Metrica Asia Event Driven Master Fund
June 2018 Newsletter

Investment Manager: Metrica Partners Pte. Ltd.

4th July 2018

Message from the CIO

I am pleased to bring you our thirteenth newsletter. June was a disappointing month for the fund with our Class B shares returning a preliminary **-1.27%**[1]. Event-driven and share class strategies were roughly flat, and the holding company strategy was down for the month (Table 1).

	%
Other	-0.02
Event-driven	-0.03
Share Class	-0.10
Holding Company	-1.12
Total	-1.27

Table 1: Strategy Attribution[2]

In terms of geographical performance (Table 2), South Korea and India were the largest detractors this month primarily due to holding company positions.

This brings net returns to **+7.87%** over the thirteen months since inception (Table 3 on the following page), with an annualized standard deviation of **+4.98%**.

[1]All figures in this newsletter are preliminary. For our official administrator-calculated NAV, please refer to fund databases or to our investor statements. Performance is net of fees and expenses and is with reference to our offshore feeder.

[2]"Other" refers to P&L items which are not directly attributable to one of the three core strategies.

	%
Other	-0.10
Japan	-0.16
India	-0.51
South Korea	-0.51
Total	-1.27

Table 2: Geographic Attribution

Although the fund has significantly outperformed the MSCI Asia Pacific Index (which is down 4.5%) so far in 2018, our trading strategy has an absolute return goal and thus it is disappointing to report a negative performance for this period.

We present here a quick recap of how we view the P&L generation process and how we believe this has led to the 2018 first-half result:

Firstly, although we typically split our positions into three strategies according to the nature of the trades and their hedges, another way of viewing the portfolio is to divide it into a collection of "option-type trades" and "carry trades".

Among the former are situations where the market is pricing in a very low probability of (for example):

- an M&A transaction completing
- a deal failure
- a revision to deal terms

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2017						0.21	2.92	0.53	2.50	2.27	-0.09	0.26	8.88
2018	0.04	-1.59	2.17	-0.44	0.20	-1.27*							-0.93*

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

- a holding company taking action to reduce the discount at which its shares trade
- a shareholder of a holding company launching an activist campaign to improve governance
- some feature of a security (e.g. voting rights) becoming more valuable due to corporate events

Correspondingly, some examples of what we would call carry trades are:

- a company is being taken over by another with well-defined terms and we view completion to be highly likely
- a company is being liquidated with well-defined proceeds distributed to shareholders in a well-defined timeframe
- a security frequently trades at a price divergent from another security with which it is fungible

The goal of our P&L generation process is in the first instance to use the profits from carry trades to offset the premiums on the option-type trades[3]. Then, if our probability assumptions are correct, over a given period, enough of the option-type trades should generate positive payoffs to earn the real target return (10-12%) of the strategy.

The general trend of 1H 2018 however has been that, while the carry trades have generated enough P&L to offset the premiums on the option-type trades, none of the latter have so far really paid off in a big way – principally due to the lack of catalysts mentioned earlier.

While it's hard to say definitively how long this environment will last, when we look back at our historical strategy returns (available on request), the previous period of similarly flat returns was during the first half of 2012. Although we struggle to draw any direct parallels in terms of general market conditions between now and then, what we do know is that the four years following the flat return period in 2012 were very good ones for our strategy. We are cautiously optimistic that the same will be true this time around.

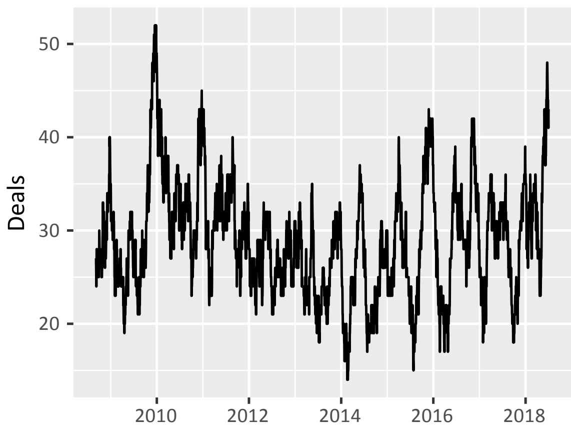

Figure 1: Live Deals in Asia

Event-driven Strategy

It is a busy time for event-driven with the number of "live deals"[4] currently at an eight-year high (Figure 1).

