

---

## Constantia Capital Merger-Arbitrage Strategy February 2024 Commentary

Our composite returned 0.18% in February, bringing returns to 0.07% year-to-date, 4.02% annualized for the past 10 years and 5.06% annualized in slightly over 12 years since inception.

In world markets, US Equities continued their recent strong run, with the S&P 500 returning 5.3%, helping world equities to a gain of 4.3%. (The US makes up approximately 60% of the index.) The Bloomberg Aggregate Bond Index posted returns of -1.4% for the month on fears that the inflation fight is not over. The classic 60/40 Equity/Bond benchmark (All World Index, Bloomberg US Aggregate Bond Index) returned 2.0% for the month.

In Merger-Arb land, the number of “requests for more information” has increased, and spreads on average have widened slightly to reflect that, impacting returns for the month. At the same time, the number of new deals is above average, and many of those involve small companies with implicitly lower than average anti-trust risk. Some of the highlights and lowlights of the month affecting our portfolio were:

- The best contributing deal for the month was Wincanton PLC, a British logistics (i.e. trucking) and warehouse company. The company saw GXO Logistics, a US company, outbid an existing bid from French company CEVA logistics. The stock is currently trading a few percent above the GXO bid, indicating that the bidding war may not be over. The contribution for the month was 25 bps.
- Immunogen, a biotech developing targeted anticancer therapeutics, was acquired by Abbvie. The companies received antitrust approval, whereas the market was expecting a prolonged antitrust process, resulting in a contribution of 12 bps.
- During the month, the FTC sued to block the merger of supermarket chains Albertsons and Kroger. This was anticipated and a small position in our portfolio, costing only one bps for the month.
- The worst contributing position for the month was due to a deal being terminated. Sequans Communications, a small French semiconductor company, had agreed to be acquired by Japanese semiconductor company Renesas. The deal was subject to a tax ruling by Japanese tax authorities, and the market was surprised that ruling went against Renesas. At the time the announcement was made, Renesas did not immediately terminate the deal, allowing time for us to sell more than half our position. The deal was formally terminated a few days later after some speculation that Renesas would accept the adverse tax ruling, resulting in a loss of 40 bps for the month as Sequans stock fell more than 70%.
- Catalent, a contract drug manufacturer, is being acquired by Novo Holdings, a foundation that is also the largest shareholder of Novo Nordisk. As part of the deal, Novo Nordisk will be acquiring three manufacturing facilities to increase manufacturing capacity for their blockbuster weight

loss drug, Wegovy. Given the lack of manufacturing capacity for weight loss drugs, the preferential treatment given to Novo Nordisk is being perceived as a potential anti-trust issue, resulting in a negative contribution of 12 bps. We are of the opinion that since there is sufficient competition in that space, and those three facilities make up about 3% of the contract drug market. Further, Catalent identified an material accounting weakness that predates the merger agreement, which may be weighing on the stock.

New deal announcements were a healthy 32 for the month, while only 12 deals closed and two were terminated. Diversification is well above average, and the number of deals has risen back to 115. Capital deployed has also increased so that we currently are back into a position of using leverage, with approximately \$110 of long positions for every \$100 of capital. The high number of deals and small, but positive use of leverage typically bodes well for future Merger-Arb returns.

**Constantia Capital Merger-Arbitrage: Performance as of February 29, 2024**

Benchmark	Reporting Period	Returns (Net) <sup>2 3</sup>	Bench-Mark <sup>2</sup>	Excess (Net)	Volatility	Sharpe Ratio
<b>LIBOR/SOFR 3-month USD</b>	Year-to-date	<b>0.07%</b>	0.87%	-0.80%	N/A	N/A
	Latest 3 Years	<b>5.12%</b>	2.87%	2.25%	3.11%	0.72
	Latest 5 Years	<b>3.90%</b>	2.22%	1.68%	5.31%	0.32
	Latest 10 Years	<b>4.02%</b>	1.64%	2.38%	4.54%	0.52
	Since Inception <sup>1</sup>	<b>5.06%</b>	1.40%	3.66%	4.37%	0.84

<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