Dalton Kizuna Fund

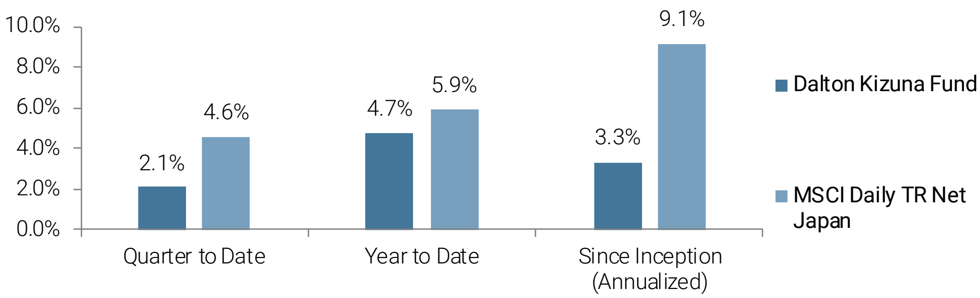
3rd Qtr. 2021 Newsletter

Fund Description

The Dalton Kizuna Fund is an equity fund that invests opportunistically in Japan. The Fund strives to buy shares in companies with good businesses run by management with a strong alignment of interest with shareholders, at prices that reflect a significant margin of safety to intrinsic value. The Fund is expected to be a highly concentrated portfolio (no more than 20 companies) of strong conviction ideas. In addition to performing onsite due diligence and rigorous fundamental analysis, the investment team engages in active collaboration with managements and directors of portfolio companies in order to encourage actions that will lead to revaluation in the equity market.

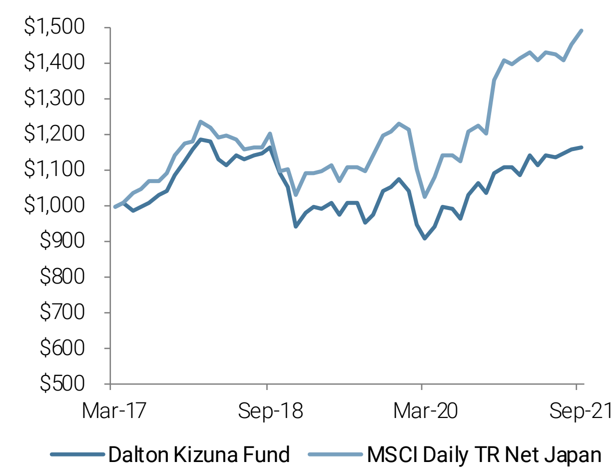
"Kizuna" is a traditional Japanese word meaning the strong bonds between people; we use the word to reflect our aspiration of pursuing greater good for all stakeholders through our investment practice.

Fund Performance (Net of Fees)*



Fund At A Glance*

GROWTH OF $1,000



Cumulative Net Total Return	16.23%
Compound Annual Growth Rate	3.34%
Percentage of Up Months	58.18%
Percentage of Down Months	41.82%
Best Net Month Return	7.23%
Worst Net Month Return	-10.42%
Standard Deviation	12.38%
Sharpe Ratio	0.17
Largest Net Consecutive Gain	20.40%
Largest Net Drawdown	-23.80%

MONTHLY PERFORMANCE (%) NET OF FEES*

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year	MSCI Japan
2021	-0.04%	-1.97%	5.16%	-2.32%	2.12%	-0.17%	0.96%	0.86%	0.24%				4.75%	5.90%
2020	-3.15%	-9.22%	-4.12%	3.77%	6.13%	-0.75%	-2.82%	7.23%	3.08%	-2.44%	5.05%	1.78%	3.23%	14.48%
2019	4.07%	1.46%	-0.49%	1.68%	-3.43%	3.66%	-0.02%	-5.34%	1.92%	7.17%	0.68%	2.26%	13.83%	19.61%
2018	2.36%	-0.89%	-4.02%	-1.49%	2.71%	-0.92%	0.59%	0.51%	1.50%	-6.11%	-3.51%	-10.42%	-18.73%	-12.88%
2017	0.00%	0.00%	-0.44%	1.28%	-2.06%	0.87%	1.47%	2.12%	0.95%	4.18%	3.43%	3.45%	16.17%	18.22%

FUND AT A GLANCE AS OF SEPTEMBER 2021

Lead Portfolio Manager .... James B. Rosenwald III
Investment Style..............................Concentrated Equity
Index..MSCI Daily TR Net Japan
Inception Date...Mar '17
Fund Assets (September 30)..............................$43 mil
Asian Equity Assets (September 30)..............$3.2 bil**
Firm Assets (September 30).................................$3.4 bil
Net Asset Value/Share (September 30)........$1,162.26
Minimum Investment. ....$1 mil
High Watermark.......... ....Yes
Structure..Master-Feeder
Administrator..Northern Trust
Custodian...Northern Trust
Auditor..PricewaterhouseCoopers
Liquidity....................................Monthly (1-yr Lock-up)***
Management Fee...1.0%
Incentive Fee...20%

