

# Alma Eikoh Equilibria Japan Long/Short Equity Fund

A sub-fund of Alma Capital Investment Funds SICAV

As of 28 September 2018

## Fund features

- Actively managed Japanese long/short equity portfolio with a focus on large and mid cap companies
- Low net market exposure through a pair construction process
- Portfolio will generally comprise around 70-90 pairs
- The Fund aims to follow the investment objectives and process of the long standing Equilibria strategy<sup>1</sup> with circa 1.5x leverage

## 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\$ 1.2bn in long-short and long-only strategies (subscribed assets)

## Cumulative performance (%)

	I JPY C shares	TOPIX Total Return <sup>2</sup>	LIBOR JPY 3 Month + 4%
1M	-3.10	5.55	0.30
3M	0.72	5.86	0.99
6M	-	-	-
YTD	-	-	-
1Y	-	-	-
Since inception*	-4.27	1.97	1.48

\* 16 May 2018

## Portfolio characteristics

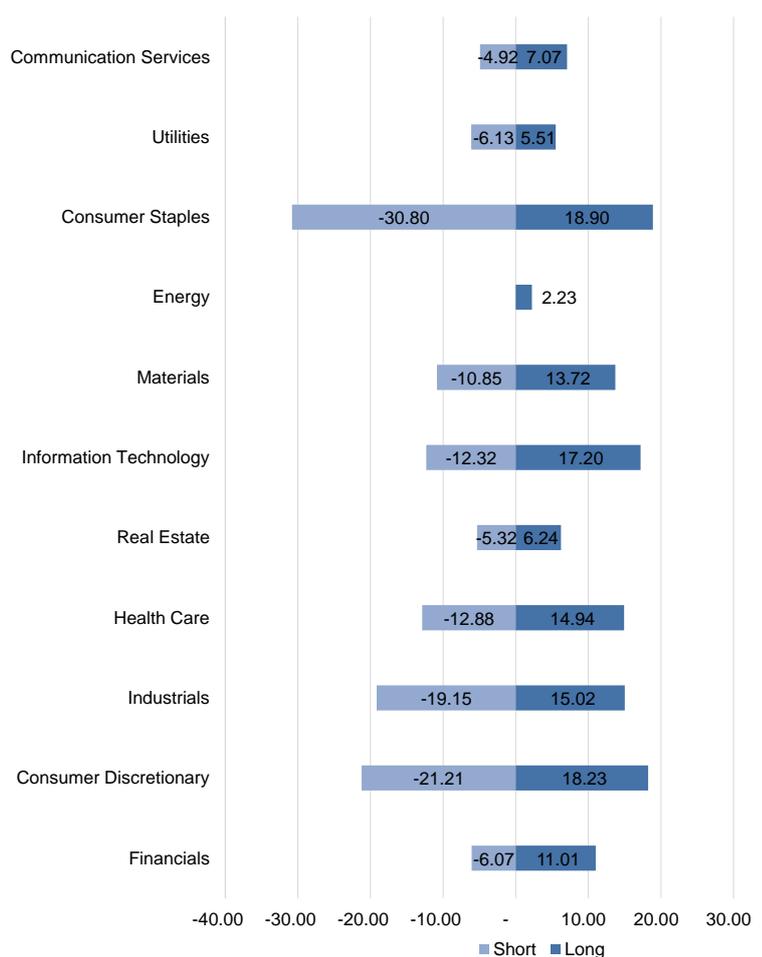
Number of securities - long book	88
Number of securities - short book	102
Weighted Average Market Cap (JPY bn)	2 126
Median Market Cap (JPY bn)	714
Long equity exposure (% of NAV)	130.1
Short equity exposure (% of NAV)	-129.6
Gross exposure (Long + Short) (% of NAV)	259.7
Net exposure (Long - Short) (% of NAV)	0.4
Beta adjusted net exposure <sup>3</sup> (% of NAV)	6.0

