ALMA CAPITAL

Alma Eikoh Japan Large Cap Equity Fund

A sub-fund of Alma Capital Investment Funds SICAV

英光 Eikoh

As of 31 January 2020

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

Investment manager: ACIM (Alma Capital Investment Management)

- Alma Capital Investment Management is a Luxembourg based asset management company and holds a branch office in London
- ACIM manages assets of $4bn and is regulated by the Luxembourg regulator the CSSF
- The portfolio managers, led by James Pulsford, worked together at Eikoh Research Investment Management managing the portfolio before joining ACIM in January 2020

Cumulative performance (%)

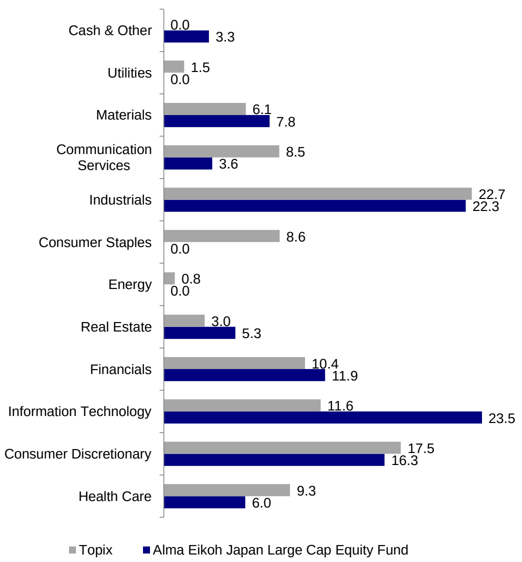
	1 M	3 M	6 M	YTD	1Y	3Y	ITD	ITD (annualized)
I GBP Hedged C shares	-0.29	4.47	12.94	-0.29	24.54	26.44	86.03	11.36
I GBP C shares	-0.58	2.63	4.95	-0.58	23.80	24.93	-	-
I EUR Hedged C shares	-0.43	4.29	12.94	-0.43	23.69	23.44	-	-
I JPY C shares	-0.35	4.53	13.85	-0.35	25.10	26.48	-	-
I EUR C shares	1.36	5.60	14.74	1.36	-	-	-	-
I EUR D shares	1.36	5.58	14.67	1.36	-	-	-	-
I USD Hedged C shares	-0.20	5.06	14.81	-0.20	27.84	33.92	94.05	12.47
Topix (TR)	-2.14	1.21	8.88	-2.14	10.17	18.46	53.20	7.86

