# Metrica Asia Event Driven Master Fund
# November 2019 Newsletter

Investment manager: Metrica Partners Pte. Ltd.

9th December 2019

## Message from the CIO

- Metrica Partners was featured in Issue 144 of "**The Hedge Fund Journal**". Please contact us if you have not yet received a copy of the article, which was sent to our distribution list on 14th November.

November's Class B net return was **+0.70%**[1], taking year-to-date performance to **+3.22%** (table 1 on the following page).

The **event-driven** strategy primarily drove the performance with a +125 bps contribution – of which +160 bps and +37 bps were from the situations in Australia and Thailand mentioned in our previous newsletter. On the other hand, another Australian position contributed -28 bps after a proposed scheme of arrangement was voted down by shareholders who presumably believe that the target company is worth much more than the terms on offer.

Gross exposure in events fell 3pp[3] to 53% (figure 1). The fund's largest event gross exposure is to a Japanese share-for-share merger which is scheduled to close in mid-2020. Net exposure fell 5pp[4] to +22% as a Thai deal completed successfully.

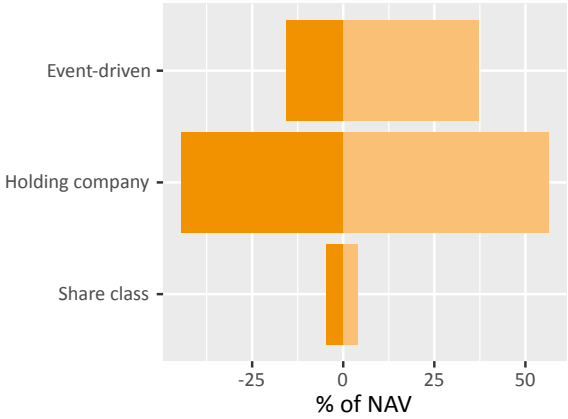


Figure 1: Strategy exposures

Asia Pacific M&A deal volumes continue to trend at high levels, with the number of transactions up to November exceeding the prior post-GFC record (figure 2 on the following page).

A surge of new Japanese deal announcements over the last few weeks – see the last section of this newsletter for more details – has pushed aggregate Asia-Pacific deal target daily trading volume above $400 million – a near-doubling month-on-month. It continues to be an excellent time to be investing in

[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.

[4] 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 | -1.56 | *0.70 | | *3.22 |

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

| | % |
|---|---|
| Event-driven | 1.25 |
| Share class | 0.07 |
| Other | -0.14 |
| Holding company | -0.47 |
| Total | 0.70 |

Table 2: Strategy attribution[2]

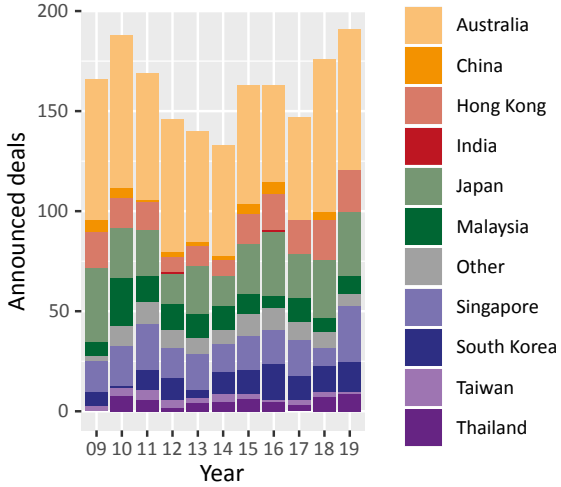


Figure 2: Announced M&A: January to November[6]

event-driven opportunities in Asia Pacific.

At month-end we were tracking 69 live deals. The fund has been increasing its gross exposure to Japan and this trend is likely to continue over the coming weeks.

The **holding company** strategy contributed -47 bps in November. A positive performance in Malaysia (+35 bps) was offset by Indian positions (-65 bps).

The weighted average discount on the holding company portfolio is now at 79.5% according to our models. In other words, the companies in the fund control assets worth almost five times their market capitalisation, the substantial part of which is in the form of listed securities.

We believe the risk / reward at this level is attractive given that it has been rare to see holding companies discounts wider than 80% in our database history which goes back twelve years.

We are continuing our engagement activities with these companies which for the time being is happening on a private basis.

At month-end, gross exposure in holding companies was down by 12pp to 101%, and net rose by 7pp to +12%.

**Share class** trading in October contributed +7 bps. Gross exposure fell to 9%.

Figure 3 on the next page shows trailing 12-month attributions for the three strategies. Over this period event-driven has contributed positively while share class has been flat. Holding company spreads widened sharply in September and October but appear to have stabilised in November.

***At Metrica we believe the largest gains will ultimately come from the relative value (RV) side of the portfolio (i.e. holding companies + share class), and we reiterate the value of the frequently-realised P&L from the hard catalyst side (i.e. event-driven strategy) as a means to provide "holding power" until the RV positions pay off.***

**Geographic attributions and positioning** Australia and Thailand were main geographic drivers of performance in November (table 3 on the following page), contributing +126 bps and +45 bps respectively – mostly from event-driven positions.

