

As of 31 October 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 strategy¹ 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 ²	LIBOR JPY 3 Month + 4%
1M	-1.34	-9.41	0.35
3M	-3.63	-5.34	1.00
6M	-	-	-
YTD	-	-	-
1Y	-	-	-
Since inception*	-5.55	-7.63	1.84

* 16 May 2018

Portfolio characteristics

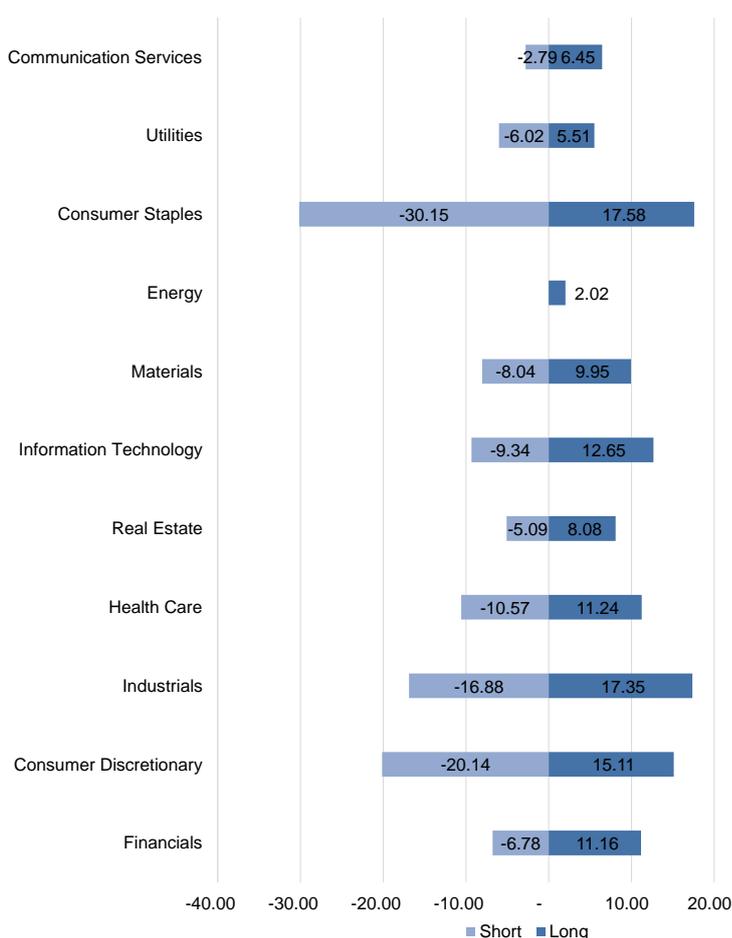
Number of securities - long book	89
Number of securities - short book	90
Weighted Average Market Cap (JPY bn)	2 324
Median Market Cap (JPY bn)	704
Long equity exposure (% of NAV)	117.1
Short equity exposure (% of NAV)	-115.8
Gross exposure (Long + Short) (% of NAV)	232.9
Net exposure (Long - Short) (% of NAV)	1.3
Beta adjusted net exposure ³ (% of NAV)	5.8

Main positions

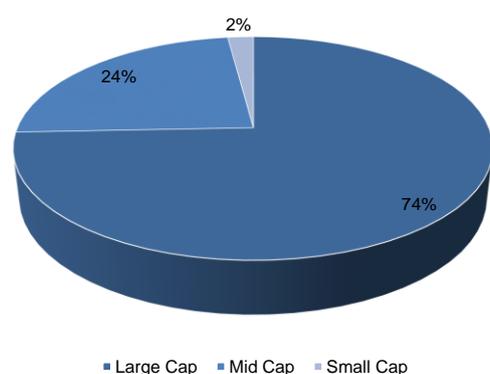
Top 10 long positions

Issuer	Sector	% NAV
Seven & i Holdings Co Ltd	Consumer Staples	9.58
Mitsubishi UFJ Financial Group	Financials	6.55
Toyota Motor Corp	Consumer Discretionary	4.50
Daiichi Sankyo Co Ltd	Health Care	3.79
Nippon Steel & Sumitomo Metal	Materials	3.30
Murata Manufacturing Co Ltd	Information Technology	3.07
Kansai Electric Power Co Inc/T	Utilities	2.74
Sumitomo Mitsui Financial Grou	Financials	2.49
Ajinomoto Co Inc	Consumer Staples	2.48
Fujitsu Ltd	Information Technology	2.43
	Total:	40.94

Sector exposure (% NAV)



Market capitalisation by Gross Exposure



Market capitalisation⁴ (% NAV)

