



# Metrica Asia Event Driven Master Fund November 2018 Newsletter

Investment Manager: Metrica Partners Pte. Ltd.

10th December 2018

## Message from the CIO

Welcome to our eighteenth newsletter. The fund's Class B shares returned **+1.65%**<sup>1</sup> net in November, reaching a new peak. This takes performance since inception to **+9.68%** net (Table 1 on the following page), which compares with an MSCI AC Asia-Pacific index return of **+0.58%** over the same period.

## November Attributions

Last month we wrote "we are cautiously optimistic that the relative value side of the portfolio may be starting to turn around". And this is indeed what happened, as most of November's performance came from a sharp reversion in holding company spreads (Figure 1 and Table 2 on the following page). The event-driven strategy also continued to perform well, and it has now had positive or flat<sup>2</sup> returns for eighteen consecutive months.

South Korea and Malaysia were the largest positive contributors by geography (Table 3 on the next page), due mostly to holding company positions. Japan was the laggard.

<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.

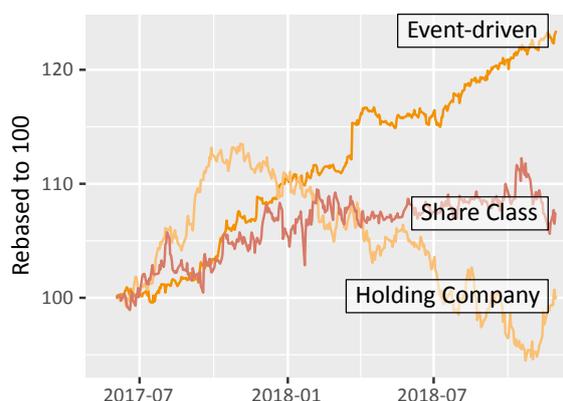


Figure 1: Returns by Strategy<sup>3</sup>

## Event-driven Strategy

We didn't see any large contributors to event-driven performance this month. Gross exposure was -17.8 points month-on-month mostly due to the completion of a large Australian share-swap merger. Net exposure was +1.5 points.

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

## Holding Company Strategy

Our holding company positions had a strong rebound this month with positions in Malaysia, India and Korea (x2) contributing +76 bps, +45 bps, +51 bps and +37 bps respectively. These movements

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	0.22	1.65*		0.73*

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

	%
Holding Company	1.58
Event-driven	0.32
Share Class	-0.11
Other	-0.15
<b>Total</b>	<b>1.65</b>

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

	%
South Korea	0.87
Malaysia	0.60
Hong Kong	0.29
India	0.18
Australia	0.16
Other	-0.18
Japan	-0.28
<b>Total</b>	<b>1.65</b>

Table 3: Geographic Attribution

didn't appear to be linked to any newsflow.

Conversely, a name in Japan contributed -32 bps as it cheapened relative to its stake in another company which rallied upon the announcement of a move from the Second Section to the First Section of the Tokyo Stock Exchange.

Figure 2 shows the weighted average NAV (or sum-of-the-parts) discount on our holding company positions<sup>5</sup>, which was broadly flat month-on-month at around 75%. This may surprise some readers given that this strategy contributed +158 bps of performance. The answer is of course that

<sup>5</sup>Prior to this month we have also been separately tracking a subset of six names. The performance spread if these six names reverted to our entry points was +5.0% at the end of November, compared with +7.1% the previous month. As we have rebalanced the portfolio quite a bit from when we first started tracking this basket, we will no longer be breaking out this statistic in the newsletter.

