

# Dalton Street Market Neutral Trust

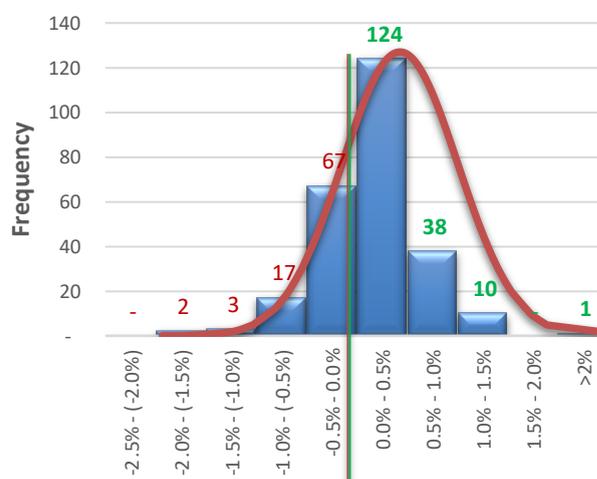
Dalton Street Capital is a boutique investment manager and re-launched the MNT Fund in November 2020. We actively manage investment portfolios for a range of clients which include self-managed super funds, endowments and foundation plans for institutional and retail investors.

Our team consists of investment professionals with deep local and global equity market expertise in corporate events, derivatives and leveraged fund management knowledge. Active overall risk management is also an integral part of the investment management process.

A market neutral trust aims to deliver non-market, uncorrelated and asymmetric absolute return, with a suite of broad range alternative investment strategies. These diverse strategies are skill-based and run on a hedged basis with both low volatility and correlation compared to traditional and alternative asset classes. It also provides investors with diversifying sources of alpha which may help to reduce a portfolio's overall volatility as well as improve returns.

In simple terms, by holding a diversified pool of alternative strategies, our explicit protection strategy is enhanced, particularly during periods of heightened market volatility and stress. Our specialist team have a successful track record in producing positive returns during major market dislocations.

Histogram: Dalton Street Market Neutral Trust



Daily Gross Unaudited Returns: 1 Jan to 31 Dec 2021

Net Investment Performance %*							
	1M	3M	6M	FYTD	CYTD	1YR	SI
Dalton Street Market Neutral Trust	2.60	5.76	12.65	12.65	24.79	24.79	25.02
RBA Cash Rate	0.01	0.02	0.05	0.05	0.10	0.10	0.13
Excess Returns	0.84	6.62	9.43	10.07	21.88	22.58	22.08

\*Net performance shown is after deduction of all fees and costs. Dalton Street took over the Fund from 18 October 2020 and actively managed it from 1 January 2021. Compounded net return since inception. Past performance is not a reliable indicator of future performance. For the purposes of Net Investment Performance, the NAV for 31 December has been estimated.

Fund Facts	
Responsible Entity	Equity Trustees Limited
Portfolio Manager	Dalton Street Capital
Investment Manager	Mantis Funds
Sales & Marketing Manager	Mantis Funds
Strategy Inception date*	October 2020
APIR	WMF0001AU
Base currency	Australian Dollars
Management fee	1.53% pa of the NAV
Performance fee	20.5% pa <sup>^</sup>
Investment minimum	AUD 50,000
Buy/sell spread	0.30%
Liquidity	Daily
Benchmark	RBA Cash Rate
Platforms	Netwealth, BT, Asgard, Macquarie, HUB24

<sup>^</sup>20.5% p.a. (including GST net of RITC) of the increase in NAV which exceeds the benchmark, subject to a high-watermark.

Risk Metrics%	
Number of Holdings	92
Standard Deviation	8.1%
Sharpe Ratio	5.1
Risk Reward Ratio p.a.	5.1
Daily Alpha Contribution	0.13%
Correlation	0.35
Beta	0.25
Best Daily Performance	+2.24%
Worst Daily Performance	-1.99%
Max Drawdown (Daily)	-4.1%
Win/Loss Ratio	66%
Sortino Ratio	8.6
Calmar Ratio	10.2
Gross Exposure	239%

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## Market Commentary

We are pleased to report a positive estimated net performance of +2.6% in December, but we are even more delighted to have finished the Calendar Year with an increase of +25%. This result was achieved with a strong Sharpe Ratio of 3.1 which is a testament to the asymmetric return profile of the strategy and the consistency of positive daily returns. In comparison, December was a challenging month for Asia-based Hedge Funds posting a negative average return of -1.2%. There is a clear decoupling of performance distortion for the Australian share market (ASX200 Index) gaining +13% in 2021 when compared to the Asia Pacific region, MSCI Asia Pacific Index losing -3.4%. The prospects for further relative outperformance of the ASX200 market will be more challenging going into the new year, as the Omicron variant of Covid-19 will impact economic growth, coupled with prospects of the first interest rate hike. More interestingly the maximum drawdown for the Australian share market, which started on 16th August and peaked at -5.81%, finished the year at -2.42%. This means that a typical investor in the Australian share market has yet to break-even on their investment since mid-August! Overall Fund gross exposure ended at 239%, with Events (Risk Arb) bucket down to 130% from 138%. This was the result of certain M&A deals completing successfully. We have captured annualized deal spreads of >20% in the scrip mergers between Santos Ltd (STO AU) / Oil Search (OSH AU), and Charter Hall Long Wale Reit (CLW AU) / Ale Property Group (LEP AU). Other cash deals completed included Singhaiyi Group (SHG SP), Intega Group (ITG AU), Toppan Forms (7862 JP) and Nippo Corp (1881 JP).