Among some of the larger transactions announced in June were[5]:

- A consortium of Hong Kong's CK Infrastructure and related companies has made an unsolicited indicative non-binding proposal for Australia's **APA Group** at a premium of 36%, valuing the company at USD 8.4 billion. The

[3]Please note that although we describe these as "option-type", in reality the positions are mostly structured using equities. Their similarity with options lies in their asymmetric payoff profiles.

[4]Defined as a rolling sum of M&A deal announcements over a 60-day window – i.e. assuming that the average duration of a deal is 60 days. Source: Factset

[5]With thanks to Anson Ho.

deal is subject to pre-conditions including due diligence, FIRB, ACCC and others.

- Swire Pacific, also in Hong Kong is looking to buy out its 75%-owned subsidiary, **HAECO**, via a scheme of arrangement at a premium of 63%, valuing the company at USD 1.5 billion. The scheme requires not more than 10% of the present and proxy scheme shares to be voted against the scheme, amongst other conditions. This implies a blocking stake of 4.2% of total shares outstanding or USD 38 million.

- In Thailand, Global Power Synergy is set to launch a mandatory general offer valued at USD 4.2 billion for **Glow Energy** at a premium of 8.1% after entering a sales and purchase agreement for 69.1% of the shares. The agreement is subject to shareholder approval but 75% of shareholders have already expressed support for the deal. In addition, the deal also requires approval from the Energy Regulatory Commission.

Also we note a few recent headlines relevant to the strategy:

- The Hong Kong Stock Exchange has recently published proposals on **shell companies** and **backdoor listings** due to concerns over market manipulation, insider trading and unnecessary volatility. The proposals will tighten suitability reviews for new applicants, enhance continued listing criteria and tighten reverse takeover rules to prevent the manufacture and maintenance of shell companies as well as stop backdoor listings. Shell company transactions have recently been running at a high level in Hong Kong, and we expect these to accelerate ahead of any implementation of the new rules

- In Taiwan, the Financial Supervisory Commission intends to ease rules around **financial sector mergers**, aiming to promote much-needed consolidation. Under the proposed changes, a buyer would only have to commit to purchasing a 10% stake in the target market to initiate a tender offer as compared to the original 25% threshold. Flexibility in calculating capital adequacy during the acquisition period is also proposed. We see this as positive for the Taiwanese financial sector and expect to see more M&A activity in this space.

- A US private equity manager closed its latest Asia buyout fund at USD 6.7 billion after exceeding its target by more than 65% and hitting its hard cap. The fund will focus on buyout and strategic investments across a wide range of sectors in Asia Pacific. Given the encouraging interest, we expect to see more activity in the Asian buyout space.

In June the fund's largest event-driven move was from a Japanese risk arbitrage position, where the spread widened from 7.3% to 12.4% over the month, contributing -38 bps to P&L. The deal, which is structured as a share swap is scheduled to complete at the end of July and has won approval from both target company and acquiring company shareholders. The main outstanding condition is regulatory approval which we do not view as a significant hurdle given that both the acquiring and target companies are already in the same corporate group. We view the widening as driven by limited liquidity and retail investor disappointment around the treatment of non-monetary shareholder rewards, and we expect the spread to contract in due course.

The general uptick in deal announcements is causing a spread widening in the risk arbitrage space which we think is caused by the "supply" of deals temporarily overwhelming the "demand" from event-driven investors. We believe that the attractive spreads currently on offer will soon attract more investor capital into this strategy, ultimately driving spreads tighter again, so we are making the most of this opportunity while it lasts by increasing the fund's gross exposure to this strategy - see Figure 2 on page 5 for details.

