metrica

Metrica Asia Event Driven Master Fund
October 2019 Newsletter

Investment manager: Metrica Partners Pte. Ltd.

5th November 2019

Message from the CIO

- We are pleased to announce that **Sara Yuan** has joined the investment team. Sara previously worked on the buy side at Goldman Sachs and State Street. She has masters degrees from Peking University and Princeton University.
- Metrica Partners was recently featured in the German publication "**private banking magazin**". Please contact us for a copy of the article.
- Metrica Partners will be presenting at the **Morgan Stanley Fifteenth Annual Asian Hedge Fund Investment Forum** in Singapore on 19 November. We hope to see many of you there.

We start with an update on two situations we have recently been highlighting, both of which have produced positive outcomes since the start of November.

In our August and September newsletters we mentioned an Australian takeover where we have been pressing the target company board to withdraw their recommendation of the deal. We are happy to share the news that on 1 November, the acquirer bumped the offer consideration by **48-60%** (with the final amount dependent on acceptances) – a very positive result, and one which would not have happened without pressure from us and other shareholders. The situation highlights the unique advantages of our active approach to investing and is so far our most successful trade in terms of inception-to-date P&L.

Secondly, the Thai takeover situation mentioned in our last newsletter – which had been trading at around 5-6% discount to terms right up to the close – completed successfully on 4 November as expected. The fund had a reasonably large position.

The contribution from these positions will appear in our November numbers and currently more than offsets the October result described below.

October performance Turning to the month just ended, Class B net return was **-1.54%**[1] during the month. This takes year-to-date Class B performance to **+2.53%** (table 1 on the following page).

Strategy attributions and positioning It was a relatively quiet month for the **event-driven** strategy, with no major moves and a total contribution of +19 bps (table 2 on the next page).

Gross exposure in events fell 5pp[3] to 56% (fig-

[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] Percentage points.

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	1.08	0.55	-0.92	*-1.54			*2.53

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

	%
Event-driven	0.19
Other	0.11
Share class	-0.04
Holding company	-1.80
Total	-1.54

Table 2: Strategy attribution[2]

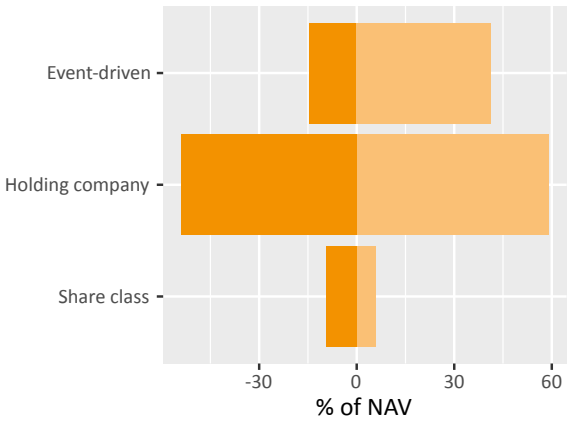

Figure 1: Strategy exposures

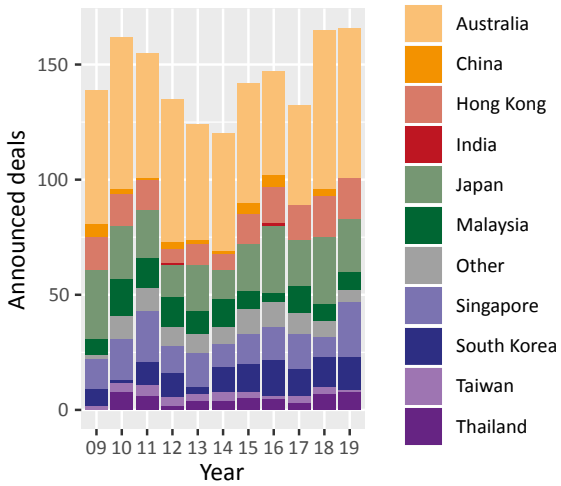

Figure 2: Announced M&A: January to October[4]

ure 1). Net exposure fell 9pp to +27% which was mostly from the unwinding of a late-stage Hong Kong deal where we felt most of the upside had already been captured.

Asia Pacific M&A deal volumes continue to trend at high levels, with the number of transactions up to October just exceeding the prior post-GFC high (figure 2). It is still an excellent time to be investing in event-driven opportunities in Asia Pacific. At month-end we were tracking 69 live deals with an aggregate daily trading volume of $241 million.

The **holding company** strategy on the other hand had a down month in October with a contribution of -180 bps, mostly from Indian (-72bps) and Malaysian (-98bps) positions. We didn't see any particular single-stock catalysts.

The weighted average discount on the holding company portfolio is at the highest level since the fund launch. The discount is also at a record level when viewed over the 12-year period that the strategy has been implemented.

Despite this pronounced widening, the cumulative contribution from the holding company strategy since the fund's inception is still positive.

The explanation for this is our frequent rebalancing activity: by rotating lower-discount names into higher-discount names, we have increased the potential upside to the portfolio from a normalisation of discounts – and this has been achieved at effectively zero cost.