India was the main detractor with -57 bps with no particular stock-specific catalysts. The corporate tax cut announced in September has fuelled a rally in

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

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

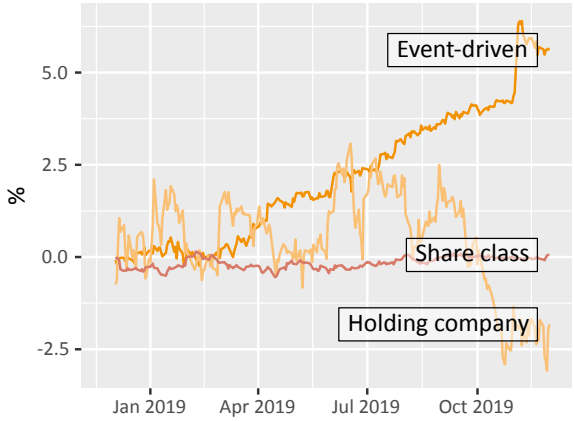


Figure 3: Trailing 12 month strategy attribution[7]

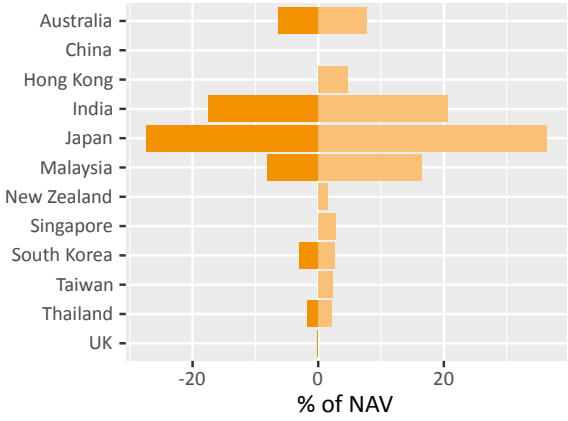


Figure 4: Geographic exposures

some of the holding company subsidiaries, and we believe that the market should start to appreciate the implications for their listed parents in the near future.

Other geographies did not make significant contributions during the month.

| | % |
|---|---|
| Australia | 1.26 |
| Thailand | 0.45 |
| Malaysia | 0.35 |
| Taiwan | -0.16 |
| Other | -0.17 |
| New Zealand | -0.19 |
| Japan | -0.26 |
| India | -0.57 |
| Total | 0.70 |

Table 3: Geographic attribution[8]

Japan net and gross exposure increased by 9pp (figure 4) as we initiated positions in a number of new transactions. Australia and Thailand gross both fell by around 14pp due to the completion of transactions. Top three gross exposures at end-November were to Japan, India and Malaysia – the top two unchanged from last month.

[8] "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.

## Overall positioning

November saw the number of fund holdings at or above 1% of NAV decreasing by four to 35 (table 4) – evidence of a moderate increase in the fund's concentration.

| | Long | Short | Total |
|---|---|---|---|
| Event-driven | 12 | 3 | 15 |
| Holding company | 8 | 8 | 16 |
| Share class | 2 | 2 | 4 |
| Total | 22 | 13 | 35 |

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

Gross exposure was -22.1pp month-on-month. Net was +4.9pp. Both changes were mostly from deal completions.

| | Long | Short | Gross | Net |
|---|---|---|---|---|
| All positions | 97.4 | 64.5 | 162.0 | 32.9 |
| Top 10 long | 68.9 | 0.0 | 68.9 | 68.9 |
| Top 10 short | 0.0 | 43.9 | 43.9 | -43.9 |

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

Figure 5 on the next page shows the sector breakdown, which doesn't show any large swings in net exposure this month. Please note that GICS classifies many holding companies as "Financials", even

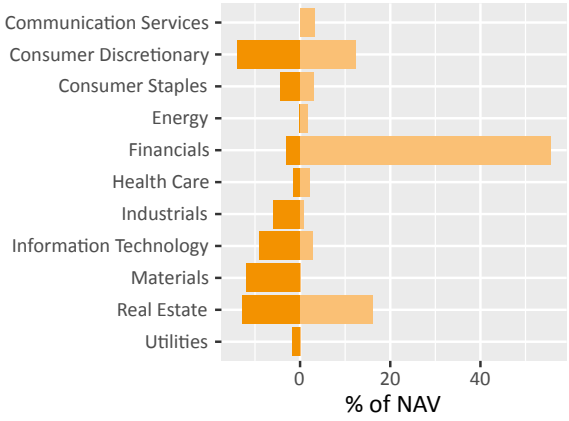


Figure 5: GICS sector exposures

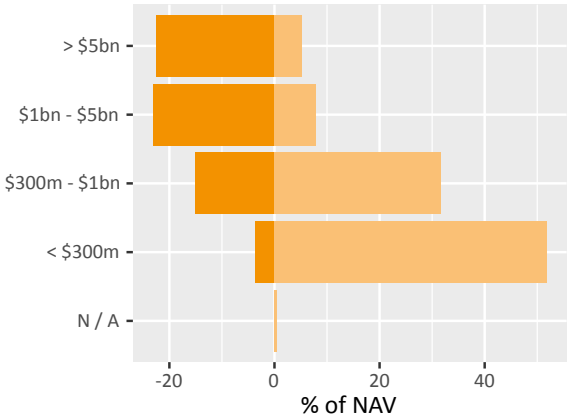


Figure 6: Market capitalization exposures

if their underlying businesses are not financial. Generally speaking, we are effectively long and short the same underlying assets most of the time in the holding company strategy.

