



MARKET COMMENTS

The Japanese market, as measured by the Topix index, dropped -4% in July. The market traded in a very narrow range and on the last day of July, the Topix index declined -2.8%. Rather disappointing indeed, as the MSCI World index appreciated +4.8%, mainly driven by a strong MSCI US (+5.9%). Although on an index level the volatility remained low, within the market there was wide performance dispersion in terms of sector/industry returns as well as style returns. Not uncommon in the Japanese equity market, systematic strategies and thematic baskets were predominant price return drivers. We observed several days on which a single institutional systematic investor impacted the entire market causing spikes in intra-sector correlations and pair-wise correlation. Despite the technical nature of the market the fund delivered a small positive performance last month. The long book declined -4.6%, which is a small underperformance against the Topix. However, the short book delivered great returns, declining -13%, which more than offset the lagging long book and substantial net long exposure.

SINGLE STOCK OBSERVATIONS

The high short exposure in the transportation sector paid off well in July. Transportation companies, by nature of its business, have a very high fixed cost basis and with revenues collapsing those business models are suffering steep losses. The two biggest short positions were Central and East Japan Railway. The share prices of those Shinkansen operators rallied strongly from the March lows to the June highs. We never subscribed to a V-shape recovery for passenger numbers and re-initiated the short positions in June. JR East contributed +43bps to performance in June and +54bps in July, whilst JR Central contributed +37bps in June and +88bps in July. It will take years for passenger traffic to fully normalize, maybe for commuter traffic it never will. Work-from-home was non-existent before the crisis, mainly due to social norms. If a small percentage of the work force does not commute daily, with tourist flows only returning slowly, and against the backdrop of negative demographics, it will be very tough to see passenger numbers normalize. Most rail companies also operate real estate businesses, as their land tends to be at valuable, central locations. Partial reason for the aggressive short positions in those rail a.k.a. hidden real asset proxies was to hedge our long position in real estate.

The top three negative contributors last month were all real estate companies. The Covid19 impact will be meaningful for office space, as mentioned above, Japan has discovered the Work-From-Home benefits and many corporates will opt to reduce office space and might choose to have a more flexible workforce. The real estate companies we own in the long book

are either value-up or corporate action driven. Value-up developers, such as Ichigo Holdings and Tosei, aim to extract value from re-modelling in a very inefficient physical market that consists of mainly scrap-and-build projects. The corporate action related long positions are Heiwa Real Estate (HRE) and Nomura Real Estate. HRE has been in the long book since mid-2016. The share price actually performed very well until recently and the company's earnings were excellent, supporting the fundamental long case. Most importantly, the time is ticking as next year the poison pill will expire. We think, with the current shareholder structure, it is highly unlikely to get AGM-approval for another 3-year extension. Heiwa Real Estate remains a prime candidate for corporate action and, in our opinion, most likely bought by Mitsubishi Estate, being a major shareholder already.

RISK ALLOCATION & STYLE PERFORMANCE

July was all about style investing. Price momentum, earnings growth and quality showed astonishingly strong performance and value style was, simply said, a disaster. Looking at the year-to-date performance as of July end, value is down -23.5%, price momentum up +28% and quality even returned +35%.

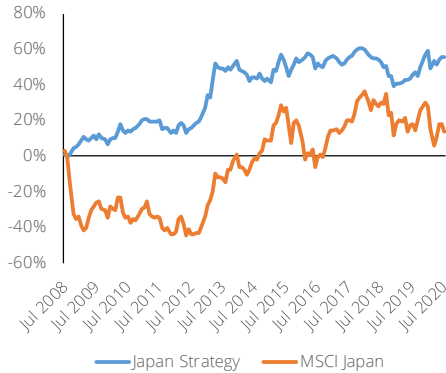
The net exposure at the end of July stood at 39% and the gross exposure at 207%. These are elevated from a historical perspective, however the long book has a low beta bias, especially compared to the short book.

