ALMA CAPITAL

Alma Eikoh Equilibria Japan Long/Short Equity Fund

A sub-fund of Alma Capital Investment Funds SICAV

Eikoh

As of 26 April 2019

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[1] 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$ 665m in long-short and long-only strategies (subscribed assets)

Cumulative performance (%)

	1M	3M	6M	YTD	1Y	Since inception*
I JPY C shares	3.26	0.75	-3.41	3.98	-	-8.77
I USD Hedged C shares	3.20	1.45	-	4.42	-	-
TOPIX Total Return[2]	1.65	4.39	-0.38	9.52	-	-7.98
LIBOR JPY 3 Month + 4%	0.30	0.92	1.92	1.29	-	3.79

* 16 May 2018

Portfolio characteristics

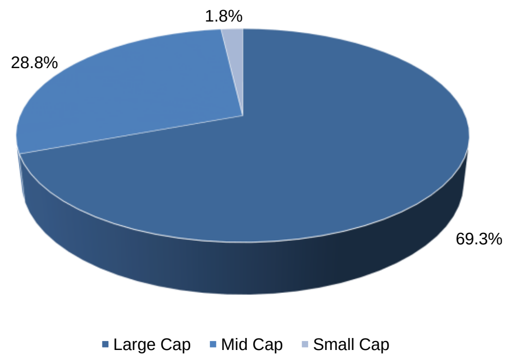
Number of securities - long book	88
Number of securities - short book	94
Weighted Average Market Cap (JPY bn)	2 201
Median Market Cap (JPY bn)	633
Long equity exposure (% of NAV)	130.0
Short equity exposure (% of NAV)	-132.2
Gross exposure (Long + Short) (% of NAV)	262.2
Net exposure (Long - Short) (% of NAV)	-2.1
Beta adjusted net exposure[3] (% of NAV)	9.1

Main positions

Top 10 long positions

Issuer	Sector	% NAV
Seven & i Holdings Co Ltd	Consumer Staples	6.73
Mitsubishi UFJ Financial Group	Financials	6.70
JXTG Holdings Inc	Energy	4.67
Daiichi Sankyo Co Ltd	Health Care	4.61
Toyota Motor Corp	Consumer Discretionary	3.84
Shin-Etsu Chemical Co Ltd	Materials	3.30
Mitsubishi Estate Co Ltd	Real Estate	3.24
Komatsu Ltd	Industrials	3.01
Mitsui Fudosan Co Ltd	Real Estate	2.82
Denso Corp	Consumer Discretionary	2.82
	Total:	**41.74**

