

Dalton Strategic Partnership LLP

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This Brochure provides information about the qualifications and business practices of Dalton Strategic Partnership LLP.

If you have any questions about the contents of this Brochure, please contact us at +44 (0)20 7367 5400 or email info@daltonsp.com. You may also visit our website at www.daltonsp.com.

The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Dalton Strategic Partnership LLP also is available on the SEC's website at www.adviserinfo.sec.gov and on the Financial Services Authority's website at www.fsa.gov.uk.

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Item 2: Material changes

On 28th July 2010, the United States Securities and Exchange Commission adopted a new form of disclosure document (new Form ADV Part 2) that must be provided to our clients. This Brochure is a new document prepared to comply with the new rules. As a result, this Brochure is materially different in structure and requires certain new information that our previous ADV Part 2 did not require.

This Brochure was published in its current format in January 2012.

The following material changes have been made in the current annual update of this Brochure (January 2014):

Item 4 Advisory Business – details of the funds advised by the firm and its affiliates; AuM

Item 6 Performance based Fees - details of the funds advised by the firm and its affiliates

Item 4: Advisory Business

Dalton Strategic Partnership LLP (“DSP”, “the Firm”) is a Limited Liability Partnership established in the United Kingdom in 2002. It is part of a group of companies owned by Dalton Capital (Guernsey) Limited, a Guernsey company which is largely owned by the working partners and members of the Dalton family, with minority ownership by some external investors including financial services firms in joint ventures with DSP.

DSP is authorised and regulated by the Financial Services Authority (“FSA”) in the United Kingdom.

The Firm’s clients comprise regulated and unregulated collective investment schemes (“funds”) and managed accounts (“accounts”). DSP manages assets for these clients in a variety of strategies, in most cases acting as the delegate of Dalton Capital (Guernsey) Limited which has the primary contractual relationship with the client. In order to carry out a given investment strategy, DSP may in certain cases further delegate to a third party, a range of responsibilities including advice and execution.

The majority of the regulated funds managed by DSP are subject to the UCITS Directive as adopted in the United Kingdom and Luxembourg and as such the Firm is required to follow specific rules. These rules are designed to ensure that a fund meets strict diversification and other requirements. The objective is to control the amount of risk that may be taken within a specific portfolio and to ensure that such risk is not unduly concentrated in individual securities or with any single counterparties.

By contrast, the unregulated funds managed by the Firm are governed by their respective prospectuses. These give the funds a wider ability to invest in underlying assets without the same strict diversification requirements.

The funds managed by the Firm are as follows:

Fund	Short name	Type of fund
Regulated funds		
Melchior Selected Trust, comprising MST - Japan Advantage Fund MST - European Opportunities Fund MST - European Absolute Return Fund MST - Global Multi-Asset Fund MST - Global Conservative MST - Asian Global Balanced Fund MST - Asian Global Opportunities Fund	Luxembourg SICAV	Luxembourg SICAV authorised for distribution in the UK and other jurisdictions.
Melchior Investment Funds, comprising Melchior North American Opportunities Fund Melchior Japan Advantage Fund Melchior Asian Opportunities Fund Melchior Global Equity Fund	UK OEIC	United Kingdom investment company with variable capital authorised for distribution in the UK and other jurisdictions.

Third party funds		Various jurisdictions
<i>Unregulated funds</i>		
Third party funds		Various jurisdictions

Each fund and sub fund managed by the Firm may contain a number of different share classes, which differ as to matters such as reporting currency, minimum investment, redemption terms, treatment of income and fees.

The information contained in this Brochure summarises the details contained within the prospectuses prepared for each of the funds. The Brochure is not required to provide all the information which a prospective investor will require prior to making an investment.

Accounts managed by DSP will typically be invested across asset classes and geographies. Before determining an appropriate asset allocation, the Firm obtains a thorough understanding of each client's financial situation, return objectives and risk profile. Should clients wish to impose restrictions on investing in certain types of securities, then the Firm discusses and documents these requirements at the outset of the relationship.

As at 31 December 2013, the group of companies to which the Firm belongs managed approximately US\$ 1.8 billion, all of which is managed on a discretionary basis.

