FOR PROFESSIONAL INVESTORS ONLY

ALMA CAPITAL

Alma Eikoh Japan Large Cap Equity Fund

A sub-fund of Alma Capital Investment Funds SICAV

Eikoh

As of 31 January 2019

Fund description

- Investment objective: seek long-term capital growth by investing generally in Japanese large cap stocks (with market capitalisation in excess of US$ 1bn)
- Investment process: analyse long term company fundamentals through extensive in-house bottom up research with a strong risk management ethos
- Portfolio of around 25-30 companies which are well managed, profitable and with good prospects. Portfolio managers believe that Cash Flow Return on Investment and value creation are key
- Benchmark: Topix

Investment manager: ERIM LLP (Eikoh Research Investment Management)

- ERIM LLP: firm founded by the Japanese equity fund management team at Deutsche Asset Management in London, as part of a supported spin-out from Deutsche Bank. Regulated by the FCA and the SEC
- Eikoh focuses on research and investment in Japanese listed companies
- The portfolio managers have worked together for over 15 years
- Eikoh has Institutional and professional clients. The firm manages circa US$ 900m in long-short and long-only strategies (subscribed assets)

Cumulative performance (%)

	1 M	3 M	6 M	YTD	1Y	3Y	ITD
I GBP Hedged C shares	6.63	-6.09	-13.81	6.63	-21.22	13.37	49.37
I GBP Unhedged C shares	4.02	-5.39	-12.10	4.02	-15.44	36.63	-
I EUR Hedged C shares	6.40	-6.48	-14.61	6.40	-22.31	10.40	-
I CHF Hedged C Shares	6.40	-6.53	-14.78	6.40	-	-	-
I JPY C shares	6.25	-6.37	-14.32	6.25	-21.75	12.30	-
I USD Hedged C shares	6.79	-5.44	-12.67	6.79	-19.76	15.64	51.79
Topix (TR)	4.92	-4.57	-9.66	4.92	-12.76	16.79	39.06

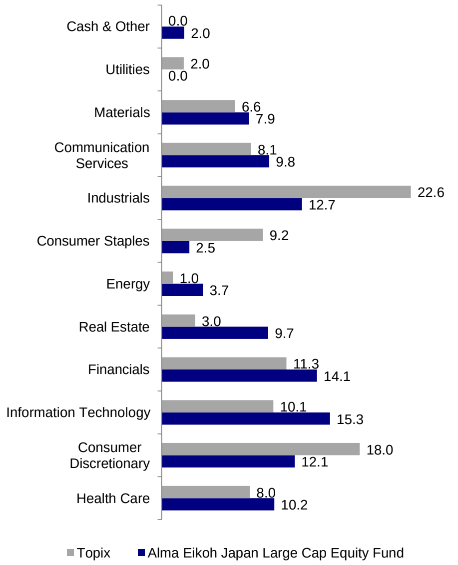
Fund launched on 12 June 2014 (I USD Hedged C and I GBP Hedged C shares)

Portfolio characteristics

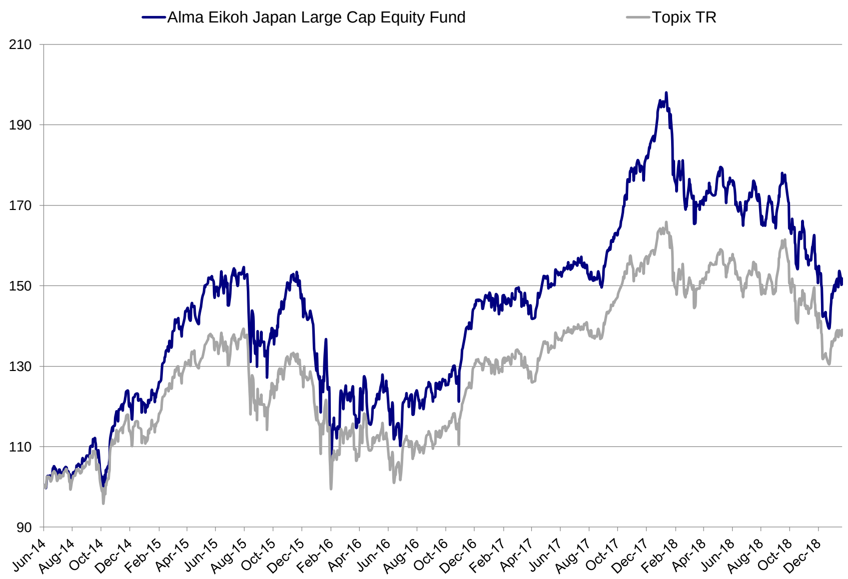
Main indicators	Fund	Index
No. of securities	28	2125
Weighted Average Market Cap (¥ bn)	4 490	3 213
Median Market Cap (¥ bn)	1 759	45
Dividend Yield (%)	2.4	2.4
Historical Price / Earnings	13x	12.5x
Historical Price / Cashflow	9.3x	8x
Historical Price / Book	1.1x	1.2x
Volatility since inception (%)	20.8	19.1
Sharpe ratio since inception	2.5	2.0
Active share (%)	84.0	-
Beta since inception	1.05	-
Tracking error since inception (%)	5.6	-
Information ratio since inception	2.3	-

