

Alma Eikoh Japan Large Cap Equity Fund

A sub-fund of Alma Capital Investment Funds SICAV

As of 31 October 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 (%)

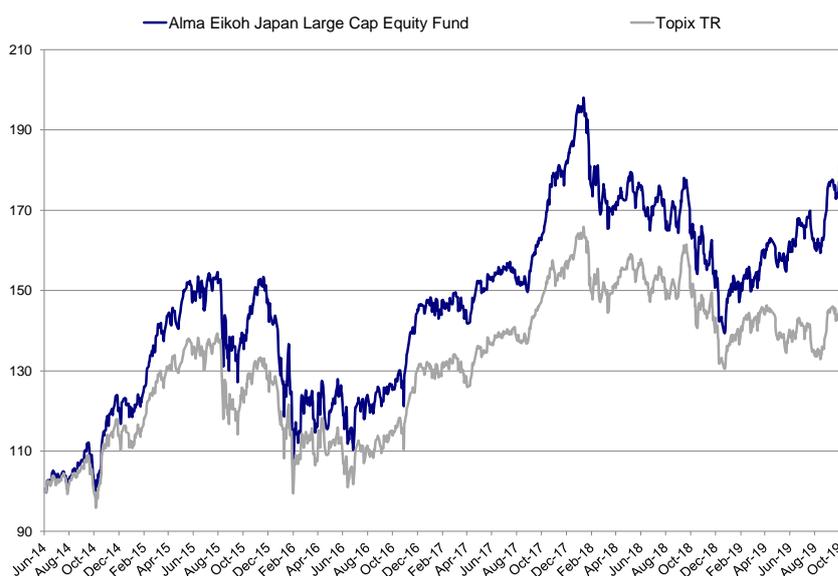
	1 M	3 M	6 M	YTD	1Y	3Y	ITD
I GBP Hedged C shares	5.07	8.10	11.45	27.12	11.95	35.27	78.07
I GBP C shares	-0.44	2.27	14.86	25.48	14.13	22.51	-
I EUR Hedged C shares	5.26	8.29	11.23	26.20	10.93	32.13	-
I JPY C shares	5.53	8.91	12.10	27.15	12.06	35.62	-
I EUR C shares	2.55	8.65	14.98	-	-	-	-
I EUR D shares	2.58	8.62	-	-	-	-	-
I USD Hedged C shares	5.57	9.28	13.34	29.95	15.07	42.00	84.71
Topix (TR)	4.99	7.58	4.28	14.21	3.88	28.03	51.37

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

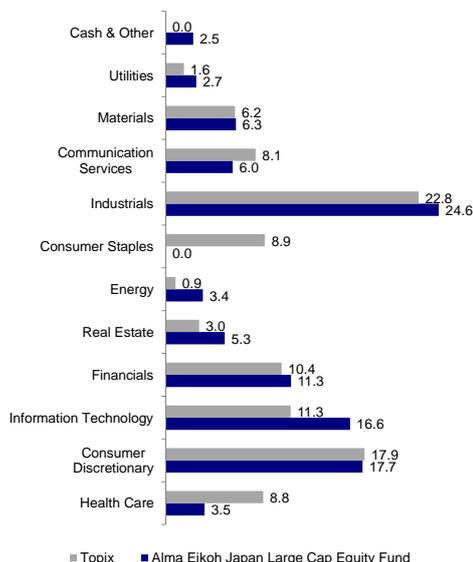
Portfolio characteristics

Main indicators	Fund	Index
No. of securities	30	2149
Weighted Average Market Cap (¥ bn)	4 136	3 557
Median Market Cap (¥ bn)	1 507	49
Dividend Yield (%)	2.5	2.4
Historical Price / Earnings (x)	12.0	14.7
Historical Price / Cashflow (x)	7.3	8.6
Historical Price / Book (x)	1.1	1.2
Volatility since inception (%)	20.0	18.3
Annualized Sharpe ratio since inception	0.6	0.4
Active share (%)	83.5	-
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)



Top 10 positions details

Security name	Sector	% AUM
MITSUBISHI UFJ FINANCIAL GRO	Financials	6.86
TOYOTA MOTOR CORP	Consumer Discretionary	5.56
MITSUI FUDOSAN CO LTD	Real Estate	5.32
ORIX CORP	Financials	4.42
KEISEI ELECTRIC RAILWAY CO	Industrials	4.08
NIPPON TELEGRAPH & TELEPHONE	Communication Services	4.07
TAISEI CORP	Industrials	3.94
MITSUBISHI CORP	Industrials	3.91
TDK CORP	Information Technology	3.84
SONY CORP	Consumer Discretionary	3.80
TOTAL:		45.80

Investment manager's commentary

Market Review and Outlook

The market continued to rebound from the mid-summer weakness, caused by escalation in US-China trade friction, as hopes built that a resolution to the dispute might be achieved. On 11th October the US and China reached a preliminary agreement, and this was followed by encouraging statements concerning the progress of negotiations from both President Trump and Chinese Vice President Liu. Investors bought cyclical on hopes for a recovery in global growth with metal products, shipping and non-ferrous metals leading the market rise. The recovery in "value" stocks seen in September following underperformance earlier in the year, was not maintained with neither value nor growth characteristics significantly deviating from the market move. Technology stocks however performed well, helped by news that Apple had asked suppliers to increase production of i-phone 11 components by 10% on stronger demand and the announcement of a bullish outlook for 2020 by TSMC driven by growing demand for 5G products. Foreign investors were significant net buyers for the second month in a row, committing more than Y1trn to the market and reversing the disinvestment made earlier in the year.

