

As of 29 November 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 (%)

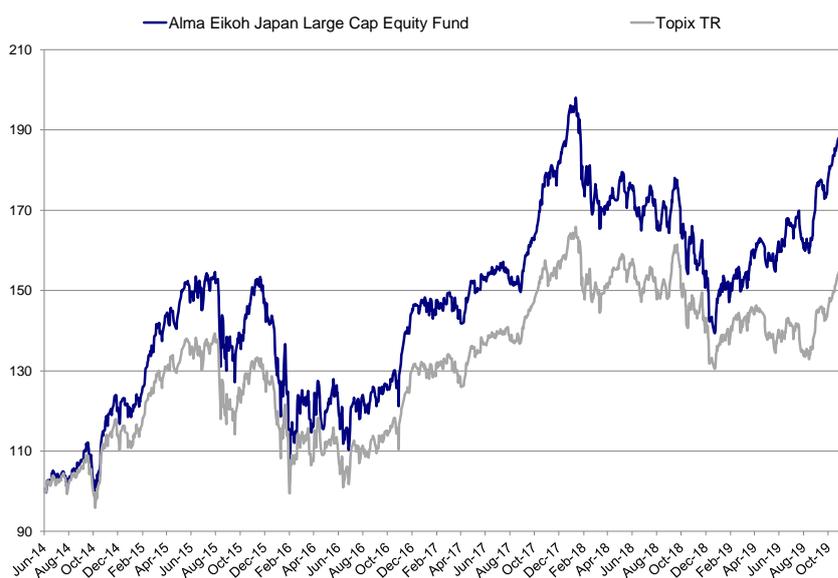
	1 M	3 M	6 M	YTD	1Y	3Y	ITD
I GBP Hedged C shares	1.34	13.90	18.72	28.82	13.99	27.57	80.45
I GBP C shares	0.84	5.16	15.88	26.53	16.58	26.64	-
I EUR Hedged C shares	1.32	14.01	18.52	27.87	13.12	24.62	-
I JPY C shares	1.39	14.67	19.35	28.93	14.28	27.68	-
I EUR C shares	2.05	11.81	20.06	-	-	-	-
I EUR D shares	2.04	11.83	19.97	-	-	-	-
I USD Hedged C shares	1.53	15.03	20.50	31.93	17.23	34.64	87.53
Topix (TR)	1.94	13.50	13.73	16.43	4.54	23.73	54.31

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

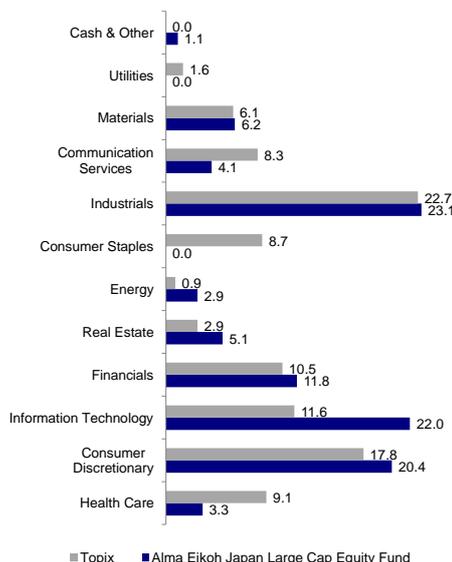
## Portfolio characteristics

Main indicators	Fund	Index
No. of securities	29	2152
Weighted Average Market Cap (¥ bn)	4 378	3 646
Median Market Cap (¥ bn)	1 572	49
Dividend Yield (%)	2.6	2.4
Historical Price / Earnings (x)	12.9	15.5
Historical Price / Cashflow (x)	6.9	8.7
Historical Price / Book (x)	1.1	1.2
Volatility since inception (%)	19.8	18.3
Annualized Sharpe ratio since inception	0.6	0.5
Active share (%)	83.0	-
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	7.25
FUJITSU LTD	Information Technology	5.85
TOYOTA MOTOR CORP	Consumer Discretionary	5.54
MITSUI FUDOSAN CO LTD	Real Estate	5.13
SONY CORP	Consumer Discretionary	5.01
ORIX CORP	Financials	4.57
NIPPON TELEGRAPH & TELEPHONE	Communication Services	4.12
MITSUBISHI CORP	Industrials	3.99
TAISEI CORP	Industrials	3.87
TDK CORP	Information Technology	3.84
<b>TOTAL:</b>		<b>49.17</b>

## Investment manager's commentary

### Market Review and Outlook

The market gained a further 1.9% in November, rising for the third consecutive month with foreign investor in flows and Japanese corporates buying back stock the main driver of the rally. Investor sentiment was positive across most global markets reflecting the announcement of some stronger US economic data and continuing hopes of a US and China trade deal with officials from both China and the US commenting on progress being made. While US economic statistics showed promise, those in Japan continue to paint a more subdued picture and there was no clear market leadership within Topix between defensives and economic sensitives. In the former category pharmaceuticals, other products, communications and services all performed well while utilities lagged. Among economic sensitives, precision, paper and electricals all performed well while oil & coal, rubber, shipping and metal products all underperformed. Topix Value underperformed Topix Growth by 0.5% over the month and has underperformed by 11.3% over the 11 months year to date.