## Main positions

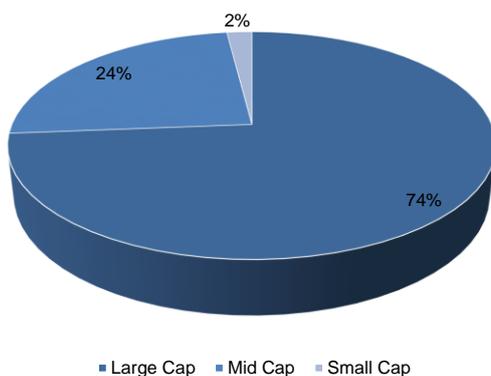
### Top 10 long positions

Issuer	Sector	% NAV
Seven & i Holdings Co Ltd	Consumer Staples	9.19
Mitsubishi UFJ Financial Group	Financials	5.83
Daiichi Sankyo Co Ltd	Health Care	4.26
Ajinomoto Co Inc	Consumer Staples	3.59
Nippon Steel & Sumitomo Metal	Materials	3.52
Murata Manufacturing Co Ltd	Information Technology	3.08
Toyota Motor Corp	Consumer Discretionary	2.79
Fujitsu Ltd	Information Technology	2.60
Mitsubishi Estate Co Ltd	Real Estate	2.52
Nintendo Co Ltd	Communication Services	2.48
	<b>Total:</b>	<b>39.86</b>

## Sector exposure (% NAV)



## Market capitalisation by Gross Exposure



## Market capitalisation<sup>4</sup> (% NAV)

	Long Value	Short Value	Net
Large Cap	97	-95	2
Mid Cap	29	-34	-5
Small Cap	4	-1	3

## Investment manager's commentary

### Market review

The Topix (TPX Index) rose by +4.72% during September, shrugging off the impact of a powerful typhoon and earthquake early in the month, and lifted sharply higher by buying from overseas investors as they returned to the market. The cause of this change in sentiment seems most likely to have been triggered by Prime Minister Abe's successful retention of the leadership of the LDP thus ensuring that he retains the premiership. The market was also supported by the weakness of the Yen relative to the dollar, moving from Y/\$ 111.0 to 113.7 with US 10 year treasury yields rising from 2.86% to 3.06% over the month.

Domestic economic data announcements contained no major surprises and were again mixed. The Q3 Tankan business survey showed deterioration in both current conditions and outlook for the manufacturing sector, but this was not dramatic with for example the outlook for large manufacturers slipping from +21 to +19. There was no significant change in the outlook for the non-manufacturing sector and capital spending across all industries was revised up modestly. Second quarter GDP growth was revised up from a preliminary estimate of +1.9% growth to +3.0% with higher capital spending the primary driver. The Economy Watchers Survey current conditions survey remained below 50.0 for the fourth straight month at 48.1 but the outlook improved from 49.0 to 50.4. The unemployment rate fell 0.1% to 2.4% and the labour market remains extremely tight with the job-to applicant rate flat at 1.63x. While this is having a positive impact on average earnings consumer confidence and consumer spending remain muted. The CPI is still well below BoJ targets, the headline measure standing at 0.9% in August and ex-energy & fresh food running at just 0.2%.

Trade relations between the US and the rest of the world, but particularly China, remain a key determinant of future global growth and stock market performance. Bilateral deals with Mexico and Canada are encouraging but it is by no means clear that a similar accommodation will be reached with China where the political and economic dynamic is very different. Global growth remains for the time being firm led by the very strong expansion currently being experienced in the US. Domestically the picture is a lot clearer now post Prime Minister Abe's re-election as President of the LDP beating former LDP Secretary General Ishiba by 553 votes to 254. He now looks set to continue and possibly enhance the pro-business and growth policies that have characterised his administration thus far. They are keen to ensure that domestic economic momentum is sufficiently robust in the fall of 2019 to go ahead with the planned consumption tax increase from 8% to 10% and we expect further stimulatory measures to be enacted before then. There have already been announcements of measures designed to stimulate housing and accelerate the transition to cashless payment at small merchants. Abe potentially has another three years in power as Prime Minister and he aims to restore the economy to sufficient health such that the BOJ can start to taper its stimulus from a position of strength.

