



# Metrica Asia Event Driven Master Fund October 2018 Newsletter

Investment Manager: Metrica Partners Pte. Ltd.

5th November 2018

## Message from the CIO

Welcome to our seventeenth newsletter. In the midst of steep Asian market declines in October, the fund's Class B shares returned **+0.23%**<sup>1</sup> net. This brings performance since inception to **+7.90%** net (Table 1 on the following page), which compares with an MSCI AC Asia-Pacific index return of -2.09% over the same period.

## October Attributions

Another solid performance from the event-driven strategy was met with marginal contributions from the other strategies (Figure 1 and Table 2 on the following page). The event-driven strategy has now had positive or flat<sup>2</sup> returns for seventeen consecutive months.

Japan and India were the largest positive contributors by geography (Table 3 on the next page), due mostly to holding company positions. Australia was third thanks mainly to spread compression in a share swap merger. Malaysia was the biggest drag on returns although this obscures a sharp intra-

<sup>1</sup>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.

<sup>2</sup>To within 3 bps.

<sup>3</sup>Unaudited and gross of fees. Capital usage for each strategy is estimated by weighting NAV according to gross exposure.

<sup>4</sup>"Other" refers to P&L items which are not directly attributable to one of the three core strategies.

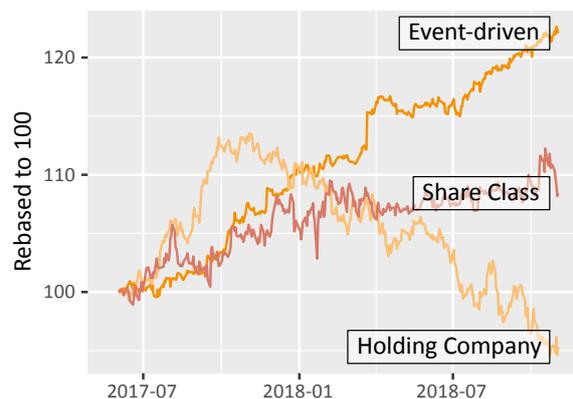


Figure 1: Returns by Strategy<sup>3</sup>

month rally in one of our names during which we were able to realise profits.

## Event-driven Strategy

We didn't see any large contributors to event-driven performance this month. Gross exposure was -30.0 points over the month as several Japanese and Singaporean share swap deals completed successfully. Net exposure was +19.0 points as we added to cash deals in Australia, Singapore and the Philippines.

Please see the last section of this newsletter for a news round-up.

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	-1.25	-0.26	-0.08	0.12	0.23*			-0.90*

Table 1: Net Monthly Performance Since Inception - Class B (%) (\* preliminary)

	%
Event-driven	0.52
Other	-0.05
Share Class	-0.10
Holding Company	-0.15
Total	0.23

Table 2: Strategy Attribution<sup>4</sup>

	%
Japan	0.40
India	0.37
Australia	0.29
Other	-0.01
Hong Kong	-0.21
South Korea	-0.28
Malaysia	-0.32
Total	0.23

Table 3: Geographic Attribution

## Holding Company Strategy

Our holding company positions had mixed performance this month and we were able to take profits in some Japanese and Malaysian names. As a reminder, P&L in this strategy is predominantly mark-to-market (unrealized) until catalysts appear and we can exit accordingly.

A position in India added +33 bps as euphoria relating to an index addition wore off. In Japan, a position in a company which has a large holding in Recruit Holdings added +21 bps of performance as it outperformed the latter name.

On the other hand, a Korean name contributed -35 bps as it underperformed its major holding on no news to finish the month at a 79% discount to NAV (our estimate).

Overall gross and net exposure were roughly flat. We added 2.1% of gross exposure to a Japanese



Figure 2: NAV Discount of the Six Positions

bank which has a large portfolio of listed equities.

## Current Thoughts

It has clearly been a difficult year for the holding company strategy, and investors are naturally asking: "How much wider are these spreads likely to get?" and "When will we see a turnaround?"

To help answer these questions, we looked at our six representative positions which we have been separately tracking over the last few newsletters. The average discount to NAV (weighted by position size) has increased from 70% when we started building these positions to more than 78% currently (Figure 2). In other words, each name on average now owns net assets worth almost five times its market cap.

Without the drag from these positions, the end-October Class B NAV per share would have been 7.2% higher according to our calculations (Figure 3 on the next page).

Looking at the above as well as individual spread movements, we can make a few observations:

1. The rate of spread widening appears to have slowed this month (as the NAV delta of 7.2%

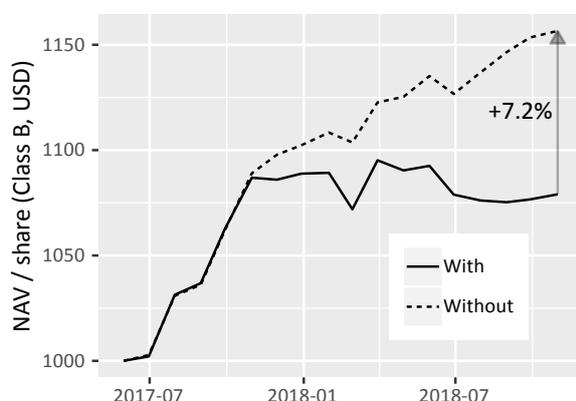


Figure 3: NAV With / Without the Six Positions

is roughly unchanged from last month).