Sector breakdown (% AUM*)

* AUM ex. unrealised p/l of share class hedging FX forwards



Performance (Indexed - Base 100)



Top 10 positions details

Security name	Sector	% AUM*
TOYOTA MOTOR CORP	Consumer Discretionary	7.93
MITSUBISHI UFJ FINANCIAL GRO	Financials	6.75
SUMITOMO MITSUI FINANCIAL GR	Financials	5.91
MITSUBISHI ESTATE CO LTD	Real Estate	5.65
DAIICHI SANKYO CO LTD	Health Care	5.41
FUJITSU LTD	Information Technology	4.32
MITSUI FUDOSAN CO LTD	Real Estate	4.01
KOMATSU LTD	Industrials	3.77
JXTG HOLDINGS INC	Energy	3.74
SHIN-ETSU CHEMICAL CO LTD	Materials	3.72
	TOTAL:	**51.20**

* AUM ex. unrealised p/l of share class hedging FX forwards

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Investment manager's commentary

Market Review and Outlook

Along with other global equity markets, Topix recovered from the slump experienced in December rising by 4.9% during January. The rebound in the market was led by the economically sensitive areas that fell very sharply in December including machinery, paper, shipping and real estate while more defensive areas such as foods and retailing were little changed. There was no clear single catalyst that sparked the turn in sentiment, but investors seemed to take the view that the signs of a weakening global economy were now discounted in valuations and that Central Bank policies might now be more accommodative than hitherto thought, reflecting the weaker fundamentals. This view was lent some credence by the more dovish tone of the Fed minutes published on the 9th January. A further support for the market was news that China is taking some monetary and fiscal measures to support growth and the, albeit temporary, end to the US Government shutdown provided a fillip at the end of the period.
Economic data released remained weak across most regions including Japan. Exports from China fell by 4.4% in December, the weakest number for two years, while the 7.6% fall in imports recorded indicates a clear slowing of domestic demand. Car sales in China fell by 4.1% in 2018, the first decline in nearly thirty years. In Japan industrial production in December slipped 0.1% MoM and -1.9% YoY and a rise of 2.2% MoM in the industrial inventory ratio suggests a weak start to 2019. The Economy Watchers Survey showed a very sharp deterioration from 48.2 to 44.8 for current conditions in December, however the outlook survey was a little more encouraging with a neutral reading of exactly 50.0. The Japanese Manufacturing PMI also recorded a reading of 50.0 in January down from 52.6 in December. Third quarter results from Japanese companies were disappointing in the manufacturing sector where on average full year profit forecasts were cut by 3.6% to an estimate of growth of only 0.1% for the full year hit by a fall in second half profitability.
While global markets have rallied in January the concerns that caused recent market weakness remain; trade tension between the US and China, the withdrawal of central bank stimulus in the US, political disarray in Europe and signs of slowing growth in the China. Trade relations between the US and China and the underlying strength of the Chinese economy seem likely to remain key determinants of stock market performance. In this regard the recent decision by the Chinese authorities to inject liquidity into the banking system and approve rail projects worth $125bn is a positive development. While Japan will clearly be strongly influenced by global economic trends, Abe and his team are keen to ensure that domestic economic momentum is sufficiently robust in the autumn such that the planned consumption tax increase from 8% to 10% in October does not bring economic expansion to a halt. An increase in spending of Y3trn on infrastructure repair is part of this strategy and should result in growth in public works spending of around 20% in fiscal 2019.
After a very difficult 2018, we are encouraged by developments so far in 2019 and we continue to expect that an easing of the heavy foreign investor selling that marked last year will engender a better environment for bottom-up stock selection based strategies. During January alone this behaviour was exhibited with an absence of foreign selling coinciding with a return to value characteristics leading the rise of the TSE. The market remains well supported by domestic investors with stronger Japanese corporations continuing to raise shareholder returns despite less certain fundamentals The market is trading at 1.16x book, on an estimated PER of 12.6x and a dividend yield of 2.38%.