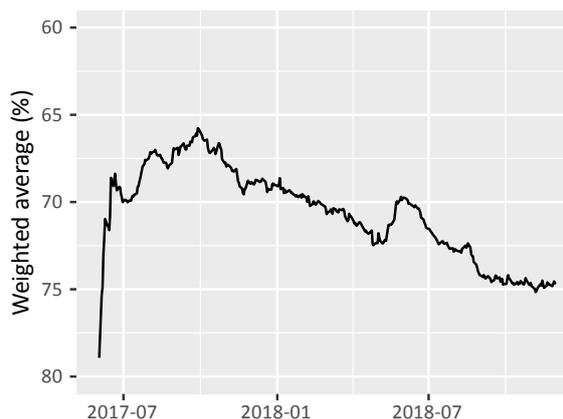


Figure 2: Holding Company Discount to NAV

our rebalancing activity has allowed us to realise profits on names where spreads have tightened and reallocate accordingly.

One further encouraging sign is the announcement of a **corporate action** by one of our names to which we have exposure of +7.6% of NAV. The company will spin off one of its non-core shareholdings to existing shareholders (including us) with an ex-distribution date in December. Although the spin-off value is relatively small, it represents immediate value accretion to our position and furthermore is a good indication that the company's management is finally starting to do something about its extreme share price discount.

Turning to exposures, overall this month gross and net were broadly unchanged. Within the portfolio we made quite a few rebalancing trades with gross exposure changes of up to 1.6% each time.

## Share Class Strategy

It was a slightly negative month for the share class strategy and exposures were once again mostly unchanged. We continue to see a relative lack of opportunities in this space.

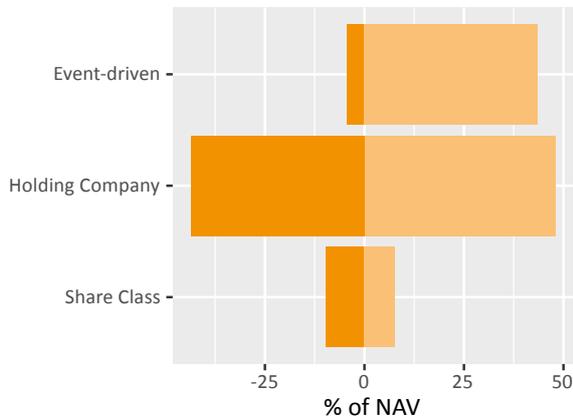


Figure 3: Strategy Exposures

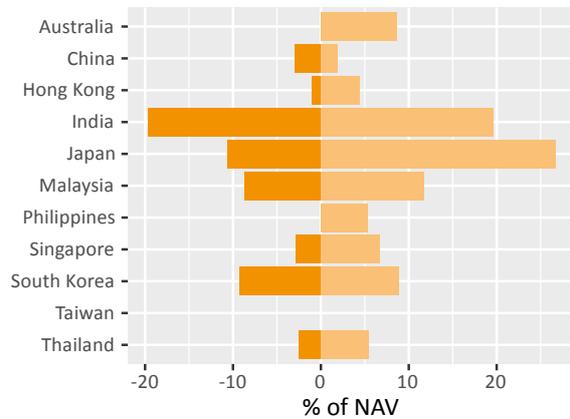


Figure 4: Geographic Exposures

### Positioning

November saw the number of fund positions at or above 1% of NAV at 42 (Table 4), compared with 44 the previous month.

	Long	Short	Total
Event-driven	11	1	12
Holding Company	13	11	24
Share Class	2	4	6
<b>Total</b>	<b>26</b>	<b>16</b>	<b>42</b>

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

Gross exposure was -15.6 points month-on-month primarily due to the completion of the Australian deal mentioned above. Net exposure was +2.1 points. Figure 3 shows the strategy breakdown.

