



# Alma Eikoh Equilibria Japan Long/Short Equity Fund

A sub-fund of Alma Capital Investment Funds SICAV



As of 31 January 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<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\$ 900m in long-short and long-only strategies (subscribed assets)

## Cumulative performance (%)

	1M	3M	6M	YTD	1Y	Since inception*
I JPY C shares	3.20	-4.13	-7.61	3.20	-	-9.45
I USD Hedged C shares	2.92	-	-	2.92	-	-
TOPIX Total Return <sup>2</sup>	4.92	-4.57	-9.66	4.92	-	-11.84
LIBOR JPY 3 Month + 4%	0.37	0.99	2.00	0.37	-	2.84

\* 16 May 2018

## Portfolio characteristics

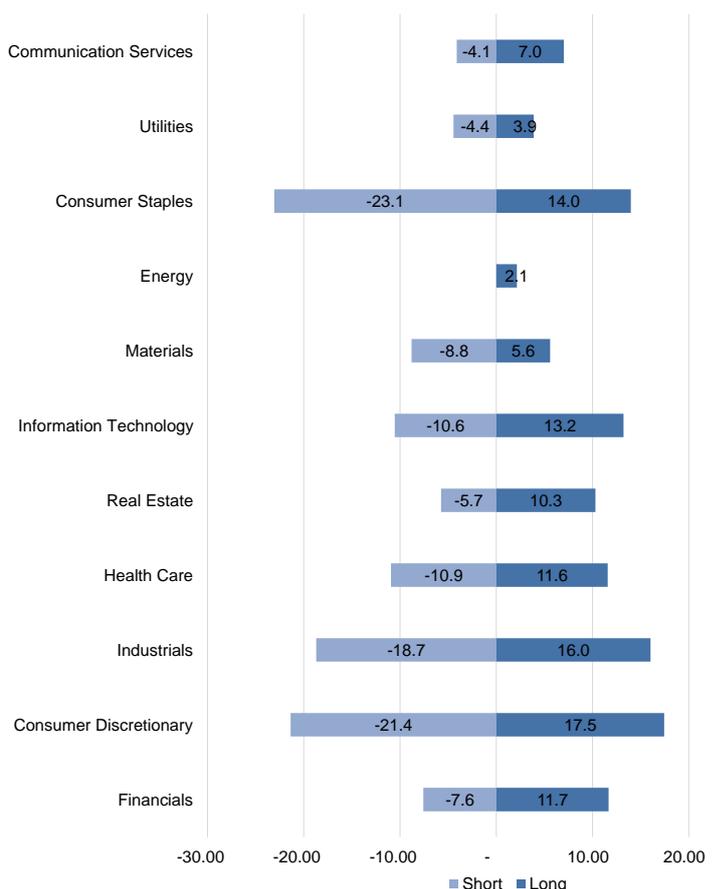
Number of securities - long book	78
Number of securities - short book	93
Weighted Average Market Cap (JPY bn)	2 027
Median Market Cap (JPY bn)	646
Long equity exposure (% of NAV)	112.9
Short equity exposure (% of NAV)	-115.3
Gross exposure (Long + Short) (% of NAV)	228.2
Net exposure (Long - Short) (% of NAV)	-2.4
Beta adjusted net exposure <sup>3</sup> (% of NAV)	6.5

## Main positions

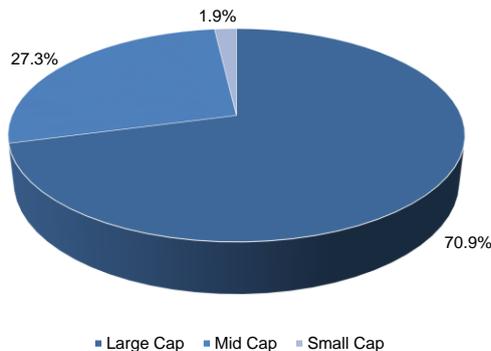
### Top 10 long positions

Issuer	Sector	% NAV
Seven & i Holdings Co Ltd	Consumer Staples	8.27
Mitsubishi UFJ Financial Group	Financials	7.32
Daiichi Sankyo Co Ltd	Health Care	4.40
Fujitsu Ltd	Information Technology	3.93
Mitsubishi Estate Co Ltd	Real Estate	3.17
Sumitomo Mitsui Financial Group	Financials	2.92
SanBio Co Ltd	Health Care	2.19
JXTG Holdings Inc	Energy	2.15
Komatsu Ltd	Industrials	2.14
Nintendo Co Ltd	Communication Services	2.11
	<b>Total:</b>	<b>38.61</b>

