PROFILE

Stock-Picking, Activism and Alignment of Interests

Lafayette Dalton Asia Pacific UCITS Fund

Hamlin Lovell

The daily dealing Lafayette Dalton Asia Pacific UCITS Fund ("the Fund") has won *The Hedge Fund Journal's* UCITS Hedge Award for best risk adjusted returns over 7 and 10 years ending in December 2024, in the Asia equity long/short category. It sits on the Lafayette ICAV platform, where Waystone Management Company (IE) Limited acts as Management Company.

Dalton Investments organization ("Dalton") was founded in 1999 and its founders, including Jamie Rosenwald, have been investing in Asia since the 1970s. They major in equities but have had fund offerings in the distressed debt market at times when the opportunity set was particularly attractive. Dalton is an owner-operated, entrepreneurial company where portfolio managers invest in their own funds to align interests; the same qualities are sought and found in many of its equity investments.

Though Asia is now home to the world's second, third, fourth and fifth largest equity markets after the US (China, Japan, India, Hong Kong), and 60-70% of global economic growth, institutions are often underweight due to regulatory, political, tax, transparency and corporate governance challenges that create structural market inefficiencies. Dalton's on-the-ground teams take the bull by the horns and analyse these issues to find high-quality companies meeting their valuation and governance criteria.

Dalton has benefitted from its active country allocation decisions, exhibiting large exposures to India, Taiwan and Korea while limiting the Fund's exposure to China since the peak in 2021, but single stock-picking, including an average of 41% in small and mid-cap names, has contributed the majority of returns. Though the Fund's newsletter's top five holdings often include mega caps, the majority of the top ten contributors over the past 10 years have had market caps of USD 3-5 billion. Since inception in 2013, the long book's "active share" (above 90%) and "tracking

▲ **Jamie Rosenwald**, Co-Founder, Dalton Investments

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error" of 9.26% versus MSCI Asia Pacific are very high and have supported the absolute return/uncorrelated return investment experience.

Country (and sector) positioning come mainly from stock-picks, though Dalton does have strong opinions on broader macro considerations, including Chinese politics being unfriendly for entrepreneurial owner-operators, and does not see DeepSeek threatening US hegemony anywhere along the AI value chain from chips to applications. Dalton has played AI via Taiwanese and Korean firms plugged into AI datacentre and semiconductor supply chains, as well as Indian IT outsourcing, and Dalton itself is also developing an internal AI screening research tool to accelerate the initial research phase and allow the analysts to focus most of their time on value added research and engagement.

Valuation

Long positions are rooted in concepts ranging from attractive valuations, good businesses with strong cashflows and balance sheets, moats against competition, ESG best practices, corporate governance and minority shareholder rights supported by legal and regulatory frameworks.

Dalton is perceived as a "value" investor based partly on contrarian positioning including Japan after the 2011 earthquake and Korea in late 2024, but conventional style and factor groupings are not very useful. Their "investing with a margin of safety" valuation approach is more nuanced than a pure price to book value approach that could result in most exposure being in Japan and Korea and rule out most names in India and Taiwan. No single valuation metric is used but EV/EBITDA is usually preferred

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for Japan and Korea while PEG ratios (PE ratios divided by growth) can identify undervalued growth in India or Taiwan. India's recent above average valuations are matched by high-quality companies, aligned entrepreneurs, structural growth and, in contrast to China, a history of GDP growth being captured by shareholders. "In 2025 Indian small and mid-caps have become expensive, but privately owned banks and BPO firms have become more interesting. We have also found that US-listed Indian names such as business process management group WNS, are cheaper because they missed India's retail investor frenzy," points out Rosenwald.

Valuation anyway must be backed by good governance: while China optically offers margin of safety, Dalton has overriding concerns about alignment of interests.