In 2021 a key performance driver was by far the M&A sub-strategy. The year 2021 has presented us yet with another record in the number of notional deal volume in the Asia Pacific region which currently runs at +90% on the 10-year average. In Australia, deal flows were back with a bang, and was the top M&A destination for the past two years in terms of deal activity. In Japan, the consolidation wave is expected to continue with minority buyouts to be back on the cards. The good news is that there is no expected slowdown in M&A deals leading into the new year,

which represents an opportunity for us to capture asymmetric returns. We will continue to see relatively high completion rates, hostility and activism that lead to multiple deal bumps.

For the M&A strategy, the performance driver was Cardno (CDD AU) after the company announced to sell its Americas and Asia Pacific segment business to Stantec (STN CN). We positioned the Fund to not only benefit from the capital return distribution of A\$1.49 but also from a re-rate of its stub-asset International Development Business (IDB) which traded at 50%-70% discount to its estimated valuation. Post capital return distribution the stub assets IDB rallied 50% and we crystallized a +30 basis points performance attribution. Our pre-event position in Western Areas (WSA AU) rallied 20.8% on the back of the much-anticipated scheme implementation agreement with IGO Ltd (IGO AU). Back in mid-August, WSA confirmed that it was in potential transaction talks with IGO but no indicative offer terms were provided. A common risk management strategy for typical event managers is to de-risk or exit positions whereby the bidding entity ended non-binding proposals or simply walked away after a period of due diligence. We continued to keep failed M&A deal positions in Link Administration (LKT AU) and Crown Resorts (CWN AU) on valuations ground in the Fund. Both positions re-emerged again as potential targets, when Dye & Durham (DND CN) offered A\$5.50 for LNK shares on 22nd December, and CWN receiving unsolicited non-binding proposal from the 9.99% shareholder Blackstone. At the time of writing, the offer price was increased to A\$13.10 from A\$12.50.

The Alpha strategy also delivered a positive contribution, led by China Traditional Chinese Medicine Holdings (570 HK) +37.5% in Hong Kong.

The Fund continues to find and implement very attractive risk/return opportunities, and with an asymmetric return philosophy in mind is very much resilient towards broader market gyrations. Thank you for your continued support.

### Contributors to Return (Basis Points)<sup>†</sup>

TOP 2	
China Traditional Chinese Medicine Hldg (+37.5%)	56
Western Areas (+20.8%)	48
BOTTOM 2	
Prime Media (5.9%)	-34
A2 Milk (-7.8%)	-12

### Team Members Experience

INVESTMENT TEAM	DSC	INDUSTRY
Antonio Meroni (PM)	1	29
Rhett Dinsdale (PM)	3	17
Aji Mathews (PM)	4	12
BUSINESS TEAM		
David Gray (COO)	1	35
Damien Hatfield (Distribution)	1	40+
Paul Jacobs (BDM)	1	40
Timothy Cheung (Director)	1	18

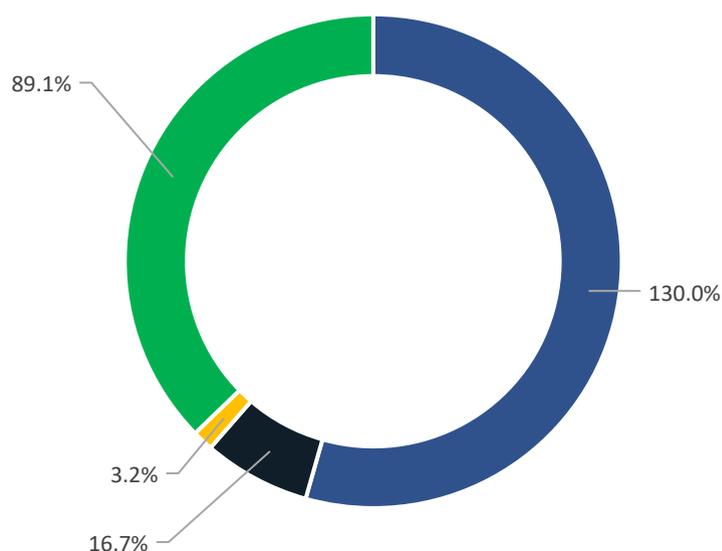
### Enquiries

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### Gross Exposure By Strategy

■ Events (Risk Arb) ■ Alpha ■ Volatility ■ Relative Value



<sup>†</sup>Preliminary. Dalton Street started managing this fund as of 18 October 2020.