



# Alma Eikoh Equilibria Japan Long/Short Equity Fund

A sub-fund of Alma Capital Investment Funds SICAV



As of 28 February 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\$ 822m in long-short and long-only strategies (subscribed assets)

## Cumulative performance (%)

	1M	3M	6M	YTD	1Y	Since inception*
I JPY C shares	-2.35	-1.50	-10.50	0.78	-	-11.58
I USD Hedged C shares	-1.86	-	-	1.01	-	-
TOPIX Total Return <sup>2</sup>	2.60	-3.35	-6.38	7.65	-	-9.55
LIBOR JPY 3 Month + 4%	0.30	0.97	1.96	0.67	-	3.15

\* 16 May 2018

## Portfolio characteristics

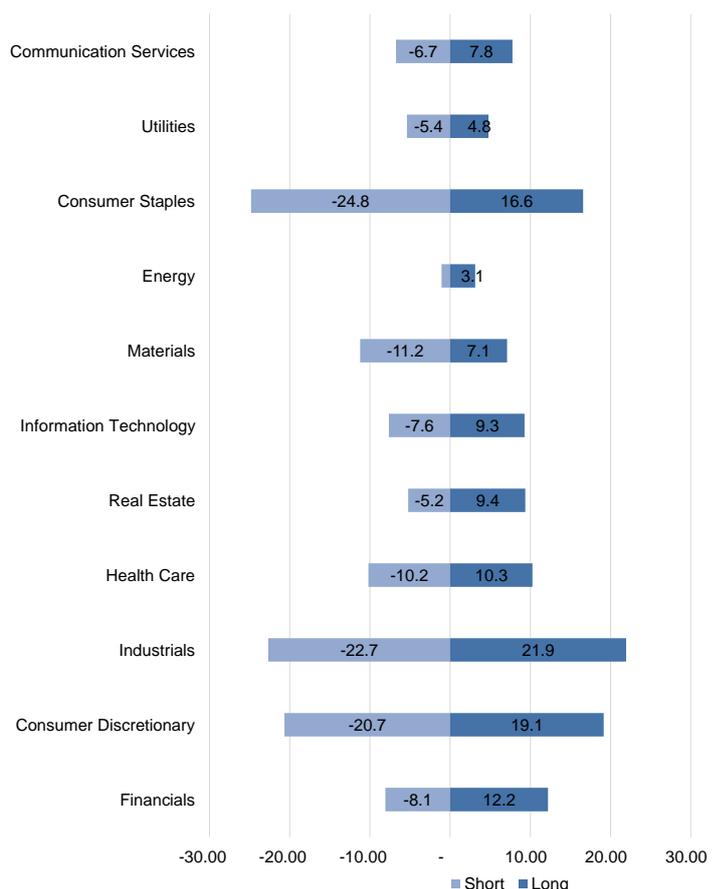
Number of securities - long book	84
Number of securities - short book	91
Weighted Average Market Cap (JPY bn)	2 156
Median Market Cap (JPY bn)	672
Long equity exposure (% of NAV)	121.5
Short equity exposure (% of NAV)	-123.8
Gross exposure (Long + Short) (% of NAV)	245.3
Net exposure (Long - Short) (% of NAV)	-2.2
Beta adjusted net exposure <sup>3</sup> (% of NAV)	6.0

## Main positions

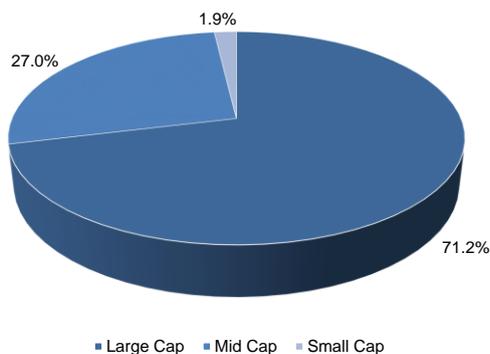
### Top 10 long positions

Issuer	Sector	% NAV
Seven & i Holdings Co Ltd	Consumer Staples	8.63
Mitsubishi UFJ Financial Group	Financials	7.31
Daiichi Sankyo Co Ltd	Health Care	4.61
Mitsubishi Estate Co Ltd	Real Estate	3.18
JXTG Holdings Inc	Energy	3.12
Shin-Etsu Chemical Co Ltd	Materials	3.01
Nippon Telegraph & Telephone C	Communication Services	2.97
Komatsu Ltd	Industrials	2.74
Sony Corp	Consumer Discretionary	2.48
Denso Corp	Consumer Discretionary	2.48
	<b>Total:</b>	<b>40.54</b>

## Sector exposure (% NAV)



## Market capitalisation by Gross Exposure



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

	Long Value	Short Value	Net
Large Cap	88.1	-86.4	1.7
Mid Cap	28.9	-37.2	-8.2
Small Cap	4.4	-0.2	4.3

## Investment manager's commentary

### Market Review and Outlook

Topix rose by 2.56% in February buoyed by similar moves in developed markets as the global equity rally continued from the lows recorded in December. Markets were supported by the more dovish stance of central banks underlined by the publication of the February Fed Minutes and a statement by BOJ Governor Kuroda that the BOJ would consider additional stimulus in the event that Yen strength affected Japan's economy and rate of inflation. The Yen weakened from Y/\$ 108.9 to 111.4 over the month, due in part to the impact of this comment. In contrast to January the market was led by more defensive areas such as services and pharmaceuticals while many economically sensitive sectors underperformed. A feature of the month was the announcement of a number of substantial share buybacks including those by Softbank and Sony; the value of announced buybacks so far in 2019 is running at the fastest pace since 2013.