China

When the Fund launched in 2013, it was quite heavily overweight China (33% versus 20% in the MSCI Asia All Countries index) based on owner-operators and entrepreneurs exploiting the middle-class consumption theme, though Dalton was as ever selective and avoided the controversial VIE (Variable Interest Equity) structures due to US regulatory risks and ESG governance concerns.

The Hong Kong protests in the summer of 2019 marked a sea change as Xi's "Common Prosperity" agenda brought in restrictions and regulations cramping the style of owner-operators. Dalton began cutting exposure in 2020 and was down to 9% in 2021, mainly in exporters, versus China's 45% MSCI Asia AC weight. Exposure dropped to zero by 2023 as extended COVID shutdowns slowed the economy and eroded confidence and even went slightly net short in 2025. "Our primary long-term structural concern is that China's current political leadership and ideology are anathema to market-oriented capitalism (dubbing it evil). We also have shorter-term worries that the key property and infrastructure locomotives of the economy have run out of steam, while exports could be threatened by tariffs," explains Rosenwald.

Japan and activism

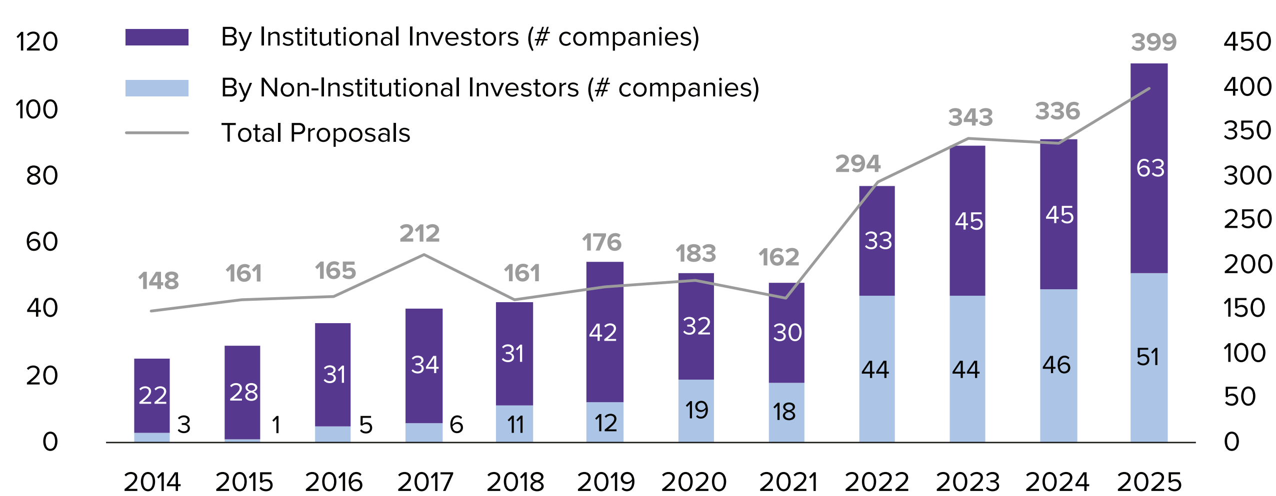
Japan has been the largest country exposure at around one quarter of the Fund. Taken together with affiliate Rising Sun Management, who manage the LSE-listed Nippon Active Value Fund closed end fund (which can also invest in some smaller stocks than the Fund), Dalton is the most active manager for engagement in Japan. (This is ranked by the number of corporate engagements according to Diligent Market Intelligence, which places Dalton alone as the third most active.) Over the past 5 years, Dalton sent 137 draft proposals, withdrew 48 and proceeded with 89 that became public.

"Conversations always start in private, and include letters and presentations to management and boards, and may become public through shareholder proposals, public letters/presentations and media engagement; the mere threat of an AGM shareholder proposal can sometimes galvanize companies into making changes to keep the engagement private. And even where public AGM proposals do not pass, a critical mass of votes can also spur management into action to prevent future proposals," explains Rosenwald.