Fund

The Fund rose 6.3% (I JPY C share class) in January, outperforming Topix which rose by 4.9% (dividends reinvested).
The outperformance during the month was driven mainly by asset allocation where performance was helped by the Fund's pro-cyclical and value bias, in particular being overweight semiconductors & semiconductor equipment and having no exposure to household & personal products. Stock selection was modestly positive over the month with gains within banks, real estate, capital goods, commercial & professional services and materials partly offset by poor stock selection within semiconductors & semiconductor equipment and pharmaceuticals, biotechnology & life sciences.
At the stock level the largest positive contributors were Persol Holdings, Komatsu and Sosei, the latter on the news that AstraZeneca has decided to advance the development of Sosei's anticancer drug candidate AZD4635 to phase 2 clinical trials. The positions in Mitsubishi Estate, Sumitomo Mitsui Financial Group and Nintendo also outperformed. The largest negative contributor at the stock level was the recently purchased position in Sanbio which fell sharply on a failed drug trial and for which we go into more detail below. Other more minor detractors to performance were the positions in J-Front Retailing and Screen Holdings as well as not holding any Softbank Group.
During the month we sold the position in pharmaceutical company Shionogi which after significant outperformance generated only limited upside. Part of the proceeds of this was used to buy a small position in SanBio reflecting the potentially enormous market opportunity from its regenerative stem cell treatments. Having successfully met the endpoint in their phase 2b study for SB623 for traumatic brain injury towards the end of 2018 the Company was highly confident that the recently completed phase 2b clinical trial of the same compound for ischemic stroke was also likely to have been successful, especially given that the earlier phase 1/2a trial for stroke showed improvement in motor function after two years. At the end of the month however it was announced that the ischemic stroke trial failed to demonstrate a statistically significant improvement compared to the control group and had not met its primary endpoint, an unexpected development which led the shares to fall very sharply at the end of January and the first few days of February. Elsewhere in pharma we used a recent set-back in performance to add to the position in Daiichi Sankyo, where clinical trial data out over the past few months has led us to take up our estimates for its stable of oncology ADC compounds. We initiated a position in Yahoo Japan which, after significant underperformance over the past few years appears, oversold taking into account the traction the company is beginning to see from its efforts to grow and extract synergies between its advertising, e-commerce and mobile payment systems as well as the significant earnings growth potential in a few years' time when significant up-front spending on these initiatives come off. The purchase was funded by selling Sekisui House which after a rebound in performance generated only limited upside. We initiated a position in Mitsui OSK Lines, again after significant underperformance left the shares looking undervalued. The Company combined its container operations in a JV with Nippon Yusen and K-Line a year ago and while integration costs and teething troubles have resulted in losses continuing during fiscal 2018 we believe that the move is strategically correct and will result in the recovery of this, the weakest area of their business. Despite a difficult market environment the performance of their core shipping operations is good helped by a clear focus on long term contracts in very cyclical areas such as dry bulk. This was funded by selling the remaining Ajinomoto and reducing Seven & I Holdings after these had outperformed. We also took down the Fund's tech exposure somewhat through selling part of the position in Mitsui Mining & Smelting and smaller reductions in Screen, Rohm, Murata and TDK.

Fund facts

Fund total net assets: ¥21 526.88 M ($197.98 M) **Base currency:** JPY

Fund domicile: Luxembourg **Management fee:** 0.90% p.a. for I shares

Fund type: UCITS SICAV

Fund launch: 12 June 2014

Depositary, Administrator, Transfer Agent: BNP Paribas Securities Services (LU)

Dealing: Each day with a 1-day notice. Cut-off time: 12 pm CET

Management company: Alma Capital Investment Management (LU)

Investment manager: ERIM LLP (London, UK)

Fund managers: James Pulsford, Sara Gardiner-Hill, Karl Hammond

Countries where the fund is registered:
Austria, Germany, Italy, Luxembourg, Switzerland, United Kingdom, France, Singapore

Identifiers:

Share class	Isin	Ticker	Launch
Institutional USD Hedged Capitalisation share class	LU1013117160	AEJIUHA LX	12 June 2014
Institutional GBP Hedged Capitalisation share class	LU1013116949	AEJIGHA LX	12 June 2014
Institutional EUR Hedged Capitalisation share class	LU1013116782	AEJIEHA LX	10 December 2014
Institutional JPY Capitalisation share class	LU1013116519	AEJPIJA LX	10 December 2014
Institutional GBP Unhedged Capitalisation share class	LU1152097108	AEKJEGC LX	17 February 2015
Institutional CHF Hedged Capitalisation share class	LU1210049091	AEJICHC LX	14 February 2018

Contacts

Nick Stoop (UK)	+44 77 8980 0397
Andreas Lehmann (UK)	+44 20 7389 1338
Hervé Rietzler (FR / CH / LU / IT)	+352 28 84 54 19
Dirk Tödte (DE / AT)	+352 28 84 54 16
Louis de Vulpillières (FR)	+33 1 56 88 36 58
Baptiste Fabre (FR)	+33 1 56 88 36 55

info.investors@almacapital.com