At current levels and given current position sizes, a normalisation in our holding company spreads to more typical levels would result in a significant increase in the fund's value. For example, a rever-

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

sion even only to 0.25x sum-of-the-parts (or 75% discount) would produce a 10.9% boost to NAV (using 31 October levels / sizes).

Meanwhile, we are continuing our engagement with selected portfolio companies. We have four current targets around the region. We have had one CEO call this week (contact us for details) and we are in regular contact with all four. We firmly believe that we will see a positive pay-off from this activity in the near future.

It is worth re-visiting our motivations for maintaining our commitment to the holding company strategy despite the recent performance:

1. It was the best-performing of our strategies by far in the 2007-2016 period (and it is being run in exactly the same way).
2. We believe running the strategy as an independent fund manager offers the potential for higher returns given that engagement/activism was not doable at the strategy's two previous homes (both proprietary trading groups at large investment banks).
3. It offers diversification benefits when combined with the other strategies (ask us for the chart).
4. We believe it is not a crowded investment strategy.
5. In draw-down periods, the P&L is mark-to-market rather than realised – i.e. there has generally been no permanent loss of capital.

Nevertheless we of course appreciate that many of our investors have their own requirements to show positive performance to their end clients and we are focusing our efforts on turning the results around as soon as possible.

Gross exposure in holding companies ended the month flat at 113%, and net was also flat at +5%.

Share class trading in October contributed -4 bps. Gross was down slightly at 15%.

Figure 3 shows trailing 12-month attributions for the three strategies. Over this period event-driven has contributed positively while holding companies and share class have been positive or flat.

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

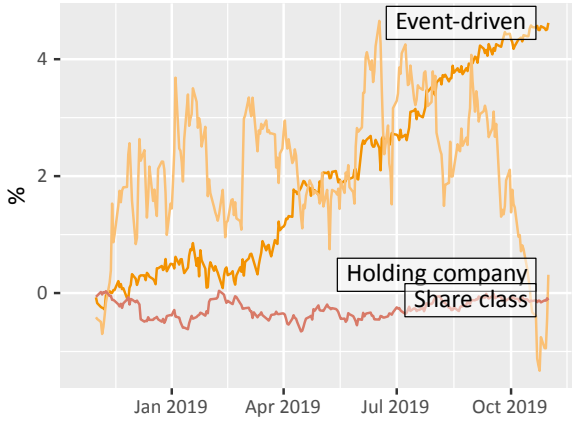

Figure 3: Trailing 12 month strategy attribution[5]

Geographic attributions and positioning India and Malaysia were main geographic drivers of performance in October (table 3), contributing -53 bps and -102 bps respectively – mostly from holding company positions. Other countries did not make significant contributions during the month.

	%
Other	0.13
Hong Kong	-0.12
India	-0.53
Malaysia	-1.02
Total	-1.54

Table 3: Geographic attribution[6]

Japan gross exposure increased by 6.6pp (figure 4 on the following page) as we increased exposure to a share-for-share deal. Hong Kong gross and net fell by 14pp. Top three gross exposures at end-October were to Japan, India and Australia – unchanged from last month.

Overall positioning

October saw the number of fund holdings at or above 1% of NAV decreasing by five to 39 (table 4 on the next page).

[6]"Other" refers to P&L items which are not directly attributable to a geography, or to geographies which contributed less than ±10 bps this month.

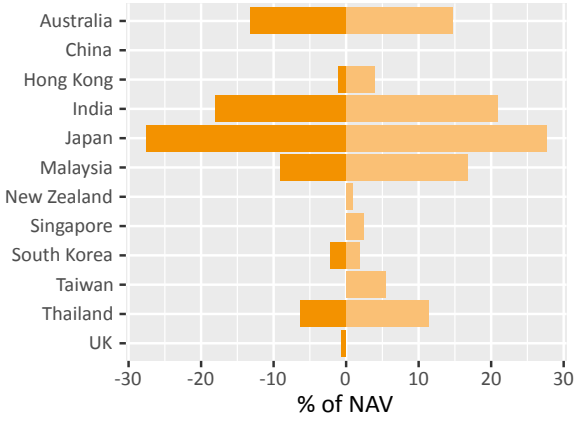

Figure 4: Geographic exposures

	Long	Short	Total
Event-driven	11	3	14
Holding company	9	11	20
Share class	2	3	5
Total	22	17	39

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

Gross exposure was -7.1pp month-on-month. Net was -8.5pp, mostly from the Hong Kong position unwind.

	Long	Short	Gross	Net
All positions	106.0	78.0	184.0	28.0
Top 10 long	70.0	0.0	70.0	70.0
Top 10 short	0.0	53.5	53.5	-53.5

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

Figure 5 shows the sector breakdown, which shows a negative swing of 9.7pp in Materials net exposure also mostly from the Hong Kong unwind.

Finally, figure 6 shows the market capitalization breakdown. Short exposure to the $1bn - $5bn segment rose by 11pp – again from the Hong Kong (long position) unwind.

