

Constantia Capital Merger-Arbitrage Strategy October 2024 Commentary

Our composite returned -0.19% in October, bringing returns to 6.19% year-to-date, 4.54% annualized for the past 10 years and 5.27% annualized in 13 years since inception.

In world markets, both equities and fixed income posted negative returns. The All Country World Index, returned -2.2%, significantly lagging the S&P 500 (-0.9%). The EAFE Index fell 5% as luxury goods retailers reported poor earnings. Emerging Markets fell 3%, reversing their China related gains from September. Fixed Income, as represented by the Bloomberg Aggregate Bond Index, returned -2.5% for the month as stronger than expected economic data caused investors to reduce expectations for future interest rate cuts. The classic 60/40 Equity/Bond benchmark (All World Index, Bloomberg US Aggregate Bond Index) returned -2.3% for the month.

The month saw three deals that were terminated or are on life support, an unusually high number. However, the total weight in the portfolio for all three was only 100 bps, limiting the impact on performance. For the month, some of the highlights and lowlights were:

- The largest negative contributor was First Sun Bancorp's acquisition of HomeStreet Bank, which the Federal Reserve declined to approve. The Fed provided limited detail on its reasoning, and the companies indicated there may be an opportunity to restructure the deal. Nevertheless, we exited almost our entire position at a negative impact of 26 bps.
- A Federal District Court judge ruled against Capri Holdings and Tapestry in a suit brought by the FTC against their proposed merger. We had reduced our position to 25 bps given the riskiness of the deal, and we sold our remaining position on the news. The resulting negative impact was 14 bps for the month and 40 bps since inception of the deal. The ruling caught many Merger-Arbitrage managers by surprise as the FTC's definition of "affordable luxury" in the narrow market segment of ladies' handbags seemed too restrictive. The companies plan to appeal the decision on that basis.
- China Traditional Chinese Medicines, a Hong Kong listed pharmaceutical company, was in a deal to be acquired by Sinopharm. The deal was terminated after the companies failed to receive all necessary approvals from the Chinese authorities, resulting in a negative impact of 8 bps.
- Blackbaud, a software company, had received a proposal to be acquired at \$75 more than a year ago, which was then increased to \$80. Blackbaud was trading above the bid price, but then reported disappointing earnings. The stock fell more than 10%, resulting in a negative contribution of 10 bps for the month, although still positive since inception.
- Revance Therapeutics, being acquired by Crown Laboratories, gained 13% for the month (after falling 18% in September) upon settling a dispute with a client that had been holding up Crown Labs initiating their offer. The positive contribution was 7 bps.

- US Steel, being acquired by Nippon Steel, has been under pressure due to opposition from both Democratic and Republican politicians in a presidential election year. The stock gained 10% for the month on cautious optimism that labor unions will end up supporting the deal, allowing it to be approved. The positive contribution for the month was 7 bps.
- Vista Outdoors, the gun and ammunition producer, had agreed to sell one of its units to a Czech acquirer. A private equity company then made a counter-bid back in March of this year for the whole company, at which point we bought a small position (0.5%). Finally, Vista agreed to sell each of its two units to separate acquirers at a premium to the prevailing counter bid, resulting in a contribution of 6 bps for the month.

New deal announcements slowed compared to their recent strong pace, with 17 new deals for the month, while 31 closed. The number of deals in our portfolio fell to 126 compared to 149 a month ago, an all-time high. Despite the drop, that number is well above average. Leverage remains elevated, but has fallen to \$130 of long positions for every \$100 of capital compared to \$150 a month ago.

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

Benchmark	Reporting Period	Returns (Gross) ²	Returns (Net) ^{2 3}	Bench-Mark ²	Excess (Gross)	Excess (Net)	Volatility	Sharpe Ratio
US\$ LIBOR/SOFR	Year-to-date	6.68%	6.19%	4.26%	2.42%	1.93%	N/A	N/A
	Latest 3 Years	5.67%	5.07%	3.98%	1.69%	1.09%	2.49%	0.44
	Latest 5 Years	5.12%	4.54%	2.59%	2.54%	1.95%	5.32%	0.37
	Latest 10 Years	5.72%	5.13%	1.97%	3.75%	3.17%	4.07%	0.78
	Since Inception ¹	5.83%	5.27%	1.58%	4.25%	3.69%	4.28%	0.86

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