

Constantia Capital Merger-Arbitrage Strategy May 2024 Commentary

Our composite returned 0.98% in May, bringing returns to 1.62% year-to-date, 4.65% annualized for the past 10 years and 5.08% annualized in more than 12 ½ years since inception.

In world markets, equities continued their upward trend of the past year. World equities rose 4.11%, led by US stocks as the S&P 500 returned 4.9%. The Bloomberg Aggregate Bond Index posted returns of 1.7% for the month as inflation data was slightly lower than expected. The classic 60/40 Equity/Bond benchmark (All World Index, Bloomberg US Aggregate Bond Index) returned 2.55% for the month.

For our Merger-Arb strategy, some of the highlights and lowlights were:

- The largest positive contributor was SP Plus, a provider of transportation-related software and services. They were acquired by Metropolis Technologies in a deal which closed during the month resulting in a contribution of 9 bps for the month.
- Inhibrix Biosciences was acquired by Sanofi in a deal that closed during May, contributing 8 bps. As part of the deal, we received a CVR (Contingent Value Right), marked at \$0.63, that will be worth \$5 if their emphysema drug is approved by the FDA by June 2027. The drug was granted “fast-track” designation during 2023.
- Merrimack Pharmaceuticals received a milestone payment and decided to distribute it as a dividend to shareholders and cease operations. This situation was not a merger per se, but it behaved in the same way as a merger deal. At the time of the announcement, the company gave a range for the dividend payout. The final dividend was at the high end of the range, resulting in a contribution of 5 bps.
- Australian Virtual Data Room software provider Ansarada Group is being acquired by Datasite, a competitor. Despite the market having many competitors, Australian anti-trust authorities requested additional information, resulting in a loss of 8 bps for the month.
- Swedish Electric utility Dala Energi is being acquired by Ellevio Holdings at an 80% premium. However, deals in Sweden typically require 90% shareholder approval, and two of Dala’s largest shareholders are municipalities which may not be motivated by short-term profits. As a result, Dala’s stock has dropped about 16% below the deal price, resulting in a loss of 5 basis points.
- In March we noted that certain securities related to the closing of a deal to purchase British human resources firm, Impellan, had not been posted, resulting in a paper loss of 35 bps. Those securities were accounted for early in May, resulting in a reversal of the paper loss. The notes are scheduled to mature with accrued interest within three years.



New deal announcements continued at their strong pace, with 32 new deals for the month, while 28 deals closed. Diversification is well above average with the number of deals at 123. Leverage has risen to a recent high, with \$122 of long positions for every \$100 of capital.

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

Benchmark	Period	Returns (Net) ^{2 3}	Benchmark ²	Excess (Net)	Volatility	Sharpe Ratio
LIBOR/SOFR	Year-to-date	1.62%	2.19%	-0.57%	N/A	N/A
3-month USD	Latest 3 Years	4.07%	3.30%	0.76%	2.66%	0.29
	Latest 5 Years	4.23%	2.35%	1.88%	5.30%	0.35
	Latest 10 Years	4.65%	1.77%	2.88%	4.38%	0.66
	Since Inception ¹	5.08%	1.47%	3.61%	4.33%	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.