The Fund has held at least 4 Japan companies in its long book which have been taken private, with 2 companies receiving unsolicited tender offer bids from private equity. "We see a strong runway for private equity bids in Japan as LBO arithmetic is compelling even after some uptick in interest rates: LBO loans with term structures of 5 to 7 years price off 5-year JGB yields around 1%. We

Fig.1 Activist Engagement in Japan: Shareholder Proposal Trends

Source: Dalton



have seen bids at 6x EV/EBITDA financed by debt at 3.5%," points out Rosenwald.

Other ways to address deeply discounted valuations include deploying idle cash for buybacks and/or dividends, unwinding cross shareholdings or divesting real estate. One example of Dalton's active engagement is Fuji Media Holdings (FMH), which has already sold Y30 billion of Toei Animation at a valuation above its own, and can sell more non-core assets to raise cash for buybacks benefiting all shareholders. Its price to book ratio remains at a huge discount to peers IG Port and Sanrio.

Korean corporate governance reform

Korea, at around 1.2x book value, is even cheaper than the MSCI Japan on 2x and is at an earlier stage of corporate governance reform, which provides more upside. "Korea is paying close attention to the Japanese playbook and its adoption of the Value-Up program where companies need to diagnose valuation discounts and set out remedial action is a testimony to their commitment to embracing the reforms undertaken in Japan. Regulatory legal frameworks are also helping. Commercial law reforms increase the chances of minority shareholders' candidates winning seats on boards, which is especially relevant to many companies where controlling shareholders own over 30%. Imminent further changes include safeguards against unfair mergers," says Rosenwald.

Dalton has been active in Korea: both driving the top-down reform agenda and bottom-up engagement with individual companies. Dalton led the Improve Korea campaign and wrote public letters to Korea's National Pension Service (NPS), the world's third largest pension fund with assets under management over USD 1 trillion, and the National Assembly of the Republic of Korea, which is now dominated by the Democratic Party.

Recommendations to the NPS revolved around global best practices, shareholder rights, capital allocation, economic value added, engagement screening criteria, looking beyond dividend yields, idle cash piles, share buybacks and automatic Treasury share cancellation (which has been enacted).

Recommendations to the National Assembly were to reduce taxes on dividends, estates, gifts and long-term equity investments; regulate stock voting, bring in mandatory tender offers, relax restrictions on capital allocation and adopt default options for retirement accounts' asset allocation.

"Narrowing the Korea Discount is now part of the political agenda and is widely discussed on social media where retail investors successfully campaigned to end capital gains tax. Though some initial proposals for dividend income tax revision and large shareholder classification have disappointed, we are optimistic overall," says Rosenwald.

Dalton's contrarian stance on Korean fundamentals, corporate governance reform and potential for engagement is now being recognized by the rest of the market as politicians embrace reform. By late 2024 after the martial law panic, the Fund had 17% in Korea versus 6% in the MSCI Asia AC index and Korean equities surged about 76% in calendar year 2025.

Two of the Fund's top contributors have been two current holdings in mid-cap Korean banks that benefited from Dalton's engagement with management to improve corporate governance around capital allocation policies. The Fund has also had exposure and selectively engaged with the "chaebol" conglomerates Samsung, SK Holdings and LG Corp, but most of its holdings are standalones that can also be constituents of chaebol. "We have invested in and engaged with SK Holdings and its subsidiary SK Discovery to encourage focus on minority shareholder returns and reduce the conglomerate discount, through share buybacks, higher dividends and capital allocation heeding cost of capital," says Rosenwald.

Preferred shares in Korea can trade at larger discounts but lack of voting rights and are rarely liquid enough, though Samsung is one exception where Dalton owns the common as well as the preferred.

