

# Dalton Asia Pacific UCITS Fund

December 2023

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*the hedge fund journal*

**UCITS Hedge  
Awards  
2023**

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**Long/Short Equity – Asia Pacific  
Best Performing Fund over 5 years**  
Dalton Asia Pacific UCITS Fund  
*(Dalton Investments)*

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- **II. Current Asia Outlook**
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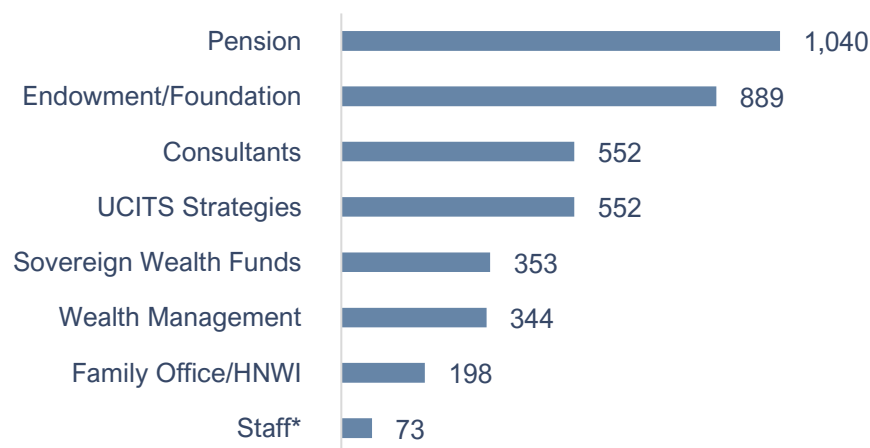
# I. Dalton Firm & Strategy Overview

# Firm Background

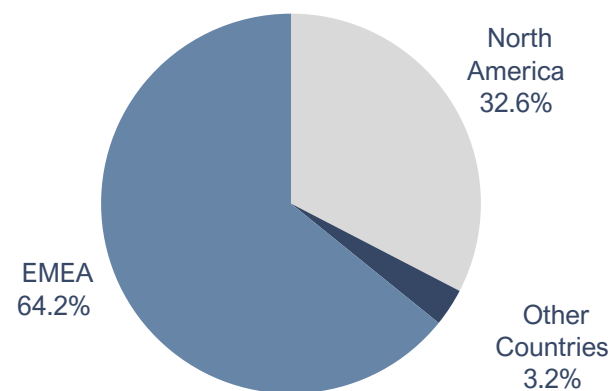
## Dalton Investments

- Opportunistic, entrepreneurial and long-term focused value investing philosophy, aiming to generate superior returns for clients
- Began operations in 1998 to capitalize on opportunities arising from the Asia crisis; incorporated in 1999
- Offices in Los Angeles, Las Vegas, Sydney, Mumbai, Hong Kong, New York, and Tokyo
- Experienced, diverse team of 37 with 17 dedicated investment professionals
- Employee-owned firm, co-investing alongside clients

AUM (\$4.0bn)<sup>1</sup> by Client Type (\$m)<sup>2</sup>



AUM (\$4.0bn) by Client Location (%)<sup>1</sup>



<sup>1</sup>As of 31 December 2023. Includes a non-discretionary account.

<sup>2</sup>The above chart excludes approximately \$35 million in “financial institution” assets.

\*Staff includes all Dalton related parties

# Investment Team & Support Staff

As of 31 December 2023

## Chief Investment Officer



**James B. Rosenwald III\*, CFA**  
(25/42)



## Director of Research



**Shiro Hayashi\***  
(14/22)



## CRO & CSO



**Craig Mercer\***  
(7/24)



## Trading



**Richard Hill\*** (8/25)



**Kenneth Hendrawan** (4/6)

## Non-Investment



Team of 22 across management, finance, legal, compliance and operations

## Tokyo Office



**Kota Isogai** (8/16)



**Masumi Nishida\*** (2/14)



**Toshihito Yamada** (11/11)



**Takahisa Taguchi** (3/7)

## Los Angeles Office



*Pedro Zevallos\** (6/28)



**Venkat Pasupuleti\*** (10/14)



**Owens Huang\*** (8/13)



**James Lim\*** (8/11)

## Hong Kong Office



**Jessica Xing** (2/9)

## Mumbai Office



**Siva Thiravidamony\*** (5/14)



**Upama Roy** (2/12)

\*Partner  
(Years of experience firm/industry)

# Investment Philosophy

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## Invest in Good Businesses

- Strong cash flows and balance sheets, a “moat” against competition, focus on ESG best practices



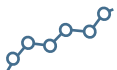
## Seek a Significant Margin of Safety

- Seek a material discount to intrinsic value, looking out 3-5 years



## Focus on Alignment of Interest

- Identify companies with an alignment of interest between the owner-operator/management and minority shareholders, or companies where an opportunity exists to enhance alignment



## Strong Track Record

- Identify a demonstrable track record of managing capital effectively and rewarding minority shareholders



## Engagement

- Capitalizing on corporate governance reform and shareholder activism to opportunistically add value

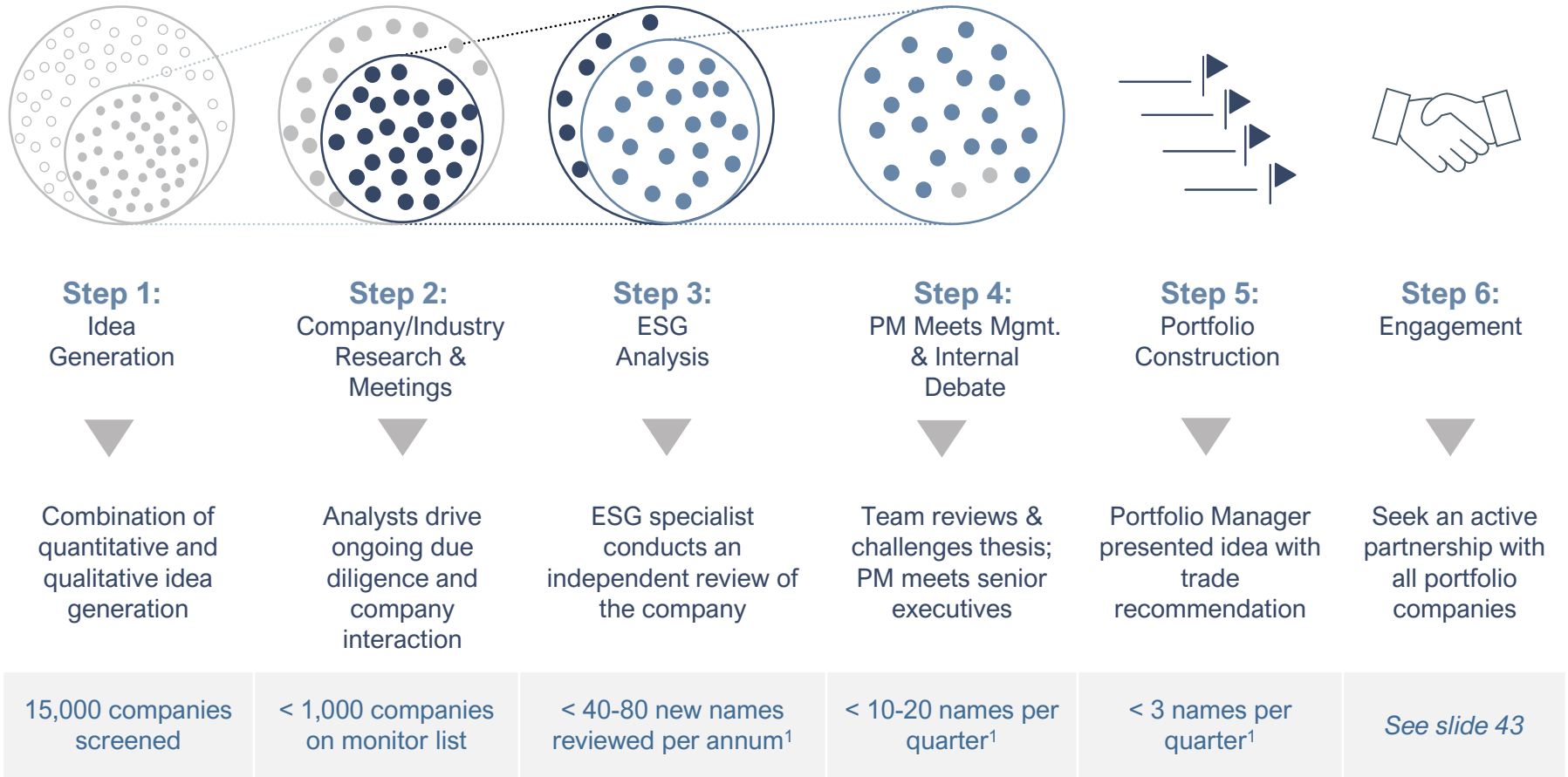
# Alignment of Interests with Owner Operators

Name	Country	Sector Group	Value of Ownership (USD mln)	% Ownership
Taiwan Semiconductor Manufacturing	Taiwan	Information Technology	\$2,278	1%
Accton Technology	Taiwan	Information Technology	\$868	10%
Macnica Fuji Electronics Holdings	Japan	Information Technology	\$378	13%
Meritz Financial Group Inc	South Korea	Financials	\$1,096	13%
Fairfax India Holdings Corp	Canada	Financials	\$196	10%
Samsung Electronics Co Ltd	South Korea	Information Technology	\$72,339	22%
Rio Tinto	Australia	Materials	\$1,154	1%
Wilmer International	Singapore	Consumer Staples	\$6,575	43%
ICICI Bank Limited	India	Financials	\$24,238	32%
WNS Holdings	India	Industrials	\$27	1%
<b>Total (Top 10)</b>			<b>\$109,149</b>	

Source: Dalton Investments, Bloomberg, top 10 weights as of 31 December 2023

Please note that the case studies are included herein to convey Dalton's thought process and approach in analyzing investment opportunities and are not indicative of performance for any actual Dalton account. The actual performance of the position is not relevant disclosure and should be disregarded given that the aggregate performance of an account/portfolio can be materially different. Further, it should not be assumed that future investments will be profitable or will equal performance discussed in these case studies.

# Dalton Investment Process



<sup>1</sup>Estimate of typical workflow

The Investment Manager takes environmental, social and governance (ESG) criteria into account in investment decisions among others; however, sizing of individual positions is based on a larger scope of criteria than ESG only.



# Dalton's Approach to ESG

## ESG in the context of the 4-Mantra



**Good Business:** A good business needs to generate profits sustainably



**Alignment:** Sound corporate governance practices improve the alignment with minority shareholders and create a greater emphasis on long-term value



**Track Record:** Some studies\* suggest that superior ESG firms may have lower costs of capital and therefore potentially offer a greater chance of generating superior returns to their weighted average cost of capital



**Margin of Safety:** A company with sound ESG policies potentially lowers the risk of permanent impairment of capital\*

*Dalton is a signatory of the PRI, Climate Action 100+, and both the Japan and Korean Stewardship Codes*

*The Dalton Asia Pacific UCITS Fund meets the classifications of an Article 8 (SFDR Regulation) as it promotes environmental and social characteristics.*

\*Fulton, Kahn, Sharples (2012). "Sustainable Investing: Establishing Long-Term Value and Performance." Deutsche Bank. Please note that no representations or warranties, either expressed or implied, can be made as to the data and analysis provided in these studies. The data analysis has been prepared by the respective authors and entities, and Dalton Investments has not verified any of the studies independently. The views and opinions expressed in the studies are those of the authors and do not necessarily reflect the opinion of Dalton. The Investment Manager takes environmental, social and governance (ESG) criteria into account in investment decisions among others; however, sizing of individual positions is based on a larger scope of criteria than ESG only.

## The ESG Research Process



# Fund Portfolio Guidelines: Qualitative

	Long Book	Short Book
<b>Profile</b>	Smaller, entrepreneurial companies benefiting from structural change in Asia with managements committed to maximizing shareholder value	Big, bureaucratic (often state owned) enterprises driven by objective other than maximizing shareholder value
<b>Strategy</b>	Portfolio diversified across market capitalization, industries, and countries	Portfolio constructed for alpha generation; shorts not paired with specific long positions
<b>Characteristics:</b>		
Margin of safety	Market price low relative to proprietary intrinsic valuation	Market price high relative to proprietary intrinsic valuation
Alignment of interests	Management is long-term ambitious, willing to share profits with minority shareholders through share buy backs and dividends	History of weak management; unwilling to share with minority shareholders
Business Sustainability	Natural monopolies and valuable patents	Highly competitive industry; company has no ongoing edge
<b>Business Economics</b>	Healthy fundamentals, e.g. strong cash flows and balance sheets	Poor fundamentals, e.g. waning cash flows and balance sheets

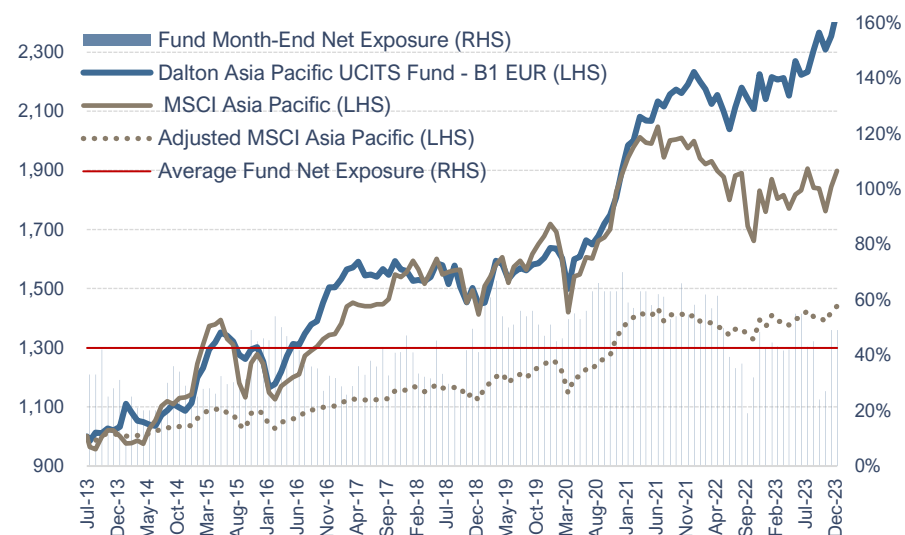
# Fund Portfolio Guidelines: Quantitative

Soft Position Guidelines:	Long Book	Short Book
<b>Number of positions</b>	30-60 Names	20-40 Names
<b>Position Limit</b>	10% of NAV	5% of NAV
<b>Position at Purchase</b>	3% of NAV	1 - 3% of NAV
<b>Stop Loss Review</b>	Soft at 20% absolute decline	Hard at 20% absolute increase

Exposure Guidelines	Net	Gross
<b>Net Exposure (By Region)</b>		
<i>Japan &amp; Greater China</i>	Max 70% net	
<i>Rest of Asia (including India)</i>	Max 50% net	
<b>Portfolio Net Exposure</b>	Typically 30% - 70%	
<b>Portfolio Gross Exposure</b>		Max 200%

Liquidity Profile
<ul style="list-style-type: none"> <li>Daily liquidity with three business days notice</li> <li>Underlying positions typically have market caps in excess of \$0.5bn and at least moderate trading volumes</li> </ul>

# Dalton Asia Pacific UCITS Performance History



	Dalton Asia Pacific UCITS Fund	MSCI Asia Pac Index
Ann. Net Rate of Return	8.86%	6.29%
Cum. Net Total Return	143.77%	89.81%
Annualized Volatility	9.45%	12.78%
Sharpe Ratio	1.11	0.52
Sortino Ratio	1.97	0.79
Upside Capture Ratio	60.47%	-
Downside Capture Ratio	34.88%	-

YTD	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Share B1 (EUR)	3.24%	7.70%	12.72%	20.03%	3.65%	-7.61%	13.10%	16.38%	17.15%	-4.12%	13.88%
Benchmark	0.13%	13.96%	9.17%	8.06%	15.52%	-9.21%	21.73%	9.95%	5.80%	-12.01%	7.89%
Relative	3.11%	-6.26%	3.55%	11.97%	-11.87%	1.60%	-8.63%	6.43%	11.35%	7.89%	5.99%



\*The performance figures quoted above represent the performance of the FundLogic Alternatives Plc – Dalton Asia Pacific UCITS Fund up to March 2019. The performance figures from April 2019 represent the performance of the Lafayette UCITS ICAV - Dalton Asia Pacific UCITS Fund since launch on 8 April 2019.

Please note the Lafayette Dalton Asia Pacific UCITS Fund is a continuation of the FundLogic Alternatives Plc Dalton Asia Pacific UCITS Fund by way of a merger. The FundLogic Alternatives PLC fund was launched on 17 July 2013. These performance figures refer to the past and past performance is not necessarily indicative of future results

Source: Waystone

## II. Current Asia Outlook

# Pan-Asia Overview: Japan and Korea

We view Asia as a single contiguous market, often conducting cross-border research on companies and believe our long-term experience investing in Asia provides insight on how to identify future leaders, and value traps in Asian companies.

## Japan

- A wave of reforms led by the Tokyo Stock Exchange and regulators significantly shifted the landscape for inefficiently managed companies with languishing valuations.
- One of the most impactful reform initiatives this year was the Tokyo Stock Exchange's (TSE) announcement, setting a minimum target price to book ratio of 1x for listed companies in Japan. This includes companies disclosing how they aim to address undervaluation and weak return on equity.
- The impact is already tangible. Numerous companies have responded with buyback announcements, increased dividends, and asset disposals. Notably, market leader Toyota Motor made its first ever public statement about the need to sell cross shareholdings.

## Korea

- Amidst the rosy backdrop of a booming US technology sector, the South Korea's stock market reawakened during the quarter.
- Optimism about the US rate hike cycle ending and the resilient US markets, sparked a rally in the export-oriented Korean stock market.
- Additionally, the Korean regulators temporarily banned short selling until June 2024, triggering a surge in short-covering activities.

# Pan-Asia Overview: Taiwan and Greater China

## Taiwan

- Artificial Intelligence (AI) has dominated the tech landscape and news cycle in 2023, its transformative potential igniting a global thematic boom. While new technologies such as ChatGPT and Bard captured headlines, the biggest winners have been chipmakers powering this revolution.
- The surge of AI ripples through the Asian chip supply chain, benefiting companies like TSMC and its suppliers.
- However, the AI gold rush has also reignited US-China tensions in the ongoing chip war. Amid this battle for supremacy, Asian players, notably those in Korea, Japan and Taiwan, find themselves in a sweet spot, potentially benefiting from protectionist measures.

## Greater China

- For the second consecutive year, the Chinese market declined in 2023, continuing the pain suffered by many regional investors. Despite the hope offered by a potential post-pandemic consumer spending rebound, a series of daunting challenges, both immediate and long term, cast a long shadow over the nation's economic prospects.
- In the short term, the ailing property sector continues to erode prosperity. This has weakened consumption and there has been a slowdown in investment.
- But perhaps the biggest single long-term threat lurks not in the present but in the future. China's demographic cliff hangs ominously ahead. This harbinger of demographic decline is set to become more pronounced with the working population poised for a sharp contraction beginning in 2030. A young, dynamic workforce is integral to any successful economy and China faces the stark reality of operating without one.