	Long Value	Short Value	Net
Large Cap	85	-88	-3
Mid Cap	29	-26	2
Small Cap	3	-2	2

Investment manager's commentary

Market review

Along with other global markets Topix slumped during October, declining by 9.42%. The main cause of the fall was a combination of fears of slowing global growth centred on China and rising inflationary pressures in the US. Tough Brexit negotiations, US trade policy, and the murder of the journalist Jamal Khashoggi were subsidiary factors. The decline was led by economic cyclicals such as shipping, chemicals and machinery with defensive sectors including utilities and food manufacturing proving resilient. A notable feature of the month was very heavy selling by foreign investors. Economic announcements over the period provide some evidence of a softening in global economic conditions. Chinese GDP growth slowed from +6.7% to +6.5% in Q3 and industrial production slipped from +6.1% to +5.8% in September. Further evidence of slowing demand in China was also provided by weaker order and sales data by a number of Japanese companies operating in the region. Domestic economic statistics were also weak, however care needs to be taken in interpreting these as activity in September was clearly impacted by the combination of severe typhoon damage in Kansai and the earthquake in Hokkaido. Industrial production in September fell by -2.9% MoM and -1.1% YoY and machinery orders were also very weak falling by -18.3% MoM. The economy watchers survey current conditions index remains relatively depressed at 47.7 and the outlook dipped from 50.7 to 49.9 in October. The labour market paints a more encouraging picture however with the unemployment rate falling 0.1% to 2.3% in October and the job offer to applicant ratio hitting a new high at 1.64x. Q2 results for Japanese companies showed a mixed picture but overall pointed to a slowdown from Q1 with operating profits growth for non-financial companies slipping from +5.4% to +2.4%.

Trade relations between the US and China and the underlying strength of the Chinese economy remain key determinants of stock market performance. The rise in US bond yields to a recent high of 3.2% has unsettled investors and whether inflationary pressures build further will also have a major impact on likely valuation levels. Conversely the domestic picture appears both more stable and more encouraging though clearly any change in global economic conditions would have a significant impact on the industrial sector here. Going forward we expect the Abe administration to further enhance the pro-business and growth policies that have characterised it so far. Abe and his team are keen to ensure that domestic economic momentum is sufficiently robust in autumn 2019 to go ahead with the planned consumption tax increase from 8% to 10% and further stimulatory measures are likely to be enacted before then. There have already been announcements of measures to stimulate housing and accelerate the transition to cashless payments and in 2019 we expect a combination of both stimulatory spending, deregulation and tax changes designed to support economic growth. 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 have been very volatile in 2018 and they turned very sharply negative in October with ¥4.3trn being sold bringing year to date selling to ¥11.0trn, a figure that comes close to matching the historically large inflows experienced in 2013. The major buyers so far this year have been business corporations conducting share buybacks, the BOJ with their ongoing ETF purchase programme as well as domestic pension funds who have been net buyers into the weak market. The market is trading at 1.22x book, on an estimated PER of 13.1x and a dividend yield of 2.22%.

Performance review

The Fund generated negative returns over the month as the long book fell by more than the index while the short book performed largely in-line.

On a sector basis the biggest negative contributor was again the Fund's CVS & supermarket retail pairings; although the long Seven & I Holdings performed solidly during the market decline the largest short held here rose over the month. We remain of the view that valuations of the two major shorts held here are unsustainably high and will decline over time based on company fundamentals. Value was also lost in the Fund's internet pairings as longs in M3, Zozo (Start Today) and Yahoo! Japan all fell ahead of the market. Amid this trend our net long positioning here also detracted value. Within industrials / machinery performance was hit as the long in Chiyoda fell sharply as they announced large cost overruns related to LNG projects that led them to forecast a significant loss for the current year and the long in KYB fell as they announced falsification of seismic damper products which is likely to result in significant replacement costs. We have subsequently exited both positions given the potential large liabilities that risk putting both companies' balance sheets under extreme stress. IT Chemical pairings also detracted as longs in Hitachi Chemical and Nitto Denko fell ahead of the shorts held against them.

The main positive contributor over the month was the Fund's household product exposure with shorts adding value here as the sector de-rated on risks to Chinese demand. Net short positioning also contributed positively to performance. The Fund's consumer good pairings also added value as shorts fell by more than the main long held in Sony. Net short positioning again contributed here. Within transportation value was added as the largest long Seibu Holdings was flat over the month while shorts elsewhere in the private rail sector fell. Value was also added in shipping as the short position fell ahead of Mitsui OSK on the long side.

During the month we added to the existing long in Toyota Motor against a peer company. We believe that Toyota continues to extend their technological lead against many peers and their strong position in hybrids has allowed them to win share in Europe as competitors struggle to meet emission regulations. Recent growth off a low base in China is also putting them at odds with many competitors under pressure in that market. Within autos we also added a new long in Hino, pairing it against another major truck manufacturer, and in tyres we sold the long in Bridgestone against a peer company following strong relative performance. Within chemicals we closed long positions in Toray and Sumco as we became concerned that near term earnings were at risk of disappointing the market, closing a number of related shorts in the sector. Within utilities we added to Kansai Electric Power against a peer company reflecting their relative competitiveness in the market and attractive relative valuations. Within the transportation sector we initiated a new position in JR West against a peer company reflecting relative valuations and, having participated in the Tokyu Fudosan secondary offering, shorted a related private rail company.

Fund facts

Fund total net assets: JPY 2848.92 M **Fund type:** UCITS SICAV

Fund domicile: Luxembourg **Base currency:** JPY

Management fee: 1.25% p.a.

Performance fee: 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: AJLSIJC LX

Countries where the fund is registered:

Luxembourg, United Kingdom

Fund launch: 16 May 2018

Contacts

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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.