CONTACT INFORMATION

Telephone...424.231.9100
Email..................................info@daltoninvestments.com
1601 Cloverfield Boulevard – Suite 5050 N
Santa Monica, California 90404
www.daltoninvestments.com

**Past performance is no guarantee of future results. All investments involve risk including the loss of principal. Please see final pages for performance disclosures.*

***Asian equity assets include all assets managed by James B. Rosenwald III, which include the assets from the Dalton Kizuna Fund, several other Pan-Asia and Japanese separate accounts and other products.*

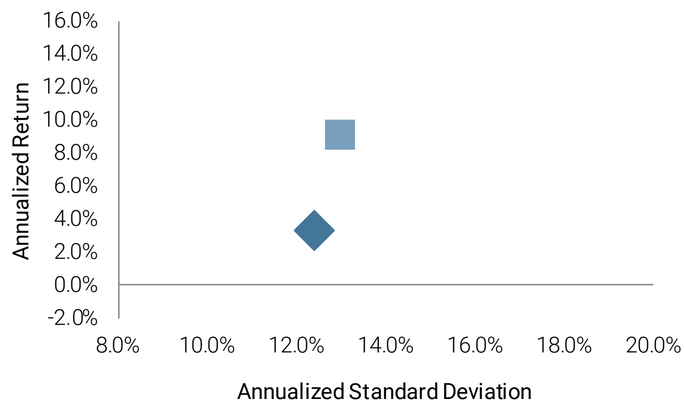
****Liquidity terms are more restricted for hard-to-value or illiquid "special securities." The manager has the authority to designate up to 10% of the fund in special securities, and these investments must be held to realization of investment. Please see fund documents for more information.*

Risk Analysis (Since Inception)*

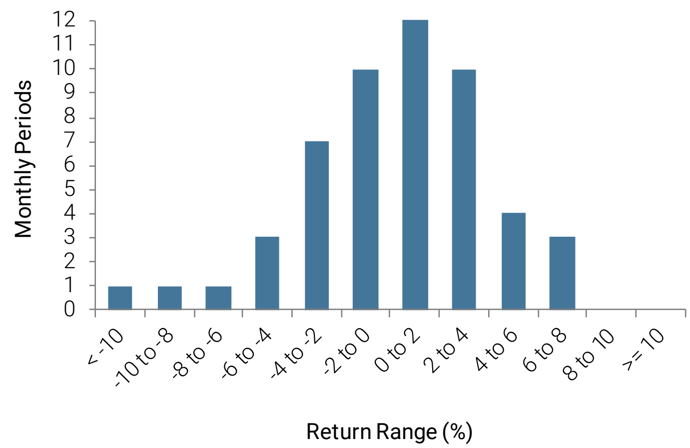
RISK COMPARISON

	Dalton Kizuna Fund	MSCI Daily TR Net Japan
Cumulative Net Total Return	16.2%	49.4%
Compound Annual Growth Rate	3.3%	9.1%
Standard Deviation	12.4%	13.0%
Largest Net Consecutive Gain	20.4%	17.1%
Largest Net Drawdown	-23.8%	-17.1%
Sharpe Ratio	0.17	0.61
Correlation		0.82
Beta		0.78