# Pan-Asia Overview: India and ASEAN

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## India

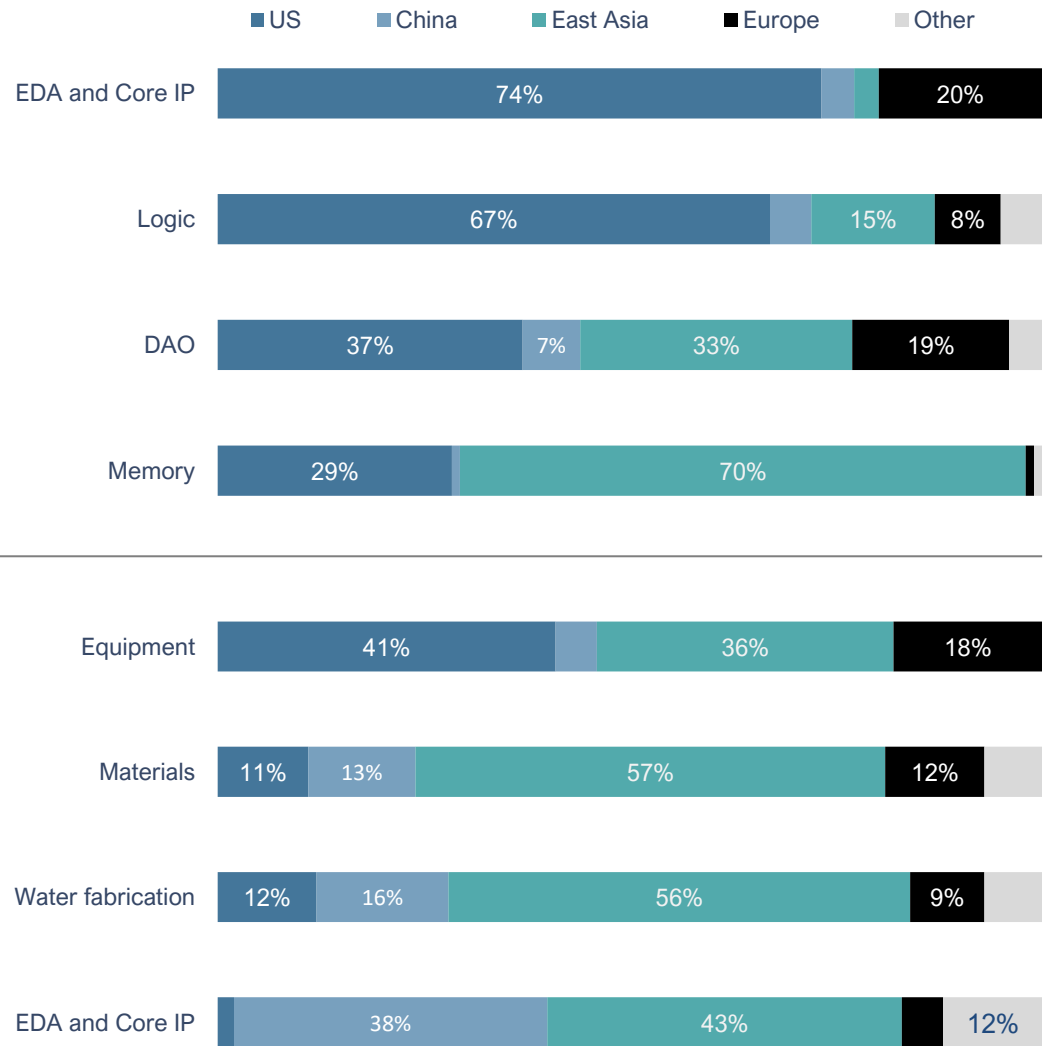
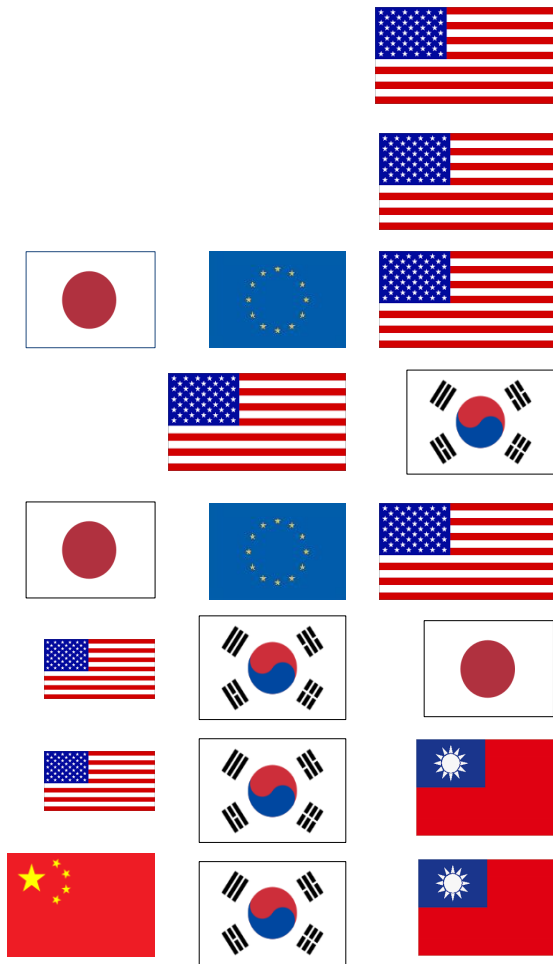
- Towards the end of the year, markets aggressively discounted rate cuts in 2024. This sent growth stock valuations, particularly within the tech-heavy NASDAQ, soaring.
- Within Asia, we have seen a similar story play out. Spurred by “fear of missing out” Indian markets have witnessed heightened activity as investors sought refuge from China’s woes. Investor enthusiasm pushed valuations across a wide range of companies, pricing in growth well beyond the next year. This surge, however, raises concerns about stretched prices as growth expectations extend beyond prudence.
- The consequence is that Dalton continues to hedge against the valuation risk through stock shorts and an index hedge.

## ASEAN

- Dalton maintained its effort to identify long-term winners in the ASEAN region. The analyst team has been busy researching a range of potential candidates across both Thailand, Indonesia, and Vietnam.
- Dalton continues to be faced with the challenge of limited margin of safety and weaker governance practices, when compared to other regions in Asia. It remains diligent in assessing new opportunities and will make investments when our four mantras are met.
- The manager holds a position in Vietnam Enterprises Limited, as this remains an attractive way to invest in the foreign ownership-controlled market at a discount.



# Leaders In the Semiconductor Supply Chain

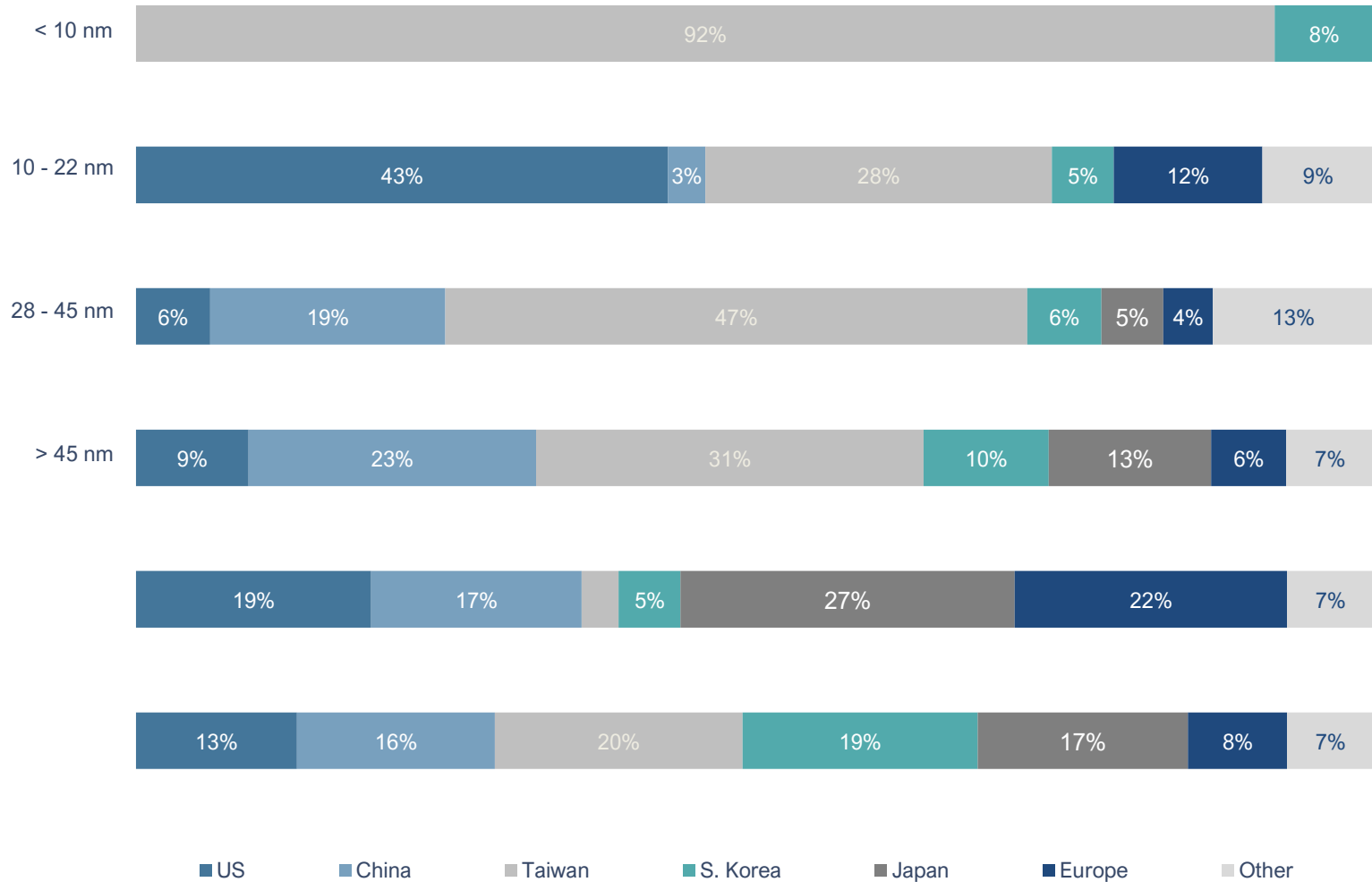


Source: BCG and Gartner

# All Advanced Logic IC Capacity is from Taiwan and South Korea



Logic



Source: BCG and SEMI

# Taiwanese OEM Production Capacity Breakdown: 2019 vs 2023

Ticker	Company	Year	Production capacity (2019 vs 2023E)							
			China	Taiwan	Vietnam	India	Thailand	America	Europe	RoW
2317.TW	Hon Hai	2019	76%	2%	8%	2%	2%	5%	3%	2%
		2023E	70%	1%	11%	5%	1%	7%	3%	2%
4938.TW	Pegatron	2019	95%	2%	-	-	-	-	3%	1%
		2023E	75-80%	1-2%	5-10%	5-10%	-	-	2-3%	0-1%
3231.TW	Wistron	2019	75%	5%	-	3%	-	10%	5%	2%
		2023E	55-60%	0-5%	5-10%	15-20%	0%	5-10%	0-5%	0-2%
2382.TW	Quanta	2019	80%	10%	-	-	-	5%	5%	-
		2023E	65-70%	15-20%	-	-	0-5%	0-5%	0-5%	-
2324.TW	Compal	2019	92%	2%	3%	1%	-	2%	-	-
		2023E	80-85%	0-5%	5-10%	0-5%	-	0-5%	-	-
2356.TW	Inventec	2019	63%	12%	-	-	-	15%	7%	3%
		2023E	55-60%	15%	5%	-	-	15%	7%	2-3%
6669.TW	Wiwynn	2019	10%	-	-	-	-	60%	30%	-
		2023E	0-5%	5-10%	-	-	-	60%	25-30%	-

Source: Morgan Stanley

# Manufacturers Are Moving Out of China

US-China geopolitical tension, China's unstable government, and technology supply chain decoupling are driving investment in Taiwan, Japan, Vietnam, India, and Korea. Multi-National Companies (MNCs) are applying the "China plus one" strategy to diversify their China risks. The table shows the example of MNCs' recent CAPEX in India.



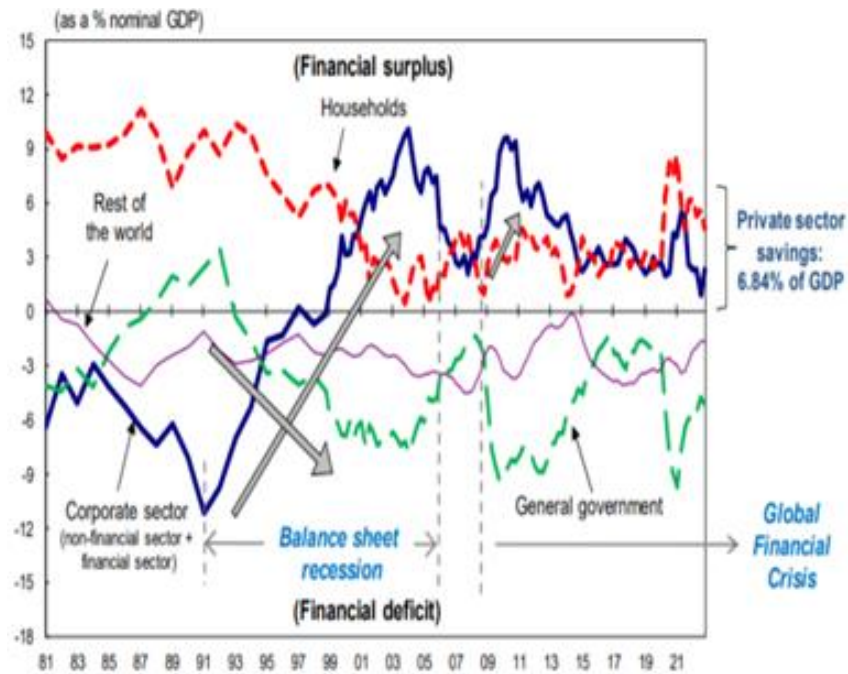
MNC	Business Carried out	Year of Establishment	Place of Establishment
Safran Group	Space test centre for aerospace & defense products	2023	Kerala
Samsung	Compressor manufacturing plant(for refrigerators)	2022	Sriperumbudur near Chennai, Tamil Nadu
	Largest mobile manufacturing plant	2018	Noida, UP
Siemens	Bogie Production Facility	2022	Aurangabad, Maharashtra
	Diagnostic imaging facility	2019	Bengaluru
Hindustan Coca-Cola beverages	Bottling arm of coca-cola	2022	Jalpaiguri, West Bengal
Pegatron	Third Apple vendor to set up a manufacturing unit in India	2022	Chennai
Foxconn	Mobile Phone manufacturing	2020	
Hewlett Packard	Multiple PC products, including laptops, desktops, All-in-Ones (AIOs), and monitors.	2020	Sriperumbudur near Chennai, Tamil Nadu
Amazon	First device manufacturing line in India to make Fire TV sticks locally	2021	Chennai
ABB India	Robotics and digitalization technologies	2022	Bengaluru
	Manufacture of digital technologies for electrical distribution networks for Indian as well as global markets.	2022	Maneja plant in Vadodara

Source: Morgan Stanley

# Balance Sheet Recession: China Today vs. Japan 1990s

Japan: Companies started to save more money after 1991

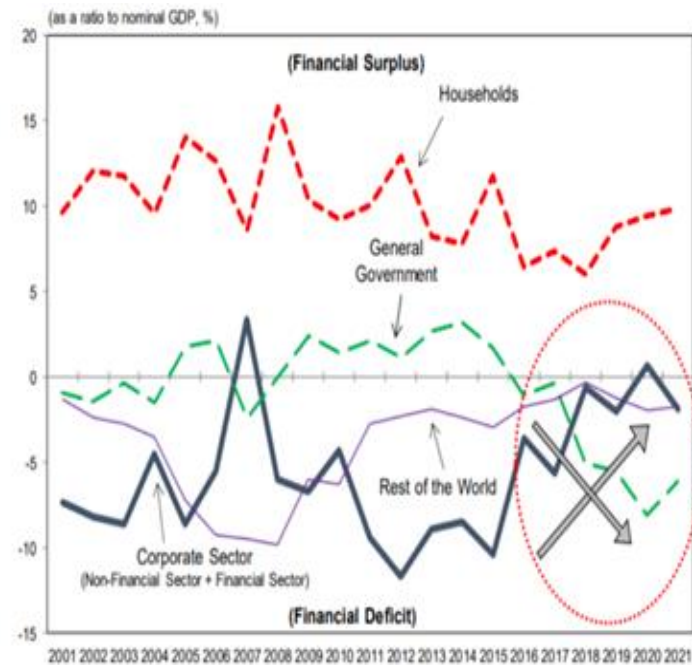
Financial Surplus or Deficit by Sector



Note: All entries are four-quarter moving averages. For the latest figures, four quarter averages ending in 2022 Q4 are used.  
Sources: Bank of Japan, Flow of Funds Accounts, and Government of Japan, Cabinet Office, National Accounts

China: Companies slowed down borrowing years before the bubble burst; Growth has relied on large government deficit spending

Financial Surplus or Deficit by Sector



Source: Nomura Research Institute, based on the data from National Bureau of Statistics China and People's Bank of China

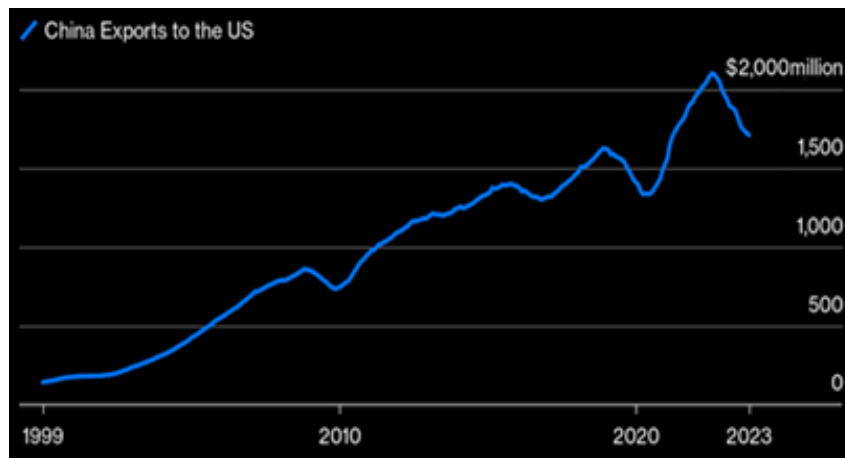
# China Continues to Face Multiple Headwinds

While still above levels prior to joining the World Trade Organization in 2002, Chinese exports to the US seem to have peaked and are rapidly declining.

