

## **Constantia Capital Merger-Arbitrage Strategy August 2024 Commentary**

Our composite returned 1.60% in August, bringing returns to 5.29% year-to-date, 4.61% annualized for the past 10 years and 5.27% annualized in almost 13 years since inception.

In world markets, for the second consecutive month, both equities and fixed income posted positive returns. Equities continued their upward trend of the past year with a return of 2.6% for the All-Country World Index, slightly ahead of 2.4% for the S&P 500. Fixed-income, as represented by the Bloomberg Aggregate Bond Index, returned 1.4% for the month as inflation data was once again better (lower) than expected. The classic 60/40 Equity/Bond benchmark (All World Index, Bloomberg US Aggregate Bond Index) returned 2.1% for the month.

New deal announcements continued at their strong pace, with 23 new deals for the month, while 27 closed. The number of deals in our portfolio increased again and is currently at 142 compared to 91 at the start of the year (the number went up compared to a month ago despite more deals closing than being announced as there were favorable entry points for some deals announced in previous months). Leverage remains high, and we now have \$140 of long positions for every \$100 of capital. As we have been noting recently, high diversification and leverage is typically a positive environment for merger-arb strategies.

For the month, some of the highlights and lowlights were:

- The largest positive contributor was Hawaiian Air, being acquired by Alaska Air. Even before the JetBlue acquisition of Spirit Air was blocked, common wisdom was that antitrust authorities would not approve another airline merger. Hence it came as a surprise when the deal received antitrust approval. The last remaining approval for this deal is from the US Department of Transportation, which should be a formality. The contribution for the month was 20 bps.
- Fentura Financial is a small-cap bank being acquired by ChoiceOne Financial. The deal spread was quite large after the deal was announced, but has narrowed recently, contributing 8 bps.
- Terran Orbital, a provider of communication satellites, is 28% owned by Lockheed Martin. In addition, Lockheed is Terran Orbital's largest client. The company has been struggling, but nevertheless rejected a \$1 per share offer from Lockheed Martin. By early August, the stock was trading for \$0.40, and accepted Lockheed's "take-under" bid at \$0.25. Two days later, the company received a \$250 million satellite contract. The stock jumped as high as \$0.30 on expectations that Lockheed would need to raise their bid. We took profits in a small portion of our position, and subsequently the stock fell back below the deal price. All that excitement resulted in a gain of 6 bps.

- Sidara, a Dubai based engineering firm, made a proposal to buy British Oil and Gas engineering firm, John Wood Group. British takeover rules require proposals to be finalized within a month, and Sidara inexplicably withdrew their bid before the deadline, resulting in a negative contribution of 20 bps.
- In a very similar situation, British homebuilder Bellway proposed to buy competitor Crest Nicholson. The target had indicated that the terms were acceptable to them, only for Bellway to withdraw their proposal. The negative contribution was 15 bps. Note that two British proposals being terminated in one month is highly unusual. Most end up in signed agreements for a definitive deal. However, knowing there is the risk of the deal being terminated with limited recourse, our position size in these situations is much smaller than for the average definitively signed deal.
- The month started with a head start of 50 bps (and July returns were negatively impacted by that amount) as Drilling Tools International acquisition of Superior Drilling Tools closed. The deal required a cash or stock election which became effective in late July. The stock election was the obvious choice, but for the few days before the deal closed, Superior Drilling traded at the cash value, resulting in a temporary mark-to-market loss in July, which then reversed itself in early August.

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

Benchmark	Reporting Period	Returns (Gross) <sup>2</sup>	Returns (Net) <sup>2 3</sup>	Bench-Mark <sup>2</sup>	Excess (Gross)	Excess (Net)	Volatility	Sharpe Ratio
US\$ LIBOR/SOFR	Year-to-date	5.67%	5.29%	3.49%	2.19%	1.80%	N/A	N/A
	Latest 3 Years	5.69%	5.09%	3.73%	1.96%	1.36%	2.47%	0.55
	Latest 5 Years	5.30%	4.71%	2.50%	2.80%	2.21%	5.31%	0.42
	Latest 10 Years	5.19%	4.61%	1.89%	3.29%	2.72%	4.34%	0.63
	Since Inception <sup>1</sup>	5.83%	5.27%	1.54%	4.29%	3.73%	4.30%	0.87

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