

Constantia Capital Merger-Arbitrage Strategy April 2024 Commentary

Our composite returned -0.19% in April, bringing returns to 0.63% year-to-date, 4.17% annualized for the past 10 years and 5.04% annualized in 12 ½ years since inception.

In world markets, equities lost ground after their extremely strong run over the prior seven months. World equities fell 3.2% as the S&P 500 fell 4.1%. The Bloomberg Aggregate Bond Index posted returns of -2.5% for the month as inflation data continued to be slightly stronger than expected. The classic 60/40 Equity/Bond benchmark (All World Index, Bloomberg US Aggregate Bond Index) returned -2.9% for the month.

The negative market backdrop often spills over into Merger-Arb by way of increased risk aversion. However, while our returns were negative, thanks to our risk controls our worst negative contributing deal was 13 bps. Returns for the month and year-to-date continue to be significantly ahead of the average of Merger-Arb mutual funds and ETF's that we track. Some of the highlights and lowlights were:

- The worst contributing deal for the month was Hollysys Automation, a Chinese manufacturer of industrial automation equipment. Following a bidding war earlier this year, a combination of concern over regulatory approvals and news that its auditor has resigned (officially for health reasons) caused a negative contribution of 13 bps, although still positive since inception.
- Nippon Steel's acquisition of US Steel continues to suffer from election year political fallout. President Biden again indicated that he was not in favor of the deal, this time explicitly stating that the company should maintain US ownership. The negative impact was 10 bps.
- Capri Holdings acquisition by Tapestry was blocked by the FTC. Despite there being a large number of handbag designers and manufacturers, the FTC defined their market extremely narrowly. The companies are challenging that decision in court in a trial set to begin in September. We had cut our position down to only 30 bps, and as a result the negative impact for the month was only 9 bps.
- The largest positive contributor was Indigo Books and Music, a Canadian company being taken private by its largest shareholder. After an initial proposal, the acquirers formalized the deal after increasing their bid, resulting in a contribution of 9 bps.
- Burke and Herbert Financial saw their acquisition of Summit Financial gain all approvals, resulting in a contribution of 6 bps for this Virginia and West Virginia regional bank deal.
- Micro-cap metal fabricator, Fathom Digital Manufacturing, is being acquired by their largest shareholder. We sold our position when the deal traded above the deal price on no news, resulting in a contribution of 20 bps.



New deal announcements continued at their strong pace, with 37 new deals for the month, while 26 deals closed. Diversification is well above average with the number of deals increasing to 128. Leverage has risen to a recent high, with \$120 of long positions for every \$100 of capital.

Constantia Capital Merger-Arbitrage: Performance as of April 30, 2024

Benchmark	Reporting Period	Returns (Net) ^{2 3}	Bench-Mark ²	Excess (Net)	Volatility	Sharpe Ratio
LIBOR/SOFR	Year-to-date	0.63%	1.74%	-1.12%	N/A	N/A
3-month USD	Latest 3 Years	4.09%	3.16%	0.93%	2.70%	0.35
	Latest 5 Years	3.90%	2.31%	1.59%	5.31%	0.30
	Latest 10 Years	4.17%	1.73%	2.45%	4.54%	0.54
	Since Inception ¹	5.04%	1.45%	3.59%	4.35%	0.83

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 9/30/2023