Item 5: Fees and Compensation

Management Fees

The Firm charges each client a management fee. For the funds, these fees are based on the Net Asset Value ("NAV") of each class within a fund and are deducted from the portfolio on a monthly basis.

The fee schedule for the funds varies from fund to fund and between asset classes in those funds. A summary of the current fee schedule is set out below:

Fund	Fee range
Unregulated funds	1.50% - 2.00%
Regulated funds	0.75% - 2.15%

The regulated funds (Melchior Selected Trust and Melchior Investment Funds) contain a number of sub funds, each with a variety of share classes with different minimum subscription levels, redemption arrangements.

Part of the fees received may be rebated to clients and/or their advisers.

Management fees charged to the accounts are generally based on a fixed percentage of assets. This percentage will depend on the client type, the strategy and the size of the mandate. Fees are payable in arrears and are charged only in respect of the period for which the fund or account was managed.

Other fees

Other fees that may be charged to fund clients are set out below:

Administrator fees

Fees are charged on a sliding scale depending on the amount of assets managed. The administrator will also be reimbursed any reasonable out-of-pocket expenses or costs necessarily incurred in the performance of its duties.

Prime broker and custodian fees

Prime broker and custodian fees will not exceed normal commercial rates. They may also levy transaction charges and other charges which can include Value Added Tax.

Other fees and expenses

Other fees and expenses charged may include the following:

(a) charges and expenses of legal advisers, accountants and independent auditors, (b) brokers' commissions, broker funding costs (c) all taxes or stamp duties and corporate fees payable to governments or agencies, (d) Directors' fees (if any) and expenses, (e) interest on borrowings if applicable, including borrowings from the Prime Broker and Custodian, (f) communication expenses with respect to investor services and all expenses of meetings of Shareholders and of preparing, printing and distributing financial and other reports, proxy forms, prospectuses and similar documents, (g) the cost of insurance for the benefit of the Directors, (h) litigation and indemnification expenses and extraordinary expenses not

incurred in the ordinary course of business, (i) the cost of obtaining and maintaining the listing of shares on a stock exchange (if applicable) and (j) some other organisational and operating expenses.

Please see the section on “Brokerage practices” for a description of other brokerage charges.

In the case of our separate account clients only additional custody fees are applicable which are paid directly to the applicable custodian under the contract signed directly between the client and the custodian.

Item 6: Performance-Based Fees

The Firm is also entitled to receive performance fees from the following funds:

Fund	Fee range
<i>Unregulated funds</i>	
None at this time	
<i>Regulated funds</i>	
Melchior Selected Trust (some sub-funds only)	15% - 20% (high water mark and hurdle applies)
Melchior Investment Funds (some sub-funds only)	

Where performance fees are due, these are calculated in respect of discrete periods based on the increase in the NAV per share of each class within each fund. No performance fee becomes due unless the NAV exceeds the previous high point reached (termed a high watermark). Some funds also have additional ‘hurdles’ which have to be surpassed i.e. to outperform a specific benchmark or to outperform LIBOR by a certain percentage, and in some cases the performance fee is based on the increase in NAV over the hurdle.

Depending on the fund performance fees are deducted from the portfolio on an annual basis in arrears and may not be chargeable to all of the sub classes within a particular fund.

Performance fees are included in the NAV and are not charged separately.

Performance fees may also be charged to individual accounts and these are agreed with each client, these will typically be set at 20% based on a high watermark. This will depend on the client type, the strategy and the size of the mandate.

No other hourly, flat or asset-based fees are charged to the funds and accounts.

Some accounts do charge performance fees and others do not. The Firm does not believe that this creates conflicts since strategy will be determined by portfolio managers without regard to fees, trades are implemented as soon as possible and there is no discretionary element to allocation.

Item 7: Types of Clients

Funds

The funds (regulated and unregulated) managed by DSP are described above under “Advisory Business”.

Accounts

DSP also provides discretionary investment management services to individuals, trusts, endowments and institutions.

Item 8: Methods of Analysis, Investment Strategies and Risk of Loss

Funds

The investment approaches adopted in respect of each of the funds managed by DSP cover a wide range and are described more fully in the relevant prospectus or offering document.