Foreign direct investment into China from all sources has also turned negative as for the first time in decades.

## China's Export Machine is Slowing at Last

The prolonged rise in exports since WTO entry in 2001 appears to be over



## China's FDI Turns Negative for the 1st Time since 1998



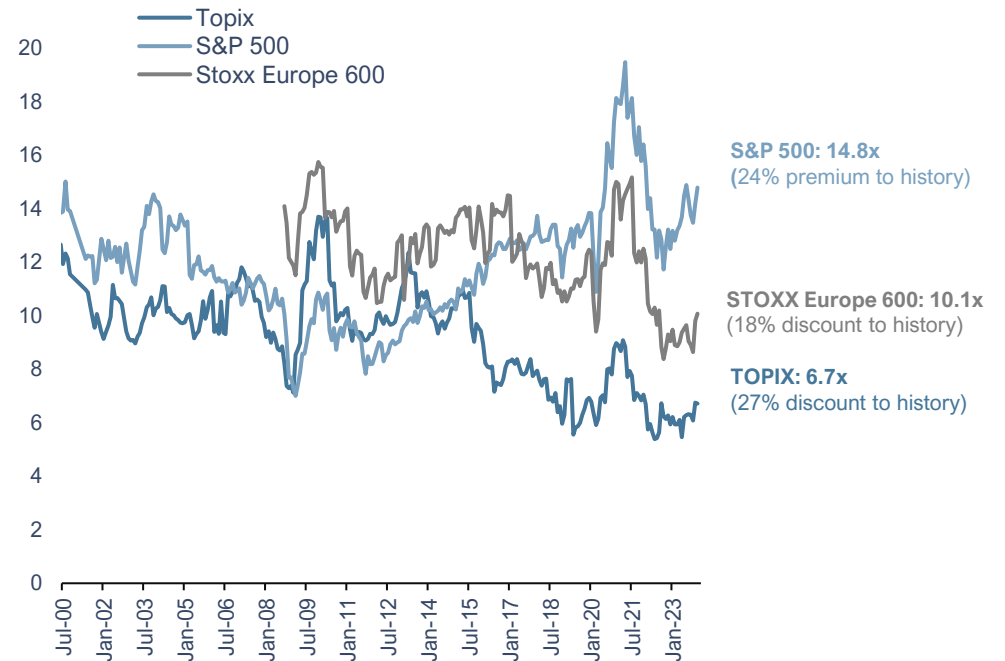
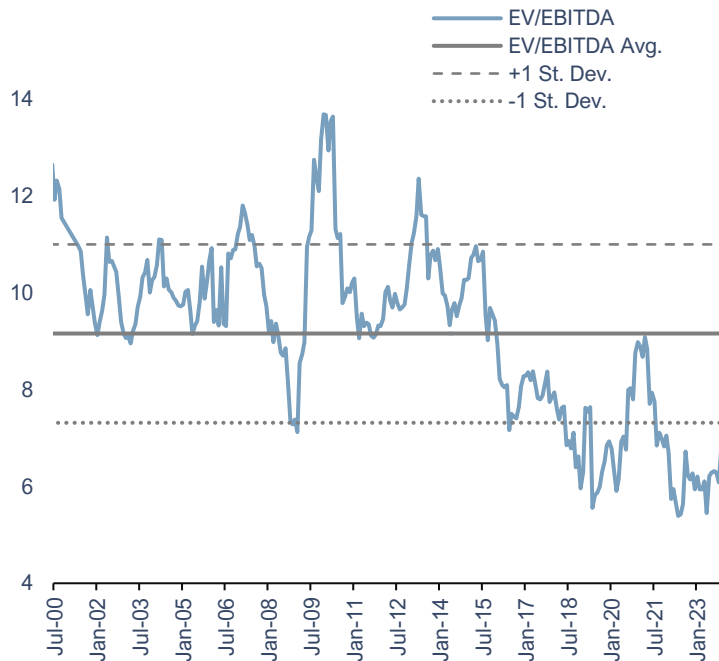
Source: Bloomberg

Source: China's State Administration of Foreign Exchange; Bloomberg compiled data

# Japanese Valuations are Attractive

## Examining Tangible Book Value Per Share (TBVPS)

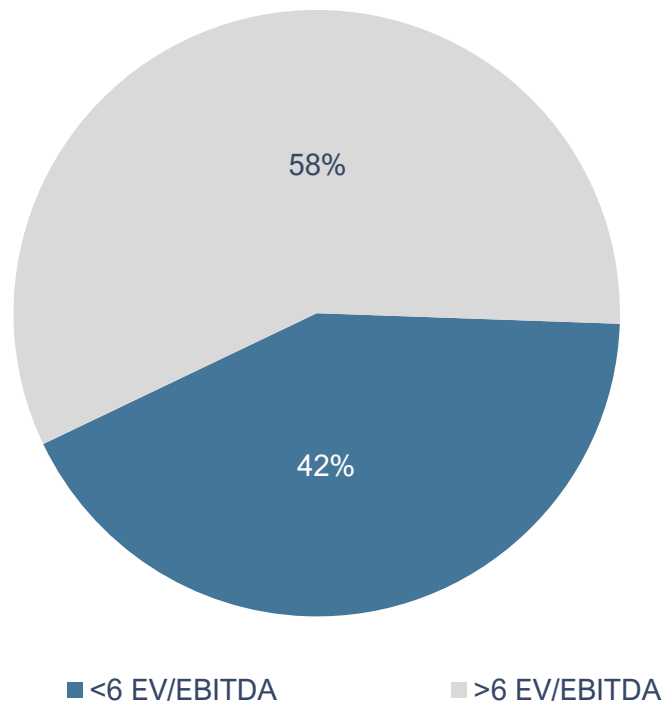
- Japan is trading at a modest premium to its long-term average, but a substantial discount to other regions
- Corporate Japan has large cash balances on hand and is demonstrating improved governance attitudes



Sources: Bloomberg

# Japan Small/Mid Cap Valuations Are Extremely Attractive

## EV/EBITDA Breakdown (<\$3bn Market Cap)



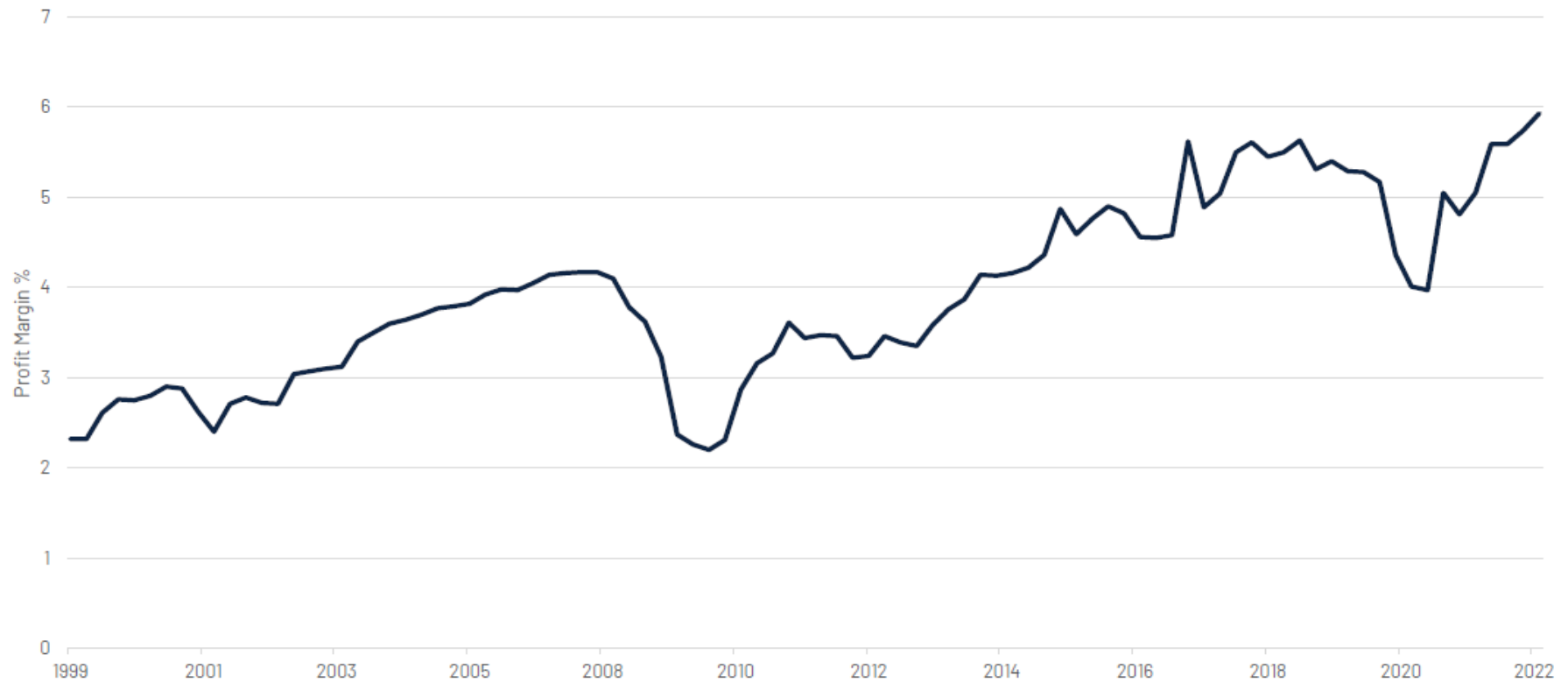
- Median EV/EBITDA is 6.2x
- Around 661 companies trade for <6x
- Japanese banks are willing to finance MBOs with up to 6x EBITDA
- This section of the market could be taken private with essentially zero equity

Source: Bloomberg, Dalton



# Japanese Companies' Profit Margins Highest in Decades

All Company Profit Margins - Tankan



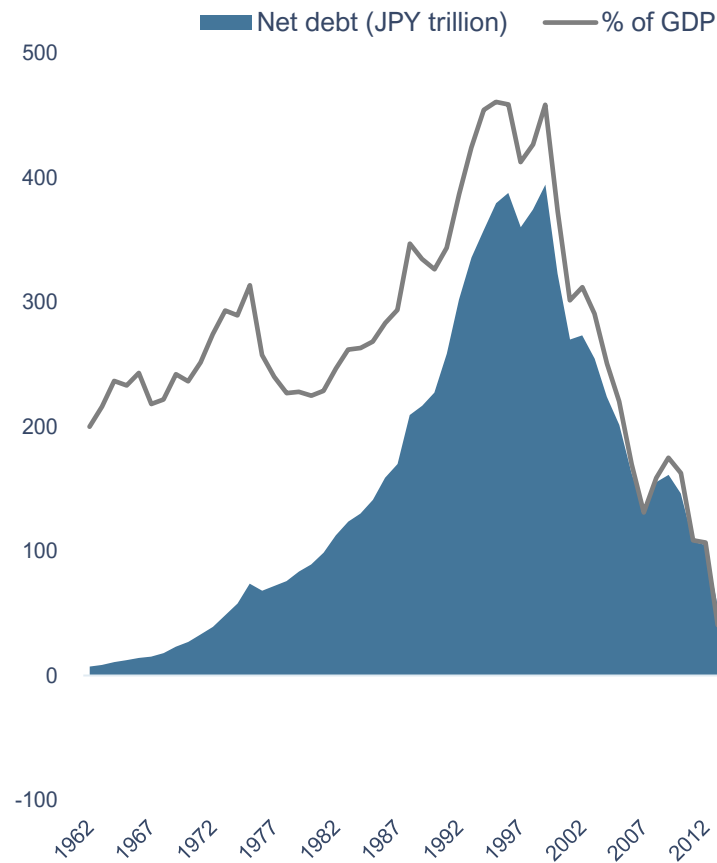
Source: Bank of Japan data as of 11/10/2022.

Period under review: Annual data from 1999 until 2022.

Tankan = Tanki Keizai Kansoku Chousa, the Short-Term Economic Survey of Enterprises in Japan; it is a quarterly poll of business confidence reported by the Bank of Japan showing the status of the Japanese economy.

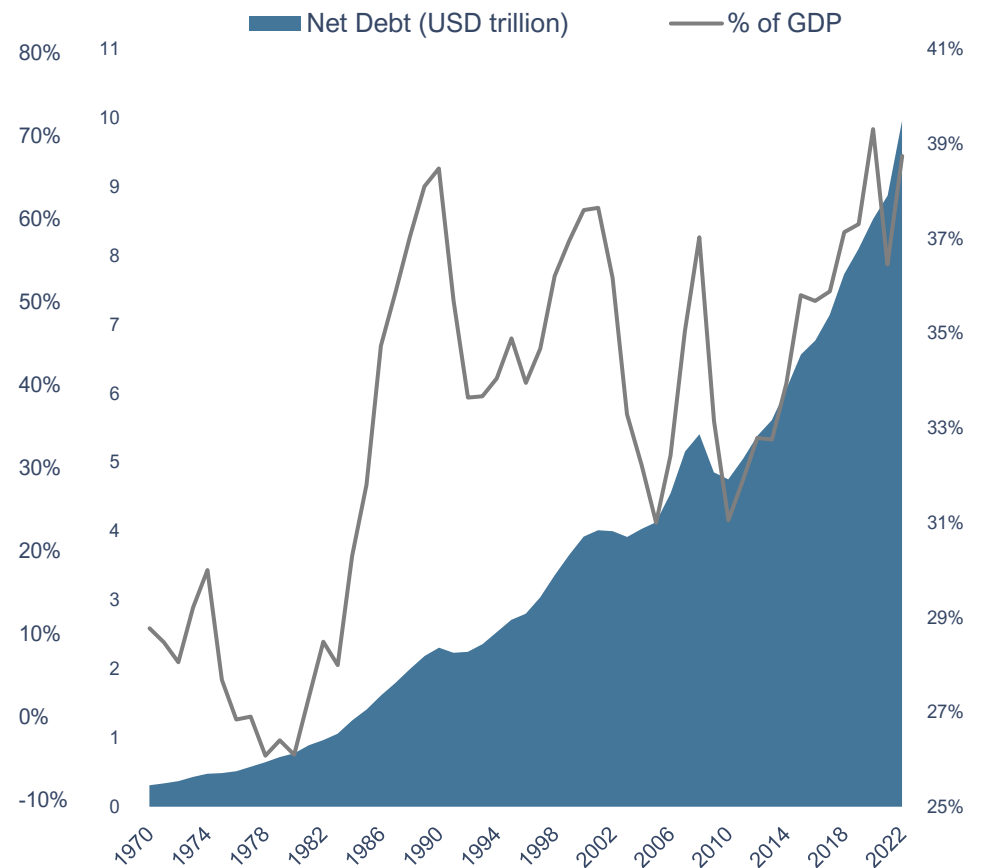
# Corporate Japan is Flush with Cash

**Japan Corporate Sector**  
Net Debt (JPY trillion)



Source: Ministry of Finance, Japan

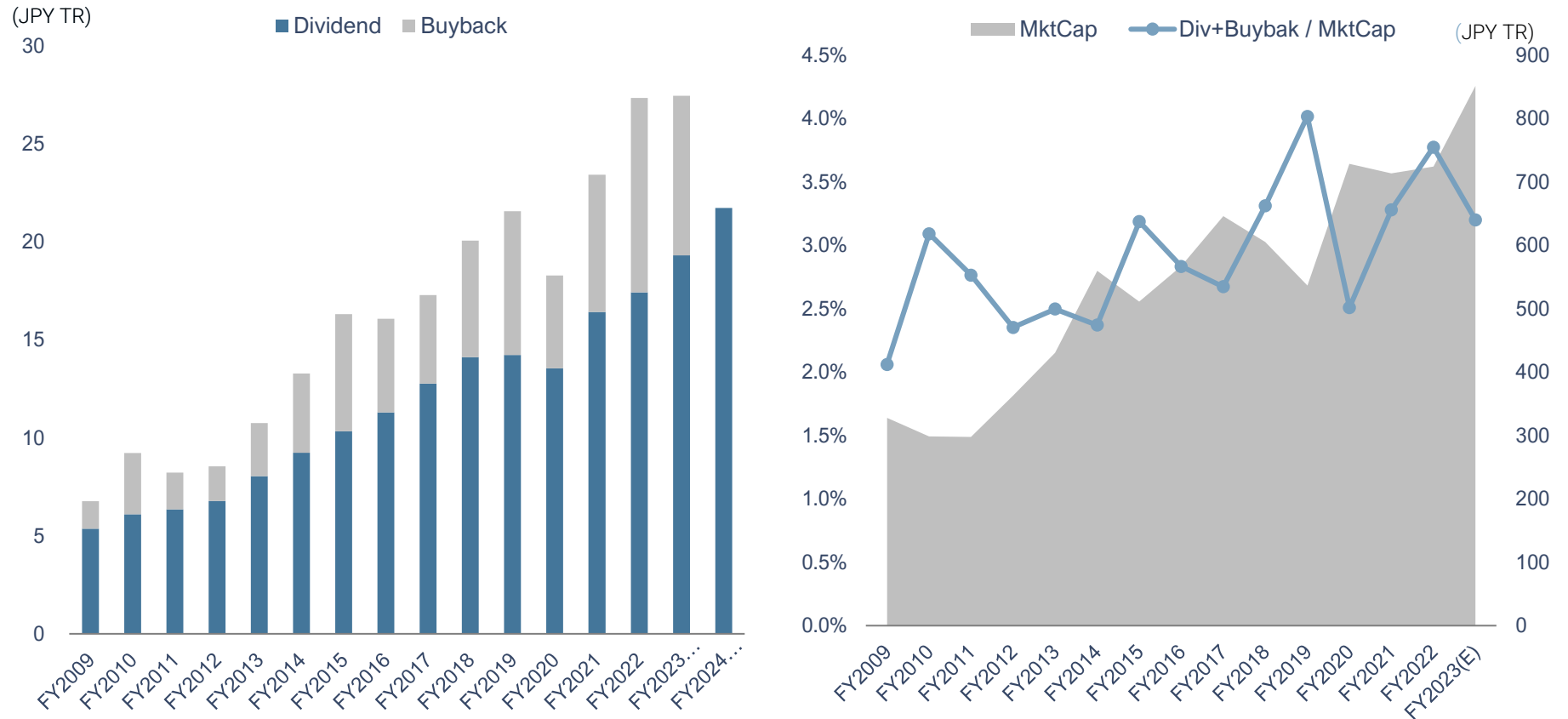
**US Corporate Sector**  
Net Debt (USD trillion)



Source: FRB, Deutsche Bank

# Capital Allocation Practices are Changing Rapidly in Japan

Return to shareholders has increased faster than the rise in equity markets, except for an unusual FY2020, averaging a yield of 3.0% since FY2019.

