Metrica Asia Event Driven Master Fund
August 2017 Newsletter

Investment Manager: Metrica Partners Pte. Ltd.

18th September 2017

Message from the CIO

Welcome to our third newsletter and performance update. It was another positive month for the fund with the Class B NAV per share[1] up 0.53%. Holding companies were again the main driver of returns (Table 1), with an Indian position contributing +0.27 points. The event-driven strategy also performed well, helped by a position in an M&A transaction which ultimately didn't go through. Share class return was flat, although this disguises a mixed country-level performance with India +0.37, Korea -0.16 and China -0.20.

	%
Holding Company	0.40
Event Driven	0.15
Share Class	-0.01
Total	0.53

Table 1: August 2017 Performance by Strategy

By country, India was the top performer this month (Table 2), with holding company and share class positions contributing as mentioned above.

This brings total returns to +3.69% over the three months since inception (Table 3 on the following page).

[1] All performance measures are with reference to our feeder fund(s).

	%
India	0.63
Australia	0.25
Japan	0.16
Singapore	-0.02
Thailand	-0.03
Hong Kong	-0.05
Malaysia	-0.06
Korea	-0.16
China	-0.20
Total	0.53

Table 2: August 2017 Performance by Country

Market Comments

During August, the wave of minority buyouts continued:

- Itochu Corp and FamilyMart jointly launched a US$774 million tender offer for the rest of Pocket Card in Japan at a premium of 47%, conditional on anti-trust and shareholder approvals. Pocket Card is currently owned 27% by Itochu, 15% by FamilyMart and 35.5% by Sumitomo Mitsui Banking (which is selling to the other two).
- Sumitomo Rubber announced a US$367 million merger with its 61%-owned subsidiary Dunlop Sports at a premium of 11.5%.

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2017						0.21	2.92	0.53					3.69

Table 3: Net Monthly Performance Since Inception - Class B (%)

- Gold Peak Industries launched a US$151 million pre-conditional offer for its 65%-owned subsidiary GP Batteries in Singapore at a premium of 64.4%. The offer is conditional upon the acquirer's shareholder approval.
- Similarly, Inspur Cloud Computing launched a US$256 million mandatory offer for its 32%-owned and Hong Kong-listed subsidiary Inspur International at a 20% premium.

As well as minority buyouts, we also saw WSP Global announce a US$196 million indicative offer conditional on due diligence for Opus International in New Zealand at a 87% premium. The due diligence condition was waived two weeks after the offer was announced; however the transaction still requires approval by New Zealand's Overseas Investment Office.

Among ongoing deals we saw the following:

- The US$1.7 billion indicative offers for Vocus Group in Australia by Affinity Partners and KKR came to naught as the bidders were unable to come to terms acceptable to the board. Post the termination, the stock initially fell as much as 22%.
- Following a sector re-rate, KKR's offer for Hitachi Kokusai was put on hold and the US fund is apparently considering forgoing the offer after the Independent Committee withdrew its earlier endorsement.
- In the same vein, the US$1.2 billion offer for United Engineers in Singapore hangs in the balance after Oxley Holdings bought a 14% stake on-market post the offer announcement - their motives are as yet unclear and could potentially hinder the completion of the deal which is conditional on 50% minimum acceptance. The shares have been trading through the offer price due to a general sector re-rate.
- On the other hand, prospects for the US$1 billion CWT deal in Singapore seemed to have revived following HNA's scheduling of its vote on 7 Sep and positive headlines suggesting China is likely to continue encouraging acquisitions in-line with the "One-Belt, One-Road" initiative.

In the holding company space, Wharf announced that it intends to distribute shares of its wholly-owned subsidiary Wharf Real Estate Investment Company (REIC) which owns six investment properties in Hong Kong valued at over US$29 billion. Wharf has since submitted the application for listing but the distribution is still conditional on obtaining approval for the listing as well as from the boards of Wharf and Wharf REIC.

Overall the number of live corporate actions is flat month-on-month and we are tracking 43 announced deals in Asia of which 26 are trading at a discount to terms of 4.2% on average.

In the holding company universe, we are tracking 391 names, of which 193 are trading at a discount to the value of their listed stakes averaging 28.7%.

In the share class space, the average premium of China A-shares over H-shares (as measured by the Hang Seng AH Premium Index) continued its widening trend and is now at +29.6%.

Portfolio Comments

Table 4 shows the number of fund equity positions by strategy, including hedges. The portfolio is more diversified compared to the previous month by number of positions.