2. One of the six names (a Korean paper manufacturer) has already rallied back close to our entry level, indicating that the direction of movement is not all one-way.
3. Current levels are at all-time wides that we have seen in our decade-plus history of looking at this space.

From the above we are cautiously optimistic that the relative value side of the portfolio may be starting to turn around.

## Share Class Strategy

It was a slightly negative month for the share class strategy and exposures were broadly unchanged.

## Positioning

October saw a sharp drop in the number of fund positions (including hedges, Table 4) from 62 to 44 – mostly caused by various Japanese mergers completing.

Gross exposure was -28.3 points month-on-month for the same reasons. Net exposure was +18.2 points as the fund increased positions in various cash M&A deals. Figure 4 on the next page shows the strategy breakdown.

Figure 5 on the following page shows how **India** has eclipsed Japan as the largest source of geographic gross exposure at 35.1% of NAV (-1.3 points

	Long	Short	Total
Event-driven	12	3	15
Holding Company	15	11	26
Share Class	1	2	3
<b>Total</b>	<b>28</b>	<b>16</b>	<b>44</b>

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

	Long	Short	Gross	Net
All Positions	105.9	66.5	172.4	39.5
Top 10 Long	57.0	0.0	57.0	57.0
Top 10 Short	0.0	43.8	43.8	-43.8

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

month-on-month) with Australia and Japan following behind. On a net basis, **Hong Kong** continues to have the highest positive exposure at +11.9% – primarily from event-driven positions.

Figure 6 on the next page shows the sector breakdown, which shows a decreased short in materials and information technology sector exposures due to various M&A deals rolling off. Figure 7 on the following page shows the market capitalization breakdown, which shows a reduced long exposure to sub-\$300 million market capitalization companies, and a decreased short in the \$1bn - \$5bn segment – primarily for the same reasons.

**Damian L. Edwards, CFA**

## News Round-up<sup>5</sup>

In the event-driven space, we had three potential deals in Australia:

- Australia's **Navitas** received an unsolicited non-binding proposal from a consortium including BGH Capital at a 26% premium, valuing the firm at USD 1.4 billion, subject to due diligence. The target board has asked for a presentation from BGH in order to determine whether to support the proposal.
- In a similar PE-led buyout, **MYOB Group** in Australia received an unsolicited, non-binding

<sup>5</sup>With thanks to Anson Ho.