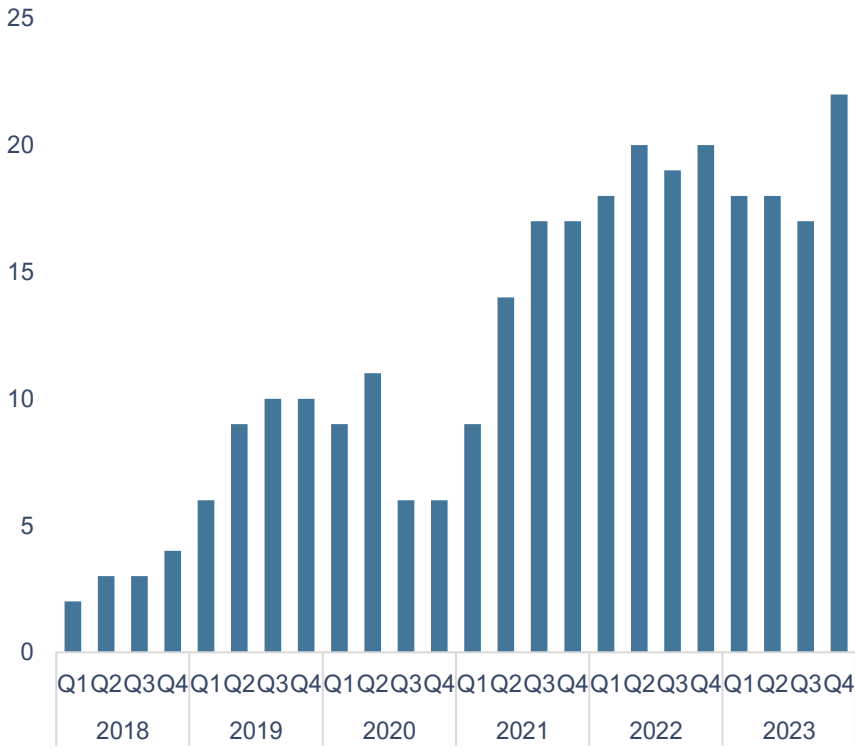
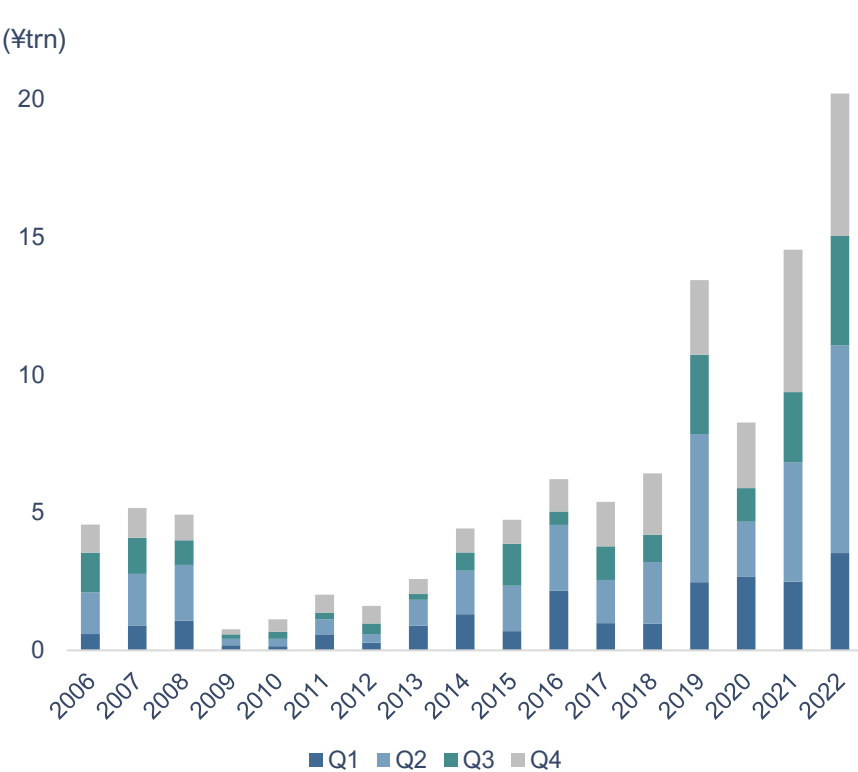


Note: FY2023(E) forecasts are results for firms that have announced results and Toyo Keizai estimates for firms that have not announced results and have not disclosed company projections. FY2024(E) forecasts are Toyo Keizai estimates for firms that have not disclosed company projections.  
Source: QUICK, SMBC Nikko Securities,

# Capital Allocation Practices are Changing Rapidly in Japan

Historical quarterly Japan share buyback announcements by calendar year

Number of active buyback programs with portfolio companies

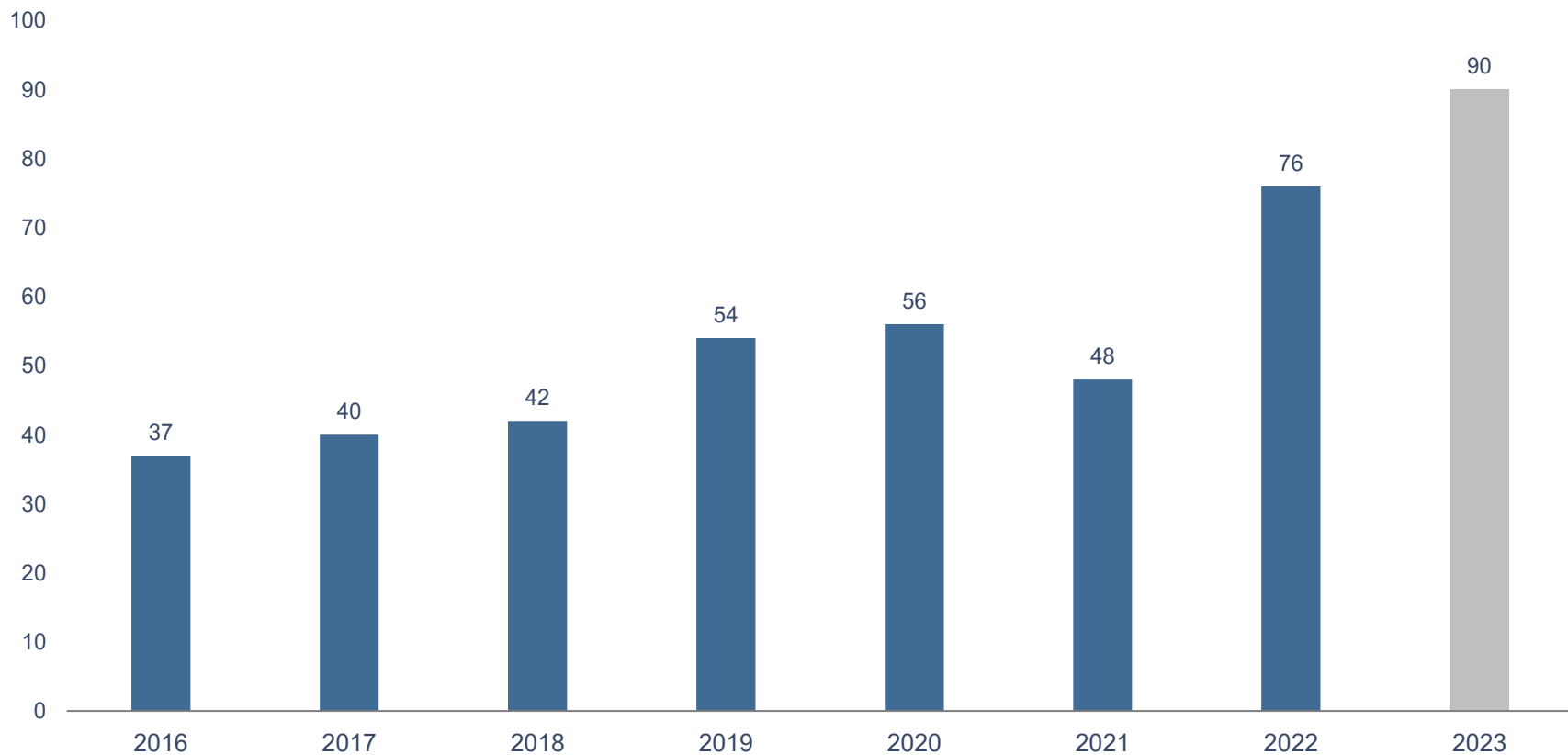


Source: CLSA, Bloomberg, Okasan Securities. Data reflects Japanese equity holdings actively held across all Dalton portfolios as of 6/30/2023.

# 2023 Saw the Highest Number of AGM Proposals Ever!

The number of AGM proposals, at 90, is at new highs, up 18% YOY, with 44 proposals put forward by activist investors.

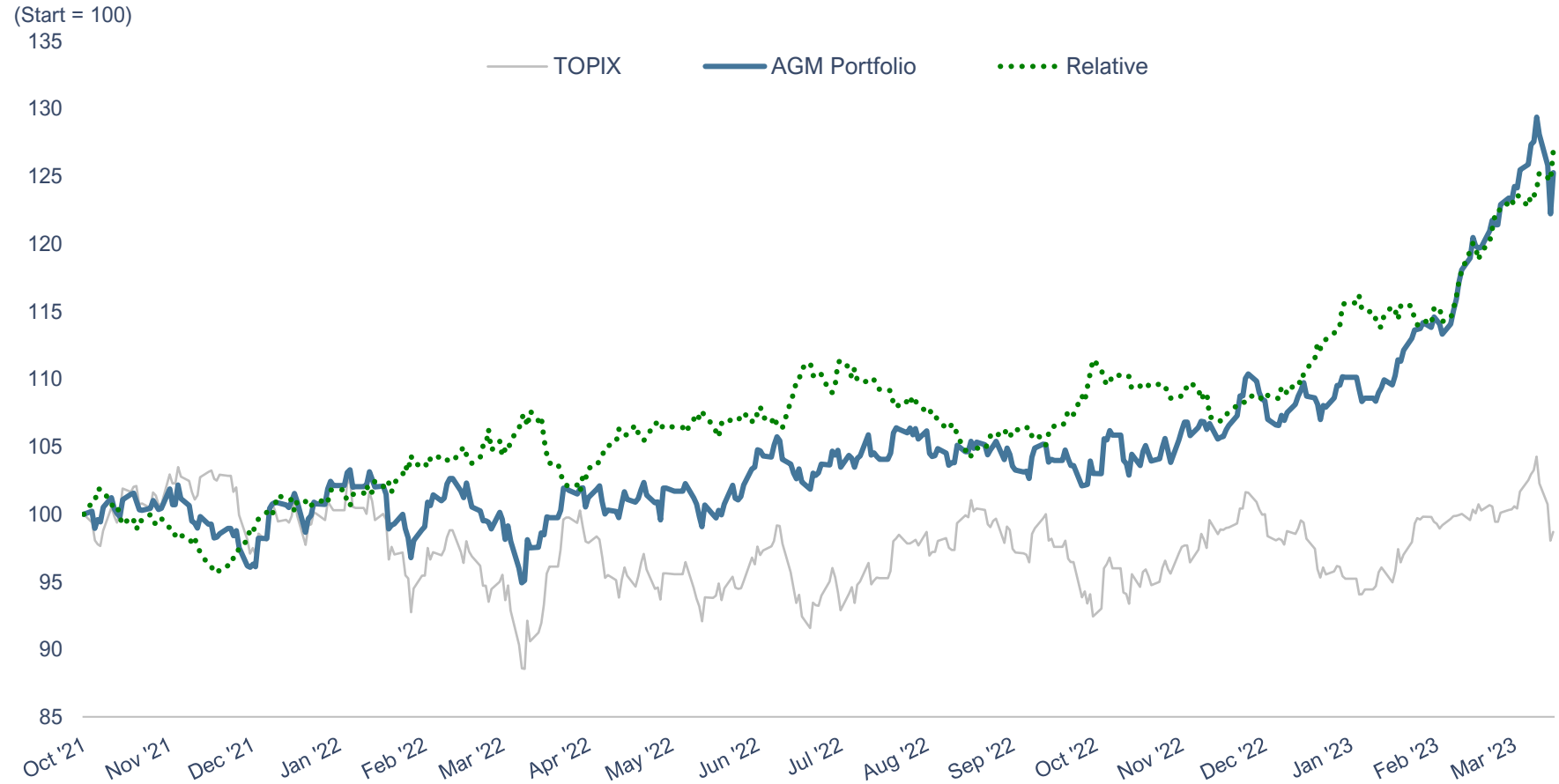
## Number of June AGM Proposals



Source: CLSA

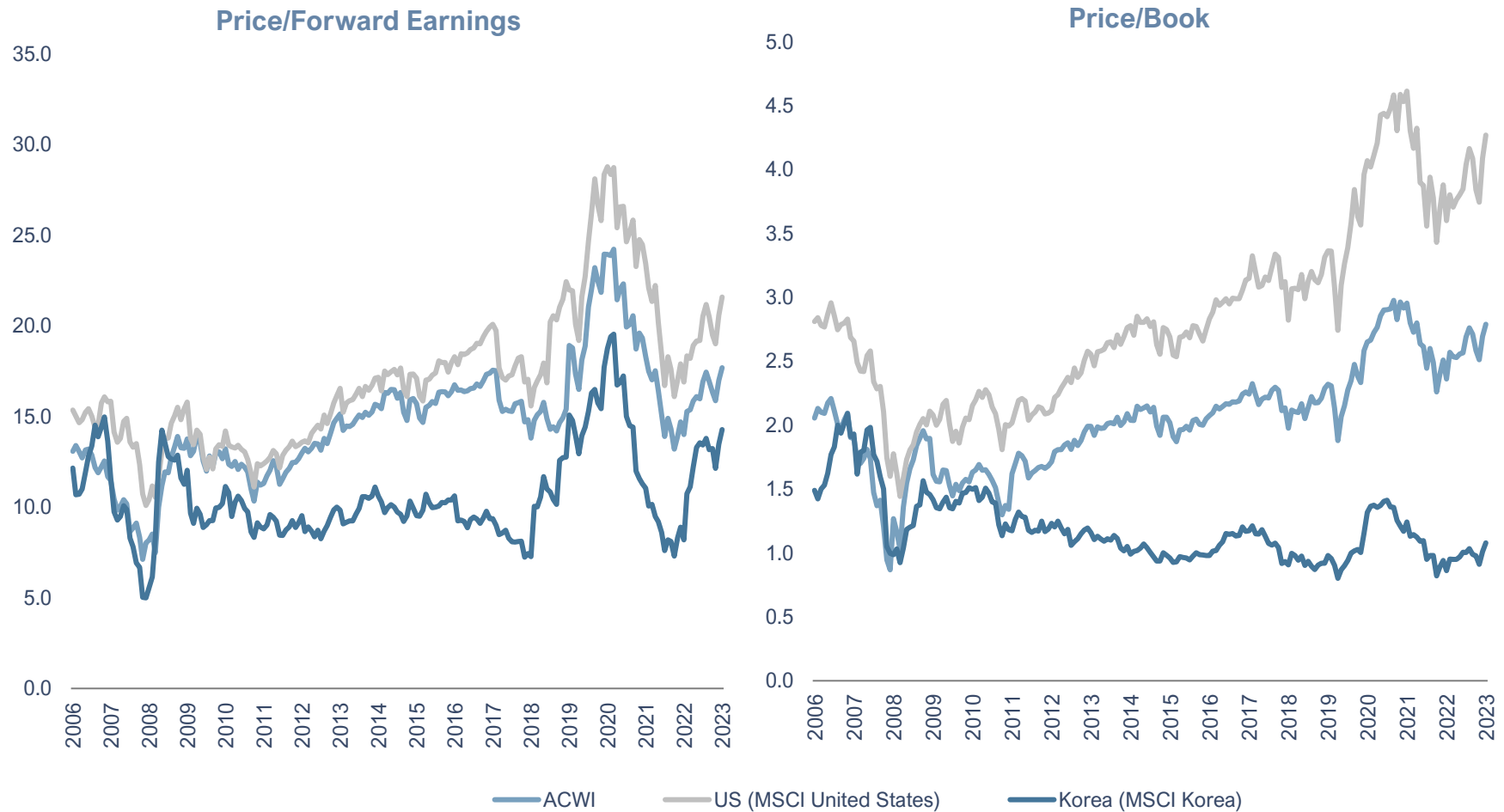
# Simply Making AGM Proposals Outperforms

Performance of an Equal-Weight Portfolio of Targets in 2022 AGMs



Source: CLSA

# Korea Provides Ample Mispriced Opportunities



Source: MSCI

# South Korea Exhibits Big Room for Improvement

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## Underinvested Market

- 401K equivalent private pension is growing fast but equity exposure was only 2% vs 40-60% in developed countries
- MSCI developed market possibility

## Business Model Change

- Old economy businesses to future oriented businesses: semi, healthcare, internet/mobile, EV, game, media, etc.
- Cyclical to stable businesses

## Corporate Governance

- Korean retail account: 6M in '19 to 14M in '22
- Korea govt. benchmarking Japan: Value-Up program for P/B lower than 1 companies, etc.

## Capital Allocation

- Low payout ratio; upside in potential increase



# Korea President Yoon Starts to Focus on “Korea Discount”



- Korea Presidents Yoon attends opening ceremony of Korea Stock Exchange for 2024
- Yoon mentions positive review of “commercial law” change to better protect minority shareholders
  - “Duty of loyalty to company” changing to “Duty of loyalty to all shareholders” may have significant implications and has been demanded by minority shareholders
- Yoon also mentioned initiative to remove capital gains tax implementation scheduled in '25
- Yoon clearly demonstrated that the stock market is now very important to Korea

# Korea's Corporate Governance is Changing

## Changing Companies



- Select number of companies starting to take a proactive stance toward shareholder value focused management

## Increased Retail Participation



- Significant increase in retail investor participation raised awareness and interest in corporate governance due to their return sensitivity

## Shareholder Activism



- Increasing shareholder activism accompanying proxy vote wins
- Samsung C&T, Hyundai Motors, Samsung Electronics, Macquarie Infra, Korean Air, SM Entertainment, Tovis, Dongwon Industries, etc.

## Stewardship Code

Dalton Investments



- Dalton Investments adopted the Korea Stewardship Code in 2017 as the first US investment manager signatory
- NPS with \$600bn in assets adopted the Korean Stewardship Code in July 2018
- NPS accounts for 7% of market ownership and has the power to influence the market

# Structural Reasons Supporting the Case for Investing in India

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## High Growth Potential

- Fifth largest economy by nominal GDP (\$3.0 trillion) and third largest on a PPP basis (\$11.5 trillion)
- Largest democracy and second-most populous country in the world (1.35 billion people)
- Second-fastest growing large economy in the world during the last decade
- Per capita income only \$2,200; India is a long way from the middle-income trap

## Highly Favorable Demographics

- Median age of population is among the lowest globally at 29 years
- Only country where share of working-age population will continue to rise well into 2035
- Booming middle class of around 300 million in the country today

## Growing Urbanization and Literacy

- India currently has 33% of Asia urban population and 18% of world urban population
- Nearly 75% of the population is literate, compared to only 18% in 1951

Sources: IMF, Census India, UN Population Database. As of Q1 2019.