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

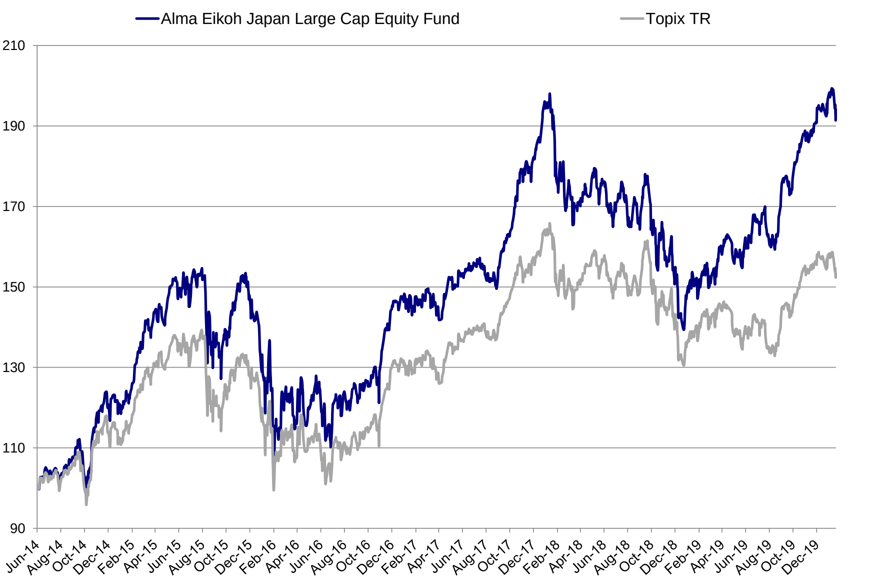
Portfolio characteristics

Main indicators	Fund	Index
No. of securities	29	2156
Weighted Average Market Cap (¥ bn)	4 329	3 731
Median Market Cap (¥ bn)	1 538	46
Dividend Yield (%)	2.5	2.4
Historical Price / Earnings (x)	12.9	15.2
Historical Price / Cashflow (x)	7.1	8.6
Historical Price / Book (x)	1.2	1.2
Volatility since inception (%)	19.6	18.0
Annualized Sharpe ratio since inception	0.6	0.4
Active share (%)	82.5	-
Beta since inception	1.04	-
Tracking error since inception (%)	5.5	-
Annualized Information ratio since inception	0.8	-

Sector breakdown (% AUM)



Performance (Indexed - Base 100)



Top 10 positions details

Security name	Sector	% AUM
MITSUBISHI UFJ FINANCIAL GRO	Financials	7.34
FUJITSU LTD	Information Technology	6.58
SONY CORP	Consumer Discretionary	5.39
MITSUI FUDOSAN CO LTD	Real Estate	5.28
TOYOTA MOTOR CORP	Consumer Discretionary	4.91
ORIX CORP	Financials	4.56
TDK CORP	Information Technology	3.81
MITSUBISHI CORP	Industrials	3.79
SEIBU HOLDINGS INC	Industrials	3.72
HITACHI LTD	Information Technology	3.60
	TOTAL:	**48.98**

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Investment manager's commentary

Market Review and Outlook

The market fell by 2.14% in January, driven more by global events than Japan specific news. Market weakness early in the month was precipitated by the US assassination by drone of the Iranian General Qassem Soleimani and the Iranian response to this. It was shrugged off however when it became clear that further escalation was unlikely and sentiment was further aided by the signing of the Sino-US phase-one trade deal on the 15th January. Sentiment deteriorated sharply towards the latter stages of the month in response to increasingly worrying news of a new Coronavirus outbreak that originated in the city of Wuhan but spread rapidly within China before authorities realised the danger that it represented and took strict countermeasures such as suspending transport links in and out of Wuhan. Foreign investors were heavy and consistent sellers in January, liquidating Y1.6trn. Cyclical sectors such as shipping, metals and oil underperformed sharply over the month and growth stocks significantly outperformed value.

Japanese Q3 results have now been largely reported and taken overall show a fall of -3.2% in sales and -16.3% in operating profits while for Q1-Q3 the respective figures are declines of -0.6% and -14.4%. The manufacturing sector is suffering the brunt of slowing in global demand and in Q3 showed a fall in profits of -20.8% whereas the non-manufacturing sector showed a fall of -10.0%. Full year forecasts for the market overall now point to a decline in profits of -12.6%, a revision down of -2.4% compared to estimates at Q2. Company results aside there were several encouraging data points suggesting a bottoming out in industrial demand. Core machinery orders for November showed a strong +18% MoM increase while Japan's flash manufacturing PMI for January came in at 49.3, up 0.9 from December's final reading. Lastly December's industrial production stats were better than expected at +1.3% MoM though this still represents a -3.0% decline YoY. These statistics all predate the impact of the Coronavirus outbreak however, but this was at least partially captured in the January Economy Watchers Survey which, while recording a stable reading for current condition indicators, showed a sharp fall in outlook from 44.5 to 42.9.