However, economic data remains weak across most regions including Japan. The preliminary Q4 GDP estimate showed a relatively weak QoQ rebound of +1.4% annualised compared to the decline of -2.6% shown in Q3. Core machinery orders also fell in Q4, albeit only by -0.1% QoQ. Industrial production fell 3.7% MoM in January a much weaker performance than expected and the Reuters February Tankan showed a fourth consecutive monthly decline for the manufacturing DI which slipped from +18 to +13. While the industrial sector has slowed appreciably the non-manufacturing sector has been more resilient and it remains the case that the labour market is very tight with the job offers to applicant ratio still at 1.63x. Inflation remains very subdued with the CPI ex food and energy up 0.3% YoY in January.

Given this slower global economic momentum, central banks' policies have been adjusted to some degree and the withdrawal of central bank stimulus has now been slowed or put on hold for the time being. Other market concerns remain in place however centred particularly on trade tension between the US and China and the outlook for the Chinese economy; developments here seem likely to remain a key determinant of stock market performance. Also of importance are economic conditions in Europe and the potential damage to growth that Brexit may cause. While Japan will clearly be strongly influenced by global economic trends, Abe and his team are keen to ensure that domestic economic momentum is robust in the autumn when the planned consumption tax increase from 8% to 10% takes place. An increase in public works spending of around 20% in fiscal 2019 is part of this strategy and Kuroda's recent comments suggest that if required both the political administration and the BOJ are prepared to take further action to support growth.

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. While value underperformed growth in February, reversing the trend seen in January, we believe that currently depressed value stocks are likely to outperform the market over the year overall. The financial sector and banks in particular look very cheap and should benefit if the weaker Yen helps to raise the currently depressed level of bond market yields. The market remains well supported by domestic investors with Japanese corporations continuing to raise shareholder returns despite less certain fundamentals. We are very encouraged by the recent series of buyback and cross shareholding unwinding announcements that suggests an ongoing structural shift in the attitude of Japanese management towards shareholder returns. The market is trading at 1.20x book, on an estimated PER of 13.2x and a dividend yield of 2.33%.

### Performance Review

The Fund generated a negative return over the month as the long book rose by less than the short book, with both books lagging the market.

The main negative contributor over the month was the Fund's pharmaceutical pairings. Here performance suffered as the long position in SanBio fell sharply after the company announced that the phase 2b study for chronic ischemic stroke had failed to meet its primary endpoint, resulting in the stock giving back all the gains since November 2018 when the company announced their phase 2b study for traumatic brain injury had been successful. This was only partly made up for by gains in other pharmaceutical positions most notably Daiichi Sankyo and Sosei. In household products value was lost as the sector rebounded on renewed optimism on the outlook for Chinese demand for toiletries and cosmetics and as the main stock held short in the sector rose sharply on above consensus December quarter results coupled with the announcement of a share buy-back. Value was also lost in the Fund's auto and auto parts pairings where the auto stocks held short rose while the long positions in Toyota Motor and Denso were unchanged or slightly down over the month.

Value was added in the Fund's IT services and office equipment pairings where the long position in Fujitsu rose while the office equipment stocks held short fell. In the Fund's internet pairings performance was added as the positions in M3 and Kakaku rose over the month. Value was also added in the Fund's semiconductor production equipment pairings driven mainly by a sharp fall in the largest short in the area on a large downward revision to earnings.

During the month we added to the existing position in NTT and bought a new position in Rakuten while shorting a mobile network operator. This reflects our view that Rakuten's entry into the Japanese mobile market during 2019 could potentially be highly disruptive given its innovative use of technology to build a mobile network at much lower cost than peers. In the chemical area we initiated new positions in Mitsubishi Chemical and Nippon Shokubai while adding to our existing position in Shin-etsu Chemical. This was funded through the sale of existing positions in Hitachi Chemical, Sumitomo Chemical and Mitsui Chemical as well as new shorts in two chemical peers, all reflecting recent relative performance and upside levels. Within energy we added to the existing position in JXTG Holdings, shorting an oil exploration company against it, while in the trading company sector we initiated a new position in Mitsui & Co against a trading company peer. Within non-life insurance we initiated longs in Tokio Marine and Sampo Holdings against an industry peer reflecting differing prospects for their overseas businesses, within the food & beverage area we added to the existing Asahi Group holding against a food company short, and within the transportation we initiated a new long in Yamato Holdings while increasing an existing short in the area. We significantly reduced the Fund's holding in Fujitsu with recent relative performance leaving us with less upside potential, closing out against IT service and office equipment shorts. Within pharmaceuticals we reduced short positions in the wholesale sector, closing out the long position in Otsuka Holdings.

### Fund Positioning

On a cash basis net exposure was little changed over the month at -2.2% compared to -2.4% at end February and beta (24m) adjusted exposure fell from 6.5% to 6.0%. Gross exposure rose over the month from 228.2% to 245.4%. The number of long positions rose from 78 to 84 while the number of short positions slipped slightly from 93 to 91. Net beta adjusted industry exposures fall within a +/- 6% range within which banks is the largest net long position at +6.5%, followed by auto parts at +4.3%, internet at +4.2%, real estate at +3.8%, computers at +3.5%, and home furnishings at +2.9%. The Fund is net short -4.6% foods, -3.6% electronics, -3.2% pharmaceuticals, -2.2% auto manufacturers and -2.0% chemical.

### Fund facts

<b>Fund total net assets:</b>		JPY 2 216.41 M (\$20 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: AJLSJC LX	<b>Fund launch:</b> 16 May 2018
<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>Fund launch:</b> 20 Dec 2018
<b>Dealing:</b>	Each day with a 1-day notice. Cut-off time: 12 pm CET			<b>Contacts</b>	
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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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