

As of 30 August 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 from Deutsche Asset Management in London, as part of a supported spin-out from Deutsche Bank. ERIM LLP is authorised and regulated by the FCA
- The portfolio managers, led by James Pulsford, have worked together for over 15 years
- Eikoh focuses on research and investment in Japanese listed companies

## Cumulative performance (%)

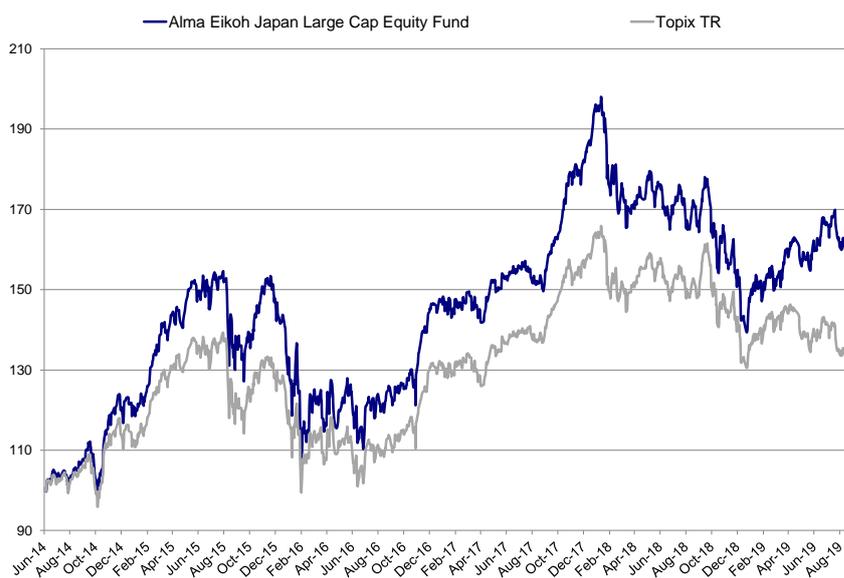
|                       | 1 M   | 3 M   | 6 M   | YTD   | 1Y     | 3Y    | ITD   |
|-----------------------|-------|-------|-------|-------|--------|-------|-------|
| I GBP Hedged C shares | -3.82 | 2.33  | 5.42  | 13.10 | -7.19  | 27.15 | 58.43 |
| I GBP C shares        | -1.93 | 9.97  | 18.81 | 20.33 | 1.74   | 30.36 | -     |
| I EUR Hedged C shares | -3.75 | 2.10  | 4.86  | 12.16 | -8.50  | 23.45 | -     |
| I JPY C shares        | -3.70 | 2.32  | 5.21  | 12.43 | -7.93  | 25.79 | -     |
| I EUR C shares        | -0.83 | 6.82  | 12.24 | -     | -      | -     | -     |
| I EUR D shares        | -0.89 | 6.71  | -     | -     | -      | -     | -     |
| I USD Hedged C shares | -3.55 | 2.98  | 6.59  | 14.69 | -4.98  | 31.98 | 63.02 |
| Topix (TR)            | -3.37 | -2.04 | -4.70 | 2.59  | -10.78 | 21.53 | 35.96 |

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

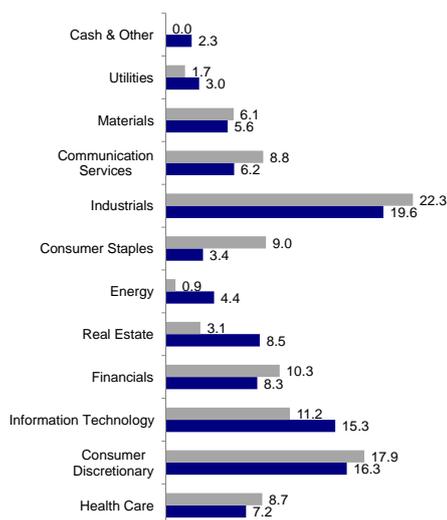
## Portfolio characteristics

| Main indicators                           | Fund  | Index |
|---|-------|-------|
| No. of securities                         | 30    | 2142  |
| Weighted Average Market Cap (¥ bn)        | 4 077 | 3 341 |
| Median Market Cap (¥ bn)                  | 1 735 | 43    |
| Dividend Yield (%)                        | 2.6   | 2.6   |
| Historical Price / Earnings (x)           | 11.7  | 13.4  |
| Historical Price / Cashflow (x)           | 7.0   | 8.0   |
| Historical Price / Book (x)               | 1.0   | 1.1   |
| Volatility since inception (%)            | 20.1  | 18.4  |
| Annualized Sharpe ratio since inception   | 0.5   | 0.3   |
| Active share (%)                          | 82.1  | -     |
| Beta since inception                      | 1.04  | -     |
| Tracking error since inception (%)        | 5.6   | -     |
| Annualized Information ratio since incept | 0.7   | -     |