	Long	Short	Gross	Net
All Positions	99.2	57.6	156.8	41.6
Top 10 Long	52.7	0.0	52.7	52.7
Top 10 Short	0.0	37.8	37.8	-37.8

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

Figure 4 shows that while **India** is still the top geography in terms of gross exposure, Japan has moved back to the number two position and Korea is third. On a net basis, **Japan** had a change of +8.0

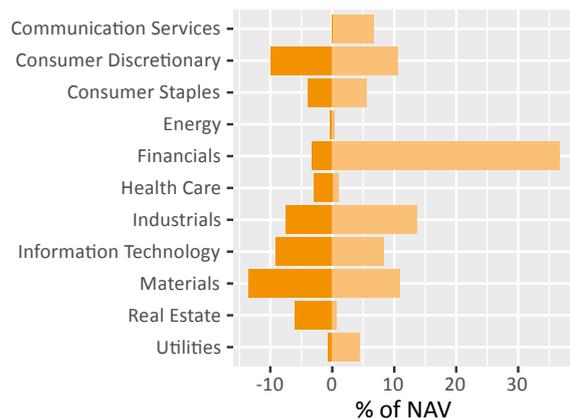


Figure 5: GICS Sector Exposures

points month-on-month as we increased exposure to various cash tender offers.

Figure 5 shows the sector breakdown, which doesn't show any major moves versus the previous month. A reminder that many of our holding company positions are classified as "Financials" by the data vendor.

Finally, Figure 6 on the next page shows the market capitalization breakdown, which shows a reduced long exposure to the sub-\$300m segment due to various deals in Hong Kong and Australia completing, with corresponding net increases in other categories.

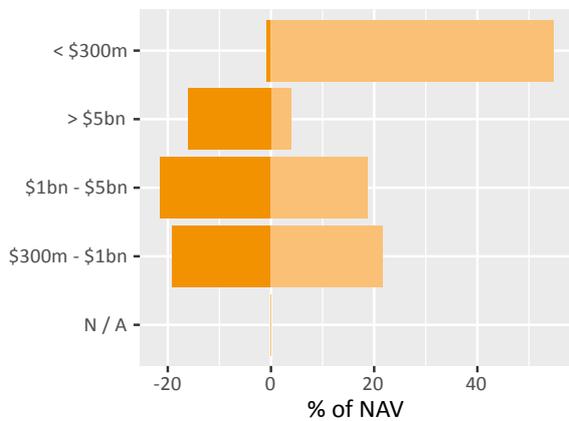


Figure 6: Market Capitalization Exposures

## Business Update

It has been a busy period for business development. Thank you to all those that came to see us at conferences in Zurich, Singapore and Tokyo. One common theme from the feedback is that we have done well to preserve the fund's capital during the heightened market volatility. Following a rather slow summer, we are now seeing a pick-up in investor inquiries again which is a promising sign for further growth in the business.

**Damian L. Edwards, CFA**

## News Round-up<sup>6</sup>

A rather quiet month in terms of new deal announcements:

- New Zealand's **Trade Me Group** received a non-binding indicative proposal from Apax Group at a 26% premium valuing the firm at USD 1.9 billion, subject to due diligence. Subsequently, Hellman & Friedman joined the fray with a 1% higher offer, also subject to due diligence.
- Following BGH's renewed offer for Australia's **Healthscope** last month, Brookfield also returned with an off-market takeover offer and simultaneous scheme for Healthscope, offering a 9.5% bump to BGH's offer and valuing

Healthscope at USD 3.3 billion. In light of this, Healthscope's board has decided to reject the BGH offer and grant exclusive due diligence to Brookfield.

Taiwan's FSC has finalized recommendations on the regulations to ease thresholds for **mergers and acquisitions among financial holding companies** and banks. The recommendations include lowering the threshold for initiating a tender offer from 25 percent to 10 percent. The changes only apply to consolidations involving privately run companies and institutions and will take effect from 30 November.

The Singapore Exchange (SGX) is seeking public feedback on proposed new rules regarding **company delistings** to help better protect the interests of minority shareholders. The proposal includes disallowing offerors and parties acting in concert to vote on delisting resolutions and to lower the approval threshold from 75% to 50%. The 10% block provision was also proposed to be scrapped which will mean delistings could proceed despite being opposed by those holding over 10% of total issued shares so long they have the requisite majority mentioned earlier. SGX also plans to require exit offers made in conjunction with a voluntary delisting be "fair and reasonable" as evaluated by an independent financial adviser before being allowed to proceed. Currently, exit offers are only required to be "reasonable". The consultation will end on 7 December.

