will make commitments that the United Steelworkers Union will find satisfactory. Nevertheless, US Steel stock has fallen 13% for the month, resulting in a negative impact of 18 bps. Given the underlying risky sentiment on the deal, we reduced our position by half to approximately 0.75%. This deal would be going a lot more smoothly in a non-election year.
- Impellam Group, a British human resources consulting firm, was acquired by Headfirst Group in a deal that closed during the month. The consideration was GBP 5.572 in cash and two short-term notes (one-year and 3-year) that together have principal value of GBP 3.928 per share according to the merger agreement. (The implied value of the notes was GBP 3.178 given that Impellam’s closing traded price on the London Stock Exchange was GBP 8.75.) After the deal closed,

Interactive Brokers has yet to show the note in our portfolio (which is not unusual in these situations), effectively marking it at zero and thereby understating our composite performance by at least 35 bps. We expect the note will show up next month, reversing the paper loss. No matter when it is accounted for, we expect to be repaid GBP 3.92 per share with capitalized interest over the coming three years.

New deal announcements were 22 for the month, while 23 deals closed. Diversification is well above average with the number of deals is 110. Capital deployed has returned to \$100 of long positions for every \$100 of capital.

Constantia Capital Merger-Arbitrage: Performance as of March 31, 2024

Benchmark	Reporting Period	Returns (Net) ^{2 3}	Bench-Mark ²	Excess (Net)	Volatility	Sharpe Ratio
LIBOR/SOFR 3-month USD	Year-to-date	0.81%	1.30%	-0.49%	N/A	N/A
	Latest 3 Years	5.13%	3.01%	2.12%	3.10%	0.68
	Latest 5 Years	4.04%	2.26%	1.78%	5.30%	0.34
	Latest 10 Years	4.13%	1.69%	2.44%	4.54%	0.54
	Since Inception ¹	5.09%	1.42%	3.66%	4.35%	0.84

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 a small number of qualified clients have elected as of the date above