RISK RETURN SCATTERPLOT



MONTHLY RETURN DISTRIBUTIONS

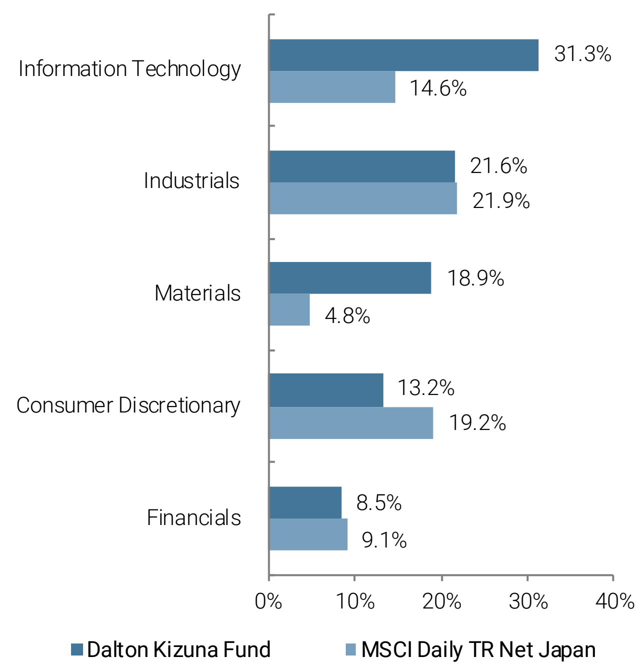


Asset Allocation and Portfolio Information

TOP 5 LONG POSITIONS

Company	Sectors	% Equity
Tenma Corp	Materials	8.0%
Macnica Fuji Electronics Inc	Information Technology	8.0%
Toukei Computer Co	Information Technology	6.9%
Ai Holdings Corp	Information Technology	6.9%
C Uyemura & Co	Materials	6.3%

SECTOR BREAKDOWN



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Performance Update (USD)*

In the third quarter of 2021, the Dalton Kizuna Fund increased by 2.08% (net of fees) while the Index increased by 4.56%.

Portfolio Overview

Japanese stocks had underperformed other developed country stock markets year-to-date through August, but the trend reversed in September when Prime Minister Suga announced his decision not to run for the leadership of the Liberal Democratic Party ("LDP"), thereby ending his term at the next election. The announcement acted as a positive signal to the Japanese equity market because support for the Prime Minister had dropped to dangerously low levels for the party. While the leadership of Mr. Suga had been commendable, the average citizen's frustration had grown during the prolonged battle with COVID, causing investors to worry about the political tail risk of a potential regime change – from the LDP to opposition parties. However, the risk receded with Mr. Suga's decision to take the blame for the government's COVID response, allowing LDP candidates to compete in the nationwide election in November without the stain of COVID. Further, the COVID situation improved in September as vaccinations continued to ramp up, and the Japanese equity market ended up narrowing the year-to-date performance gap in the third quarter.

Major contributors of the quarter included Shinsei Bank and Mitani.

Shinsei Bank received an unsolicited Takeover Bid ("TOB") from SBI Holdings, a conglomerate comprising online financial services, at an approximate 40% premium over its then market price. The two companies had discussed a strategic alliance in 2019 but had not reached an agreement at that time. Starting last year, SBI Holdings had been accumulating Shinsei stock in the market, reaching approximately 20% of the voting rights by early this year. SBI has taken the position that while their bid could be seen as hostile by the board, it would be beneficial for other stakeholders. We are carefully monitoring developments to ascertain what actions would be most beneficial for the fund/portfolio.

Mitani's share price jumped up about 20% from the beginning of July through mid-August. Over the past five years, the company had performed consistently and enjoyed positive stock price performance. Occasionally, shares of Mitani would surge for no obvious reasons, followed by modest partial corrections before settling into a reasonable relationship with fundamentals. The latest surge occurred in July. While we do not consider the company to be particularly overvalued at this time, we view this latest upswing as a good opportunity to exit the position as the stock price has closed in on its intrinsic value, providing a lower margin of safety than other names in the portfolio.

Major detractors of the quarter included C Uyemura and Rakuten.

C Uyemura saw its share price decline by 4.5% during the quarter, partially reversing the 20% rise from the previous quarter. The company's underlying business operation has been going well, and a record-high profit is expected this year. Demand for plating chemicals continues to grow, driven by the increasing volume and size of semiconductor packages. This trend is expected to continue in the foreseeable future thanks to the higher functional requirement and rise in volume for semiconductor packages. We maintain a high conviction in the future of this global leader valued at P/B of 1.1x while achieving a 25% ROIC.

*Past performance is no guarantee of future results. All investments involve risk including the loss of principal. Please see final pages for performance and benchmark disclosures.

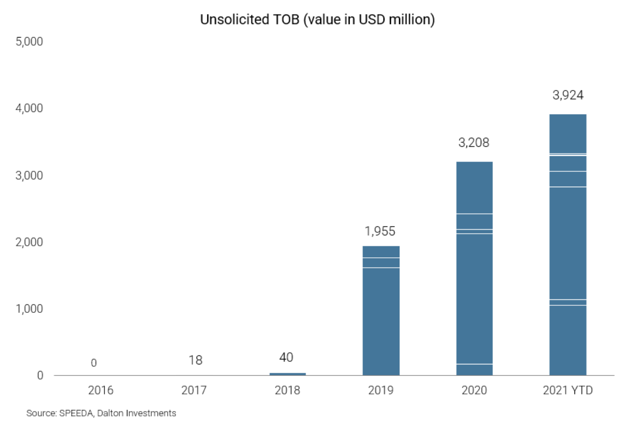
The share price of Rakuten rose briefly in the beginning of August following positive news about Rakuten's first big virtual mobile network contract, but then declined as the company failed to provide much detail about the contract. The share price declined further as uncertainty related to Rakuten's MNO (Mobile Network Operator) business increased due to the 3-month delay in building network base stations caused by the global semiconductor shortage. However, the company believes that its MNO business is on track to breakeven in FY23/12. The company continues to allocate the cash generated from its two core businesses, domestic E-Commerce, and Fintech to its mobile business to increase the value of its overall ecosystem, and we remain a long-term investor.