## Performance (Indexed - Base 100)



## Sector breakdown (% AUM)



■ Topix ■ Alma Eikoh Japan Large Cap Equity Fund

## Top 10 positions details

| Security name                | Sector                 | % AUM        |
|------------------------------|------------------------|--------------|
| mitsubishi UFJ FINANCIAL GRO | Financials             | 6.29         |
| TOYOTA MOTOR CORP            | Consumer Discretionary | 5.92         |
| MITSUI FUDOSAN CO LTD        | Real Estate            | 5.59         |
| KEISEI ELECTRIC RAILWAY CO   | Industrials            | 4.46         |
| NIPPON TELEGRAPH & TELEPHONE | Communication Services | 4.45         |
| JXTG HOLDINGS INC            | Energy                 | 4.35         |
| DAIICHI SANKYO CO LTD        | Health Care            | 4.09         |
| MITSUBISHI CORP              | Industrials            | 4.01         |
| SONY CORP                    | Consumer Discretionary | 3.99         |
| J FRONT RETAILING CO LTD     | Consumer Discretionary | 3.63         |
| <b>TOTAL:</b>                |                        | <b>46.78</b> |

## Investment manager's commentary

### Market Review and Outlook

The market fell by 3.4% during August, hit along with other world markets by the unexpected announcement early in the month that the US would implement a 10% tariff on \$300bn imports from China from September 1st. This was subsequently revised to a 15% tariff and at the same time existing tariffs on \$250bn of imports were raised from 25% to 30%. The Chinese responded by ordering state owned enterprises to suspend imports of US agricultural products and have stated that they are planning tariffs on \$75bn of US imports. A further blow to sentiment was the announcement by Japan on August 2nd of the removal of South Korea from the list of countries that enjoy minimum export controls and later in the month the scrapping by South Korea of their military intelligence sharing pact with Japan. The Yen appreciated from 108.8 to 106.3 over the month reflecting the "risk off" attitude of global investors. Defensive stocks fared best during the sell off with cyclicals such as oil, steel and shipping all falling sharply.

First quarter results for Japanese companies showed a fall in operating profits of -10% with manufacturing sector profits down -20% while the non-manufacturing sector eked out a gain of +3%. Company forecasts call for profits to fall by just -1% in the year to 3'20 and it now seems clear that these numbers will be undershot led by the manufacturing sector which currently expects a fall of only -2%. The economic outlook remains poor as is shown by the fall in the Economy Watchers Survey outlook from 43.9 in July to only 39.1 in August though this is in part due to the anticipated impact of the consumption tax hike from 8% to 10% on October 1st. Core machinery orders fell a steep 6.6% in July, however industrial production rose by 1.3%, rebounding from June's sharp fall though is forecast to weaken into September. The labour market remains tight despite the recent slowing in economic momentum with the unemployment rate at 2.2% in July and the jobs to applicant ratio only a little down from recent highs at 1.59x

The recent escalation of trade war tensions and announcement of additional tariffs on both sides is very disappointing as is the deterioration in political and trade relations between Japan and South Korea. With Europe struggling to deal with the UK's impending departure from the European Union and ongoing civil unrest in Hong Kong, the global order is clearly under threat and this comes at a time when there is already clear evidence of demand weakness in Asia and Europe. While the situation appears bleak, we should not be blind to the possibility of a change in circumstances, President Trump faces re-election in 2020 and has a strong incentive to do so with a reasonably positive economic backdrop. A deal with China coupled with further fiscal stimulus would be the surest way of ensuring this. The recent sacking of National Security Advisor John Bolton may possibly presage a shift to a more constructive policy stance by the Trump administration. We believe that concerns over global growth have been the major factor behind the underperformance that Japan has exhibited against global markets over the last year and that some form of resolution to the current trade war between China and the US might prove to be a catalyst for its end. While a recovery in global growth should precipitate a recovery in performance, even in its absence we think that Japan looks attractive for longer term investors. Valuations of Japanese stocks look cheap, corporate balance sheets healthy and there are clear moves towards improving shareholder returns. We expect the Abe administration to continue to enact a pro-growth economic strategy which should help mitigate some of the negative impact of slowing global demand. These factors should help support the market even if current very uncertain conditions continue. The Topix is trading at 1.10x book, on an estimated PER of 12.3x and a dividend yield of 2.59%.