OUTLOOK

Despite the extreme uncertainty pertaining to the economic fall-out from Covid19, we continue to run high net and gross exposure. The blatant market manipulation by governments worldwide is painful to watch for us believing in prices should be set by educated market participants engaging in the process of price discovery based on prevailing fundamentals. However, there is nothing to be liked or disliked, our business of investing is about what is and as such we observe the Bank of Japan showing up with even bigger buy tickets on down days (up to USD1bn a day) and the Japanese government having basically underwritten credit risk. Loans are not allowed to default, consumer spending is kept at par through transfer payments with no apparent limit to the debt-to-GDP. The pain trade for equity markets is still higher, too much money moved to the side lines and will be sucked in eventually. Many of our holdings are stupidly cheap and need to be repriced. For equity investors, as equities have rallied to some extent, we see the appetite for corporate actions improving again and very recently the subsidiary buy-ins resurfaced. We have 25 listed subsidiaries in the long book.



FUND CHARTS AND FACTS



TOP 5 GROSS POSITIONS

| |
|------------------------------|
| TAKARA LEBEN INFRASTRUCTURE |
| CANADIAN SOLAR INFRASTRUCTUR |
| TOSHIBA TEC CORP |
| HEIWA REAL ESTATE CO LTD |
| FUJITSU GENERAL LTD |

TOP 5 MOVERS

| | |
|--------------------------|-------|
| CENTRAL JAPAN RAILWAY CO | 0.88% |
| EAST JAPAN RAILWAY CO | 0.54% |
| KOSE CORP | 0.50% |
| FUJITSU GENERAL LTD | 0.42% |
| TOBU RAILWAY CO LTD | 0.34% |

TOP 5 SHAKERS

| | |
|-----------------------------|--------|
| HEIWA REAL ESTATE CO LTD | -0.92% |
| TOSEI CORP | -0.53% |
| NOMURA REAL ESTATE HOLDINGS | -0.44% |
| JTOWER INC | -0.42% |
| TOYOTA INDUSTRIES CORP | -0.34% |

FUND PERFORMANCE*

| | USD [^] | EUR [*] |
|-------------------------------|------------------|------------------|
| Month to date performance | 0.29% | 0.23% |
| Year to date performance | 0.47% | -0.53% |
| Inception to date performance | 7.89% | 55.87% |

**based on share class B EUR, [^]based on share class C USD*

FUND FACTS*

| | |
|----------------------|--------|
| Fund size in mln EUR | 138.11 |
| Fund size in mln USD | 162.61 |
| Firm size in mln EUR | 166.63 |
| Firm size in mln USD | 184.93 |

RISK STATISTICS

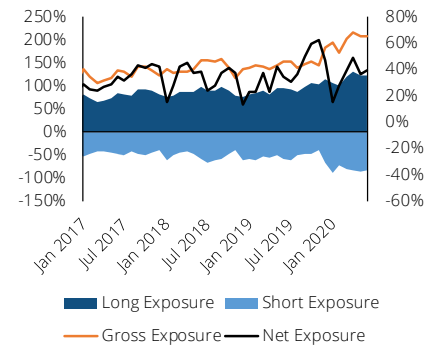
| | |
|---|-------|
| Net Exposure | 39% |
| Gross Exposure | 207% |
| Volatility (ex-ante; 3 months daily data) | 8% |
| Beta (ex-ante) | 0.00 |
| Sharpe Ratio | 0.54 |
| Sortino Ratio | 0.86 |
| Sterling Ratio | 0.28 |
| Max Drawdown (monthly) | 13.5% |
| Annualized Return | 3.8% |

