metrica

Metrica Asia Event Driven Master Fund
July 2019 Newsletter

Investment manager: Metrica Partners Pte. Ltd.

5th August 2019

Message from the CIO

- Metrica Partners is excited to be presenting at FERI's Hedge Fund Investment Day on 5 September in Bad Homburg, Germany.

We are pleased to bring you our July newsletter. Net return was **+1.16%**, which takes year-to-date performance to **+4.60%**.

Inception-to-date, the fund has returned **+14.75%**[1] (table 1 on the following page) with an annualised monthly standard deviation of **3.74%**. This compares to an MSCI AC Asia Pacific index return of +3.78% and standard deviation of 12.88% over the same period.

Strategy attributions and positioning All three strategies contributed positively again in July (table 2 on the next page).

The **event-driven** strategy added 78 bps to performance, of which the largest single contribution was +25 bps. This was from Xenith IP Group, an Australian deal, which was voted through by shareholders towards the end of the month. We reached our maximum size (10% of NAV) just ahead of the shareholders' meeting and then unwound around 80% as the spread started to price in an aggressive assumption for the consideration (a mix of cash + shares).

Inception-to-date this name has been our largest P&L contributor. We estimate that there was enough capacity in this situation for a position ten times the size, showing how we still have ample room to deploy additional funds in this strategy.

Gross exposure in events fell 7.2% to 51.3% (figure 1 on the following page) which reflects the unwind of Xenith as well as the successful completion of deals in Singapore and India. Net exposure fell 8.2% to +28.4% for the same reasons. We added 3.6% of gross to a Japanese share-swap deal.

Asian M&A deal volumes continue to trend at high levels in 2019, with the number of transactions up to July exceeding the previous post-GFC high (figure 2 on the next page). At month-end we were tracking 73 deals with an aggregate daily trading volume of $104 million.

The **holding company** strategy contributed +32 bps in July and had some larger individual moves.

A position in Hong Kong contributed +49 bps as its share price outperformed that of its major listed associate. Even after this move, the holding company still trades at around a 70% discount to NAV,

[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 the offshore feeder fund, Class B shares.

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

[3] Source: Factset. M&A target listed in Asia-Pacific.

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	1.64	0.03	0.75
2019	0.50	0.80	0.19	-0.22	0.96	1.14	*1.16						*4.60

Table 1: Net monthly performance since inception - Class B (%) (* preliminary)

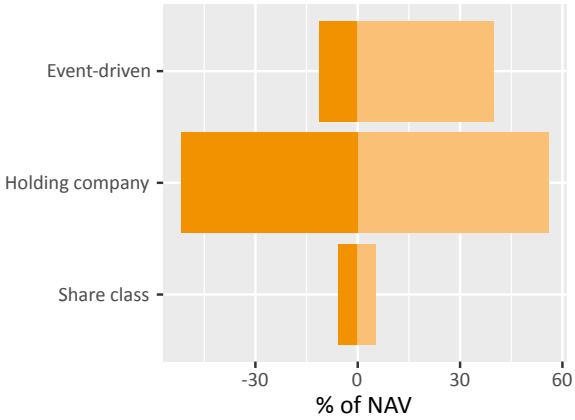

Figure 1: Strategy exposures

	%
Event-driven	0.78
Holding company	0.32
Share class	0.22
Other	-0.16
Total	1.16

Table 2: Strategy attribution[2]

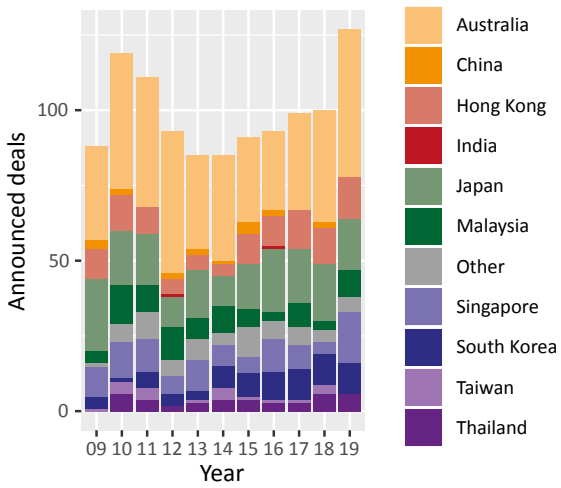

Figure 2: Announced M&A: January to July[3]

most of which is listed. We spoke to the company's CEO in early July and expressed our strong desire for the company to address the discount. In the past the company has bought back shares whenever the discount has reached similar levels.

A Malaysian position contributed +41 bps as it rallied 9% over the month while its main holdings were flat. It may have benefited from a local business press article which detailed the sum-of-the-parts value and described it as the "most undervalued company on Bursa Malaysia".

