

Constantia Capital Merger-Arbitrage Strategy November 2024 Commentary

Our composite returned -0.31% in November, bringing returns to 5.87% year-to-date, 4.99% annualized for the past 10 years and 5.21% annualized in over 13 years since inception.

In world markets, equities posted strong returns, led by US Equities which rose strongly after the US presidential election. The All Country World Index, returned 3.8%, significantly lagging the S&P 500, which returned 5.9%. Fixed Income, as represented by the Bloomberg Aggregate Bond Index, rose 1.1% as Trump's nomination for Treasury secretary calmed markets. The classic 60/40 Equity/Bond benchmark (All World Index, Bloomberg US Aggregate Bond Index) returned 2.7% for the month.

We are disappointed to report negative returns for our merger-arb strategy as certain small market cap deals experienced negative news. Nevertheless, year-to-date returns are comfortably ahead of both our benchmark and the various merger-arb fund averages. Typically, small-cap deals are safer with respect to anti-trust approvals, but they do suffer from less news flow. For the month, some of the highlights and lowlights were:

- Revance Therapeutics, being acquired by Crown Laboratories, fell 38% for the month (after gaining 13% in October) on continued deal delays. Given the uncertainty, we had reduced our position to only 50 bps, and the negative contribution was 25 bps. Our best guess is that the parties will end up negotiating a lower deal price.
- Battalion Oil is being acquired in a deal where the acquirer, Fury Resources, claimed to have committed financing. However, the acquirer suddenly announced that the commitment had fallen through. We had similarly regarded this as a risky deal and our position was only 50 bps, but the resulting stock drop caused a negative impact of 22 bps.
- Desktop Metals, a 3-D printing company is being acquired by Nano Dimensions. The deal is expected to close by the end of the year, and most approvals including US anti-trust and the shareholder vote, have been obtained. However, the deal consideration is reduced if the closing is delayed until after December 31, and certain approvals, including CFIUS, have not been forthcoming. The negative contribution for the month was 15 bps.
- Spar Group, an advertising and marketing company, is being acquired by Highwire, a Private Equity firm. Spar's quarterly earnings report indicated that the deal should close by quarter-end since all regulatory approvals have been obtained, as has shareholder approval. Nevertheless, nervousness that the closing date may slip resulted in a negative contribution of 14 bps.
- ACNB, a small Pennsylvania bank is acquiring Traditions Bancorp, another small Pennsylvania Bank. All regulatory approvals have been received, and the deal should close shortly after shareholders of both banks vote on the merger. The result was a positive impact of 15 bps, the largest positive contribution for the month.

- Investor confidence that deals involving Catalent and Surmodics increased, resulting in positive contributions of 5 and 7 bps respectively. Catalent is a contract drug manufacturer being acquired by the Novo Nordisk Foundation, while Surmodics manufactures medical devices such as stents and catheters. The FTC had issued “2nd requests” for more information in both cases.

For the month, there were 25 new deals, while 26 closed. The number of deals in our portfolio remained stable at 125. Leverage remains elevated, but has fallen very slightly to \$128 of long positions for every \$100 of capital.

Constantia Capital Merger-Arbitrage: Performance as of November 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	6.40%	5.87%	4.64%	1.76%	1.22%	N/A	N/A
	Latest 3 Years	5.38%	4.79%	4.10%	1.28%	0.68%	2.51%	0.27
	Latest 5 Years	5.02%	4.43%	2.63%	2.39%	1.80%	5.33%	0.34
	Latest 10 Years	5.57%	4.99%	2.00%	3.57%	2.99%	4.08%	0.73
	Since Inception ¹	5.78%	5.21%	1.60%	4.17%	3.61%	4.27%	0.84

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