The methods of analysis used by DSP and its delegates include systematic screening processes which rely on quantitative data, as well as fundamental research of potential investee companies against an understanding of the overall economy.

The main sources of information DSP uses include:

- Annual reports, prospectuses, filings with regulators
- Company press releases
- Meetings with companies
- News sources
- Research materials provided by third parties

The main focus of investments in the funds is equities (either directly or through derivatives) in markets globally. With the exception of certain specialised funds, the Firm expects its Funds to have a high degree of liquidity under normal market conditions.

Accounts

Many accounts are managed by DSP using similar strategies to those adopted in respect of funds.

In relation to the private accounts managed by The Wealth Management Team within DSP, the approach is described as “Global Asset Allocation”, which looks for absolute returns, focusing on capital preservation as well as capital appreciation through diversified investment in multiple asset classes. These include, but are not limited to, equities, bonds, cash and liquid hedge funds. The firm will often implement the strategy through investment where appropriate in the funds it manages.

Risk of Loss Factors

Investing in securities involves risk of loss that clients should be prepared to bear. Investors should consider the following factors before investing in any of the funds referred to in this Brochure. The following list of risk factors does not purport to be a complete enumeration or explanation of the risks involved in an investment in each of the funds. Prospective

investors are urged to consult their professional advisers and the fund prospectuses before deciding to invest in the funds.

General

The investments of the funds are subject to normal market fluctuations and other risks inherent in investing in securities. There can be no assurance that any appreciation in the value of investments will occur.

The value of investments and the income derived from them may fall as well as rise and investors may not recoup the original amount they invest in the Fund. There is no certainty that the investment objective of the Fund will actually be achieved.

The entire market of a particular asset class or geographical sector may fall, having a more pronounced effect on funds heavily invested in that asset class or region.

Currency exchange rates

Currency fluctuations may adversely affect the value of a fund's investments and the income thereon and, depending on an investor's currency of reference, currency fluctuations may adversely affect the value of his investment in shares.

Inflation and interest rates

The real value of any returns that an investor may receive from a fund could be affected by interest rates and inflation over time.

Investment in other schemes

The fund may, subject to the regulations, invest in other collected investment schemes, including unregulated funds. Such schemes are subject to less onerous regulatory supervision than regulated schemes, and therefore may be considered higher risk.

These unregulated funds may include hedge funds which may be illiquid, i.e. difficult to sell, and may also borrow to meet their objectives. This borrowing is likely to lead to volatility in the value of the scheme, meaning that a relatively small movement either down or up in the value of the scheme's total assets will result in a magnified movement in the same direction of scheme's net asset value.

Small cap investments

There are certain risks associated with investing in small cap stocks and the securities of small companies. The market prices of these securities may be more volatile than those of larger companies. Because small companies normally have fewer shares outstanding than larger companies it may be more difficult to buy and sell significant amounts of shares without affecting market prices. There is typically less publicly available information about these companies than for larger companies. The lower capitalisation of these companies and the fact that small companies may have smaller product lines and command a smaller market share than larger companies may make them more vulnerable to fluctuation in the economic cycle.

Derivatives

Derivatives may be employed for hedging with the aim of reducing the risk profile of the funds, or reducing costs, or generating additional capital or income.

To the extent that derivative instruments are utilised for hedging purposes, the risk of loss to the fund may be increased where the value of the derivative instrument and the value of the security or position which it is hedging are insufficiently correlated.

Further, derivatives can be highly volatile and expose investors to a high risk of loss. The low initial margin deposits normally required to establish a position in such instruments permit a high degree of leverage. As a result, depending on the type of instrument, a relatively small movement in the price of a contract may result in a profit or a loss which is high in proportion to the amount of funds actually placed as initial margin and may result in unquantifiable further loss exceeding any margin deposited.

Liquidity

Depending on the types of assets a fund invests in, there may be occasions where there is an increased risk that a position cannot be liquidated in a timely manner at a reasonable price.

Custody

There may be a risk of a loss where the assets of a fund are held in custody that could result from the insolvency, negligence or fraudulent action of the custodian or sub-custodian.