Finally, figure 6 shows the market capitalization breakdown. Short exposure to the $1bn - $5bn segment fell by 14pp – mostly from the unwind of positions in Australia.

**Damian L. Edwards, CFA**

## News[9]

It has been an exceptionally busy few weeks in the deal space. The "subsidiary buy-back" theme continues to feature prominently in Japan:

- Mitsubishi Chemical Holdings announced a tender offer to acquire shares of **Mitsubishi Tanabe Pharma** ($10.27 billion market cap), a pharmaceutical products producer, at a 53% premium to the undisturbed price.
- Toshiba announced a tender offer for three of its listed subsidiaries: **Toshiba Plant Systems & Services** ($2.38 billion), a plant engineering company, at a premium of 48% to undisturbed price; **Nuflare Technology** ($1.24 billion), an electron beam mask writers manufacturer, at a premium of 55%; and **Nishishiba Electric** ($0.09 billion), an industrial machinery manufacturer, at a premium of 61%. Toshiba intends to turn the three companies into wholly owned units.

Another trend – horizontal mergers aimed at boosting global competitiveness – was behind two other Japanese announcements:

- **Sanyo Chemical Industries** ($1.19 billion) and **Nippon Shokubai** ($2.58 billion) announced the execution of a final agreement regarding their business integration that was initially announced in May. The two Japanese chemicals companies will form an integrated holding company – Synfomix Co., Ltd. – by way of joint share transfer. The announced ratio vs. undisturbed is in favour of Nippon Shokubai by 1.79%.
- SoftBank Group and Naver announced a privatization of internet media company **Line Corp.** ($11.33 billion) at a 13% premium to undisturbed price. They will each hold 50% of the Line joint venture and merge the privatized Line Corp with Z-Holdings via a share exchange, targeting potential synergies in marketing, e-commerce/O2O and FinTech.

Outside Japan, we saw a few other significant announcements:

[9] With thanks to Sara Yuan.

- **CalTex Australia** ($5.85 billion), a petroleum refining & marketing company, received a non-binding, indicative conditional proposal from Alimentation Couche-Tard (ACT) of Canada. ACT intends to acquire all of the shares of Caltex by way of a scheme of arrangement at an indicative premium of 24% to the undisturbed price. The deal is subject to a number of conditions including due diligence.
- COFCO (Hong Kong) announced the privatization of **China Agri-Industries Holdings** ($2.75 billion), an agricultural producer, by way of a scheme of arrangement at a premium of 67% to the undisturbed price. It is mentioned in the proposal that the price will not be increased.
- Fraser Logistics & Industrial Trust announced the acquisition of **Fraser Commercial Trust** ($1.12 billion) units via a trust scheme to create a flagship portfolio of commercial and industrial assets in the REIT sector. The scheme consideration is a mix of cash and scrip, and the implied total consideration is at about 1.82% premium to undisturbed price.
- Shinhan Financial Group offered to buy out its unit **Orange Life Insurance** ($1.98 billion), a life insurer, in a stock swap deal. Shinhan acquired 59% of Orange Life shares in February 2019. The announced ratio vs. undisturbed is in favour of Orange Life by 0.9%.

Finally, **Thai Beverage** is reported to be considering an IPO of its $10 billion brewery unit which could include Thai Beverage's assets in Thailand and Vietnam. The company mentioned in its response to SGX that it is currently evaluating strategic proposals, including but not limited to a potential listing of its beer business. The company also emphasized that the discussions are still at early stages and there is no certainty that such transactions will occur.

# 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).

Please direct any inquiries to:

David Mulvenna
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.

This newsletter has been prepared solely for the information of the person to whom it has been delivered by or on behalf of the Fund, and the information contained herein may not be reproduced or used in whole or in part for any other purpose, nor may it be disclosed without the prior written consent of the Fund. By accepting receipt of this newsletter, the investor is deemed to have agreed not to duplicate or provide copies of this newsletter to persons other than such investor's professional advisers solely for the purposes of assisting the investor in making an investment decision in respect of the Participating Shares.

The Fund is offering shares solely pursuant to its prospectus, and any information regarding the Fund or shares in the Fund that is not contained in the relevant prospectus shall not constitute an offering of shares in the Fund. Consequently, this material has been prepared solely for informational purposes and is not an offer, or a solicitation of an offer, to buy or sell shares of the Funds or any other security or instrument or to participate in any trading strategy. No person or entity has been authorized in connection with this offering to give any information or make any representations other than as contained in the prospectus or in this marketing material. This does not constitute an offer to, or solicitation of, such person or entity.