While investor hopes are now focused on the potential for a recovery in global growth in 2020, current indicators of economic momentum are weak and this extends to most economic sectors in Japan. Good news is limited so far and basically restricted to some elements of the technology sector. Japan's manufacturing PMI hit its lowest level since 2016 coming in at 48.5, down 0.4 from the final reading in September. The economy watchers survey showed a fall from 45.7 to 36.3 for current conditions but the outlook survey showed a recovery from 36.7 to 43.6; this however is still a very depressed reading. Machine tool orders remain very depressed, falling -37.4% in October, and wider machinery orders continue to post single digit declines. At the September interim, corporate profits fell -13% with manufacturing profits down -16% and non-manufacturing down -10%. The labour market remains tight but there are signs of easing with the jobs to applicant ratio falling from 1.59x to 1.57x in September and the headline unemployment rate rising from 2.2% to 2.4%.

While there has been little change in current economic fundamentals the dramatic moves in bonds and equity style patterns over the last couple of months clearly indicates a change in investor perception of the future. Markets now price in a greater probability of a resolution of the trade friction that has crimped economic growth in 2019 and this appears logical looking at recent developments. While recent central bank policy changes are clearly supportive, they are not the main driver of the improvement in market sentiment. We retain our basic view that while current global economic conditions are severe, primarily due to the trade dispute, President Trump faces re-election in 2020 and has a strong incentive to do so with a reasonably positive economic backdrop or at least when markets are optimistic about prospects for recovery. A deal with China coupled with further fiscal stimulus would be the surest way of ensuring this. The relative performance of Japan has recovered over the last couple of months and foreigners have reversed their recent policy of disinvestment, buying heavily in September and October. This reflects greater confidence in prospects for global growth and we expect Japan to continue to exhibit this correlation with expectations of global economic activity. While a recovery in global growth would be good for the market, 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. The growing presence of shareholder activists is accelerating this trend despite the fact that most of their activity is focused on less liquid small caps. After buybacks of Y5.1trn in the first half of the year it seems likely that the total for the full year will exceed Y9trn, well ahead of the previous record of Y7trn in 3'19. The Topix is trading at 1.20x book, on an estimated PER of 13.8x and a dividend yield of 2.39%.

Fund

The Fund rose by 5.53% (I JPY C) in October, outperforming Topix which rose by 4.99% (dividends reinvested).

The Fund outperformed the Topix during the month driven by stock selection. Stock selection was positive in technology hardware, retailing, media & entertainment and software & services but value was lost in capital goods and pharmaceuticals. Sector allocation was broadly neutral overall with the negative contribution from being overweight transportation offset by being underweight food, beverages & tobacco, and insurance.

At the stock level the largest contributor was TDK, driven by buying from investors continuing to return to technology stocks and looking ahead to the adoption of 5G as a potential source of new demand for the sector. Screen Holdings and TDK also performed well over the month driven by the same themes. The holding in J Front Retailing performed strongly, bouncing back from recent dull performance and benefiting from its solid fundamentals. Mitsui OSK Lines was lifted by the ongoing rotation into cyclical rising sharply over the month. Fujitsu rose strongly after interim results revealed strong domestic order growth in Q2 and an improvement in margins in their software and service business. Z Holdings, formerly known as Yahoo Japan, rose after announcing a tender offer for the internet retailer Zozo. Softbank Corp again underperformed the market very sharply and the Fund benefited by not holding this security and the underperformance of Nintendo also added value over the month.

The largest negative contributors were Keisei Electric Railway and the railway group Seibu Holdings both of which lagged the rising market that was led by more cyclical sectors. The Fund's holdings in Taisei, Mitsui Real Estate and Mitsubishi UFJ also underperformed the market and lost value for the Fund.

During the month we bought two new positions for the portfolio and sold three existing ones. We bought a position in Yamaha Motor reflecting our positive view of prospects for its core operations coupled with its strong value characteristics after sharp underperformance of the market over the past two years. We expect the performance of their mobility products to improve driven by new product releases in motorcycles and cost reductions in recreational vehicles while boat engines should continue to benefit from the trend towards higher power engines. We bought a position in the IC package maker Shinko Electric. We expect the firm's business to be a major beneficiary of the shift to next generation MPU packages in 3'21-3'22, presaging several years of strong sales growth and margin improvement. In addition to these two names we added to the fund's positions in Fujitsu, Seibu Holdings, Orix and Recruit. These acquisitions were funded by the sale of M3 where recent strong performance left this high quality company looking very expensive in our view and also Seven & I and Mitsubishi Estate. The sale of Seven & I reflects our concern about the increasingly competitive conditions in the convenience store market in Japan while that of Mitsubishi Estate was driven by a desire to reduce our overweight in real estate which has outperformed the market over the last year but where fundamentals offers limited scope for further improvement. We reduced the size of our positions in Keisei Rail and Taiyo Yuden after strong performance reduced the potential upside of the stocks.

Fund facts

Fund total net assets: ¥25 072.68 M (\$230.87 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

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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