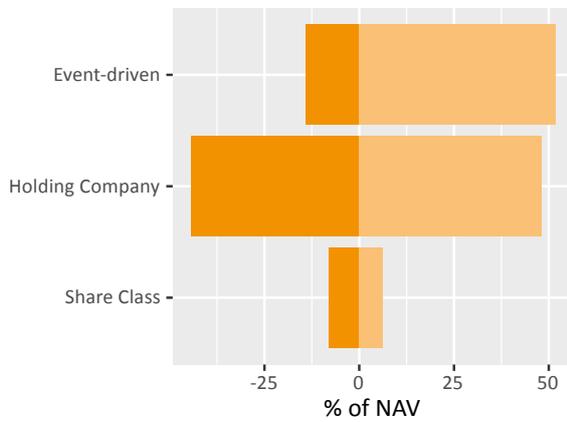


Figure 4: Strategy Exposures

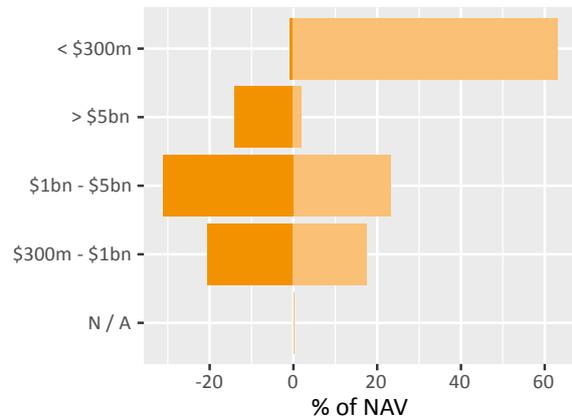


Figure 7: Market Capitalization Exposures

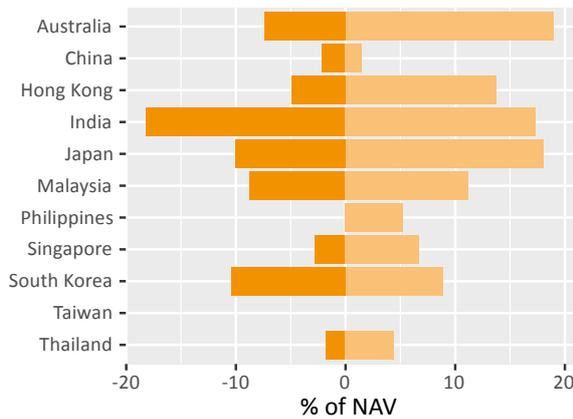


Figure 5: Geographic Exposures

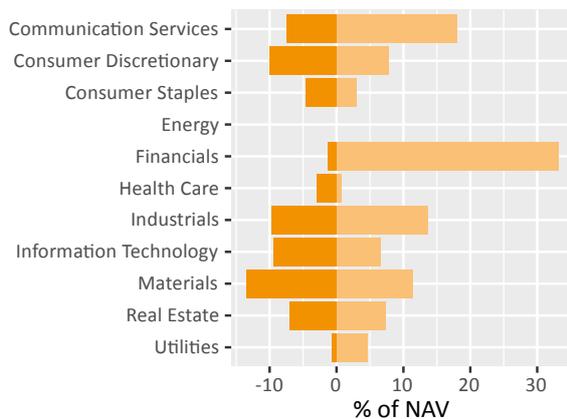


Figure 6: GICS Sector Exposures

indication of interest from KKR valuing the company at a 24% premium or USD 1.6 billion. KKR subsequently increased the offer price by 2% to gain access to due diligence.

- A few months after Australia's **Healthscope** rebuffed offers from Brookfield and a consortium including AusSuper and BGH Capital, it has again received an offer from the latter at the same price. Healthscope's board is currently considering whether to support the proposal.

We also saw healthy levels of activity in Japan:

- The **Showa Shell / Idemitsu** saga seems to be finally drawing to a close with the companies executing a share swap agreement at a ratio close to pre-announcement levels.
- Nippon Telegraph and Telephone intends to squeeze out minorities in its 67%-owned subsidiary, **NTT Urban Development**. The offer values the company at 30% premium or USD 4.9 billion.
- Similarly, Orix Corp announced a privatization of its 68%-owned subsidiary, **Daikyo** at a 24% premium or USD 2.2 billion.
- America's Johnson & Johnson is acquiring **Ci:z Holdings** in Japan at a 55% premium or USD 2.5 billion. The offer is subject to JFTC approval and has a minimum acceptance condition which will ensure that the offeror owns two-thirds of Ci:z's shares upon completion.

- France's Faurecia is buying out **Clarion** at a 6% premium or USD 1.2 billion. Major shareholder, Hitachi has already agreed to tender its 64% stake. The offer remains subject to approval from JFTC and other competition regulators as well as a minimum two-thirds acceptance condition.

Finally, Midea Group of China announced that it will take its affiliate, **Little Swan**, private via a share swap. The offer represents an implied premium of 10% for the A shares and 34% for the B shares. Both Little Swan's and Midea's shareholders have an option to sell their shares at a 10% discount should they disagree with the plan. The share swap is subject to approval from both sets of shareholders, CSRC and any other required regulators.

In the holding company space, spin-off activity continues to be healthy:

- The music arm of Tencent Holdings, **Tencent Music Entertainment**, has filed for a US IPO aiming to raise USD 1 billion. This is said to be half the company's original plan last year. Valuations have not been disclosed.
- **Melco Studio City** closed up 24% on its first day of trading after listing its American Depository Shares in New York. The Hong Kong parent, Melco International Development, raised USD 360 million from the IPO and the company remains a majority shareholder with a 57.3% stake. Melco International is planning to distribute 1.5% of the IPO proceeds to shareholders with an option to acquire Studio City ADS for eligible shareholders although this has not been finalized.

Finally, upcoming points of focus include:

- Scheme meetings for Investa Office Fund, Fairfax Media, Sinotrans
- Regulatory approvals for Fairfax (ACCC), LCY Chemical (multiple), Bank Tabungan Pensiunan (multiple), Delta Electronics (multiple), M1 Ltd Singapore (IMDA), Ci:z Holdings (JFTC), Clarion Co Ltd (JFTC)
- Shareholder approvals for Nisshin Steel, LCY Chemical, Bank Tabungan Pensiunan, Little Swan, Midea Group, Alpine Electronics

- Acceptance rates for M1 Limited Singapore, Ci:z Holdings, Clarion
- Axiata's response to Keppel's offer for M1
- Boards' evaluation of Navitas and Healthscope proposals
- Results of due diligence for MYOB Group

## Fund Overview

### Assets Under Management

\$16 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 20 years' experience in the finance industry in Asia, of which 14 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

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<i>Prime Broker</i>	Morgan Stanley
<i>Administrator</i>	SS&C Technologies
<i>Legal</i>	Rajah & Tann, Dechert, Walkers
<i>Audit &amp; Tax</i>	PwC
<i>Compliance</i>	Principium Consulting
<i>Technology</i>	Enfusion, Eze Castle

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## 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.

## Investor Relations

Please direct inquiries to:

David Mulvenna, Chief Operating Officer  
Metrica Partners Pte. Ltd.  
50 Raffles Place  
#31-05 Singapore Land Tower  
Singapore 048623

Telephone: +65 6904 1992  
Fax: +65 6826 4192  
david.mulvenna@metricapartners.com

*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") 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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