Activism elsewhere

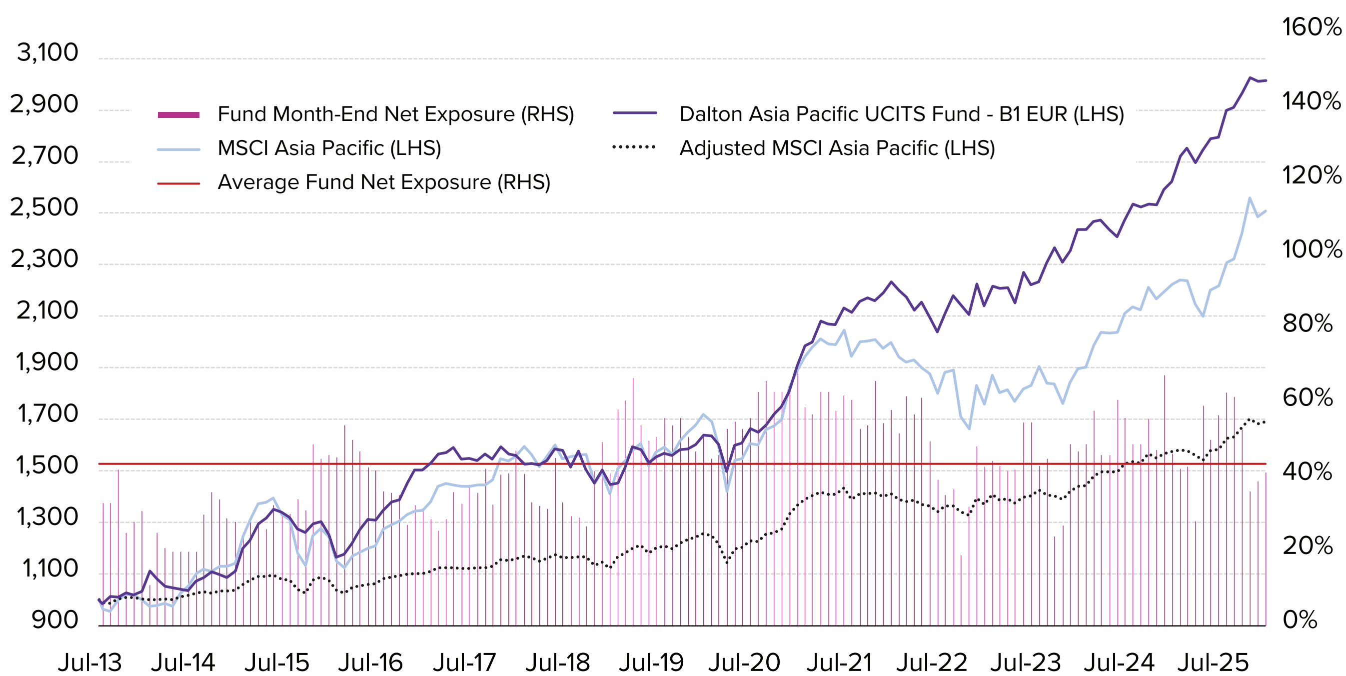
Dalton actively votes proxies for every share. Approximately 13% of proxy voting at the Fund level abstained or voted against management in 2024. Dalton voting has aligned with ISS advice 88% of the time at the Fund level. Outside Japan and Korea, engagement is usually mainly private.

Tactics in Taiwan can involve playing a "trusted adviser" role advising on longer term themes to develop a dialogue with controlling families and directors who do not behave independently.

India's market is dominated by "promoters". In contrast to the pejorative US meaning of "stock promoters", in India the word simply means founders or major shareholders who own majorities or near majorities of company stock, which generally precludes more aggressive activism. "Nonetheless, the topics of engagement can be similar, including independent directors, minority shareholder protections and alignment of interest, capital allocations and better ESG disclosures. We also collaborate with other minority shareholders," says Rosenwald.

Fig.2 Performance versus Indices

Source: Bloomberg/Northern Trust. Performance is quoted net of fees and based on unaudited figures.