	Long	Short	Total
Event Driven	17	6	23
Holding Company	14	28	42
Share Class	8	8	16
Total	39	42	81

Table 4: Number of Long and Short Positions

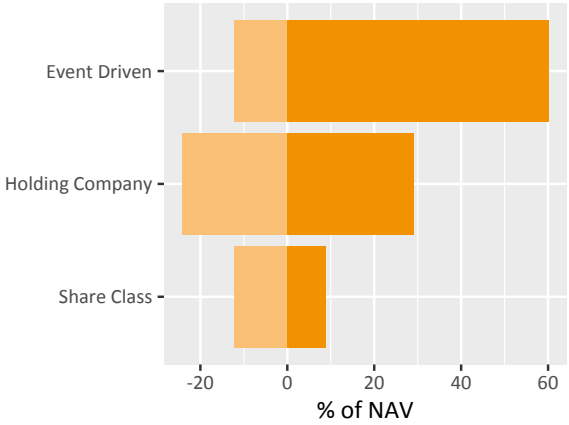

Figure 1: Strategy Exposures

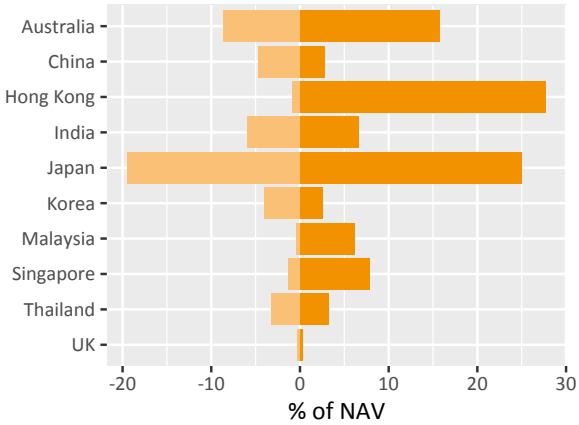

Figure 2: Country Exposures

Gross exposure is roughly flat, while net has increased by 26.4 points to +49.3% (Table 5). The net increase is nearly all from the event-driven strategy (Figure 1) and is the result of several deals becoming unconditional during the month. Therefore, although the equity exposures appear large, the downside risk to any of these positions is small in our view. Most of these names should come off the page in September according to the timetable.

	Long	Short	Gross	Net
All Positions	97.9	48.6	146.5	49.3
Top 10 Long	58.9	0.0	58.9	58.9
Top 10 Short	0.0	30.2	30.2	-30.2

Table 5: Portfolio-Level Exposures (% of NAV)

The country breakdown (Figure 2) shows how Japan continues to represent the largest source of gross exposure, with Hong Kong now overtaking Australia for the number two position. This is again a function of the increase in the number of low-risk event-driven positions in Hong Kong.

Figure 3 shows the sector breakdown. The move in Consumer Discretionary net from +17.5% to +31.6% is primarily from the event-driven strategy.

The market capitalisation breakdown (Figure 4) shows an increase in exposure to smaller-capitalisation names versus the previous month. This reflects an increase in attractive smaller-name event-driven situations.