From July onwards we will be looking out for the following potential catalysts:

- Possible amendment of merger ratio for Alpine Electronics, Alpine shareholder meeting

- Results of SEBI, SFIO probe into Fortis Healthcare, and results of bidding process

- Results of due diligence for BWX Ltd

- Kakao M shareholder approval

- Results of ACCC's review of APA Group
- Results of ACCC's review of APN Outdoor Group
- HAECO's scheme meeting approval
- Energy Regulatory Commission approval for Glow Energy
- Viva Industrial Trust & ESR-REIT's scheme meeting approval
- Nisshin Steel shareholder approval
- Possible revised bid for Gateway Lifestyle by Brookfield, board recommendation for Hometown offer
- Scheme approval for Investa Office Fund

Holding Company Strategy

A recurring theme in our recent newsletters has been a lack of holding company value-realization catalysts compared to 2017. However there are signs that this may be about to change, with two take-privates announced in the first week of July alone:

1. **Vedanta Resources** in London, which has a 50.1% stake in India-listed Vedanta Limited worth more than double its market cap, is being taken out by its major shareholder at a 28% premium to the pre-announcement price.
2. Similarly, the major shareholder and related parties of **Guoco Group** in Hong Kong, another holding company with substantial stakes in other list companies, have just announced a privatization offer at a 14.4% premium to the pre-announcement price.

We view the above as a signal that the long drought of holding company sector catalysts may be finally coming to an end.

Also during the month we saw three speculated or proposed spin-offs that could lead to the creation of new holding company trading opportunities:

- The Nikkei reported that **Softbank** (USD 79.3 billion) will apply to list its Japanese mobile business, Japan's 3rd largest wireless carrier by subscribers, in July. According to the article, Softbank intends to list a partial stake of the unit on the TSE's first section as Softbank rebrands itself as a tech investment house.
- **Kaisa Group** (USD 2.6 billion) proposes to spin-off its subsidiary Kaisa Property and separately list it on the main board of the Hong Kong Stock Exchange. Although details have yet to be finalized, Kaisa Group has said that its intend to keep Kaisa property as a subsidiary and maintain an interest of not less than 50%.
- Similarly, **Xinyi Solar** (USD 2.3 billion) announced that it intends to spin-off its subsidiary Xinyi Energy via a global offering on the HKeX. Xinyi Solar also expects to retain Xinyi Energy as a consolidated subsidiary.

Elsewhere in the space, Korea's Fair-Trade Commission has said owner families of **chaebols** need to sell down their stakes in affiliates not relevant to their key businesses. Examples given of non-core areas were real-estate, logistics and advertising. Continued chaebol restructuring together with increased participation in the Korean Stewardship Code should improve corporate transparency and boost shareholder returns. We expect the trend to also potentially unlock value from holding company discounts.

In the fund's holding company portfolio, we saw discounts widen to a weighted level of 71.5% (our estimates) in June as global emerging markets sold off and large caps outperformed mid-caps.

There were no large single-name moves except for one Korean position which widened out to a 74% discount. This name – already one of the cheapest holding companies in Asia – has a shareholding in another listed company which is worth more than three times its market cap. It also has land, PPE and very little debt. We think it will not be long before this extreme valuation discrepancy is corrected.

Share Class Strategy

Two recent developments are positive for future potential returns in this strategy:

- The first tranche of the A-share inclusion to the **MSCI Emerging Markets Index**, making up just 2.5% was executed smoothly on 31 May.

With the second tranche coming in August and speculation that MSCI could increase the inclusion factor to 15% by January, we expect to see increased liquidity in A-share and Stock Connect markets that would facilitate the trading of various share classes.

- Also, the CSRC released the final rules for **China Depository Receipts** (CDRs). The rules are largely similar to the initial draft and restrict issuers to "innovative firms" with a market cap greater than RMB 200 billion. In addition, CDRs can initially only be issued to qualified investors. We believe the launch of CDRs will generate many interesting new trading opportunities.

Portfolio Positioning

June brought a substantial increase in the number of fund positions (Table 4) from 52 to 63 – almost entirely driven by an increase in event-driven names following the high number of deal announcements.

	Long	Short	Total
Event-driven	17	15	32
Holding Company	15	10	25
Share Class	3	3	6
Total	35	28	63

Table 4: Long and Short Positions $\geq$ 1% of NAV

Gross exposure increased +52.2 points month-on-month to +194% (Table 5), which is close to our target level of 200%. Nearly all of this was from event-driven. Net exposure was +1.8 points month-on-month. Figure 2 shows the end-of-month gross and net exposures for each strategy.

	Long	Short	Gross	Net
All Positions	103.3	90.7	194.0	12.5
Top 10 Long	46.3	0.0	46.3	46.3
Top 10 Short	0.0	42.1	42.1	-42.1

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

Figure 3 shows how **Japan** continues to represent the largest source of gross exposure at 69.8% of NAV (+27.1 points month-on-month) with India and Korea following behind. On a net basis, **Hong Kong** has the highest exposure at +12.9% which is primarily from event-driven positions.