In the holding company space, spin-off activity ramped up towards the end of the year:

- **Fosun Tourism**, which includes Club Med as well as a luxury resort in Sanya, has filed IPO documents with Hong Kong Stock Exchange (HKEX) seeking to raise USD 548 million. The company will continue to be a subsidiary of Fosun International (market Cap USD 14 billion) who will continue to hold 82% of the company.
- Legend Holdings (market cap USD 6.9 billion) has applied to the HKEX to spin off **Zhengqi Financial**. Zhengqi Financial which provides financial services in the PRC to small and medium sized enterprises, will remain a subsidiary of Legend Holdings which will continue to own a 60% stake in the company.

<sup>6</sup>With thanks to Anson Ho.

- Zhengtong Auto (market cap USD 1.5 billion) submitted an application for **Dongzheng** in Hong Kong. Dongzheng which specializes in providing auto finance products and services for purchasers of luxury brand cars will remain a subsidiary of Zhengtong Auto which has pledged to retain more than 50% of its shares.
- Xinyi Solar (market cap USD 2.9 billion) has obtained shareholder's approval to spin off its solar farm operations unit which is expected to raise USD 437 million. **Xinyi Energy** will become listed on the HKEX and will continue to be a subsidiary of the parent company which is expected to hold around 53.7% of shares.
- China Construction Bank (CCB, market cap USD 219 billion) becomes the second big Chinese bank following Bank of China to spin off its **wealth unit** (valued at USD 2.2 billion). Spinning off the business will separate the higher-yielding wealth management assets which are considered riskier and are thought to underpin the country's shadow banking industry. Following the government crackdown in the face of rising bad debt, CCB's peers are expected to follow suit.
- Singapore's Thompson Medical Group (market cap USD 1.6 billion) plans to spin off its real estate business to shareholders via a distribution in specie of its subsidiary **RSP Holding's** shares. Upon completion, RSP would cease to be a subsidiary of the group. The proposal is subject to shareholder's approval.

A positive development for share class opportunities is that the China Financial Futures Exchange (CFFEX) has further relaxed restrictions on A share index futures. Firstly, the margin requirement on SSE50 and CSI300 index futures has been reduced from 15% to 10%, while the margin requirement for CSI500 index futures has been reduced from 20% to 15%. Secondly, the daily trading limit on a single index futures contract has been adjusted from 20 lots to 50 lots with hedging transactions being excluded from this restriction. The MSCI has been following the available of a hedging contract as part of the consultation to grow the inclusion factor for A shares in the MSCI Emerging Markets Index from 5% to 20% in 2019.

Finally, upcoming points of focus include:

- Scheme meeting approvals for Investa Office Fund, Sinotrans
- Regulatory approvals for LCY Chemical (multiple), Bank Tabungan Pensiunan (OJK), Delta Electronics (multiple), M1 Ltd Singapore (IMDA), Ci:z Holdings (JFTC), Clarion (JFTC)
- Shareholder approvals for Nisshin Steel, LCY Chemical, Bank Tabungan Pensiunan, Little Swan, Midea Group, Showa Shell Sekiyu and Idemitsu Kosan
- Acceptance rates for M1 Limited Singapore, Ci:z Holdings, Clarion Co Ltd
- Possible further counter-offers for Investa Office fund, Trade Me Group
- Possible revised offers for Navitas Ltd, Healthscope Ltd
- Results of due diligence for MYOB Group, Trade Me Group, Healthscope Ltd
- Results of appeal for Glow Energy PCL

## 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.

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.*

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<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 (Open) 1.5% and 15%; Class B (Closed) 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

## 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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