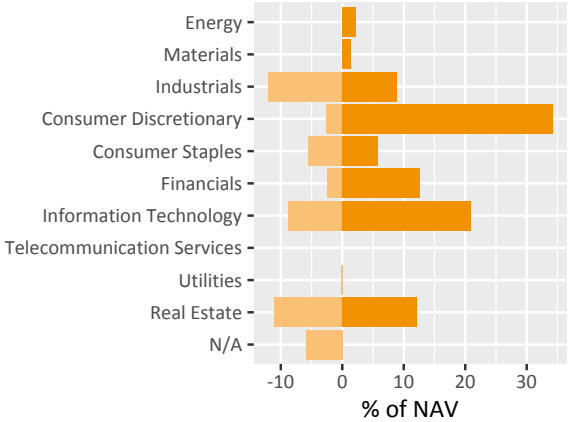

Figure 3: GICS Sector Exposures

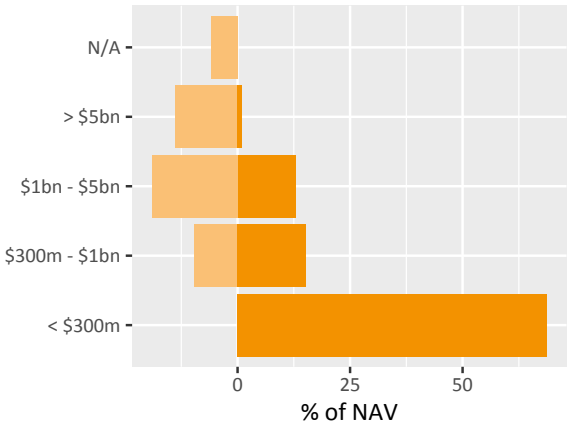

Figure 4: Market Cap Exposures

Final Thoughts

This month's exposure charts serve as a timely reminder that measures such as gross and net only tell part of the risk story, particularly with regard to event-driven positions. From our perspective, a more meaningful metric is "total portfolio downside risk", which is our estimate of the loss that we would sustain if every one of our (typically 30-60) trade ideas went against us. In other words, how much would do we think we would lose if all of our event-driven trades ended in outcomes contrary to our positioning, and if all of our relative value (i.e. holding company and share class) spreads widened to our worst-case assumed levels?

In general, we aim to keep total portfolio downside risk to a specified percentage of peak inception-to-date NAV. In our experience this risk management framework strikes a good balance between allowing us to target an attractive annualised return while giving us ample headroom versus portfolio margin requirements.

Furthermore, pegging this constraint to peak NAV rather than current NAV automatically causes us to rebalance the portfolio as the NAV reaches new highs, improving the risk/reward of the fund while theoretically reducing the impact of future drawdowns.

Another constraint is that we size each trade such that we would not expect to lose more than 2% of NAV in the worst case. We often get asked if that implies a 2% stop loss on all positions. The answer is that it very much depends on the type of position. An event-driven trade which loses 2% is very different to a relative-value trade where a spread entered at attractive levels has widened further. Our first course of action in all cases is intensively to analyse the reason for the move, and then take the appropriate remedial steps.

Damian L. Edwards, CFA

Fund Overview

Investment Strategy

Metrica Asia Event Driven Master Fund aims to generate low-volatility, market-neutral returns by investing in event-driven and relative value trading opportunities primarily in Asian equity markets. The fund's positions are categorised into:

1. Event-driven: securities affected by announced corporate actions
2. Holding company: securities with significant value deriving from ownership links to other listed securities
3. Share class: multiple securities issued by the same entity

CIO Background

Damian L. Edwards, CFA, has 19 years' experience in the finance industry in Asia, of which 13 years have been spent in investment management roles. Before co-founding Metrica, Damian was Managing Director and Head of Event-Driven Trading in the Discretionary Capital Group of Royal Bank of Canada, where he built a pan-Asian event-driven and relative value equity trading business. Prior to that Damian was a Portfolio Manager in the Strategic Investment Group of Morgan Stanley, where he managed a pan-Asian event-driven and relative value multi-asset class trading book as part of the global proprietary trading group. Damian has an MBA from London Business School, and an MA in Computer Science and Law from the University of Cambridge.

Service Providers

Prime Broker	Morgan Stanley
Administrator	SS&C Technologies
Legal	Rajah & Tann, Dechert, Walkers
Audit & tax	PwC
Compliance	ComplianceAsia
Technology	Enfusion, Eze Castle

Terms

Minimum Investment US $1 million (subject to directors' discretion)

Management / Performance Fee Class A 1.5% and 15%; Class B 1.0% and 10%. High water mark applies.

Liquidity Monthly redemption with 45 days' notice. 3% fee if redeeming within first year.

Legal Structure Metrica Asia Event Driven Master Fund is an exempted company incorporated with limited liability under the laws of the Cayman Islands. Investment into the Master Fund may be made through Metrica Asia Event Driven Feeder One which is a Cayman-domiciled entity suitable for non-US and US non-taxable

investors. Both entities are managed by Metrica Partners Pte. Ltd., a firm regulated by the Monetary Authority of Singapore.

Investor Relations

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Metrica Partners is a member of the Alternative Investment Management Association.

Important Notice

Please consider the investment objectives, risks, charges and expenses of Metrica Asia Event Driven Master Fund ("the Fund") carefully before investing. The prospectus for the Fund contains this and other information and can be obtained by contacting us at the address above. Please read the prospectus of the Fund carefully before investing.

Past performance is not indicative of future returns.

An investment in the Fund may be deemed speculative and involves significant risk. It is designed only for experienced and sophisticated persons who are able to bear the risk of the substantial or total impairment or loss of their investment in the Fund. Investors should understand such risks and have the financial ability and willingness to accept such risks for an extended period of time. The Fund is not a complete investment program and should represent only a portion of an investor's portfolio management strategy.

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