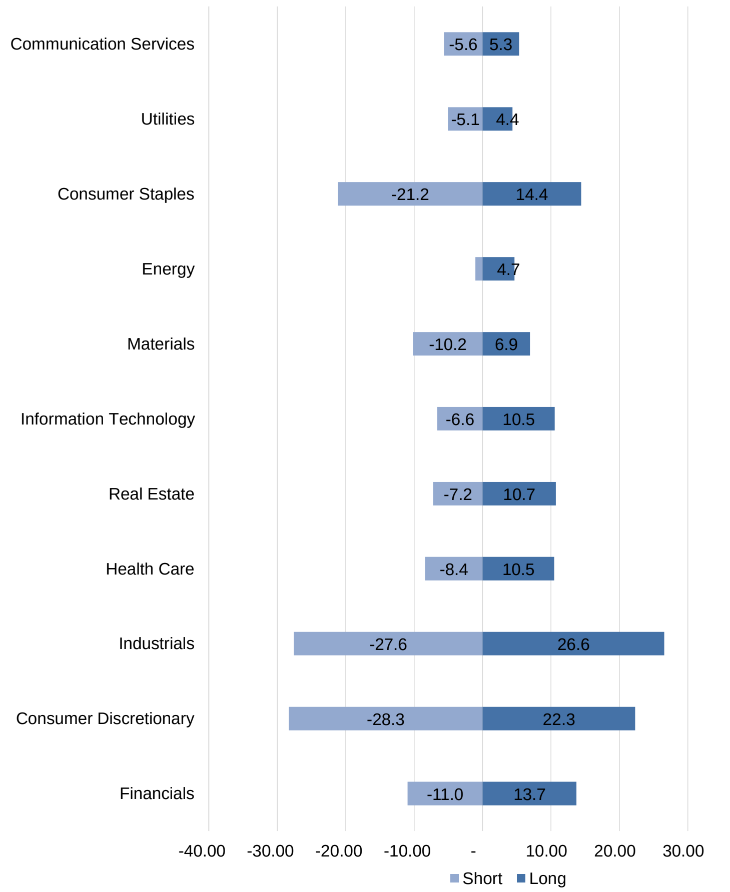
Market capitalisation by Gross Exposure



Market capitalisation[4] (% NAV)

	Long Value	Short Value	Net
Large Cap	89.5	-92.3	-2.8
Mid Cap	35.8	-39.7	-3.9
Small Cap	4.7	-0.1	4.6

Sector exposure (% NAV)



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Investment manager's commentary

Performance Review

The Fund generated a positive return over the month with the long book outperforming the market and the short book underperforming.

Value was added in pharmaceuticals where the main long in Daiichi Sankyo continued to rise following the previous month's announcement of a significant tie-up with AstraZeneca for its oncology compound DS-8201. The long in Sanbio also rose and several shorts in the area added value. Real estate pairs added value as the longs in Mitsui Fudosan and Mitsubishi Estate fell by less than the major short held against them. The long position in Nomura Real Estate also rose while the short against it declined. Within autos value was added as major longs in Denso and Toyota Motor rose while shorts held against them were largely flat or posted declines. Value was also added in IT Chemicals where the major long position in Shin-etsu Chemical rose while the most expensively valued short held against it declined.

The main negative contributor was within convenience stores where Seven & I Holdings declined while the short held against it posted modest gains. Value was also lost in the Fund's general retail pairings as longs in Ryohin Keikaku, United Arrows, Aeon Mall and Nitori all fell while shorts held fell to a lesser degree and in some cases posted gains. Modest losses were also made within diversified chemical pairings as longs in Ube Industries and Asahi Kasei declined and some shorts posted gains. Within telecom construction the long in Comsys Holdings fell ahead of its peer short. There were few other negatives of note with the vast majority of pairs within the Fund posting positive returns during the month.

During the month we initiated a new position in Hitachi High-Tech, switching from the existing long in Screen Holdings as we see the former as a higher quality operation that benefits from a significant medical business in addition to the SPE operations. The ongoing restructuring of the Hitachi Group is also seen as a potential catalyst here. A new position was initiated in Toyo Tire which, after accepting an investment from Mitsubishi Corp, looks ready to put past quality related issues behind it to allow profits to normalise going forward and this leaves the stock looking cheap. Within the media area we initiated longs in Fuji Media and TBS, two broadcasters with significant value credentials, shorting advertising stocks against them. The long position in Nintendo was sold after news of their entry into the Chinese market drove the stock to recent highs and left us with limited upside given what we see as limited potential for consoles in this market and the likely impending peak of the Switch console cycle. A game maker short on the other side was closed. Within Telecoms the long position in NTT was significantly reduced after outperforming its peer short and within auto parts the major long in Denso was partially reduced against a fellow Toyota affiliate. Within oil & gas the main short here was closed, offsetting this partially by reducing JXTG but also moving slightly more net long this area given recent underperformance. Within Chemicals we sold the long position in Nippon Shokubai, reducing a short position that had recently underperformed. Within technology the long in Fujitsu was reduced against an office equipment manufacturer as spreads between the two had narrowed.

