Metrica Asia Event Driven Master Fund
December 2019 Newsletter

Investment manager: Metrica Partners Pte. Ltd.

6th January 2020

Message from the CIO

December was another positive month, with the Class B net return ending up at **+0.61%**[1], which takes full year performance to **+3.85%** (table 1 on the following page).

The **holding company** strategy was the largest contributor with a +42 bps move. Indian positions added substantially to performance, with Japanese positions offsetting some of this.

A large intra-month spread compression in a Malaysian position allowed us to realize profits and reduce the gross position size from 16.5% down to 7.4%, re-allocating this exposure into wider spread names. This enabled us to keep the weighted average discount on the holding company portfolio almost unchanged month-on-month at 79.4%.

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

At month-end, gross exposure in holding companies was roughly flat at 100%, and net rose by 2pp[2] to +14%.

The **event-driven** strategy also contributed positively in December with a +37 bps addition – almost all from Japan.

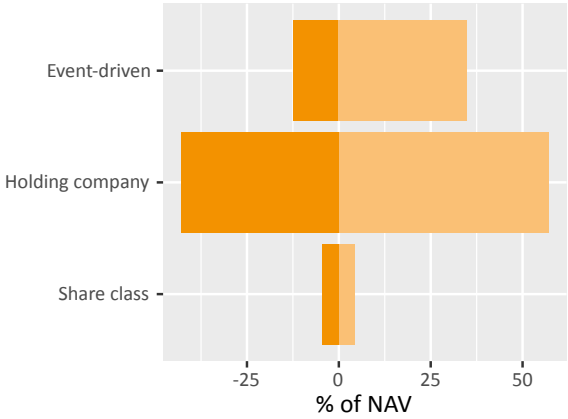

Figure 1: Strategy exposures

Gross exposure in events fell 5.4pp to 47% (figure 1). Net exposure was flat at around +22%. We reduced an Australian position by 5pp but this was offset by additions to other names, particularly in Korea.

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

At month-end we were tracking 70 live deals with

[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] Percentage points.

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

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	*0.61	*3.85

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

	%
Holding company	0.42
Event-driven	0.37
Share class	-0.04
Other	-0.14
Total	0.61

Table 2: Strategy attribution[3]

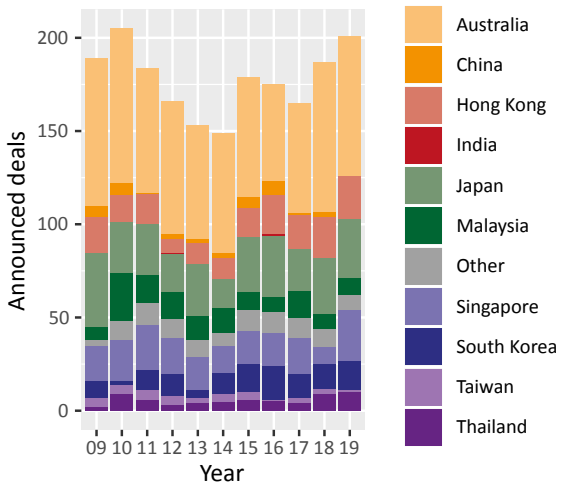

Figure 2: Announced M&A: January to December[5]

an average daily turnover of $305 million.

Share class trading in December contributed -4 bps. Gross exposure was flat at 9%.

Figure 3 shows trailing 12-month attributions for the three strategies. Over the period, the event-driven strategy has consistently been the largest driver of performance, while the two relative value strategies have not yet begun to contribute positively.