The largest detractor (-59 bps) was another Malaysian name which underperformed its main listed associate which rallied 9% after revealing takeover interest from a Canadian property investor. We expect that August will be a critical month for the deal to happen or not.

There were no other significant single-position movers this month. Gross exposure was roughly flat at 108%, and net similarly at +4.2%. We reduced gross by 2.4% in the Hong Kong situation mentioned above.

Share class trading in June contributed +22 bps. Gross fell slightly to 11.1%, with net at zero.

Figure 3 on the following page shows inception-to-date attributions for the three strategies.

[4]Not compounded. P&L items in the "Other" category have been omitted for clarity.

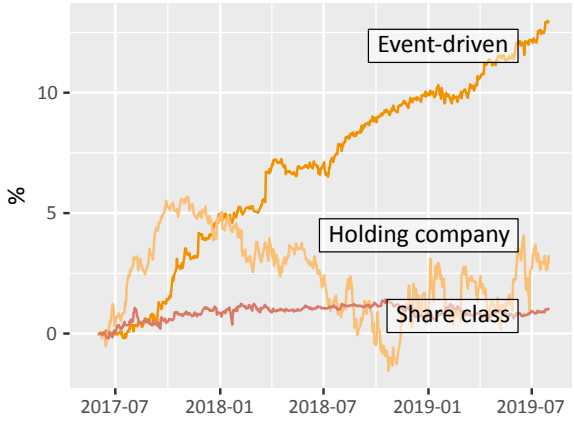

Figure 3: Inception-to-date strategy attribution[4]

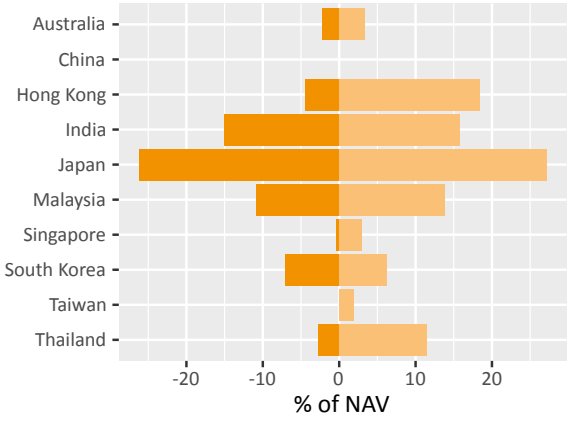

Figure 4: Geographic exposures

Geographic attributions and positioning Hong Kong was the main geographic driver of performance in July (table 3), contributing +76 bps – mostly from the holding company name mentioned above. Australia was second with +46 bps. All other regions were in the range -17 bps to +26 bps.

	%
Hong Kong	0.76
Australia	0.46
Japan	0.26
Malaysia	-0.16
Other	-0.17
Total	1.16

Table 3: Geographic attribution[5]

During the month Hong Kong net and gross exposure increased by 6.3% (figure 4) as we added to several event-driven situations. Australia gross fell by 12.3% thanks mostly to the Xenith unwind. Net exposure to Singapore and India both fell about 5.5% due to event-driven trade completions.

Top three gross exposures at end-July were to Japan, India and Malaysia.

[5]"Other" refers to P&L items which are not directly attributable to a geography, or to geographies which contributed minimally this month.

Overall positioning

July saw the number of fund holdings at or above 1% of NAV decreasing by two to 43 (table 4).

	Long	Short	Total
Event-driven	12	4	16
Holding company	13	10	23
Share class	2	2	4
Total	27	16	43

Table 4: Long and short positions $\geq$ 1% of NAV

Gross exposure was -11.3 points month-on-month which was primarily from the event-driven strategy. Net was -7.2 points month-on-month.

	Long	Short	Gross	Net
All positions	101.0	68.9	170.0	32.1
Top 10 long	53.5	0.0	53.5	53.5
Top 10 short	0.0	41.1	41.1	-41.1

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

Figure 5 on the following page shows the sector breakdown, which shows a reduction of 5.8% in Information Technology net exposure, driven by the unwind of the Singapore deal mentioned above.