### Fund

The Fund fell by 3.70% (I JPY C) in August, underperforming Topix which fell by 3.37% (dividends reinvested).

The Fund marginally underperformed Topix during the month driven by stock selection. Stock selection was negative in the capital goods, energy, media, and commercial services areas of the market. This was partially offset by a positive contribution from performance in pharmaceuticals and telecommunication services. Sector allocation was overall neutral with the positive contribution from being overweight real estate offset by value lost through being overweight energy and underweight consumer services.

At the stock level the largest contributor was again Daiichi Sankyo which continued to benefit from investor excitement over the potential for its antibody-drug conjugate cancer therapies. Keisei Railway and Mitsui Real Estate both added value, recovering from poor relative performance in July, and M3 continued its recent strong performance managing a small further gain over the month. Softbank Group fell sharply over the period reflecting investor concern over the Vision Fund and the portfolio benefited from not holding this name. JXTG Holdings was the largest negative contributor hit by the broad sell off in cyclicals and Mitsubishi Corp was also impacted by the same trend. IHI fell following poor Q1 results and Persol also fell as overseas staffing operations, an area where the management had been expecting to see an improvement, were disappointing. Yahoo Japan was also weak following results that showed slower growth in media revenues and e-commerce sales

During the month we made a number of changes to the portfolio replacing four of the Fund's holdings in the process. We bought a position in the chemical company Denka following after recent underperformance left the stock looking very cheap; we like medium term prospects for their life science operations and their electronic materials business. This was funded by the sale of the holding in JSR which has outperformed since acquisition and where deteriorating conditions in the LCD materials supply chain may be a threat to future earnings. We bought a position in Fuji Film after it fell following Q1 results. We continue to think that their healthcare operations will drive longer term growth and believe that the weakness shown in Instax sales in Q1 is a temporary phenomenon and not reflective of end demand. We sold the position in IHI following Q1 results when it was revealed that the company has seen a sharp deterioration in their turbocharger operations and some problem boiler contracts have emerged; we now find it harder to believe in prospects for business recovery in 3'21 and 3'22. Following company meetings in Tokyo we made the decision to sell the Fund's holding in Rohm and buy a position in Screen Holdings. Screen's order inflow remains robust and the issue for the Company has been the deterioration in profitability over the past year. We are now more confident in prospects for a recovery in margins over the next couple of years reflecting a sharp improvement in order mix. Conversely we are concerned that weakness in overall automobile and consumer product demand will cause a significant deterioration in Rohm's earnings and cash flow weakening the appeal of the stock. We also sold the Fund's position in Topcon where we are concerned that the global slowdown in construction machinery demand and tough conditions in farm machinery will make it hard for the business to make progress over the next couple of years. After meeting again with Fujitsu following strong Q1 results we purchased shares in recognition of the strong outlook for their core IT operations and progress they are making in downsizing and restructuring problematic overseas operations.

### Fund facts

**Fund total net assets:** ¥25 754.57 M (\$241.79 M) **Base currency:** JPY

**Fund domicile:** Luxembourg

**Management fee:** 0.90% p.a.

**Fund type:** UCITS SICAV

**Fund launch:** 12 June 2014

**Depository, 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

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### Countries where the fund is registered:

Austria, Germany, Italy, Luxembourg, Switzerland, United Kingdom, France, Singapore

### Identifiers:

|   |                    |                          |
|---|--------------------|--------------------------|
| Institutional USD Hedged Capitalisation share class   |                    |                          |
| Isin: LU1013117160                                    | Ticker: AEJIUHA LX | Launch: 12 June 2014     |
| Institutional GBP Hedged Capitalisation share class   |                    |                          |
| Isin: LU1013116949                                    | Ticker: AEJIGHA LX | Launch: 12 June 2014     |
| Institutional EUR Hedged Capitalisation share class   |                    |                          |
| Isin: LU1013116782                                    | Ticker: AEJIEHA LX | Launch: 10 December 2014 |
| Institutional JPY Capitalisation share class          |                    |                          |
| Isin: LU1013116519                                    | Ticker: AEJPIJA LX | Launch: 10 December 2014 |
| Institutional GBP Unhedged Capitalisation share class |                    |                          |
| Isin: LU1152097108                                    | Ticker: AEKJEGC LX | Launch: 17 February 2015 |
| Institutional EUR Unhedged Capitalisation share class |                    |                          |
| Isin: LU1870374508                                    | Ticker: AEJLIEC LX | Launch: 04 February 2019 |
| Institutional EUR Unhedged Distribution share class   |                    |                          |
| Isin: LU1870374920                                    | Ticker: AEJLIED LX | Launch: 08 March 2019    |

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