Constantia Capital Merger-Arbitrage Strategy
December 2024 Commentary

Our composite returned 0.03% in December, bringing full year returns to 5.89%, 4.33% annualized for the past 5 years and 5.18% annualized in slightly over 13 years since inception.

In world markets, stocks fell for the month, possibly on profit taking at the end of an extremely strong year. For 2024, the All-Country World Index (equities) gained 18.0%, led by US stocks with the S&P 500 up 25% (The US makes up approximately 65% of the index). The Bloomberg Aggregate Bond Index posted returns of only 1.2% for the year after inflation fears spooked the markets again in December. The classic 60/40 Equity/Bond benchmark (All World Index, Bloomberg US Aggregate Bond Index) was negative for the month, but up 11.3% for the year.

The goal for our Merger-Arb strategy is to exceed short-term cash investments by 2% to 3% per year. We were short of that goal, but importantly finished the year ahead of our benchmark and all the major money market funds, which returned in the range of 5.3% for the year. Further, our composite was ahead of the average of eight Merger-Arb mutual funds and ETF's that we track by **222 bps**. Hedge fund returns for December are not available as of this writing, but through the end of November our composite was **270 bps** ahead of the Merger-Arbitrage category average as tracked by Bloomberg.

For the year, our strategy invested in 474 different deals. Some of those were leftover deals from 2023 and some will continue into 2025. We made money in approximately 77% of deals. For deals where we lost money, the average loss was 6 bps whereas the average gain for profitable deals was 4 bps.

From a Merger-Arbitrage perspective, 2024 might be best remembered for an unusually large number of deals in general and an above average number of deals that were terminated. Of the 22 deals that were terminated, only six were for regulatory reasons. Some of the highlights and lowlights of the year for our Merger-Arb strategy were:

- Endeavor Group is being acquired by Silver Lake Management in a deal announced in April 2024. Endeavor owns 40% of TKO, which in turn is the owner of World Wrestling Entertainment. TKO's stock price has risen almost 50% since the deal was announced, which in turn has investors betting that the deal will have to be increased. The contribution for the year was 26 bps.
- Two cross-border deals were also large contributors. Powerfleet's acquisition of Mix Telematics in a stock swap merger contributed 27 bps. Both companies are small-cap providers of software for vehicle fleets. Mix Telematics has ADR's that trade in the US, but its primary listing was on the Johannesburg Stock Exchange with some operations in Israel. Australian software company Task Group was acquired by Par Technology of the US. The deal closed during July, resulting in a

contribution of 25 bps for the year. In both cases we were able to add value by trading to take advantage of the multinational nature of the deals.

- The biggest negative contributor was Revance Therapeutics, being acquired by Crown Laboratories. The acquirer accused Revance of being in breach of the Material Adverse Event clause, and the stock fell in response. In Novemeber we predicted that the deal price would be renegotiated, and that in fact did occur, but at a lower price than we had anticipated. The original deal was $6.66 and the new price is $3.10. The overall negative impact was 44 bps. We anticipate the deal will finally close in mid-January.
- US Steel, being acquired by Nippon Steel, has been under pressure due to opposition from both Democratic and Republican politicians in a presidential election year. As noted previously, this deal would likely have been approved fairly easily in a non-election year. The Committee for Foreign Investment in the US was expected to block the deal, but when they announced their decision in late December, it was a deadlock, leaving the final decision up to President Biden. Common wisdom is that he will block the deal, but on December 31, Nippon Steel offered to give the US veto power over steel output cuts for 10 years, giving some hope to the optimists. Meanwhile we have reduced our position to only 15 bps, and the negative impact for the year has been 41 bps. Postscript: President Biden formally blocked the deal on January 3.
- Spar Group, an advertising and marketing company, is being acquired by Highwire, a private equity firm. Spar's latest quarterly earnings report indicated that the deal should close by year-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 36 bps in total. However, a mid-month statement by Spar Group reiterated that both sides intended to close the deal, although possibly slipping into January, stabilized Spar Group's stock price.
- A Federal District Court judge ruled against Capri Holdings and Tapestry in a suit brought by the FTC against their proposed merger. We had reduced our position to 25 bps given the riskiness of the deal, and we sold our remaining position on the news. The companies subsequently terminated their deal. The resulting negative impact was 40 bps since inception of the deal. The ruling caught many Merger-Arbitrage managers by surprise as the FTC's definition of "affordable luxury" in the narrow market segment of ladies' handbags seemed too restrictive.

New deal announcements were a healthy 354 for the year, while 298 deals closed or were terminated. Diversification is well above average with 140 deals in the portfolio compared to 91 at the start of the year. Leverage has risen significantly to approximately $130 of long positions per $100 of capital compared to $85 at the start of 2024.

Constantia Capital Merger-Arbitrage: Performance as of December 31, 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	**6.48%**	**5.89%**	5.01%	1.47%	0.88%	N/A	N/A
	Latest 3 Years	**4.99%**	**4.40%**	4.22%	0.77%	0.18%	2.44%	0.07
	Latest 5 Years	**4.92%**	**4.33%**	2.67%	2.25%	1.66%	5.33%	0.31
	Latest 10 Years	**5.65%**	**5.06%**	2.03%	3.61%	3.03%	4.07%	0.74
	Since Inception[1]	**5.74%**	**5.18%**	1.62%	4.13%	3.56%	4.26%	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