Foreign capital flows turned sharply positive in September at +¥0.7trn though year to date selling remains very heavy at ¥6.7trn. Share buybacks by business corporations continue to provide a steady support for the market which we believe reflects tighter oversight of corporate governance and an increasing focus on improving balance sheet efficiency. Ongoing buying of ETFs by the BOJ remains another source of support. Domestic pension funds act as a natural buffer being potential buyers on weakness and sellers on strength and have been net buyers so far this year. The market is trading at 1.34x book, on an estimated PER of 13.9x and a dividend yield of 2.02%.

### Performance review

The Fund generated negative returns over the month as the long book rose by less than the index while the short book rose by more.

On a sector basis the biggest negative contributor was the Fund's CVS & supermarket retail pairings where the two large short positions rose relative to the market. Being net short this area also contributed to the poor performance. We remain of the view however that the valuations that the two major shorts held here are trading on are unsustainably high and will decline over time. Value was also lost in components where the long positions in Rohm, Taiyo Yuden and Murata fell while the short positions held against them were largely unchanged over the month. In IT chemicals performance was lost as the short held against Hitachi Chemical rose sharply and the long position in Sumco fell as prospects for future wafer price hikes faded as industry capacity is rising faster than previously anticipated. In the Fund's pharmaceutical pairings value was lost as Sosei posted a significant decline after announcing the voluntary suspension of a compound out-licensed to Allergan, one of its two most advanced partnered pipeline compounds. Performance in pharmaceuticals was also impacted by the rise in the largest short position here and while long positions in Daiichi Sankyo, Shionogi, Chugai and Ono Pharmaceutical contributed positively they were unable to offset negatives elsewhere in the sector.

The main positive contributor over the month was the Fund's oil & commodities exposure where the long position in JXTG rose helped by rising oil prices and sustained healthy refining spreads in the Japanese market. The Fund's auto & auto parts pairings also added value during the month as Denso and Yamaha Motor rose while one of the positions held against them fell. In the Fund's banking pairings performance was positive as the long position in MUFG rose relative to the city bank held against it and being net long here in a rising market also helped.

During the month we initiated a new position in Nintendo; they continue to leverage the strength of the Switch platform and are increasingly looking for other ways to monetise their extensive IP library through theme parks, movies and mobile games. Given the strong cash generation in the business we also believe there may be scope for them to improve shareholder returns. We also added to Kakaku.com, funded through the reduction of M3 which had performed strongly. The position in Murata was increased given our favourable view on the ceramic capacitor market, funding this through the sale of our position in TDK. The position in Nippon Steel was increased, funded through the sale of Kobe Steel, and within refiners we exited the long in Idemitsu Kosan following strong performance and reinvested some of the proceeds into fellow refiner JXTG. A new long position in Mitsubishi Heavy Industries was initiated against a fellow heavy industrial following a sharp divergence in relative performance that we feel is unjustified by fundamentals. Within industrials we also reduced the position in Omron, with a new long in Chiyoda being initiated on the back of a more constructive outlook for LNG related capex. Within pharmaceuticals we reduced longs in Chugai and Shionogi following strong performance, exiting one short and reducing others.

## Fund facts

**Fund total net assets:** JPY 3 176.58 M

**Fund domicile:** Luxembourg

**Management fee:** 1.25% p.a.

**Performance fee:**

**Fund type:** UCITS SICAV

**Base currency:** JPY

17.5% of net profits, with high watermark

**Custodian, 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)

**Portfolio managers:** James Pulsford, Sara Gardiner-Hill, Karl Hammond

**Identifiers:**

Institutional JPY Capitalisation share class

Isin: LU1744752889 - Ticker: AJLSJC LX

**Fund launch:** 16 May 2018

**Countries where the fund is registered:**

Luxembourg

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1 The "Strategy" includes the Fund and the various investment vehicles managed by ERIM LLP that follow substantially the same investment strategy as the Fund.

2 The Topix Total Return (TR) Index reflects the Total Return of the Tokyo Price Index, and is an unmanaged capitalisation-weighted index of all the companies listed on the First Section of the Tokyo Stock Exchange.

3 Beta Adjusted Net Exposure: (Beta of long positions x long position weighting) - (beta of short positions x short position weighting). Calculated using 2 years of weekly data.

4 Market Cap is defined as: Large Cap >USD5bn; Mid Cap USD1-5bn; Small Cap <USD1bn.

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