# Structural Reforms Made by the Government in the Last 9 Years

Manufacturing Boost



Goods and Service Tax



RERA



Direct Benefit Transfer



Insolvency and Bankruptcy Code



PSU Bank Recapitalizations



Labour Reforms



Land Reforms



Agri Reforms



Significantly improving India's manufacturing competitiveness, ease of doing business and potential GDP growth rate.

# India's Long-term Outperformance and Leadership in High-Performing Companies (% of cos. With $\geq 20\%$ CAGR USD returns)

Year	Country	Index	No of cos. in Index	% of cos. still in existence	% of cos. With $\geq 20\%$ CAGR	Index CAGR%
2002	India	BSE 500	500	72%	23%	20.3%
	USA	S&P 500	500	55%	1%	9.5%
	China	Shanghai Comp.	749	88%	1%	7.5%
	Japan	Topix 500	495	74%	0%	5.3%
2012	India	BSE 500	500	84%	10%	11.2%
	USA	S&P 500	500	76%	9%	10.7%
	China	Shanghai Comp.	994	94%	3%	6.1%
	Japan	Topix 500	501	93%	2%	5.5%
2017	India	BSE 500	501	95%	12%	6.3%
	USA	S&P 500	506	90%	9%	6.5%
	China	Shanghai Comp.	1408	94%	4%	-2.2%
	Japan	Topix 500	500	96%	1%	-3.8%

- Number one major market in terms of USD return over last twenty years and number 2 in terms of economic growth
- Continues to offer secular growth companies with long growth runway
- Challenge: Selling and buying back purely on valuation has proven tricky

Sources: IIFL Research

# India is Where China Was in 2007 on Many Economic Metrics

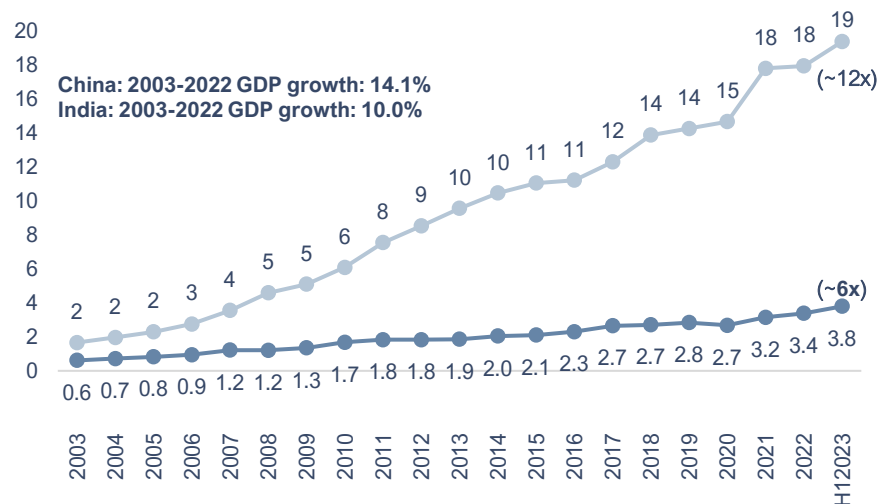
	India	China
GDP (USD Bn)	3,300	3,600
Per Capital GDP (USD)	2,500	2,700
Working Population (mn)	950	970
Market Cap (USD Bn)	3,300	2,000

Source: Societe Generale Cross Asset Research

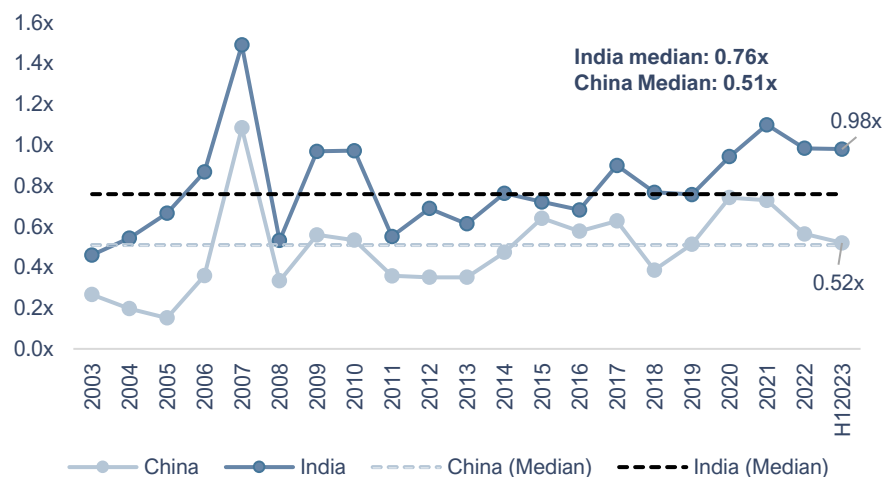


# Although China's GDP has Grown Faster, India's Market Cap Translation has been Superior Historically

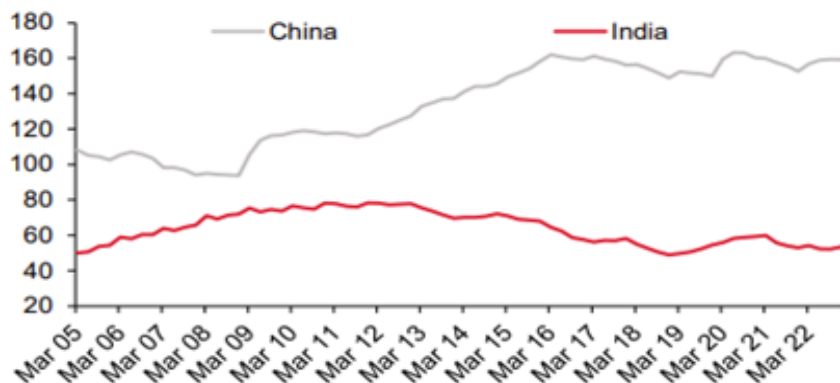
## China and India GDP (\$Tn)



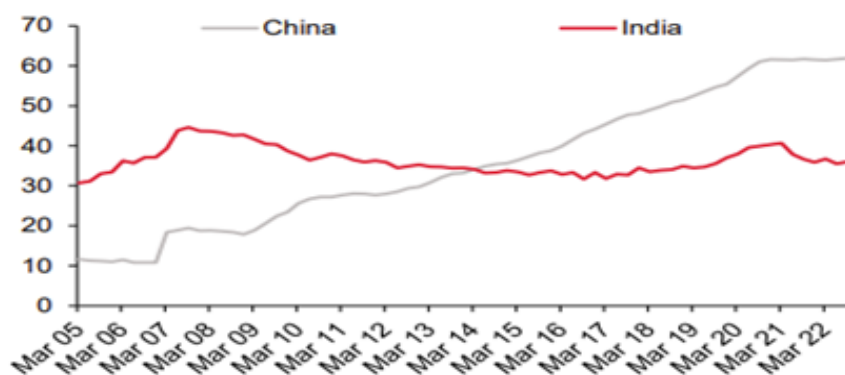
## Market Cap to GDP



## Non-Financial Corporate Debt as Percentage of GDP



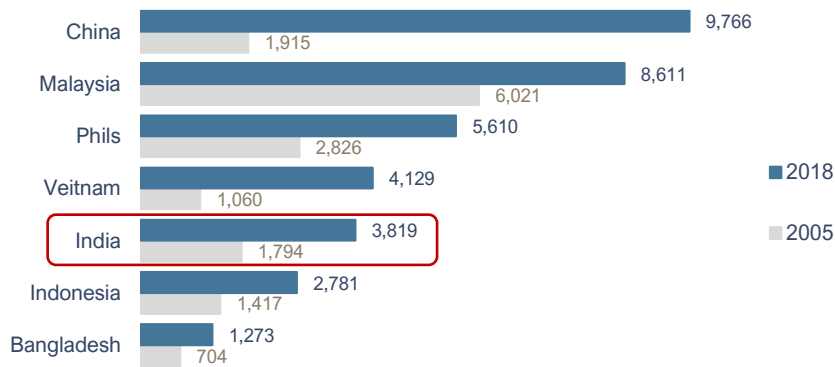
## Household Debt as Percentage of GDP



Sources: Bloomberg, Societe Generale Cross Asset Research

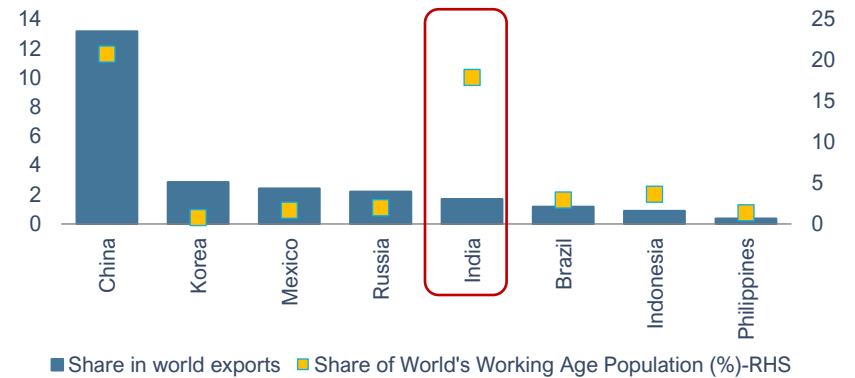
# India: Case for Manufacturing Boom

Labor Costs (Wage / Employee, in US\$, at Current Prices)



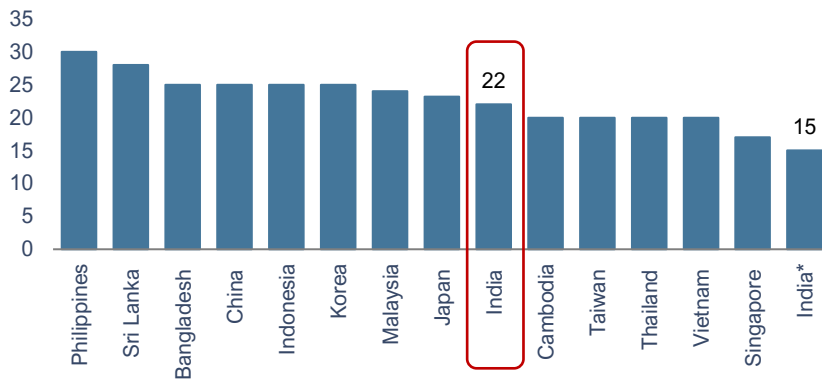
Source: UNIDO

Share in World Costs vs Working Age Population



Source: WTO, UN Population, Spark Capital Research

Corporate Tax Rate of Major Asian Economies



Source: Govt, Morgan Stanley Research

Note: India\* is the base corporate tax rate for new manufacturing

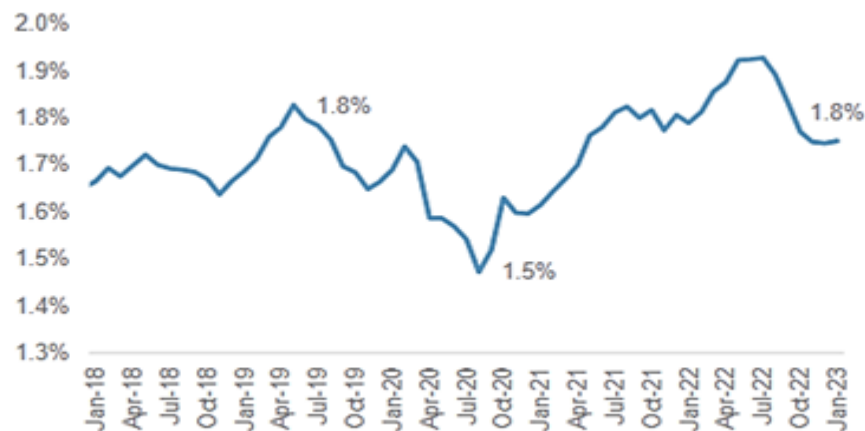
**Cheaper labor costs, competitive tax rates, favorable demographics and a large domestic market make India a preferred alternative to China**



# India's Growing Export Market Share

India's share of the global export market for both goods and services has been expanding.

### India Exports as % of World Exports, 6M Trailing

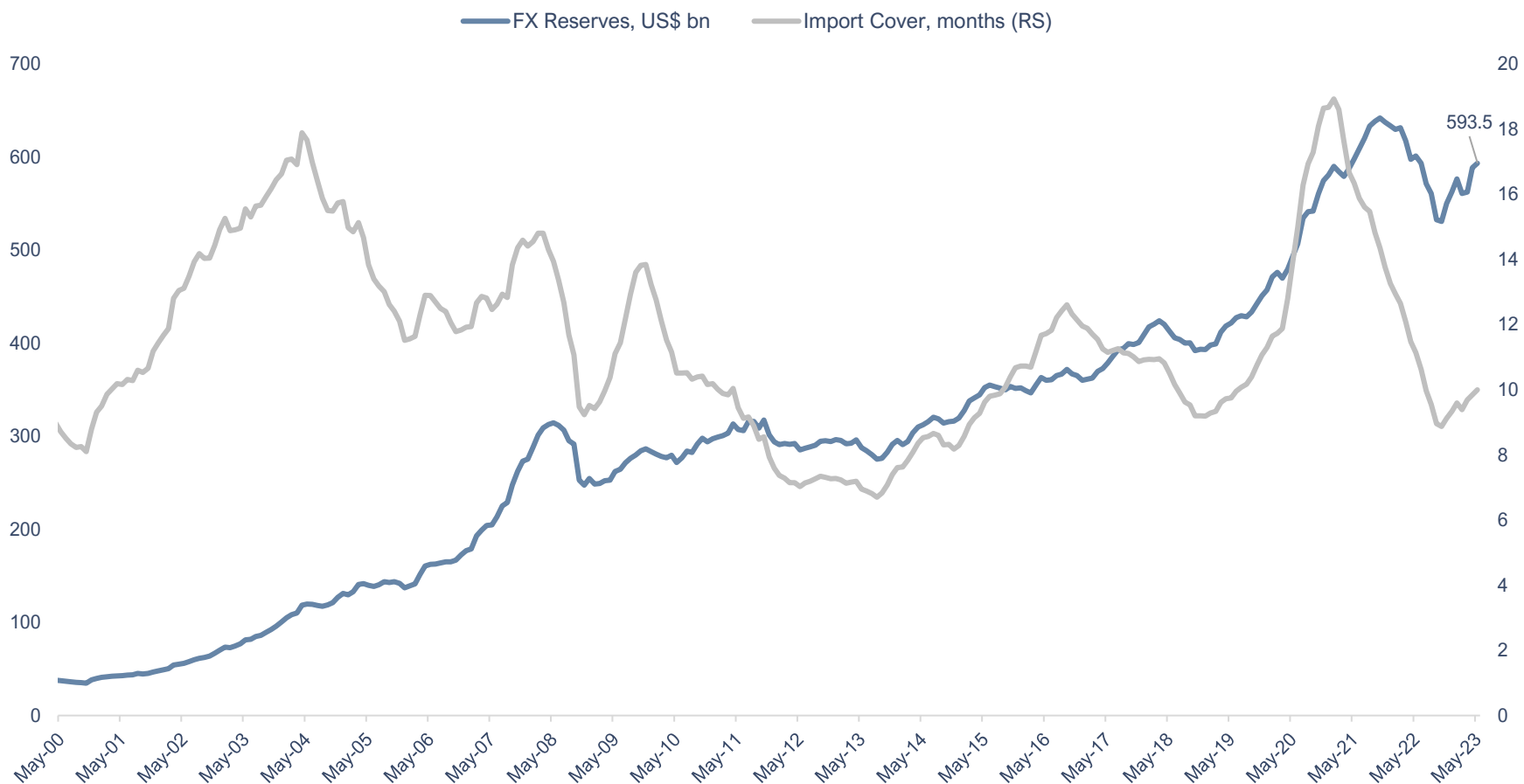


### India Global Services Exports Share



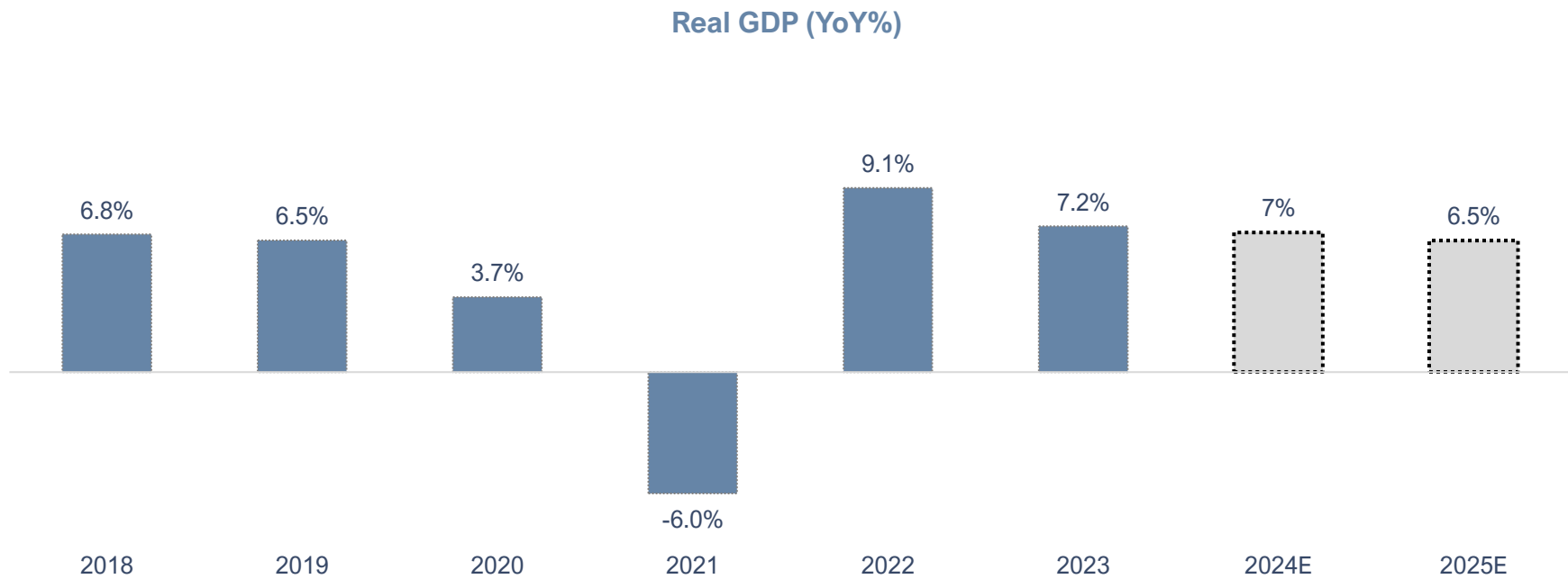
Source: CEIC, Haver, Company Data, Morgan Stanley