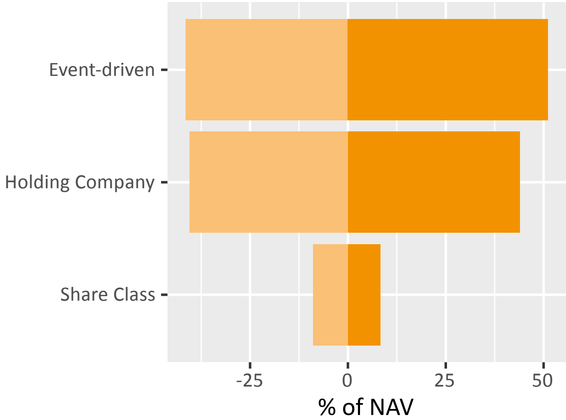

Figure 2: Strategy Exposures

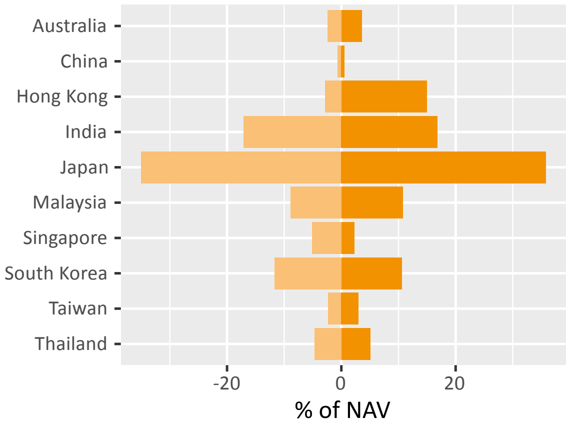

Figure 3: Geographic Exposures

Figure 4 on the next page shows the sector breakdown, showing how the financials sector accounts for the highest gross and net weightings – primarily the result of most holding companies being classified into this sector under GICS.

Finally, the market capitalization breakdown (Figure 5 on the following page) shows an increase in net exposure to the sub-$300 million segment – mostly driven by the addition of small-cap risk arb positions in Hong Kong and Japan.

Damian L. Edwards, CFA

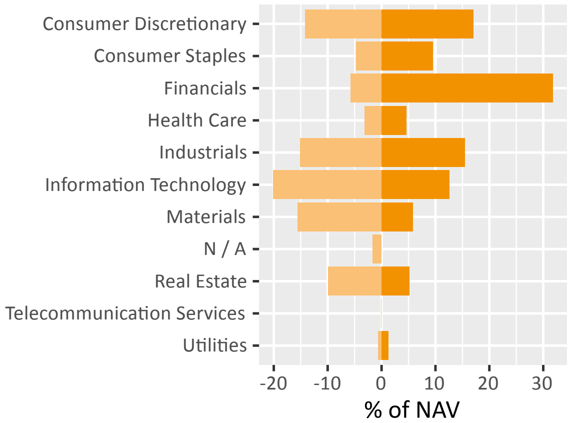

Figure 4: GICS Sector Exposures

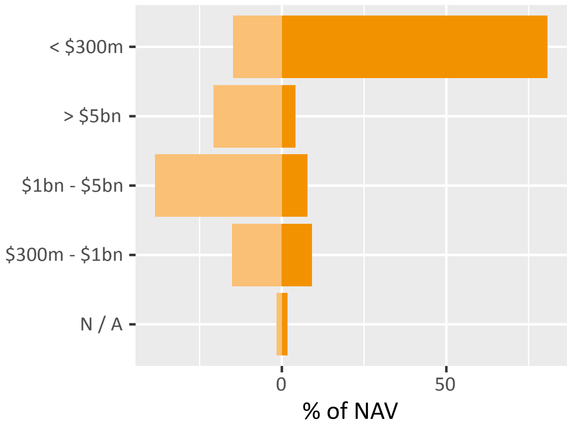

Figure 5: Market Capitalization Exposures

Fund Overview

Assets Under Management

$16.3 million

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 categorized into three strategies:

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. 20% fund-level gate, suspended until cumulative subscriptions reach $50m.

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.

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

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