Finally, figure 6 on the next page shows the market capitalization breakdown, which shows a re-

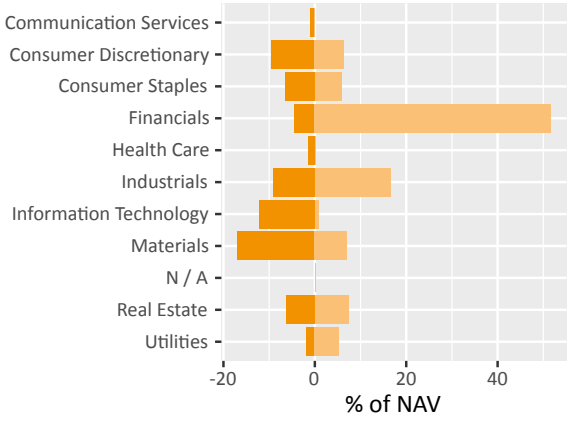

Figure 5: GICS sector exposures

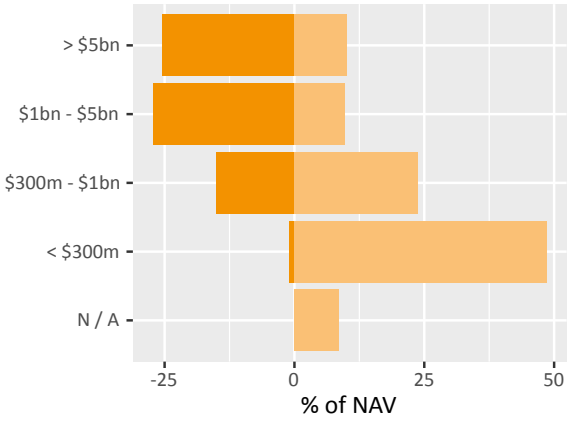

Figure 6: Market capitalization exposures

duction of 17.2% in net exposure to the sub-$300m segment which is all from event-driven unwinds.

Damian L. Edwards, CFA

News[6]

The Singapore Exchange recently changed two aspects of the voluntary delisting rules for listed firms better to protect minority shareholders. The changes – which took effect in July – follow last year's public consultation and address complaints about issuers delisting on the cheap. Voluntary delisting offers now must be both "fair" and "reasonable" in the opinion of the appointed independent financial advisor. Previously, the offers were only required to be "reasonable". Further, offerors and parties acting in concert now must abstain from voting on the voluntary delisting resolution.

Among new deals, a mandatory general offer is being launched at a 2% premium for Hong Kong listed **Maanshan Iron and Steel** (market cap USD 3 billion) by China's state-owned Baowu Steel. The reorganization among state entities via an equity transfer agreement with Anhui SASAC triggered a change of control and while a waiver of a general offer obligation was sought from Hong Kong's SFC, the takeover panel did not grant it. The offer is conditional on minimum acceptance of 344 million H-shares which will result in the offeror controlling more than 50% of the voting rights of the company.

Upcoming potential catalysts in the event space include:

- Regulatory approvals for GlaxoSmithKline Consumer Healthcare, Daewoo Shipbuilding and Marine Engineering, Reliance Nippon Life Asset, Holcim Philippines, Millennium & Copthorne
- Shareholder approvals for GlaxoSmithKline Consumer Healthcare, OUE Commercial Real Estate
- Acceptance rates for Millennium & Copthorne, Maanshan Iron & Steel
- Completion of SPA for WABCO India
- Offer announcement for Fajar Surya Wisesa
- Completion of equity transfer for Dalian Port

In the holding company space, we saw the following news in July:

- Australia's **Woolworths** Group (USD 31 billion) will merge its Endeavour Drinks division with its Australian Leisure and Hospitality Group with the intention to spin off the combined entity by demerger or otherwise in 2020.
- Korea's major construction materials producer, **KCC Corp** (USD 2.3 billion) will spin off its glass making, interior decoration and flooring material businesses to a new spin-off entity tentatively named KCG. KCC will focus on the B2B

[6] With thanks to Anson Ho.

sectors like chemicals including silicone and coating materials while KCG will handle the B2C areas with assets worth USD 850 million.

- India is planning to spin off the gas transmission business of **Gail India Ltd** (USD 9 billion), the nation's largest gas utility, leaving the gas marketing operations. The oil ministry is seeking approval from the cabinet and has appointed an international consultant to determine tax implications. The spin-off will bring greater transparency to the two businesses, help the company focus on expansion of its network and may allow the government to sell shares at a later date. Gail owns two-thirds of India's operating gas transmission network and the pipeline operation accounts for 40% of its earnings.
- Also in India, the coal ministry is studying a proposal to spin off units of **Coal India Ltd** (USD 19 billion), the world's largest coal miner, into separate listed companies to boost competition and raise government funds. The proposal includes four production units and also its exploration arm. The production units accounts for more than three-quarters of the company's output while being less than half of its workforce.

Fund overview

Assets under management

$27 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

Before co-founding Metrica in 2016, 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
	Baker McKenzie
	Walkers
Audit & tax	PwC
Compliance	Principium Consulting
Technology	Enfusion
	Eze Castle
Directors	Simon Cox
	David Mulvenna
	Stephen Rooney

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

We aim to publish this newsletter on the third business day of the following month (Singapore calendar).

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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") 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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