# India Forex Reserves Continue to be Higher than Pre-Covid Levels



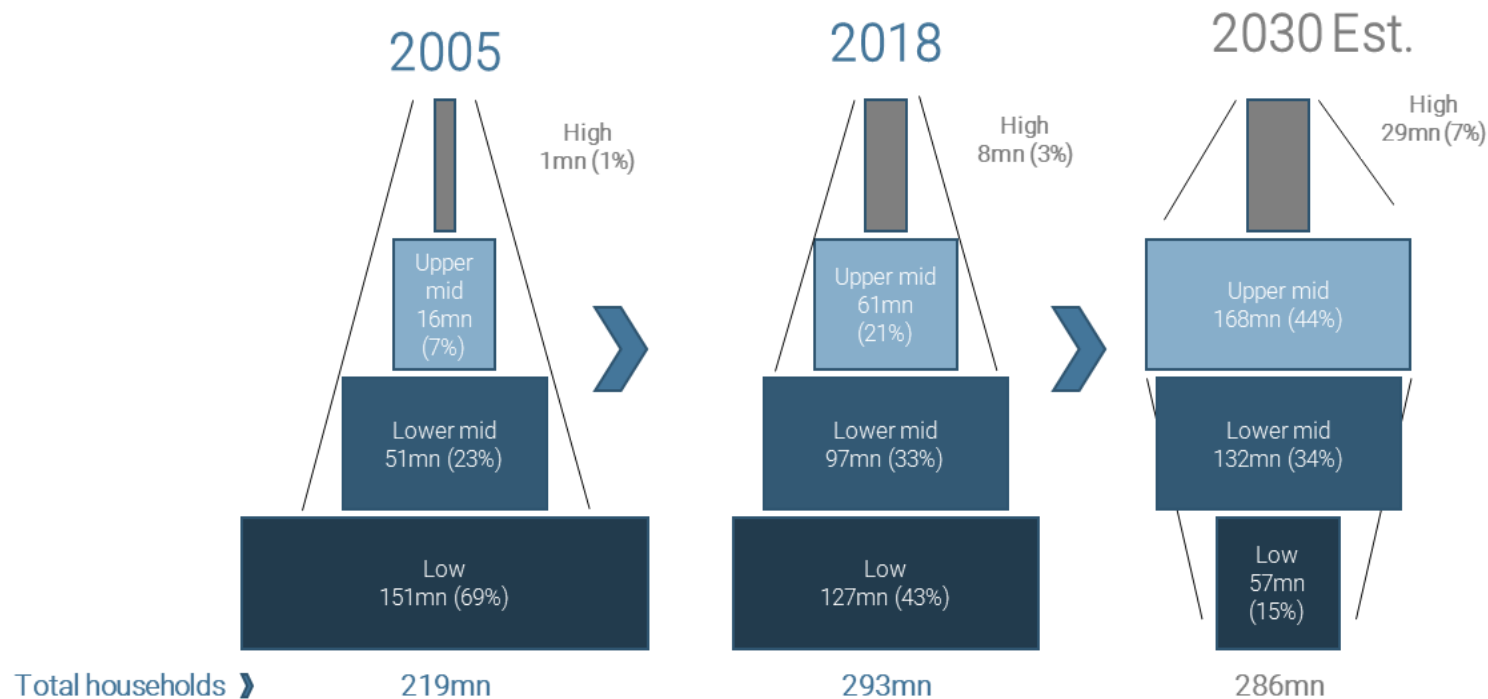
Source: CEIC, Morgan Stanley Research

# GDP Growth Outlook Remains Positive



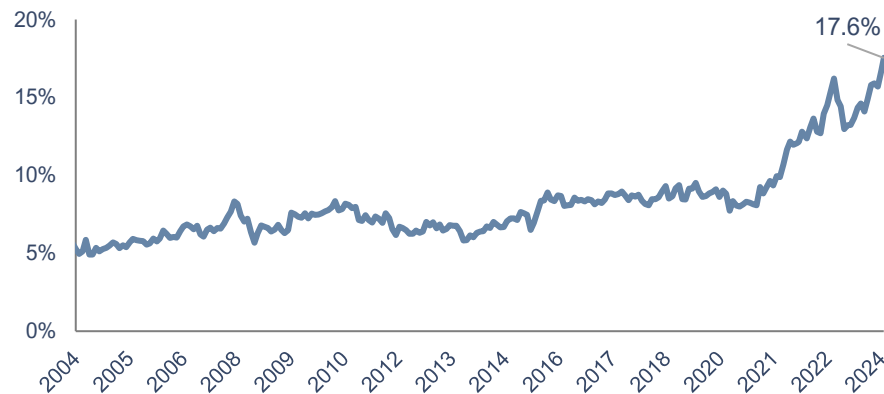
Source: CEIC, Morgan Stanley Research

# India's Income Pyramid will Invert over the Next Decade

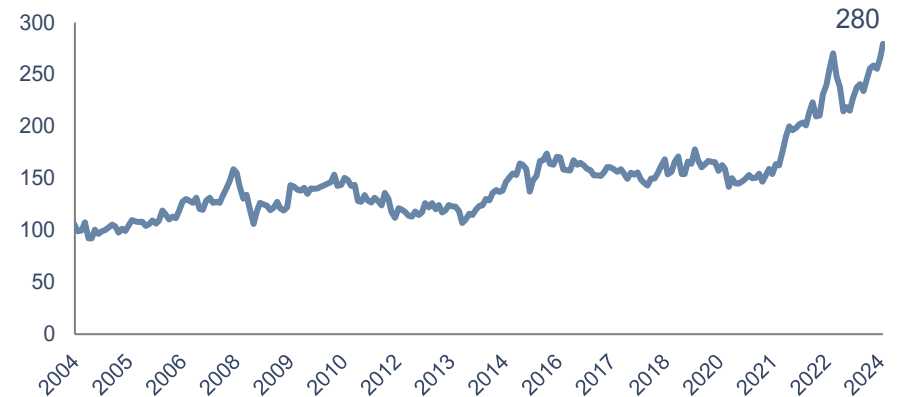


# Foreign investor flows into India remained strong during 2023

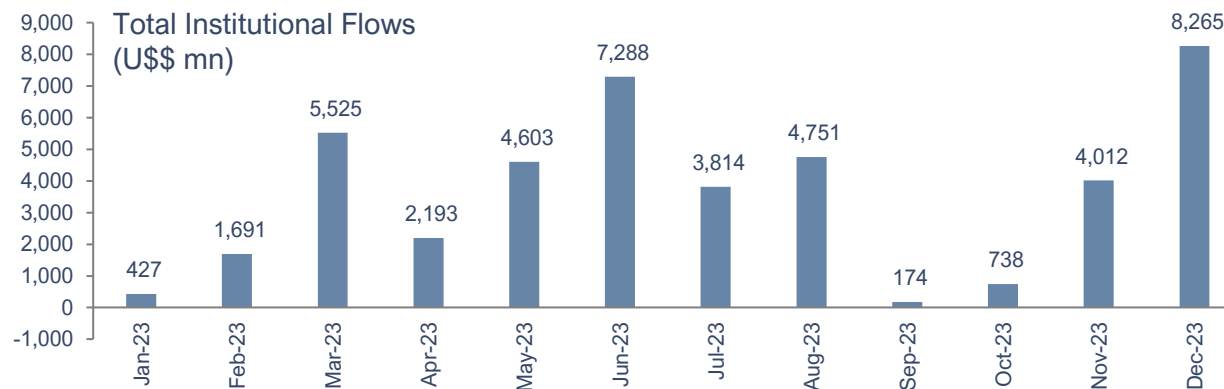
MSCI India Weight in MSCI EM



MSCI India Performance (Relative to MSCI EM)



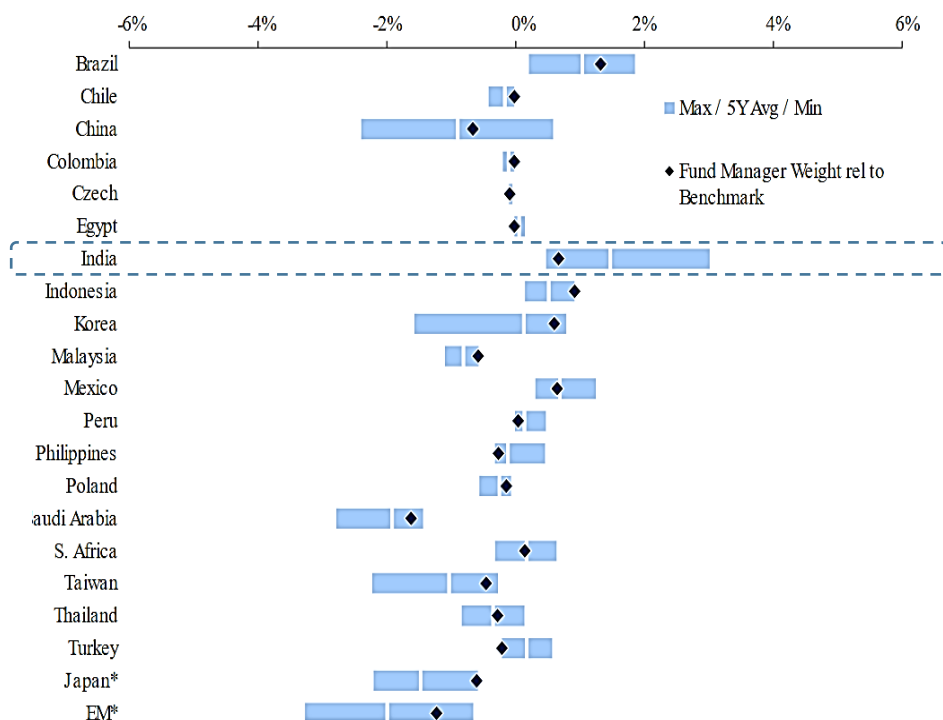
Foreign Activity Remained Strong



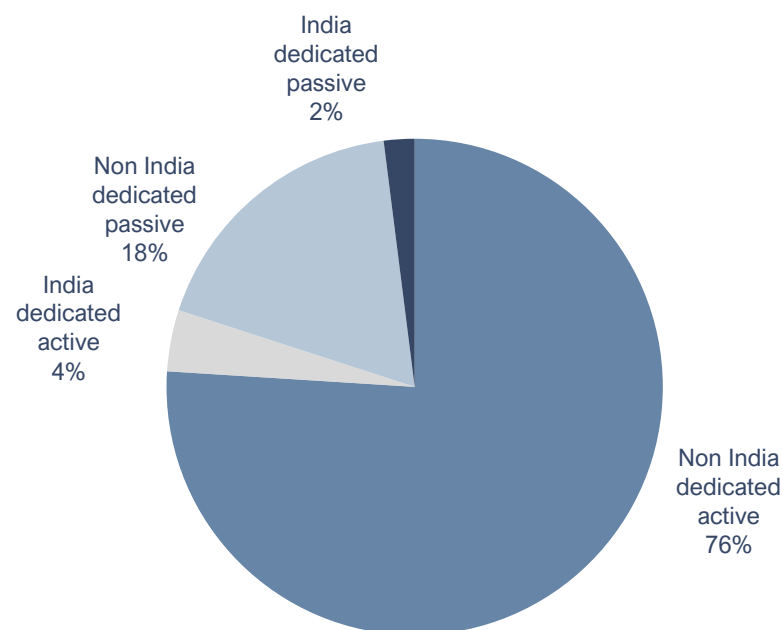
Source: Bloomberg, Jeffries

# Foreign Institutional Investors (FII) Remain Underinvested in India

GEM Fund Managers' Country Allocation vs. MSCI EM



Total FII Equity AUM Exposure: US\$ 534 Bn\*



Source: EPFR Global, Morgan Stanley Research  
Data as of 05/2023.

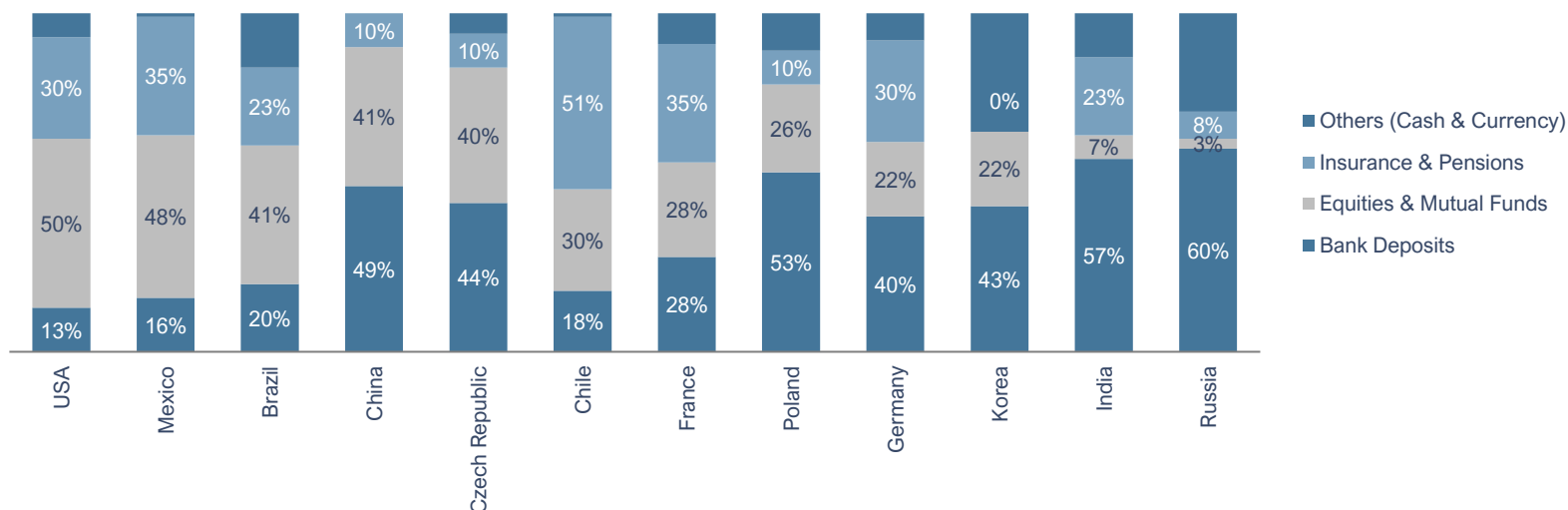
Source: CLSA, Bloomberg  
\*Data as of 02/2023

# Allocation to Indian Equities Still at a Nascent Stage

Foreign Investor Category	Investments in India Equities (\$ billion)	Total Investable Assets (\$trillion)	Approximate Allocation to Indian Equities (%)
Sovereign Wealth Funds/ Government-Owned Entities	\$74	\$10	1%
Pension Funds	\$51	\$56	0.1%
Endowment Funds	\$3	\$0.7	0.5%

Total assets of pension funds worldwide is estimated to be \$56 trillion, as of 2020  
 Total assets of U.S. based endowment funds is \$690 billion, as of 2020

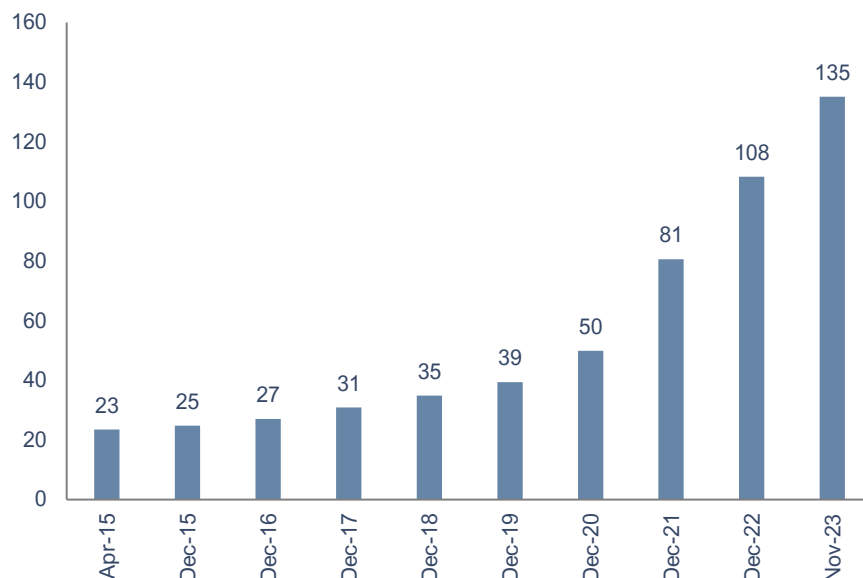
## Composition of Household Financial Assets



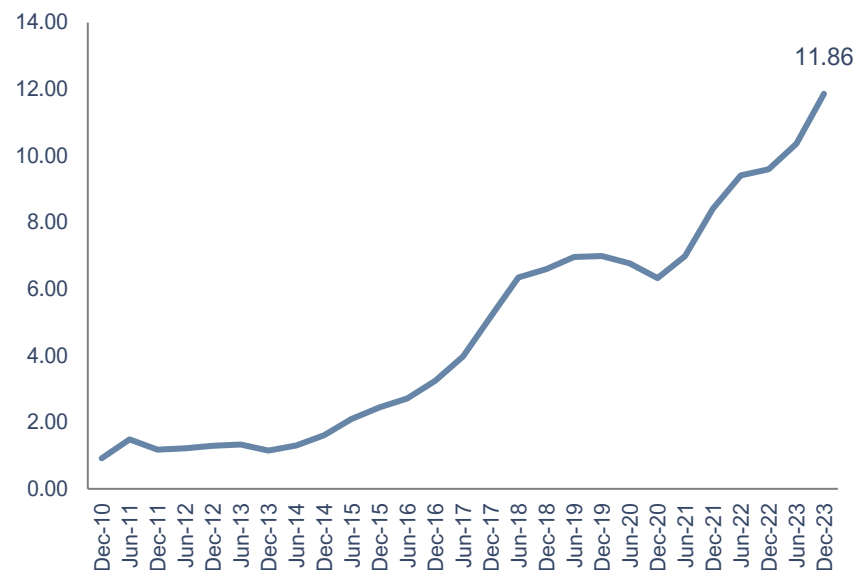
Source: Bloomberg

# Increasing Domestic Equity Flows

No. of Domestic Investment “Demat” Accounts in Mn



Monthly SIP<sup>1</sup> Flows (\$ Bn)



- Domestic equity flows have risen sharply in the last seven years, making the Indian equity market more resilient and less prone to any global risk off events or foreign investor outflows.
- Equities are still a small portion of household assets in India (<7%).