In the US, private payroll data was ahead of expectations and Q3 GDP data was also better than expected at +21.1% QoQ of consensus forecasts of +1.9% suggesting that the current economic expansion remains resilient despite the negative impact of tariffs and trade friction. The manufacturing PMI in China has also strengthened significantly in recent months. The picture is less bright in Japan however where Industrial Production fell -4.2% MoM and -7.4% YoY in October with auto's a particularly weak area. These and other economic statistics are however difficult to interpret as they will have been influenced by the impact of two very severe typhoons and the increase of the consumption tax from 8% to 10% on October 1st. The manufacturing PMI for November came in at 48.6, up 0.2 MoM and the first MoM increase in four months, albeit a marginal one. The economy watchers survey also showed an improvement from 26.3 to 39.2 for current conditions and from 43.6 to 45.5 for outlook but still remains at depressed levels. Q3 GDP growth appears to have been stronger than expected at +1.8% QoQ on an annualised basis however this captures the period up until the consumption tax hike and much weaker figures are likely in Q4.

As markets now price in a reasonable probability of a resolution of the Sino-US trade friction that has crimped economic growth in 2019, the possibility that no agreement is reached and hostilities escalate is the major risk to the now consensus fairly benign view of the world. We retain our view however that with President Trump facing re-election in 2020, there is an incentive to do so with a reasonably positive economic backdrop and a "win" under his belt. A deal with China coupled with further fiscal stimulus would be the surest way of ensuring this. Domestically, while economic conditions are sluggish the Abe administration is taking action to lift demand and support growth. The government is reported to be preparing a stimulus package with a nominal value of ¥25trn, or 5% of GDP. Although the "real water" spending element of this will in practice be rather smaller, it should nonetheless have a significant impact on growth in 2020 with spending likely to be focused on disaster prevention and reconstruction, infrastructure projects, IT investment, and a range of subsidies designed to lift both capex and consumption. Foreign buying of the Japanese market over the last three months is at least in part a reflection of greater confidence in prospects for global growth and the positive impact this would have on Japan. We believe that the stimulatory package will accelerate Japan's recovery in 2020 and enhance the fundamental attraction of the market. Valuations of Japanese stocks remain 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 ¥5.1trn in the first half of the year it seems likely that the total for the full year will exceed ¥9trn, well ahead of the previous record of ¥7trn in 3'19. The Topix is trading at 1.22x book, on an estimated PER of 14.4x and a dividend yield of 2.35%.

### Fund

The Fund rose by 1.39% (I JPY C) in November, underperforming Topix which rose by 1.94% (dividends reinvested).

The Fund slightly underperformed the Topix during the month driven by stock selection. Stock selection was positive in autos, capital goods and retailing but value was lost in pharmaceuticals, technology hardware & equipment and semiconductors. Sector allocation was broadly neutral overall with the negative contribution from being underweight pharmaceuticals and overweight real estate offset by being underweight household products and overweight software and financials.

At the stock level the largest contributor was Money Forward with solid Q3 results and the listing of peer 'Freee K.K.' drawing attention to the exciting growth potential of their cloud accounting software service. Z Holdings contributed positively again, buoyed by positive investor reaction to news of their merger with Line Corp and the new growth opportunities this potentially opens up. TDK continued to perform well as investors focused on their strong position in smartphone and non-auto batteries and the prospects for profits growth from this area. Value names Orix and Yamaha were also positive contributors in the month. The Fund benefited by not holding Shiseido where a profit downgrade had a negative impact on the shares but not holding Takeda was a slight drag on fund performance. The largest negative contributors were Mitsui Real Estate and JXTG which both fell over the month though on no specific news. The Fund's holdings in Daiichi Sankyo, Screen Holdings and Denso also underperformed over the month.

During the month we bought four new positions for the portfolio and sold five existing ones. We sold the position in Screen Holdings and purchased a holding in Tokyo Electron. Both these companies are semiconductor production equipment makers but Tokyo Electron demonstrates a stronger market position, higher profitability and offers superior medium term growth prospects to Screen helped by its strong exposure to etch processes rather than cleaning and gearing to future memory investment. We sold the position in Shinetsu Chemical and bought a holding in competitor JSR. Shinetsu has performed very strongly in recent years buoyed by the strong performance of its silicon wafer and PVC operations; we are concerned that profits growth from these areas looks set to sharply slow from here. Conversely we expect JSR to benefit from good growth in its life science business and growth in its semiconductor materials business. After reviewing prospects for Mitsui OSK Lines we liquidated the holding in this shipping firm. We are concerned that the recovery in profitability of their associate container business, ONE, is slowing and future conditions appear uncertain across their wider business portfolio with volume growth anaemic. We used the funds raised from this sale to buy a position in the trading house Marubeni, retaining our cyclical exposure in the portfolio. We like the fact that Marubeni is cheaply valued, has limited exposure to metals and energy, and is making steady progress in strengthening its balance sheet. We expect this to allow the Company to raise shareholder returns in time and to enjoy a higher market rating. The last new position bought for the portfolio was Hitachi. We think that prospects are excellent for its core IT operations and admire the way the Company is actively restructuring its portfolio of business through the sale of non-core assets, using the funds to invest in targeted growth areas. We also added to holdings in Sony, Fujitsu, Seibu and Shinko Electric over the month and liquidated the holdings in KEPCO and Z Holdings. We have reduced our expectations for the recovery of KEPCO's earnings reflecting likely delays to the restart of their nuclear reactors and increasingly competitive market conditions. For Z Holdings we are concerned that the recently announced deal to acquire Line will result in substantial earnings dilution while synergy benefits are less certain and some way away from realisation with the deal facing a considerable delay until closing.

### Fund facts

**Fund total net assets:** ¥25 498.67 M (\$232.76 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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