

Constantia Capital Merger-Arbitrage Strategy September 2024 Commentary

Our composite returned 1.05% in September, bringing returns to 6.39% year-to-date, 4.67% annualized for the past 10 years and 5.32% annualized in almost 13 years since inception.

In world markets, for the third consecutive month, both equities and fixed income posted positive returns. Equities continued their upward trend of the past year with a return of 2.35% for the All-Country World Index, slightly ahead of 2.14% for the S&P 500. Emerging Markets were the star performer as Chinese authorities acted to stimulate their economy. Fixed-income, as represented by the Bloomberg Aggregate Bond Index, returned 1.34% for the month as inflation data was once again better (lower) than expected. The classic 60/40 Equity/Bond benchmark (All World Index, Bloomberg US Aggregate Bond Index) returned 1.95% for the month.

New deal announcements slowed down compared to their recent strong pace, with 21 new deals for the month, while 21 closed. The number of deals in our portfolio increased again and is currently at 149, which is an all-time high. Leverage remains high, and we now have almost \$150 of long positions for every \$100 of capital. As we have been noting recently, high diversification and leverage is typically a positive environment for merger-arb strategies.

For the month, some of the highlights and lowlights were:

- The largest positive contributor was Infinera, a telecoms equipment manufacturer being acquired by Nokia. The companies announced US anti-trust approval, and the deal is waiting on the shareholder vote and a small number of foreign approvals. The contribution for the month was 15 bps.
- Territorial Bank of Hawaii is a small-cap bank being acquired by Hope Bancorp, a California based bank in an all-stock deal. An all-cash counter bid was announced for Territorial at \$12, and then increased to \$12.50. Territorial is trading at \$10.39, which is a large discount to the counter bid but a premium to the Hope bid. The contribution for the month was 11 bps.
- Terran Orbital, a provider of communication satellites, is 28% owned by Lockheed Martin. In addition, Lockheed is Terran Orbital's largest client. The company has been struggling and during August accepted Lockheed's "take-under" bid at \$0.25. As noted in last month's commentary, two days later, the company received a \$250 million satellite contract. The stock jumped as high as \$0.30 on expectations that Lockheed would need to raise their bid. We took profits in a small portion of our position, and subsequently the stock fell back below the deal price. During September, the stock again traded above the bid, resulting in a gain of 6 bps for the month, and 16 bps since inception.

- Battalion Oil had accepted an offer of \$9.80 per share from Fury Resources almost a year ago. However, Fury had struggled to line up financing and the deal was left for dead, with Battalion trading below \$3. We reduced our position at a loss to a token holding of below 10 bps when suddenly the companies agreed to a revised bid of \$7 with committed financing. Battalion’s stock doubled, contributing 8 bps for the month, but overall down 12 bps since inception.
- Bitfarms, a Canadian cryptocurrency mining firm, is acquiring fellow miner Stronghold Digital in an all-stock deal. The spread has narrowed since the deal was announced, resulting in a contribution of 7 bps.
- Revance Therapeutics, being acquired by Crown Laboratories, fell 18% for the month after Crown delayed the start of their tender offer. A few days later, news broke that Revance was being sued by a client for not making sufficient effort to sell its products, causing concerns that may be viewed as a Material Adverse Event. That resulted in a negative impact of 20 bps.
- WillScott Holdings had agreed to acquire McGrath RentCorp in January. Both companies rent and sell modular spaces such as temporary offices and classrooms. The companies faced roadblocks in gaining anti-trust approval and mutually agreed to terminate the deal, resulting in a negative impact of 12 bps for the month and 20 bps since inception.
- US Steel, being acquired by Nippon Steel, has been under pressure due to opposition from both Democratic and Republican politicians in an election year. The stock fell early in the month on rumors that CFIUS would rule against the deal for reasons of national security, and we reduced our position in the interest of risk control. However, at the last minute, CFIUS announced they would be delaying their decision until after the election. The stock rebounded, but President Biden, Kamala Harris and Donal Trump each reiterated their opposition to the deal. The negative impact for the month was 10 bps.

Constantia Capital Merger-Arbitrage: Performance as of September 30, 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	6.83%	6.39%	3.88%	2.95%	2.51%	N/A	N/A
	Latest 3 Years	6.02%	5.42%	3.86%	2.17%	1.57%	2.49%	0.63
	Latest 5 Years	5.36%	4.77%	2.54%	2.82%	2.23%	5.31%	0.42
	Latest 10 Years	5.24%	4.67%	1.93%	3.31%	2.74%	4.34%	0.63
	Since Inception ¹	5.88%	5.32%	1.56%	4.32%	3.76%	4.29%	0.88

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