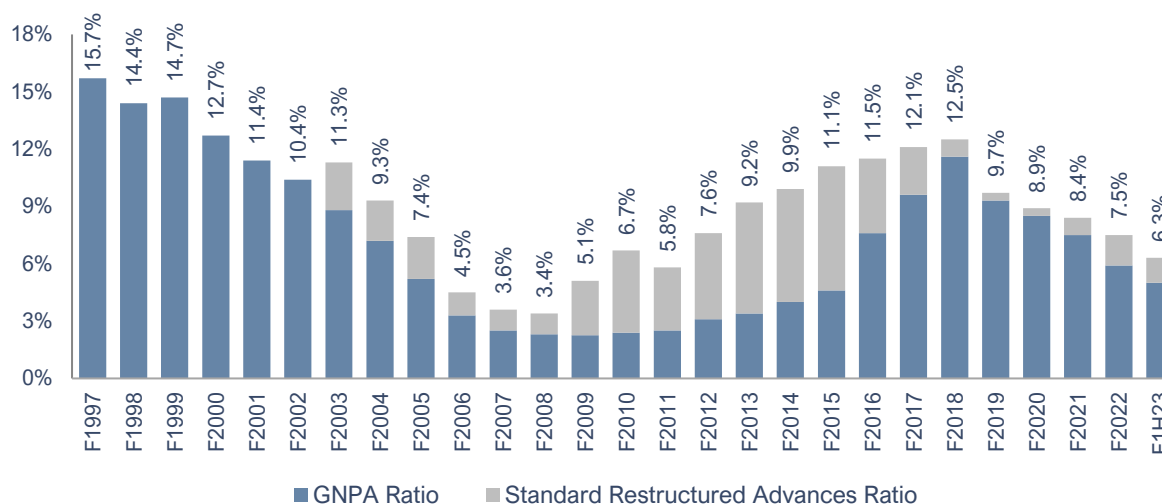
<sup>1</sup>SIP: Systematic Investment Plans

Source: Association of Mutual Funds of India, NSDL, CDSL



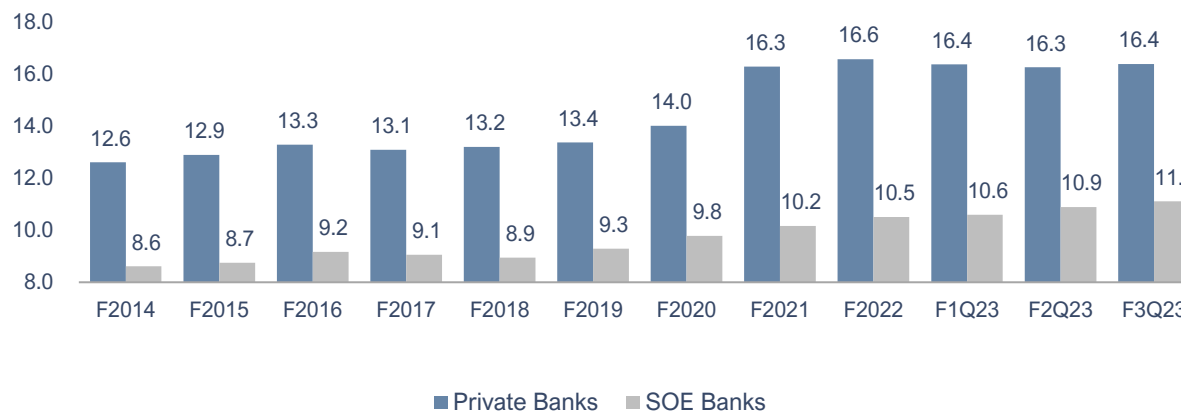
# India Banks - Balance Sheets Remain Strong

Gross non-performing assets are declining along with debt restructurings



India Banks: CET-1 Ratios are Significantly Higher than History

Private banks core equity capital is at all time highs

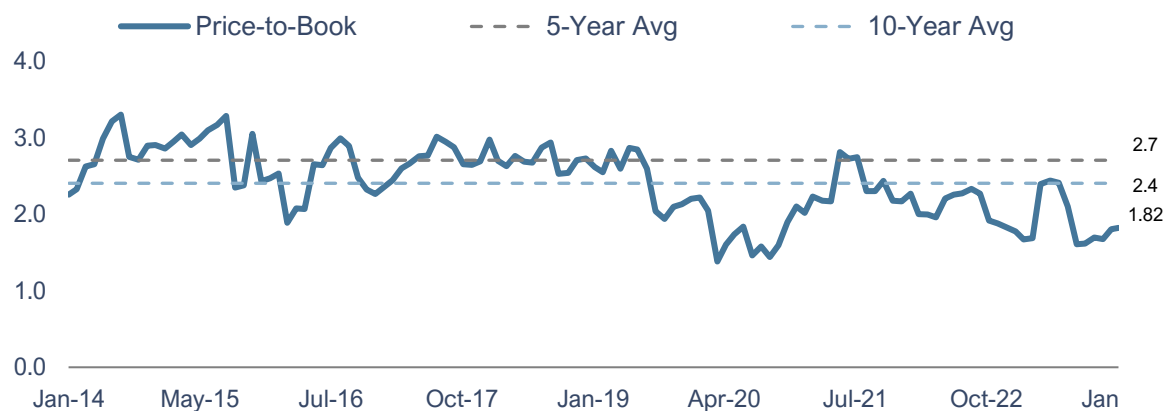


Source: Morgan Stanley Research

# India Banks - Valuations Below Long-Term Average

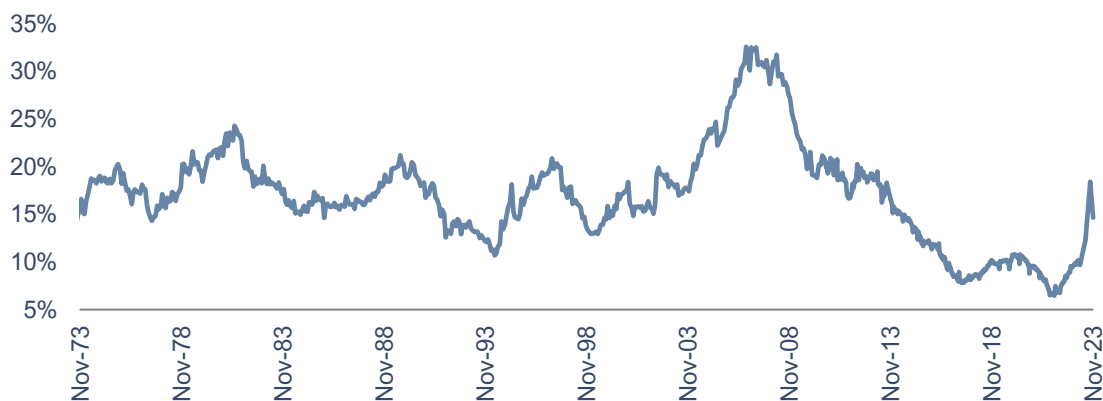
Price to book ratios for banks are below historical averages

P/B of MSCI India Bank Index



Loan growth is just now beginning to rebound back after decade long declines

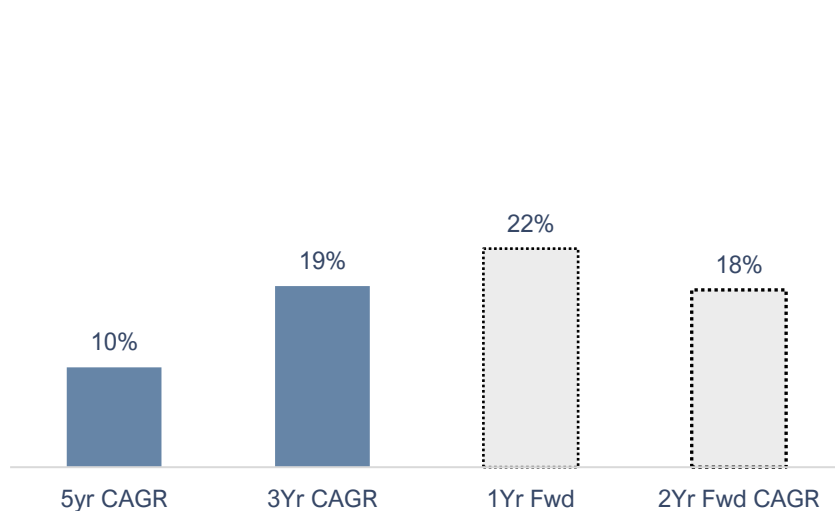
System Loan Growth - Trailing 3Y CAGR



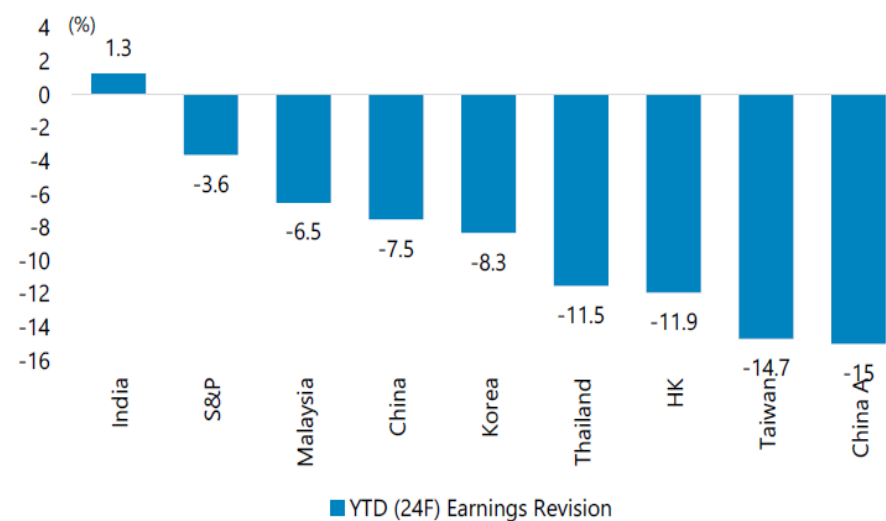
Source: RBI, Bloomberg

# India Markets - Strong earnings expectations

MSCI India forward earnings expectations remain strong



India is the only major market to see forward earnings upgrades in 2023



Source: Bloomberg, Jeffries



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## III. Dalton Asia Pacific UCITS Fund

# Roles

## Dalton Investments as Investment Manager

- ▶ **Assets under Management:** Approximately \$4.0bn as 31 December 2023\*
  - Offices in Los Angeles, Las Vegas, Tokyo, Hong Kong, Mumbai, and Sydney.

## Lafayette UCITS ICAV

- ▶ **Structure and Purpose:** Lafayette UCITS ICAV, managed by Waystone Management Limited (“Waystone”), enables investors to access investment strategies offered by alternative managers in a UCITS-compliant format
- ▶ Robust regulatory framework of UCITS, both from an infrastructure and investment perspective
- ▶ Robust operating framework supported by well-established fund service providers
- ▶ Waystone Management oversight through roles of Promoter, Manager and Distributor to the UCITS ICAV

## Waystone Management Limited

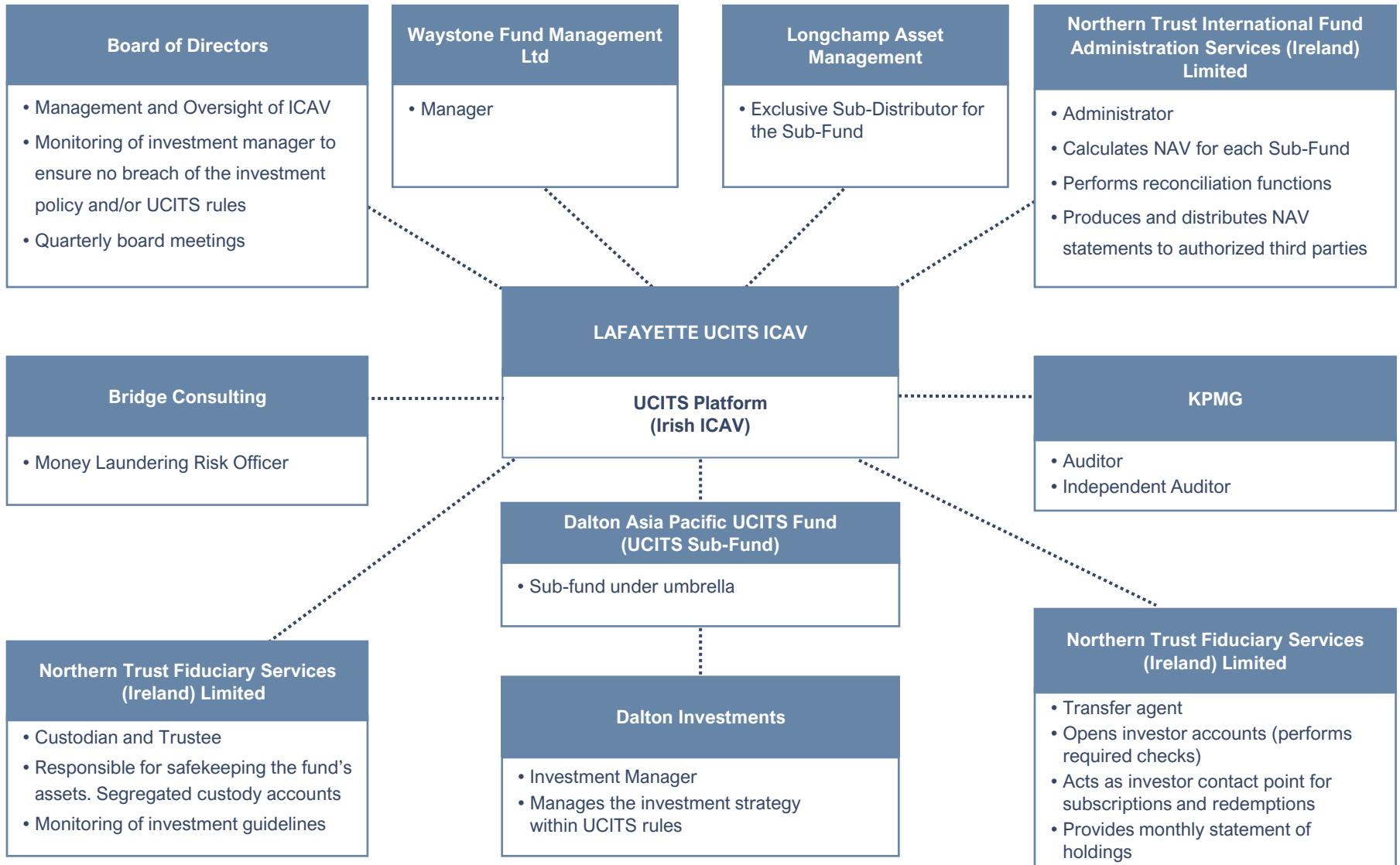
- ▶ **Manager to the ICAV**
  - Liaising with the Irish regulator (Central Bank of Ireland) on behalf of the ICAV in relation to the ongoing authorisation of the ICAV and its sub-funds, including compliance reporting
  - Liaising with the ICAV’s service providers on behalf of the ICAV
  - Marketing of the ICAV on a cross-border basis
  - Daily post-trade monitoring of the sub-fund portfolio to detect any breaches of UCITS regulations
  - Periodic trade monitoring/reconciliation to detect discrepancies with administrator NAV data
  - Periodic review of Investment Objectives and Policies of the sub-fund with a view to keeping the board of the ICAV informed

## Longchamp Asset Management as Distributor

- ▶ **Assets distributed and under Management:** Approximately \$1.7bn of assets managed and advised as of 31 December 2023
- ▶ Exclusive Sub-Distributor for the Sub-Fund
  - Expertise in pan-European distribution of alternative strategies
  - Appointed as exclusive sub-distributor to the Sub-Fund

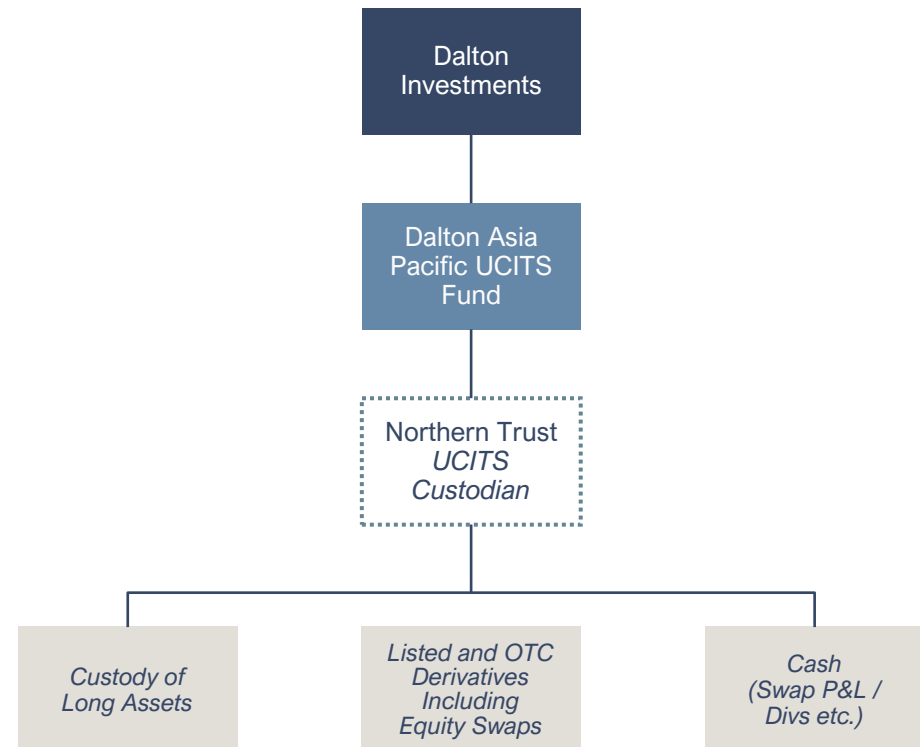
\*Performance results and assets under management figures presented are preliminary, unaudited, subject to change and do not constitute Dalton’s standard books and records. Accordingly, no representation or warranty applies.