Market Review and Outlook

In tandem with the positive performance of global equity markets, the Topix registered a gain of 1.65% in April. Investors were encouraged by evidence of economic recovery in China coupled with the apparent progress of trade talks between the US and China resulting in rising hopes of a settlement. The oil price strengthened as did the Baltic Freight Index, jumping from 689 to 1011, but currency markets were relatively stable and the Yen showed only marginal weakness. Cyclical stocks led the recovery with shipping, machinery, electronics and autos all rising strongly while utilities, pharmaceuticals and land transport all declined. A feature of the month was a surge in investment from overseas investors with a net inflow of Y1.8trn and looking at the cash market alone an inflow of Y1.6trn and the first cash net buying since July last year.

Domestic economic news announced over the period remained poor, though not unexpectedly so. Following on from the weak Tankan the March Economy Watchers Survey showed a fall of 2.7 to 44.8 for current conditions and the future conditions index slipped 0.3 to 48.6 for the second successive monthly decline. The Consumer Confidence Index also fell in March, falling from 41.5 to 40.5 marking six consecutive falls and reaching the lowest level since Feb'16. Industrial Production fell -0.9% MoM in March somewhat below market expectations of a flat result; on the bright side however a survey of manufacturers production forecasts indicates a strong rebound of +2.7% and +3.6% respectively in April and May. April PMI data was also supportive of potential recovery from recent weakness with a reading of 49.5 up 0.3 compared to the month before.

While global economic conditions remain weak, illustrated by the fact that the IMF cut its 2019 global growth forecast from 3.7% to 3.3% in April, there were further signs that demand appears to be bottoming out in Asia. The March China Manufacturing PMI strengthened further to 50.8 and the composite PMI came in at 54.0 ahead of expectations. Chinese GDP growth in Q1 grew a robust 6.4% YoY and Industrial Production surprised on the upside in March accelerating to +8.5% growth YoY. There remain clear risks to the downside, the most significant of which remains the development of trade relations between the US and China, but we retain our view that a recovery in global demand would have significant implications for the Japanese stock market. The Topix has sharply underperformed over the past six months or so in tandem with the slowdown in global growth and despite ongoing positive domestic developments in terms of improving shareholder returns and a supportive pro-growth political administration. We consider it highly likely that Japan would perform strongly were global economic momentum to recover, reflecting its attractive fundamentals and valuation.

The strong return achieved by the fund in April is very encouraging and coinciding with a switch from foreign selling to net inflows is supportive of our expectation that an easing of the heavy selling that marked last year will engender a better environment for bottom-up stock selection based strategies in 2019. While value has underperformed the market so far this year we believe that currently depressed value stocks are likely to outperform the market over the year overall. A clear trigger for this move would be an improvement in prospects for global growth and recent developments in Asia remain encouraging in this regard. We consider the large number of recent buyback and cross shareholding unwinding announcements a positive development that reflects an ongoing shift in the attitude of Japanese management towards shareholder returns that is very supportive of the market. The Topix is trading at 1.19x book, on an estimated PER of 12.6x and a dividend yield of 2.39%.

Fund Positioning

On a cash basis, net exposure was little changed over the month to -2.1% from -1.9% at end April with beta (24m) adjusted exposure rising from +7.6% to +9.1%. Gross exposure fell from 272.1% to 262.2%. The number of long positions rose from 85 to 88 and the number of short positions fell from 97 to 94. Net beta adjusted industry exposures fall within a +/-6% range within which internet is the largest net long position at +5.7%, followed by construction & mining machinery +5.0%, oil & gas at +4.5%, auto parts at +3.2% and real estate at +3.2%. The Fund is net short -4.7% electronics, -3.1% retail, -2.9% advertising, -2.0% food, and -1.9% pharmaceuticals.

Fund facts

Fund total net assets:			JPY 1 926.48 M ($17.25 M)
Fund domicile:	Luxembourg	**Fund type:**	UCITS SICAV
Countries where the fund is registered:			
Luxembourg, United Kingdom			
Management fee:	1.25% p.a.	**Base currency:**	JPY
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	**Fund launch:** 16 May 2018
Institutional USD Hedged Capitalisation share class	
Isin: LU1744753770 - Ticker: AJLSIUC LX	**Fund launch:** 20 Dec 2018

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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.