## Sector exposure (% NAV)



## Market capitalisation by Gross Exposure



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

	Long Value	Short Value	Net
Large Cap	78.8	-82.9	-4.0
Mid Cap	30.2	-32.1	-1.9
Small Cap	3.9	-0.4	3.5

## Investment manager's commentary

### Market Review and Outlook

Along with other global equity markets, Topix recovered from the slump experienced in December rising by 4.9% during January. The rebound in the market was led by the economically sensitive areas that fell very sharply in December including machinery, paper, shipping and real estate while more defensive areas such as foods and retailing were little changed. There was no clear single catalyst that sparked the turn in sentiment, but investors seemed to take the view that the signs of a weakening global economy were now discounted in valuations and that Central Bank policies might now be more accommodative than hitherto thought, reflecting the weaker fundamentals. This view was lent some credence by the more dovish tone of the Fed minutes published on the 9th January. A further support for the market was news that China is taking some monetary and fiscal measures to support growth and the, albeit temporary, end to the US Government shutdown provided a fillip at the end of the period.

Economic data released remained weak across most regions including Japan. Exports from China fell by 4.4% in December, the weakest number for two years, while the 7.6% fall in imports recorded indicates a clear slowing of domestic demand. Car sales in China fell by 4.1% in 2018, the first decline in nearly thirty years. In Japan industrial production in December slipped 0.1% MoM and -1.9% YoY and a rise of 2.2% MoM in the industrial inventory ratio suggests a weak start to 2019. The Economy Watchers Survey showed a very sharp deterioration from 48.2 to 44.8 for current conditions in December, however the outlook survey was a little more encouraging with a neutral reading of exactly 50.0. The Japanese Manufacturing PMI also recorded a reading of 50.0 in January down from 52.6 in December. Third quarter results from Japanese companies were disappointing in the manufacturing sector where on average full year profit forecasts were cut by 3.6% to an estimate of growth of only 0.1% for the full year hit by a fall in second half profitability.

While global markets have rallied in January the concerns that caused recent market weakness remain; trade tension between the US and China, the withdrawal of central bank stimulus in the US, political disarray in Europe and signs of slowing growth in the China. Trade relations between the US and China and the underlying strength of the Chinese economy seem likely to remain key determinants of stock market performance. In this regard the recent decision by the Chinese authorities to inject liquidity into the banking system and approve rail projects worth \$125bn is a positive development. While Japan will clearly be strongly influenced by global economic trends, Abe and his team are keen to ensure that domestic economic momentum is sufficiently robust in the autumn such that the planned consumption tax increase from 8% to 10% in October does not bring economic expansion to a halt. An increase in spending of ¥3trn on infrastructure repair is part of this strategy and should result in growth in public works spending of around 20% in fiscal 2019.

After a very difficult 2018, we are encouraged by developments so far in 2019 and we continue to expect that an easing of the heavy foreign investor selling that marked last year will engender a better environment for bottom-up stock selection based strategies. During January alone this behaviour was exhibited with an absence of foreign selling coinciding with a return to value characteristics leading the rise of the TSE. The market remains well supported by domestic investors with stronger Japanese corporations continuing to raise shareholder returns despite less certain fundamentals. The market is trading at 1.16x book, on an estimated PER of 12.6x and a dividend yield of 2.38%.

### Performance Review

The Fund generated a positive return over the month as the short book rose by less than the market while the long book rose ahead of the market.

The positive performance over the month was driven by a large number of sector groupings. In real estate value was added as the long positions in Mitsubishi Estate and Mitsui Fudosan rose ahead of the real estate companies held against them. In banking the fund benefitted as the long positions in MUFG and SMFG rebounded from low levels while the banks held against them rose by less or were largely unchanged. For both real estate and banks being net long was another contributing factor. In the Fund's convenience store, supermarket & drug store pairings the convenience store operator held as a sizeable short gave up some more of the spectacular outperformance it staged in 2018 while the position in Seven & I Holdings held against it was largely unchanged.