Developing markets

Certain funds may invest in developing markets' debt securities, foreign exchange instruments and equities which may lead to additional risks being encountered when compared with investments in developed markets. Among other things, developing market securities investments may carry the risks of less publicly available information, more volatile markets, less strict securities market regulation, less favourable tax provisions, and a greater likelihood of severe inflation, unstable or not freely convertible currency, war and expropriation of personal property than investments in securities of issuers based in developed countries.

Depository risks in emerging market countries

Investments in emerging market countries are subject to an increased risk in relation to the ownership and custody of transferable securities. Generally, investments in emerging market countries involve greater risks due to the lack of an appropriate system for the transfer, price calculation and accounting of the transferable securities and to their custody and record keeping.

Counterparties

The funds will be exposed to a credit risk on parties with whom it trades and will also bear the risk of settlement default.

Short selling

The investment strategies of some funds use short selling, which involves trading on margin and accordingly can involve greater risk than investments based on a long position. A short

sale of a security involves the risk of a theoretically unlimited increase in the market price of the security, which could result in an inability to cover the short position and a theoretically unlimited loss. There can be no absolute guarantee that securities and/or currencies necessary to cover a short position will be available for purchase. Purchasing securities to close out a short position can itself cause the price of the relevant securities to rise further, thereby exacerbating the loss.

As a result of action taken by regulators around the world as a result of recent volatility in the global financial markets, taking short positions on certain securities has been restricted and/or more onerous disclosure requirements in respect of short positions have been implemented. Such restrictions and/or disclosure requirements have made it difficult and in some cases impossible for numerous market participants either to continue to implement their investment strategies or to control the risk of their open positions or have increased the risk for such participants to do so.

Item 9: Disciplinary Information

The Firm has not been subject to any disciplinary action, whether criminal, civil or administrative (including regulatory) in any jurisdiction. Likewise, no persons involved in the management of the Firm have been subject to such action.

Item 10: Other Financial Industry Activities and Affiliations

DSP is authorised and regulated by the FSA in the UK as a BIPRU €50k limited licence firm. Its Firm Reference Number is 214266. The authorisation that it holds means that the Firm is permitted to provide discretionary management and advisory services to professional and retail clients.

The Firm maintains a record of any potential conflicts of interest, including external appointments held by all staff. This list is updated when necessary and completeness is confirmed on an annual basis. None of the relationships notified to the Firm by the individuals concerned create a material conflict of interest between the Firm and its clients or between clients.

Item 11: Code of Ethics, Participation or Interest in Client Transactions, Personal Trading

The Firm has in place a Code of Ethics (available to clients or prospective clients upon request) which contains the following key procedures in relation to personal trading.

- Prior approval is required before execution of a “covered transaction”. Such transactions include most types of securities, but there are exemptions where there is no danger of conflict with the interests of clients, such as trading in open ended investment funds.
- A minimum holding period of 60 days exists, to discourage short-term trading.

Personal trading rules do not permit dealing at times when the funds or accounts managed are actively trading in such securities.

Item 12: Brokerage Practices

General arrangements

The Firm may execute transactions on behalf of a fund or an account with a number of selected brokers and dealers.

The Firm maintains a list of brokers with whom it may deal for the funds managed. This list is reviewed frequently, but at least on an annual basis, and brokers are added or deleted according to the Firm's view of the quality and cost of the service provided. Brokers are used by the Firm at its own discretion.

In the normal course of business, the Firm has entered or may enter into arrangements ("Commission Arrangements") whereby the broker or dealer agrees to set aside a proportion of the commission earned on transactions and to use this to discharge the cost of certain permitted services related to the execution of transactions on behalf of customers of the Firm and the provision of investment research received by the Firm. The services received under such arrangements are directly relevant to and assist in the cost-effective provision of management services generally by the Firm to its clients and are consistent with practices in the markets in which the Firm does business.

The Firm may agree that a broker or dealer shall be paid a commission in excess of the amount another broker or dealer would have charged for effecting the transaction so long as, in the good faith judgement of the Firm, the amount of the commission is reasonable in relation to the value of the brokerage and other services provided or paid for by such broker or dealer under the Commission Arrangements. The services paid for under Commission Arrangements may be used by the Firm in connection with transactions in which the particular fund or account will not participate.