Damian L. Edwards, CFA

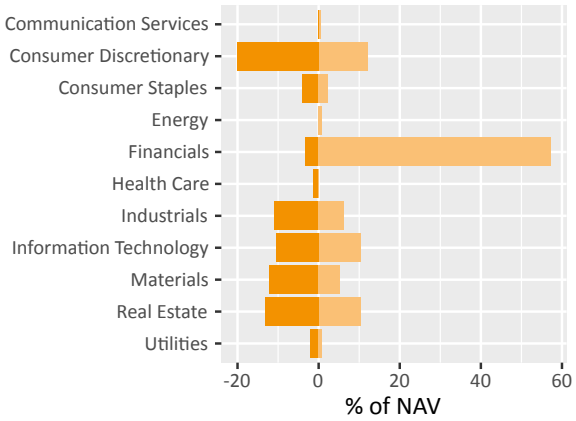

Figure 5: GICS sector exposures[7]

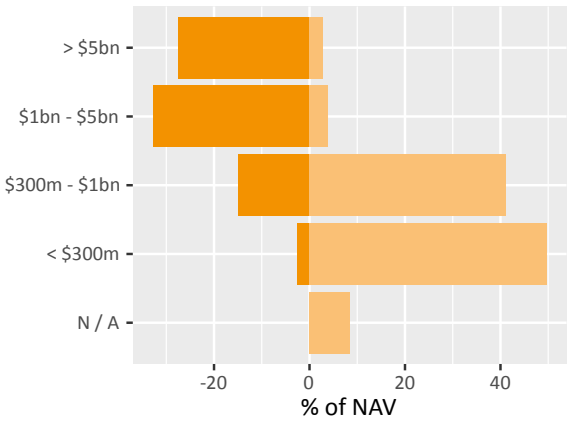

Figure 6: Market capitalization exposures

[7]Please note that GICS classifies many holding companies as "Financials", even if their underlying businesses are not financial.

News[8]

October was another busy month for deals:

- Temasek announced an offer to acquire 31% of **Keppel Corporation** ($9.2 billion market cap), a Singapore-listed infrastructure engineering conglomerate. Temasek currently holds a 20% stake in the target and is paying a 26% premium to the undisturbed price, with Keppel to remain listed post-deal.

- A consortium led by Yanlord Land and Perennial Real Estate made a mandatory conditional cash offer for Singapore-listed **United Engineers** ($1.3 billion), a real estate owner and developer, at a 2% premium. Yanlord says it doesn't intend to privatize United Engineers. The consortium currently holds 35% of the target. This is Yanlord's second bid for control after a failed attempt two years ago.

- Honda announced a tender for three affiliates: **Keihin** ($1.8 billion) at a 37% premium, **Showa** ($1.6 billion) at a 27% premium and **Nissin Kogyo** ($1.4 billion) at a 40% premium. All three will be merged with unlisted Hitachi Automotive Systems. Honda and Hitachi will then merge their auto-parts makers into a new global mega supplier in the auto industry. Hitachi will end up with a 67% stake and Honda will take the remaining 33%.

- Aviation Industry Corp of China will make a voluntary conditional cash offer for its Hong Kong-listed unit **AVIC International Holdings** ($1.1 billion), an electronic equipment company. The offer price is at a 82% premium. Aviation Industry Corp of China will also merge AVIC Shenzhen with its Hong Kong unit to improve its corporate structure.

- Total SA launched a tender offer to buy 37% of India-listed utility service provider **Adani Gas** ($2.28 billion) with the intention of acquiring control. Total SA will first make an open offer to public shareholders for up to 25% and will buy the remaining shares from the Adani Family. The price in the draft letter of offer is at about a 15% premium to the undisturbed close.

Meanwhile China Huaneng Group formalized its privatization of Hong Kong-listed **Huaneng Renewables** ($4.02 billion), a wind and solar power provider, at a 46% premium. The offer is conditional on regulatory approvals, 75% independent shareholder approval and 90% minimum acceptance from independent shareholders. The last condition in particular recently proved to be an insurmountable hurdle to the privatisation of another power company – Harbin Electric.

On the event calendar we have:

- FIRB approval for Bellamy's
- Composite documents for Huaneng Renewables and TCL Electronics
- Close of offer for ZOZO
- Potential finalised agreement with second bidder for Unizo Holdings
- Competition reviews for Keihin, Showa and Nissin Kogyo
- Satisfaction of pre-conditions for Keppel Corp and Yixin Group
- Acceptances for United Engineers
- De-listing of Glow Energy

Turning to holding companies, the main development this month was Century Textiles & Industries' spin-off of **UltraTech Cement** ($17 billion). The transaction was completed on 14 October.

In share class news, we saw some other companies looking to follow Huatai Securities into listing via Shanghai London Stock Connect. Among them are **SDIC Power Holdings** and **China Pacific Insurance Group**.

Also, the Shenzhen and Shanghai stock exchanges on 18 October approved the inclusion of weighted voting right ("WVR") stocks such as **Xiaomi** and **Meituan Dianping** in Southbound Stock Connect trading. To be eligible, WVR stocks must satisfy conditions on listing period, weighted average daily market cap, and compliance with various rules on shareholder protection etc.

[8] With thanks to Sara Yuan.

Fund overview

Assets under management

$26 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 Asia Pacific 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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