The largest negative contributor over the month was the Fund's semiconductor production equipment pairings. While the sector overall rebounded over the month and with it the Fund's short positions, the long position in Screen failed to participate as it announced a large downward earning revision caused by internal operational issues. Value was also lost in the Fund's office equipment holdings where the short positions rose relative to the market and performance was also hurt by being net short. While a modest positive performance was generated in pharmaceuticals over the month a loss was made in the SanBio position which fell sharply at the end of January and early February on news that the Ph2b trials its regenerative compound SB623 failed to meet its primary end point, offset by gains as Daiichi Sankyo and Sosei rose relative to the shorts held against them.

During the month we initiated a position in Marubeni where the strong progress the company has made in rebuilding its balance sheet has left it in a good position to increase shareholder returns, funded by the sale of Sumitomo Corp. We added to the position in Yahoo Japan which appears oversold taking into account the traction the company is beginning to see from its efforts to grow and extract synergies between its advertising, e-commerce and mobile payment systems. On the other side of this we initiated a short position in an internet stock which is trading on lofty valuations but whose existing core operations are slowing amid intensifying competition. We added to the existing position in MUFG after a period of weak performance, on the other side of this initiating a new bank short. We pared back the large long position in Seven & I Holdings as well as one of the retail positions held against this after a significant rebound in this pair. We reduced the long position in Ajinomoto after a period of outperformance and initiated a long position in Asahi Holdings which after a set-back now looks attractively valued. We added to the position in Daiichi Sankyo, where clinical trial data out over the past few months has led us to take up our estimates for its stable of oncology ADC compounds and reduced a large short position where we feared the potential success in a partnered drug could lead to significant revaluation. This was funded mainly through the sale of Shionogi which generated only limited upside after significant outperformance.

### Fund Positioning

On a cash basis net exposure declined from -0.8% to -2.4% but rose on a beta (24m) adjusted basis from 6.1% to 6.5% over the month. Gross exposure was unchanged over the month at 228%. The number of long positions was little changed at 78 compared to 80 while the number of short positions rose to 93 from 88. Net beta adjusted industry exposures fall within a +/-6% range within which banks is the largest net long position at +5.6%, followed by real estate at +4.8%, computers at +4.7% and auto parts at +3.8%. The Fund is net short -3.4% food, -2.6% electrical components & equipment, -2.3% office & business equipment, -2.1% cosmetics & personal care and -1.8% pharmaceuticals.

### Fund facts

<b>Fund total net assets:</b>		JPY 2 240.72 M (\$20.61 M)	<b>Identifiers:</b>	
<b>Fund domicile:</b>	Luxembourg	<b>Fund type:</b>	UCITS SICAV	Institutional JPY Capitalisation share class
<b>Countries where the fund is registered:</b>	Luxembourg, United Kingdom	<b>Base currency:</b>	JPY	Isin: LU1744752889 - Ticker: AJLSIJC LX
<b>Management fee:</b>	1.25% p.a.	<b>Performance fee:</b>	17.5% of net profits, with high watermark	Institutional USD Hedged Capitalisation share class
<b>Custodian, Administrator, Transfer Agent:</b>				Isin: LU1744753770 - Ticker: AJLSIUC LX
<b>Dealing:</b>	Each day with a 1-day notice. Cut-off time: 12 pm CET			<b>Contacts</b>
<b>Management company:</b>	Alma Capital Investment Management (LU)			Nick Stoop (UK)
<b>Investment manager:</b>	ERIM LLP (London, UK)			Andreas Lehmann (UK)
<b>Portfolio managers:</b>	James Pulsford Sara Gardiner-Hill Karl Hammond			Hervé Rietzler (FR / CH / LU / IT)
				Dirk Tödte (DE / AT)
				Louis de Vulpillières (FR)
				Baptiste Fabre (FR)
				<a href="mailto:info.investors@almacapital.com">info.investors@almacapital.com</a>

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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