The emergence of the Coronavirus outbreak represents the major new factor to consider as part of the global market outlook with other elements, such a Sino-US relations, little changed from the position a month ago. At the time of writing, markets seem content to largely look through the Coronavirus outbreak; this tacitly assumes that the outbreak is effectively contained within China and the rate of new infections falls away in response to measures put in place by the authorities. This may be the case, and in support of this thesis there has been a slowing in the growth of new cases within China, but it is too early to be confident of this view. Even with current levels of travel disruption and control the impact on global growth will be significant and should the virus gain a real foothold outside of China then the impact will become very substantial. In Japan the fall in Chinese visitors is hitting the travel/hotel area hard and retail sales are being depressed by the slump in inbound spending. There is clearly a risk that supply chain shortages may emerge and disrupt production in areas such as auto's and electronics and estimates of growth in 2020 are now likely to be revised down. Aside from the emergence of Coronavirus risk, the US economy remains robust and President Trump has a strong incentive to try to maintain this momentum in his election year. Domestically, while economic conditions remain weak the Abe administration is taking action to lift demand and support growth centred around the recently announce Y26trn government stimulus package.

Valuations of Japanese stocks remain cheap, corporate balance sheets healthy and there are clear moves towards unlocking the nascent value in the corporate sector. The Topix is trading at 1.19x book, on an estimated PER of 14.5x and a dividend yield of 2.37%. The growing presence of shareholder activists is having a profound impact on the behaviour of Japanese managements and this can be clearly seen in the explosion in corporate M&A activity witnessed during 2019. The portfolio is built on a bottom up basis and it is no surprise that a number of positions are held in companies where we expect significant change in corporate structure over the next few years with industrial conglomerates Hitachi and Fujitsu good examples of this. The news on shareholder returns is also strongly positive, 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.

Fund

The Fund declined 0.35% (I JPY C share class) in January, outperforming Topix which declined by 2.14% (dividends reinvested).

The Fund outperformed the Topix during the month driven primarily by stock selection with sector allocation making only a minor contribution. Stock selection was positive in healthcare equipment & services, consumer durables, software & services and pharmaceuticals & biotech while value was lost in capital goods, transportation and technology hardware & electronics. Sector allocation made a modest contribution to returns with the underweight position held in retailing and overweight in real estate the principal components of this.

At the stock level the largest contributor was the large position in IT firm Fujitsu where the highly favourable business environment for their service division led to consensus beating Q3 results and increased optimism from the market. The company also announced a Y50bn share buyback and changes to their board of directors suggesting an increased focus on maximising capital efficiency. The relatively new holding in healthcare data company JMDC was again a large contributor as investors became more aware of strong prospects for both their data centre and tele-medicine divisions post their December listing. Other strong contributors include Mitsui Fudosan, Sony, Orix and Daiichi Sankyo which continued its strong run. The largest negative contributors to fund performance were Hitachi, Mitsubishi UFJ Financial, Denka and Yamaha Motor as more economically geared stocks generally had a weaker month. There was no concerning stock specific news on any of these companies.

During the month we sold our positions in J Front Retailing and Money Forward. J Front retailing was sold after the market's strong positive reaction to the announcement that J Front would buy out the remainder of subsidiary Parco at a substantial premium which we view as a somewhat negative and dilutive move. Money Forward was sold after a period of strong performance and their decision to continue spending heavily on acquisition targets. These moves diversify their business away from the core accounting software solution which is where we think they have the best potential and drives the high stock rating. After the very strong recent performance of JMDC, we trimmed our holding and to maintain our exposure to the stock, put the proceeds here into parent company Noritsu Koki which trades at a very large discount to the value of their JDMC stake. Other than this small move and slight increases to some of our other holdings, we made no major changes during the month.

Fund facts

Fund total net assets: ¥26 471.80 M ($242.80 M) **Base currency:** JPY

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

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)

Fund managers: James Pulsford, Tom Grew

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

Contacts

Hervé Rietzler (FR / CH / LU / IT) +352 28 84 54 19
Baptiste Fabre (FR / IR) +33 1 56 88 36 55
info.investors@almacapital.com