Shinsei/Unsolicited TOBs

One of our core positions, Shinsei Bank, received an unsolicited Takeover Bid ("TOB") at an approximate 40% premium from SBI Holdings on September 9th. The board of Shinsei criticized SBI for the abrupt bid and implemented a takeover defense plan. In turn, SBI criticized the board of Shinsei for not being able to pave the way for the repayment of public funds. The deal has evolved into a hostile fight among two Japanese public companies.

The deal is unconventional in two ways: firstly, it was initiated by an established public company in an unsolicited manner; secondly, the target was a highly regulated banking company.

The fact that the TOB was unsolicited is becoming less and less unconventional in Japan. SBI's TOB was the 7th unsolicited TOB in the Japanese equity market this year, and the 5th deal initiated by corporate/strategic buyers (including the conditional offer for Kansai Super). The chart below indicates that not that long ago, there were no unsolicited TOBs in Japanese society because hostile takeovers were considered unacceptable behavior, even a vice. The unwritten rule was broken by Itochu Corporation in 2019; since then, we have seen TOBs increasingly being used by establishment companies to gain control. In past commentaries, we advocated our thesis that the Japanese equity market is about to become a market for corporate control; the upward trend in the number of unsolicited bids over the last few years supports that thesis.



The conventional wisdom in the market and the banking industry was that it would be difficult to conduct a TOB without the consent of management, given the Banking Law's restrictions on major shareholders. This time, however, SBI was approved despite the reluctance of Shinsei Bank's management. Moreover, SBI is appealing for the dismissal of Shinsei Bank's president, completely overturning convention.

Japanese banking regulators have traditionally taken a conservative approach with the top priority being the preservation of the financial system and the protection of depositors. The interests of shareholders occasionally conflicted with these objectives because excessive risk-taking for higher returns increases systemic risk. FSA's approval for SBI to be a major shareholder (20%+) of Shinsei was a startling event in that governance by the shareholder was embraced by the regulator. We suspect the FSA's decision reflects the fact that the fundamental problem of Japanese banks is not their capital adequacy (since all Japanese banks are over capitalized), but their poor profitability. Return on equity (ROE) essentially determines the rate at which shareholder equity grows; thus, with a higher ROE, banks can grow their capital more quickly, repaying public funds in Shinsei's case, which helps to reduce systemic risk. The change of focus from capital adequacy to profitability (assuming our guess is correct) is an encouraging sign for the equity market since the interests of depositors are no longer in conflict with the interests of shareholders.

The deadline of the TOB is December 8th, and we are hoping for a more attractive proposal for the shareholders. The takeover defense plan implemented by the board of Shinsei has the potential to ruin the opportunity, but that action can only be taken by a vote at a shareholders meeting.

<u>New Prime Minister</u>

Mr. Fumio Kishida won the race for president of the ruling party, the LDP, and was inaugurated as the 100th prime minister of Japan at the extraordinary Diet session convened on October 4th. Mr. Kono, the opponent, known as a radical reformist, led the race in the beginning backed by his overwhelming popularity among Japanese citizens. However, as voting day approached, the LDP's approval rating had recovered and the sense of crisis within the ruling party had disappeared. Consequently, LDP Diet members felt more comfortable in supporting Mr. Kishida who is known for his balanced personality and having very few enemies. (Mr. Kishida was given a new nickname - "Safe Driver".)

Economic implications of the new cabinet:

The existing economic policies will be maintained in general terms. Kishida-san confirmed the maintenance of the three principles of Abenomics: bold monetary policy, flexible fiscal policy, and a growth strategy. He would not revise the 2% price stability target included in the joint statement with the Bank of Japan. (We think this is Kishida-san's biggest advantage over Kono-san.)

With the general elections coming in November, an announcement of major economic measures is expected. Kishida-san commented the package should be "tens of trillions of yen" in scale and include support for households with children and non-full-time employees.

His policy on other agenda such as energy and diplomacy are realistic and moderate (i.e., pro-business).