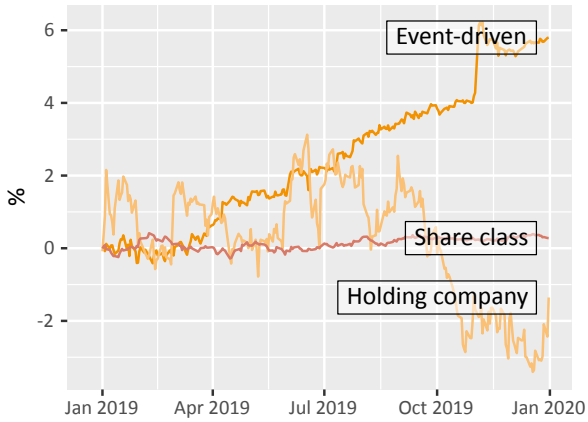

Figure 3: Trailing 12 month strategy attribution[6]

Geographic attributions and positioning India was the main geographic driver of performance in December (table 3), contributing +110 bps – mostly from relative value positions. Japan was the main detractor with -42 bps. In both cases there were no particular single-stock catalysts for the moves. Malaysia had some positive contributors as outlined above but these were partially offset by other positions.

	%
India	1.10
Other	-0.07
Japan	-0.42
Total	0.61

Table 3: Geographic attribution[7]

India and Korea gross exposure both increased by

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

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

[7]"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.

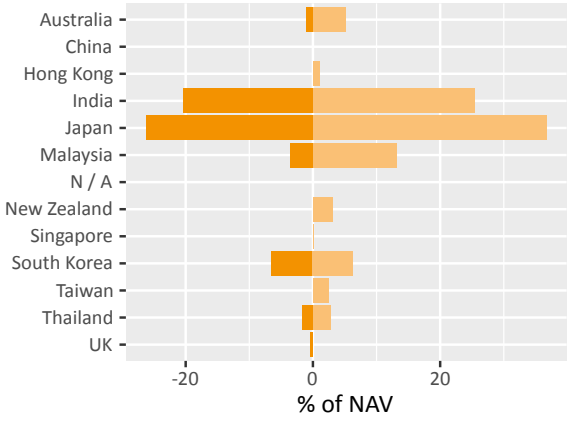

Figure 4: Geographic exposures

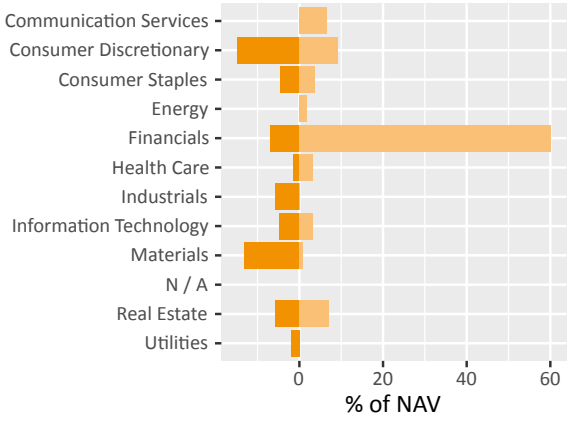

Figure 5: GICS sector exposures

9pp (figure 4) as we added to relative value names and initiated a new share-for-share merger position. Malaysia and Australia gross both fell by similar amounts.

Top three exposures at end-December were to Japan, India and Malaysia – unchanged from last month.

Overall positioning

December saw the number of fund holdings at or above 1% of NAV increasing by two to 37 (table 4).

	Long	Short	Total
Event-driven	12	3	15
Holding company	9	9	18
Share class	2	2	4
Total	23	14	37

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

Gross exposure was -6.1pp month-on-month. Net was +3.3pp.

	Long	Short	Gross	Net
All positions	96.1	59.9	155.9	36.2
Top 10 long	65.8	0.0	65.8	65.8
Top 10 short	0.0	40.4	40.4	-40.4

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

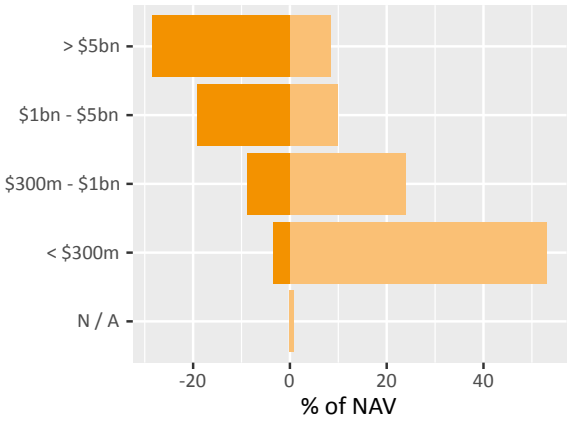

Figure 6: Market capitalization exposures

Figure 5 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 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 6pp – mostly from the unwind of positions in Australia.