India

Dalton has been heavily exposed to India since it started investing in the country in 2013, hiring its first dedicated India analyst, Venkat Pasupuleti, who featured in *The Hedge Fund Journal's* Tomorrow's Titans report, while the dedicated India UCITS fund launched in January 2020 has been recognized in our UCITS Hedge performance awards.

In 2025, Dalton seized on oversold IT BPO companies. "We believe that perceived AI threats were actually an opportunity to tap into Enterprise AI spending that now adds GenAI work to every new incremental IT contract won by Indian IT services companies," points out Pasupuleti.

Net range, hedging and shorting

The Fund's net exposure typically ranges between 40 and 60% and has averaged 46%, while the maximum temporarily peaked at 80%.

There are usually 10-20 single name shorts in the Fund and 2-3 broad index shorts, partly because single stock shorts can be prohibitively expensive and/or inefficient.

Single name shorts have contributed absolute profits (albeit with a lumpy distribution) since inception. "We will not short what we view as good companies that meet our long investment criteria regardless of their valuation. Equally, we do not seek terminal shorts that may go to zero due to fraud or bankruptcies," says Rosenwald. Single stock shorts are automatically covered at a 20% stop loss.

Equity beta can be hedged with various Asian indices – Nikkei 225, Hang Seng, KOSDAQ 150, Nifty 50 and MSCI China – and since 2016 Dalton has been opportunistically using US equity put option protection that has often been timed well. Puts were increased to a delta-adjusted 30% in March 2025 and profits were taken after Liberation Day in April 2025. Delta-adjusted put exposure in 2022 peaked at 31% in August but was down to zero by the end of 2022 and in low single digits for 2023 before being rebuilt in 2024, when it detracted from returns.

Leaving the Japanese Yen unhedged can also sometimes act as a useful hedge and contributed in the third quarter of 2024 when the Yen re-rated against the EUR, though the rationale for this is mainly a valuation trade. Overvalued currency exposure can be opportunistically hedged and informs the balance between exporters and domestic plays.

Local offices and Asian investor base

Dalton has research teams in Los Angeles, Tokyo, Hong Kong, Seoul, Mumbai and Sydney. "Though we have dedicated local research offices in major Asian cities, all analysts can research stocks and travel throughout the region to meet management teams, suppliers, competitors and attend industry events. In Japan and India, where local staff are equity partners, regulatory licenses have also been expanded so that we can launch, manage and market local funds and run domestic fund vehicles for local investors, who can be important in driving reforms and raising valuations. Domestic investors can be more stable holders than foreign institutions and now own more of India's market than foreign investors," says Rosenwald.

Though Dalton has invested in some Australian firms, the Sydney office is home to Dalton's Chief Sustainability Officer (CSO) and a sustainability analyst. The CSO is responsible for Dalton's sustainability/ESG policies, research, reporting and ratings.

Proprietary ESG analytics

Dalton's ESG policies include TCFD-based climate risk analysis processes to improve analysis of physical and transition risks across investments and portfolios.

Proprietary ESG analytics and rankings include the Intrinsic Value Load Factor (IVLF) based on the materiality of ESG factors outlined by the Sustainability Accounting Standards Board (SASB) and mapped to industries. "This translates our ESG rankings into an objective valuation uplift or discount to fair value that helps to inform position sizing," points out Rosenwald.

Companies rated 'D' on Dalton's proprietary ranking cannot be invested in long (nor typically short) but those at C or above can be considered, given a commitment to improvement, which can also be helped by engagement. Only three investee companies were downgraded to D, which required divestment.

The Fund reports under SFDR Article 8 and excludes companies involved in the production or trade of weapons and munitions.

Dalton rarely "shoots the lights out" in any single year, but over multi-year periods it has incrementally outperformed from steadier compounding. Dalton is well positioned to capitalize on market inefficiencies, economic, technology and AI growth as well as further enhancements to corporate governance and shareholder returns across Asia. THFJ