# Fund Structure Overview



# Strategy Implementation

- Dalton Investments manages the strategy
- Northern Trust is the Administrator of the UCITS ICAV
- Under UCITS regulation, all shorts/leverage must be done synthetically
- Counterparty exposure is max 10% of NAV, monitored daily
- Daily NAV, with daily liquidity



# Dalton Asia Pacific UCITS Fund Details

<b>Sub-Fund</b>	Dalton Asia Pacific UCITS Fund
<b>Investment Strategy</b>	Long/Short Asian Equity
<b>Investment Manager</b>	Dalton Investments INC.
<b>UCITS Platform</b>	Lafayette UCITSICAV
<b>Exclusive Sub-Distributor</b>	Longchamp Asset Management
<b>Legal Structure</b>	UCITS ICAV
<b>Domicile</b>	Ireland
<b>Passporting</b>	Passported in Austria, Germany, Italy, U.K., France, Switzerland, Luxembourg, Ireland, Singapore
<b>Dealing Day</b>	Daily
<b>Subscription/Redemption Deadline</b>	1:00 p.m. Irish time 3 Business Days prior to the relevant Dealing Day
<b>Launch Date</b>	<b>8 April 2019</b> <i>Please note the Lafayette Dalton Asia Pacific UCITS Fund is a continuation of the FundLogic Alternatives Plc Dalton Asia Pacific UCITS Fund by way of a merger. The FundLogic Alternatives PLC fund was launched on 17 July 2013</i>
<b>Currency Denomination</b>	Base Currency of Fund: EUR. Hedged Share Classes: USD, GBP
<b>Share Classes</b>	Accumulation
<b>Issue Price</b>	€1,000; £1,000; \$1,000

Classes	Management Fees	Performance Fees	Total Expense Ratio	Minimum Initial Subscription	Initial Charge	ISINs	BBG Tickers
<b>Class B1</b> (Seeding)	0.75%	0%	1.18%	€ 50,000,000	0%	EUR: IE00BFXZM553	EUR: LDAPB1E ID
<b>Class B2</b> (Early Bird)	1.00%	10%	1.43%	€ 30,000,000 \$ 30,000,000 £ 30,000,000	0%	EUR: IE00BFXZM884 USD: IE00BFXZM777 GBP: IE00BFXZM991	EUR: LDAPB2E ID USD: LDAPB2U ID GBP: LDAPB2G ID
<b>Class E</b> (Clean)	1.25%	15%	1.67%	€ 20,000,000 \$ 20,000,000 F 20,000,000	0%	EUR: IE00BFXZMG67 USD: IE00BFXZMF50 CHF: IE000Z0XYXF1	EUR: LDAPUEE ID USD: LDAPUEU ID CHF: LDAPECH ID
<b>Class I</b> (Institutional)	1.50%	15%	1.93%	€ 1,000,000 \$ 1,000,000 £ 1,000,000	0%	EUR: IE00BFXZMK04 USD: IE00BFXZMJ98 GBP: IE00BFXZML11	EUR: LDAPUIE ID USD: LDAPUIU ID GBP: LDAPUIG ID
<b>Class P</b> (Retail)	1.50%	15%	1.93%	€ 250,000 \$ 250,000 £ 250,000	Up to 3%	EUR: IE00BFXZMN35 USD: IE00BFXZMM28 GBP: IE00BFXZMP58	EUR: LDAPUPE ID USD: LDAPUPU ID GBP: LDAPUPG ID
<b>Class A</b> (Retail)	2.00%	15%	2.42%	€ 10,000 \$ 10,000 F 10,000	Up to 5%	EUR: IE00BFXZMC20 USD: IE00BFXZMB13 CHF: IE00067LBN24	EUR: LDAPUAE ID USD: LDAPUAU ID CHF: LDAPACH ID





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# Appendix

# Dalton Infrastructure

## Effective 31 December 2023

### Founders

Belita Ong (22/43) – Chairman\* ‡  
 James B. Rosenwald III (25/42) – Chief Investment Officer\*  
 Steven Persky (25/42) – Co-Founder\* ‡  
 Gifford Combs (24/41) – Senior Portfolio Manager\*

### Management Committee

Sarah Alfandari (3/16) – Chief Executive Officer and President\* ‡  
 Janet Hunpadongrat (17/17) – Chief Operating Officer & Chief Financial Officer\* ‡  
 Iain Douglas (6/16) – Chief Marketing Officer\*  
 Craig Mercer (7/24) – Chief Sustainability Officer\* ‡  
 Christopher Ha (6/19) – Chief Compliance Officer and Counsel\* ‡

## Infrastructure

### Marketing & Relationship Management

Bart Maeda (16/32) – Managing Director  
 Adam Woodward (9/19) – Director  
 Caitlin Tesoriero (8/13) – Sr. Associate  
 Tranisha Harris (1/9) – Marketing Associate

### Operations & Finance

Christopher Wu (4/14) – Director of Tax and Controller  
 Ryo Toyoda (9/12) – Director of Operations and IT  
 Gilbert Fuentes (8/11) – Accounting Manager  
 Ricardo Silva (9/21) – Sr. Accounting Associate  
 Matilde Solorzano (5/8) – Sr. Accounting Associate  
 Ithonya Fry (3/4) – Staff Accountant  
 Steven Kayo (1/2) Operations Associate  
 Megumi Maruta (22/22) – Compliance Officer

\* Partner

‡ Members of the Risk Management Committee  
 (Years of experience firm/industry)

# Step 1 - Idea Generation

## Qualitative Idea Generation

- Ideas generated through ongoing company interaction, bottom-up research and market knowledge
- This includes identifying names where there are strong or increasing alignment of interests
- Dalton focuses on identifying companies with encouraging growth dynamics, strong long-term growth potential and attractive competitive positioning
- The analyst team's research drives the bulk of their idea generation

## Periodic Screens

- Dalton conducts systematic screening based on Dalton's four mantras
- Screens are based on quantitative financial metrics e.g. P/B, Fwd P/E, EV/EBITDA, Dividend Yield, ROIC
- Screens are run periodically to keep ideas fresh and understand the scope of the opportunity
- Screens are led by the Chief Research Officer and are tailored to specific markets

## Example: Japan Valuation Screen

Company	Market Cap (\$bn)	P/E (FY0)	P/E (FY1)	P/B	EV/EBIT DA (FY0)	ROIC – 5 Year Ave. (%)
TS Tech Co Ltd	1.1	10.9	8.8	1.5	5.0	11.7
Nikon Corp	3.7	13.4	10.8	4.1	5.3	14.1
Shimamura Co Ltd	2.7	132.5	14.6	1.6	5.3	16.2
Showa Denko KK	0.9	7.6	6.8	1.2	7.1	15.6
Tosoh Corp	2.4	24.4	29.3	2.4	8.7	12.3
Zeon Corp	1.4	15.3	12.3	3.3	9.6	17.9
Ube Industries Ltd	0.7	29.2	14.0	1.8	10.2	10.6
Kuraray Co Ltd	0.5	14.2	11.6	2.5	10.3	11.6
Asahi Kasei Corp	2.6	17.9	17.6	4.2	11.7	20.7
Daicel Corp	2.6	15.0	11.8	4.0	12.8	18.4
Denka Co Ltd	2.6	17.2	14.4	3.9	13.0	17.8
Denso Corp	31.2	129.5	12.6	1.7	5.4	17.2

Screen example for illustrative purposes only. Please note that the case studies are included herein to convey Dalton's thought process and approach in analyzing investment opportunities and are not indicative of performance for any actual Dalton account. The actual performance of the position is not relevant disclosure and should be disregarded given that the aggregate performance of an account/portfolio can be materially different. Further, it should not be assumed that future investments will be profitable or will equal performance discussed in these case studies.

# Step 2 - Due Diligence & Company Meetings

## Due Diligence, Research & Financials

- Build a model of intrinsic value and compare to relevant peers
- Establish direct contact with company management, division heads, competitors, suppliers, customers, etc.
- Engage in group discussion to refine understanding of the company and its competitive position
- Prepare investment thesis using Dalton's Investment Checklist
- Share investment thesis and valuation model with the team

## Disciplined Modelling & Documentation

**CRYSTAL INTERNATIONAL (2232 HK)**

**THE COMPANY**  
 Largest apparel OEM by volume (1.4% global share) and the second largest by value (2.1% global share). One-stop value added supplier for top global brands. Leading share in the industry consolidation.

Market Cap	\$7.0B USD	P/B (Avg PE)	1.4x
Share Price	5.41 HKD	P/E	11x
Rev	\$2.18B USD (H21)	EV/EBIT	11x
Pre profit	\$753.6M USD	Free Cash Flow	\$1.4B
NI	\$148.4M USD	Capex/Rev	2.2%
OCF	\$1.05B	FCF	\$800

**INVESTMENT THESIS, VALUATION, AND CAPITAL ALLOCATION**

- Industry leader consolidating fragmented market. CEO expects high long-term growth.
  - Multiple business segments to benefit from due to its diverse capabilities across product lines and end markets.
  - Customers derive satisfaction among multiple in order to solve complexity and Crystal is well positioned to cross sell and increase penetration.
  - Adds value vertically through "vertical" process starting from product design and production to manufacturing and delivery.
  - Controls the accounts, increased penetration with top customers, even so, it still only 4% penetration with several large customers including H&M, Gap, L. Brands with room for further increase. CEO would like to reach 30% penetration with second customers.
  - Long-term growth of 10-15% in 2023 and developed value free.
  - Long-term growth with 10% per year operating history and 15 years of consistent ROIC.
    - 20+ year relationship with top customers.

**BUSINESS ANALYSIS**

- Company is 30% factory built asset.
  - Revenue is 75% in China and 25% in other countries.
  - San Antonio is an O2O apparel company, \$1.1B and gained in 2021 after company was \$1.0B in revenue. 17% decline in Q4 to Q3 2022.
  - Successfully expanded from regional categories. Demand up to higher price/higher categories market.
  - Other retail team members have 5-7% stock options, around 10 people.

**RISKS**

- Heavy dependence on CEO and CFO and O&M.
- The stock price is overvalued and could cause ESG changes in market.
- High-quality talent, which is in high demand.
- Tariffs being imposed by Trump administration.
- Company has high inventory and use for China based export to US.

# Step 3 - ESG Analysis

## ESG Analysis

- In-depth review of the ESG credentials of a company
- Examine accounting flags raised
- Note ongoing legal disputes or controversies involving the company
- Check company performance against any exclusion criteria

## ESG Reporting

**UK Retail Holdings Ltd. ESG Summary Analysis (2023)**

Metric	Value	High Quality	Medium Quality
Carbon Footprint	12,345 tCO2e	Green	Yellow
Greenhouse Gas Emissions	56,789 tCO2e	Green	Yellow
Environmental Incidents	15	Green	Yellow
Water Usage	1,234,567 m³	Green	Yellow
Waste Generation	98,765 t	Green	Yellow
Employee Safety	123,456	Green	Yellow
Community Engagement	78,901	Green	Yellow
Supplier Sustainability	45,678	Green	Yellow
Product Sustainability	23,456	Green	Yellow
Customer Satisfaction	89,012	Green	Yellow
Brand Reputation	56,789	Green	Yellow
Overall ESG Score	78.5	Green	Yellow

**Executive Summary**  
The company has demonstrated a strong commitment to ESG principles, with significant improvements in carbon footprint and greenhouse gas emissions over the reporting period. The company's environmental incidents have decreased, and its water usage and waste generation remain within industry benchmarks. The company's employee safety and community engagement initiatives continue to show positive results, contributing to its overall ESG performance.

**Materiality Assessment**  
The company has identified its material ESG issues based on stakeholder expectations and its business operations. The most material issues are carbon footprint, greenhouse gas emissions, and environmental incidents. The company has implemented targeted strategies to address these issues, including the adoption of renewable energy and improved waste management practices.

**ESG Risks and Opportunities**  
The company faces several ESG risks, including climate change, water scarcity, and waste management. These risks are being managed through the implementation of robust ESG policies and procedures. The company also identifies several ESG opportunities, such as transitioning to renewable energy, improving energy efficiency, and enhancing its waste management practices.

The Investment Manager takes environmental, social and governance (ESG) criteria into account in investment decisions among others; however, sizing of individual positions is based on a larger scope of criteria than ESG only.

# Steps 4 & 5 - Debate and Recommendation

## Internal Challenge and Portfolio Construction

- Completed research provided to team for internal debate and discussion
- Team plays 'Devil's Advocate' against the investment case
- Identify information gaps
- Consider risk/reward impact of adding position to existing portfolios
- Arrange for the Portfolio Manager to meet owner/operator to assess strategic vision, motivation, etc.

## Trade Recommendation

- Consider impact on portfolio construction
- Recommend position size
- Assess which accounts are appropriate for adding position
- Identify any sales needed to raise cash and/or manage risk
- Provide guidance on limit price, timing and estimated fair value
- Provide key documentation and summary recommendation to Portfolio Manager for consideration

# Step 6 - Engagement

## Engagement has multiple facets

- Capital Allocation (stock repurchase/dividend increase, etc.)
- Executive Compensation (stock compensation)
- Board Seat/Outside Director
- Cancellation of Treasury Stock
- Corporate Restructuring
- ESG disclosures and policies

### Note that:

- Dalton is signatory of PRI and the Japan and Korean stewardship codes
- More details on their Sustainable Investment Policy can be found on their website

## Current Portfolio Engagement

- Dalton has engaged directly with 35 of 47\* companies across their Japanese portfolio companies
- Across their Asian and emerging markets portfolios they have engaged constructively with several companies
- Their engagement activities in Japan have included: capital allocation (37), cancellation of treasury stock (4), other (52), executive compensation (11), and board structure (24).

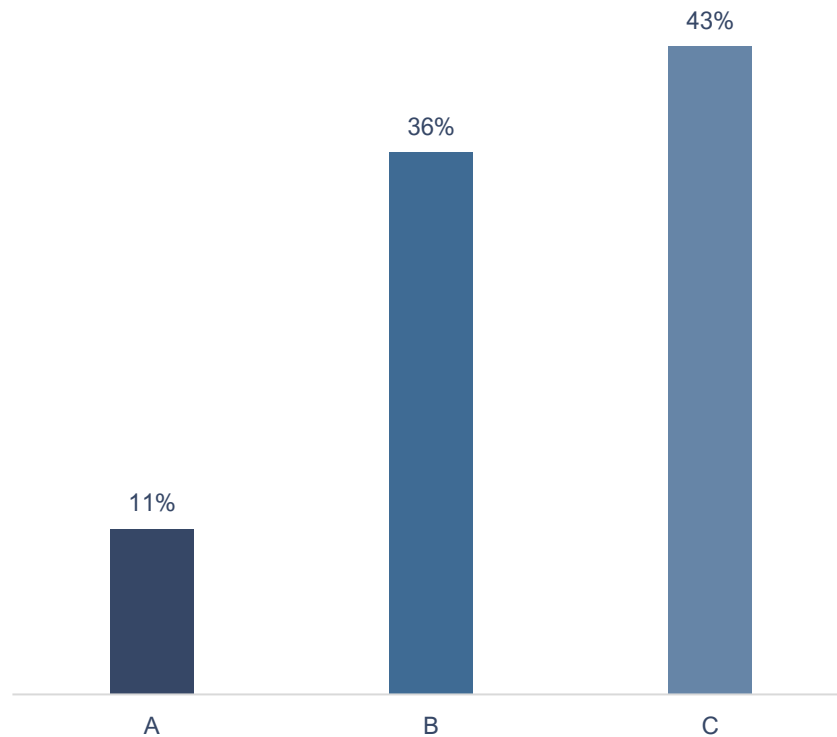
Japanese Engagement Activities	Total Engagement
Companies with whom Dalton engaged	35
Total number of board proposals made	132
Total number of proposals implemented*	76

\*Includes positions held in other Dalton Japan equity strategies. Engagement activities are measured since the beginning of Dalton's investment in each company

# Portfolio ESG Analysis

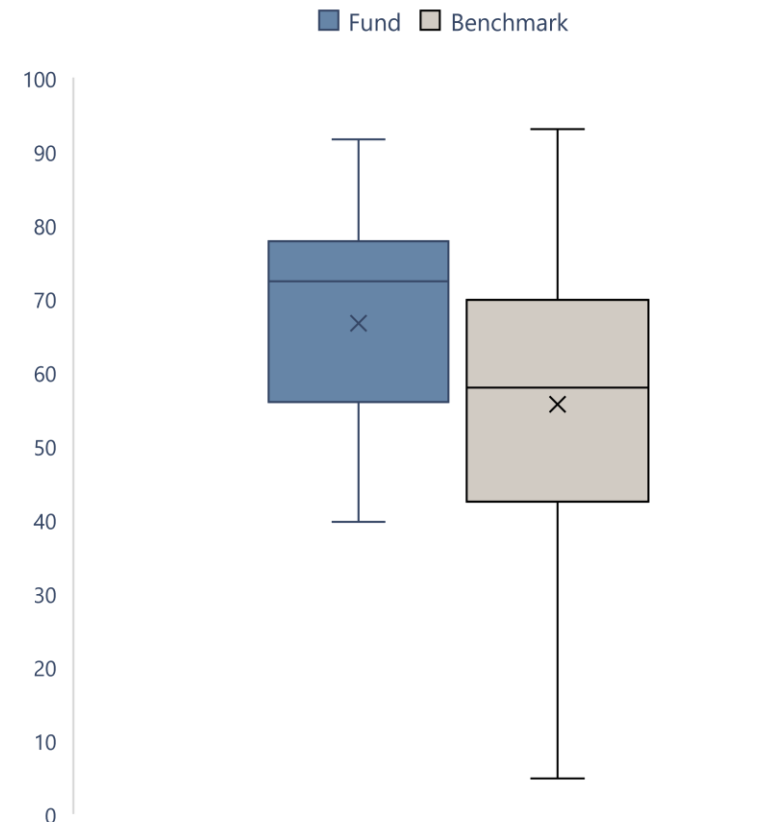
## Rating Distribution by NAV Exposure (Pro rata long portfolio)

(A = High Quality practices, B = Moderate Quality Practices, C = Low Quality Practices, D = Review Requested)



## ESG Score: Distribution of Scores (Long Positions)

Dalton Asia UCITS L/S Fund vs. MSCI Asia Pacific Index  
(0 = worst in class 100 = best in class)



Source: Dalton Investments internal analysis. Refinitiv. As at end December 2023.

The Investment Manager takes environmental, social and governance (ESG) criteria into account in investment decisions among others; however, sizing of individual positions is based on a larger scope of criteria than ESG only.



# Portfolio ESG Analysis

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## Key Notes

- Asset4's data coverage in the MSCI Asia Pacific region covers over 1,400 companies
- 82% of Dalton's long positions have data coverage by Asset4
- Relative to the market, both the Fund's mean and median ranking are higher than those of the index
- For definition of the ESG Score methodology of Thomson Reuters (Refinitiv) Asset4, see the disclosures below\*
- While Dalton is mindful of the external data, they are aware that their investment focus means coverage of their investments will be limited
- Dalton currently has no exposure to Tobacco, Armaments, Cluster Munitions, Landmines and Thermal Coal
- Dalton does not require a rating for the Fund's investment in Vietnam Enterprise Investments Limited, which is a closed-end Fund traded on the Main Market of the London Stock Exchange, nor does it require ratings for its investment in Fairfax India Holdings which is a publicly traded investment fund.

## Notes on the Short Portfolio

- At this time, Dalton does not analyze ESG on their short positions
- Short positions typically reflect overvalued names with weak business models where they believe there is no alignment of interest between minority shareholders and the owner/operator
- Dalton does not specifically target positions where there are egregious ESG practices that may lead to capital impairment

\*ESG Score: Thomson Reuters captures and calculates over 400 company-level ESG measures, of which they have selected a subset of 178 most comparable and relevant fields to power the overall company assessment and scoring process. The underlying measures are based on considerations around comparability, data availability, and industry relevance. They are grouped into 6 categories. The 6 categories weighted proportionately to the count of measures within each category formulates the final ESG Score. The ESG Score is based on a percentile rank, with 100 representing best in class and 0 worst in class. ESG Controversies Score: ESG controversies category score measures a company's exposure to environmental, social and governance controversies and negative events reflected in global media.

The Investment Manager takes environmental, social and governance (ESG) criteria into account in investment decisions among others; however, sizing of individual positions is based on a larger scope of criteria than ESG only.

# Disclaimer

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# Disclaimer

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