Damian L. Edwards, CFA

News[8]

The past year has seen a continuation of healthy levels of corporate M&A activity in Asia-Pacific, which became particularly pronounced towards the second half. This was despite increasing macro-economic uncertainty.

Activity levels were particularly high in core Asia-Pacific markets. With more focus on improvement of corporate governance and enhancement of core competencies, Japan saw a major up-tick in subsidiary buyouts and intra-industry consolidations. In China, state-owned enterprise privatizations and restructurings trended up compared with last year. Australia was also active with consolidation among mining companies a prominent theme. Meanwhile South-east Asia M&A hit a seven-year high, with Singapore's state-owned investment firms among the most active. Even in Korea, which has not been a key market for M&A in terms of total deal volume, there were a few attention-grabbing deals.

We ended the year with a few major announcements in Japan:

- Showa Denko, a basic & diversified chemicals producer, announced a tender offer for **Hitachi Chemical** ($8.72 billion market cap) shares at 138% premium to undisturbed price after executing a tender agreement to acquire Hitachi's 51% stake. Hitachi Chemical is a speciality chemicals manufacturer and seller.

- J Front Retailing, a Japanese department store operator, will buy out minorities in **PARCO** ($1.71 billion), a shoe and apparel retailer in Japan, at 34% premium to undisturbed price. J Front Retailing already owns roughly 65% prior to deal announcement. Top shareholders Aeon and Credit Saison have agreed to tender.

- Into the long-lasting **UNIZO** ($1.61 billion) bidding war, Chitocea's offer arrived at about 24% premium to the price offered by Fortress. UNIZO announced that they decided to oppose the tender offer by Fortress and recommend Chitocea's offer instead. The offeror vehicle is jointly owned by Lone Star and UNIZO employees.

- Hoya, an electro-optics products manufacturer, made a rival bid for **Nuflare Technology** ($1.25 billion), a semiconductor manufacturer, at a premium of 8.4% to the price offered by Toshiba Corp. Toshiba said they will not tender into Hoya's bid.

- Astellas Pharma, a Japanese pharmaceutical company, agreed to buy US-based **Audentes Therapeutics** ($2.74 billion), a biotechnology company focusing on gene therapy treatments, at a premium of 110% to undisturbed price.

Meanwhile in the rest of Asia we saw a couple of large transactions:

- Standard Chartered PLC, a diversified bank, and Astra International, an automotive retailer, announced the sale of their total stake of 89.12% in **Bank Permata** ($2.53 billion) to Bangkok Bank at a roughly 144% premium to undisturbed price. Bank Permata is a commercial and foreign exchange banking service provider. Bangkok Bank, a diversified bank, anticipates conducting a mandatory tender offer for the remaining 10.88% stake in Permata at the same purchase price following completion of the transaction.

- A consortium consisting of HDC Hyundai Development Co-Engineering & Construction and Mirae Asset Daewoo signed a deal with Kumho Industrial to acquire a controlling stake in **Asiana Airlines** ($1.03 billion). Spending KRW 2.5 trillion in total, HDC will secure 61.5% stake in Asiana while Mirae Asset will hold a 15% stake.

Also we noted a number of significant spin-offs in the pipeline:

- **China Railway Construction** ($18.95 billion) will spin off and list China Railway Construction Heavy Industry, a subsidiary mainly engaged in the design, R&D, manufacturing and sale of tunnelling machine equipment, rail transit equipment and special professional equipment.

- **Kingsoft** ($3.54 billion) has proposed the spin-off and separate listing of Kingsoft Cloud Holding, a non-wholly owned subsidiary of the

[8] With thanks to Sara Yuan.

company principally engaged in the provision of cloud storage and cloud computation services.

- **Thomas Cook India** ($0.34 billion) is spinning off its human resource services business into QUESS Corp via a scheme of arrangement sanctioned by the National Company Law Tribunal.

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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