The most controversial part of Mr. Kishida's economic policy is the plan to revive the middle-income class through enhanced wealth redistribution policies, raising concerns over the prospect of higher taxation for wealthy people and on capital gains.

Policy debates among the candidates over the last four weeks were lively and attracted the interests of Japanese citizens. The candidates in the LDP presidential election were all brilliant and visionary, providing insight on the excellent talents within the ruling party. Whether or not this potential can be unleashed through internal party reform depends on Kishida's leadership. To be honest, he is not a charismatic character and may be too much of a “safe driver” to carry out reforms. We shall see.

With the successful election of Prime Minister Kishida and the LDP’s once again, strong approval ratings, we can be optimistic that the November general elections will result in an LDP run government which we believe would be the safest alternative for the Japanese economy. Even if the Kishida administration ends up being short-lived (there is a chance of this happening), it is unlikely to be a major risk factor for the Japanese economy as long as the LDP remain in control.

Outlook:

In the past, receding political risk could be relied on to improve the performance of Japanese stocks, but the positive sentiment following the election of Prime Minister Kishida was short-lived and drowned out by new, emerging concerns – (1) persistent impact of the pandemic on consumption and the global supply chain, (2) China Evergrande crisis, and (3) US monetary policy heading for tapering. The global supply chain is critical to company earnings, and the market is realizing that the impact from COVID is more severe and durable than originally expected.

Actions we are taking in this environment:

We are maintaining our focus on secular growth themes such as digital transformation and business process outsourcing. We believe this will lead to more resilient portfolios in the event of a downturn in the economy.

Our engagement with company management has evolved to include ESG as one of the major agenda items in discussing ways to improve long-term shareholder value. As an example of the new effort, we recently hosted an ESG seminar for Rinnai, inviting a corporate governance expert to participate in the seminar. We felt that the event was successful as about 20 employees including executive staff attended. Many issues were discussed particularly on the topic of effectively communicating information on the company’s ESG efforts, an area where Japanese corporates appear to lag western peers. Such an effort effectively improves the quality of the dialogue we have with the managements of our portfolio companies, expanding the potential for more value creation.

Finally, we are actively seeking risk arbitrage opportunities to benefit from the increasing number of unsolicited bids in Japan. We specifically aim to align ourselves with other shareholders, including activists, as a means to voice our support for better corporate governance and a better Japan Inc.

Disclosure

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Returns present hypothetical performance (the "Hypothetical Returns") for a hypothetical $1,500,000.00 investment (the "Initial Investment") made at the inception of the Fund (the "Hypothetical Investor"). The Gross-of-Fees Hypothetical Returns are calculated by applying the Fund's actual cumulative gross-of-fee returns which include all trading expenses, withholding taxes, custodial fees (if applicable) and other administrative fees but exclude accruals and payments of all management and performance fees to the Hypothetical Investor's Initial Investment. The Hypothetical Investor's Returns assume no subscription or redemption and reinvestment of all dividend income. Net-of-Fees Hypothetical Returns are calculated, in reference to any applicable high water mark, by deducting a model 1% management and 20% performance fees (the "Model Fees") from the Gross-of-Fees Hypothetical Returns. The Model Fees represent the current highest management and performance fee schedule of the Fund. Information regarding year to date and annual Performance Results is compounded. The Hypothetical Results shown do not represent the results of any actual investor in the Fund. Investment results for each investor will vary from the Hypothetical Results shown herein due to, among other factors, differing investment dates and additional contributions or withdrawals. Actual fees may differ due to various factors including, but not limited to, account size. Additional information regarding the Firm's fees is available upon request and may also be found in Dalton Investments's Form ADV Part 2. Performance is expressed in US Dollars. To compute currency exchange rates, the Fund uses Bloomberg at 4PM EST close while the Benchmark uses WM Reuters at 4PM GMT close, which may result in differing exchange rates.

The Fund's benchmark is the MSCI Daily Total Return Net Japan Index (MSCI Japan (USD), symbol: NDDUJN) (the "Benchmark") and is compiled by Morgan Stanley Capital International, Inc. It is a total return, free float-adjusted, capitalization-weighted index that is designed to track the performance of Japanese securities listed on the Tokyo Stock Exchange, Osaka Stock Exchange, JASDAQ and Nagoya Stock Exchange. Net total return indices reinvest dividends after the deduction of withholding taxes, using (for international indices) a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties. For comparison purposes, Benchmark returns do not reflect transaction costs, investment management fees or other fees and expenses that would reduce performance in the Fund. It is not possible to invest in the Benchmark. The Fund has held and is expected to continue to hold securities that are not included in the Benchmark and the Firm makes no representations that the Fund is comparable to the Benchmark in composition or element of risk involved.