

Constantia Capital Merger-Arbitrage Strategy January 2024 Commentary

Our composite returned -0.10% in January, bringing returns to 4.16% annualized for the past 5 years and 5.08% annualized in slightly over 12 years since inception.

In world markets, US Equities continued their strength from 2023. The S&P 500 returned 1.7%, helping world equities to a gain of 0.6%. (The US makes up approximately 60% of the index.) The Bloomberg Aggregate Bond Index posted returns of -0.3% for the month despite news indicating that inflation is under control. The classic 60/40 Equity/Bond benchmark (All World Index, Bloomberg US Aggregate Bond Index) returned 0.3% for the month.

Merger-Arb funds on average started the year with slightly negative returns. Amazon terminated their acquisition of iRobot after failing to get European anti-trust approval and an anti-trust court ruled in favor of the FTC and against the Spirit Airlines/JetBlue merger. While those decisions were well telegraphed by the market ahead of time, merger-arb spreads in general widened as the decisions were seen as a win for anti-trust regulators. Exacerbating the somewhat sour mood, Donald Trump proclaimed that if he were president, he would block the Nippon Steel acquisition of US Steel despite having no legal basis for that decision.

Some of the highlights and lowlights of the month were:

- We had a small position in Spirit Airlines and sold our remaining small position in iRobot ahead of the termination announcement. As a result, the negative contribution of those two deals was only 14 bps for the month, but 100 bps combined since inception.
- Battalion Oil is being acquired by Fury Resources. Our analysis indicated that the individuals listed as principals of Fury appeared to have somewhat questionable prior dealings. As a result, we initiated a much smaller than average position of 40 bps. During the month, a filing by the company indicated that a deadline for arranging financing had been extended. The stock fell by close to 30%, resulting in a loss of 11 bps. At the same time, we reduced our position to only 20 bps.
- Astrazeneca announced the acquisition of the most promising drug of Inhibrx for \$30 per share plus a \$5 CVR. We estimated conservatively that the balance of the company plus the CVR was worth \$5 per share. That combines for a total value of \$35, which is where we bought Inhibrx stock. It has subsequently traded up to \$38.50, contributing 10 bps.
- Taro Pharmaceuticals is being taken private by Sun Pharmaceuticals of India, which owns 78% of Taro shares. This was already a positive contributor during December when Sun raised the price of their proposal from \$38 per share to \$43. The deal became definitive this month, and has

since traded on either side of the deal price, allowing us to take advantage of those swings, resulting in a contribution of 8 bps for the month and 25 bps since inception.

- Hollsys Automation, a Chinese automation and control system manufacturer is being acquired by Ascendant Capital, a private equity firm with a 13% ownership stake for \$26.50 per share. The shareholder vote is scheduled for early February. The company has rejected a \$29.50 competing bid on the grounds that financing is uncertain. Proxy advisors ISS and Glass Lewis recommended voting against the Ascendant deal, and the stock has fallen based on the uncertainty, resulting in a loss of 10 bps for the month, although positive since inception. We voted our shares in favor of the deal.
- The biggest contributor was Powerfleet’s acquisition of Mix Telematics in a stock swap merger, with a contribution of 15 bps. Both companies are small-cap providers of software for vehicle fleets. Mix Telematics has ADR’s that trade in the US, but its primary listing is Johannesburg with some operations in Israel. The companies scheduled their shareholder votes during January after previously having been granted an extension to file certain merger documents.

New deal announcements were a healthy 25 for the month, while 17 deals closed and two were terminated. Diversification is well above average and the number of deals has risen back to 95. Capital deployed has also increased so that we currently are back to having approximately \$100 of long positions for every \$100 of capital.

Constantia Capital Merger-Arbitrage: Performance as of January 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	-0.10%	0.43%	-0.54%	N/A	N/A
	Latest 3 Years	5.38%	2.73%	2.65%	3.13%	0.85
	Latest 5 Years	4.16%	2.17%	1.98%	5.32%	0.37
	Latest 10 Years	4.09%	1.60%	2.49%	4.54%	0.55
	Since Inception ¹	5.08%	1.37%	3.71%	4.38%	0.85

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