Brokers with whom the Firm trades are selected on the basis of the following execution factors, with particular emphasis being given to the price:

- Price
- Costs
- Speed
- Likelihood of execution and settlement
- Size
- Nature
- Other considerations relevant to the execution of an order

The Firm is not incentivised to select a more expensive broker over another when executing trades.

When trading in collective investment schemes, the Firm will typically transact with the specific administrator for that particular fund and will trade at the prevailing net asset value of the fund.

Trades are pre-allocated on a client by client basis. Where possible trades will be bulked for execution and average pricing ensures that pricing across clients is as equitable as possible.

Item 13: Review of Accounts

Each fund or account that DSP manages is subject to periodic review in order to ensure that it remains within the investment guidelines agreed with the client. The frequency of the review is determined by client or regulatory requirements.

In addition all funds and accounts are reviewed on a frequent informal basis, daily in many cases. Further reviews may also be triggered by a notification of a change in a client's circumstances, such as an injection or redemption of capital.

The Firm reports to the boards of the funds or to the owner of the account on a quarterly or semi-annual basis as appropriate. These reports comprise of analysis of risk and return drivers during the period in question, major asset allocation changes, benchmark or peer analysis as well as a review of any trading or operational factors.

Statements are sent to clients with segregated accounts on a monthly basis by their custodian. These reports contain a detailed analysis of the holdings as at the reporting date and transactions during the period. In addition the manager sends a report on either a monthly or quarterly basis which contains analysis and commentary in a format agreed with the client.

Item 14: Client Referrals and Other Compensation

DSP is not remunerated by any party other than its clients. The Firm receives no other economic benefit for providing investment advice or other advisory services to its clients whether directly or indirectly.

The Firm does not currently use third party marketers in any jurisdiction.

Item 15: Custody

All funds and accounts managed by the Firm use external custodians and with whom the clients have a direct agreement. DSP does not send out account statements.

Item 16: Investment Discretion

DSP has discretionary authority to manage accounts on behalf of all its funds and accounts.

As described in the "Advisory Business" section above, the regulated funds are subject to specific restrictions set out in the UCITS rules whereas the investment guidelines governing the Firm's management of the unregulated funds are typically widely drafted and contain no specific limitations.

With the segregated accounts, clients may request from time to time that the Firm must not invest in specific assets or utilise specific investment techniques. DSP is able to customise its approach to each individual client.

Prior to accepting an appointment to act as a discretionary manager for a client, DSP conducts a full "Know Your Customer" assessment. This is performed so that the Firm understands each client's investment objectives and is then able to manage the portfolio in a suitable manner.

Item 17: Voting Client Securities

DSP supports the principles of the UK Stewardship Code (“the Code”) and recognises the importance of effective engagement with the companies in whom it invests on behalf of its clients. DSP also applies the principles of the Code on a best endeavours basis, where it invests in non UK holdings.

As appropriate, DSP will engage and vote on issues affecting the long-term sustainable value of a company where it is invested. Issues may include, but are not limited to, financing and capital allocation, management, governance, remuneration, corporate and social responsibility, business strategy, acquisitions and disposals, operations, internal controls and risk management.

The resources that DSP uses for any engagement are managed according to the circumstances and potential impact of each case.

Where the holding in funds controlled by DSP is a small fraction of a company’s capital, as is often the case, there will be proportionately less resource applied to engagement, in recognition of the fact that shareholders with only a small fraction of a company’s share capital are less likely to have a material influence.

DSP does not consult with its clients before exercising any vote but always seeks to vote in a manner that it determines to be in the best interests of its clients.

Information on how the Firm has voted, together with a copy of its proxy voting policies and procedures, are available on request.

Item 18: Financial Information

Registered investment advisers are required in this section to provide you with certain financial information or disclosures about their financial condition.

DSP does not require or solicit pre-payment of any type of client fees in advance. The Firm has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.

Item 19: Requirements for State-Registered Advisers

Not applicable to the Firm.