SECTOR EXPOSURES (IN PERCENT)

| | Long | Short | Net | Gross |
|------------------------|------|-------|-----|-------|
| Consumer Discretionary | 15 | -10 | 5 | 25 |
| Consumer Staples | 2 | -4 | -3 | 6 |
| Energy | 9 | 0 | 9 | 9 |
| Financials | 2 | -3 | -2 | 5 |
| Health Care | 5 | 0 | 5 | 5 |
| Industrials | 37 | -15 | 23 | 52 |
| Information Technology | 27 | 0 | 27 | 27 |
| Materials | 8 | 0 | 8 | 8 |
| Real Estate | 17 | -1 | 15 | 18 |
| Communication Services | 3 | -2 | 1 | 5 |
| Utilities | 0 | -2 | -2 | 2 |

GENERAL STATISTICS

| | |
|-----------------------|---------|
| % Return long book | -4.56% |
| % Return short book | -12.96% |
| # Long stocks | 70 |
| # Short stocks | 25 |
| % Long stocks ↑ | 13% |
| % Short stocks ↓ | 100% |
| # Up days / Down days | 13 / 10 |
| Turnover as % NAV | 78% |



FUND PERFORMANCE

| CLASS EUR | Year | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | YTD | ITD |
|-----------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|-----|---------|--------|
| | 2020 | 1.70% | -6.30% | 2.66% | -1.17% | 1.80% | 0.83% | 0.23% | | | | | | | -0.53% |
| 2019 | 1.05% | 0.00% | 0.51% | 0.98% | -0.04% | 0.56% | 1.54% | 0.90% | -1.46% | 3.43% | 2.35% | 2.34% | | 12.75% | 56.71% |
| 2018 | -0.26% | -1.77% | -1.03% | -0.63% | -0.06% | -0.36% | -0.87% | -1.66% | 0.36% | -3.69% | -0.13% | -4.14% | | -13.45% | 38.99% |
| 2017 | 0.56% | -0.92% | -1.63% | -0.57% | 0.23% | 1.32% | 1.18% | 0.46% | 0.99% | 1.25% | 0.20% | 0.14% | | 3.22% | 60.59% |
| 2016 | 1.27% | 0.92% | 1.18% | -0.19% | -1.06% | -4.33% | 2.12% | -1.05% | -0.29% | 2.38% | 0.88% | 0.39% | | 2.07% | 55.58% |
| 2015 | -1.24% | 4.89% | -0.27% | 3.25% | 2.57% | -1.67% | -2.94% | -3.01% | 2.46% | 1.88% | 2.06% | -1.42% | | 6.36% | 52.42% |
| 2014 | -3.16% | -0.60% | -0.56% | -0.99% | -2.24% | 1.44% | 0.23% | -0.60% | 2.06% | -1.89% | -1.24% | 0.96% | | -6.52% | 43.31% |
| 2013 | 5.35% | -0.58% | 6.98% | 6.48% | -1.07% | -0.78% | 0.31% | -0.92% | 1.18% | -0.80% | 1.46% | 1.73% | | 20.57% | 53.31% |
| 2012 | -1.38% | 3.81% | 1.35% | -1.21% | -3.83% | 1.76% | 0.84% | 0.93% | 1.32% | 0.58% | 2.50% | 4.06% | | 10.95% | 27.15% |
| 2011 | 0.93% | -0.03% | -1.55% | 0.14% | -0.14% | 0.42% | 0.03% | -3.63% | 0.69% | -0.38% | -2.60% | 1.68% | | -4.48% | 14.60% |
| 2010 | 0.73% | -0.23% | 3.52% | 3.69% | -3.11% | -1.31% | 1.23% | -0.37% | 0.91% | 1.13% | 1.40% | 1.89% | | 9.67% | 19.97% |
| 2009 | 2.07% | 1.67% | -0.73% | -0.67% | 1.34% | 1.13% | -1.93% | 2.24% | -1.68% | -0.39% | -2.99% | 2.84% | | 2.75% | 9.39% |
| 2008 | | | | | | | 0.96% | -1.35% | 1.40% | 3.44% | 0.52% | 1.39% | | 6.46% | 6.46% |

| CLASS USD | Year | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | YTD | ITD |
|-----------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|-------|--------|-----|---------|--------|
| | 2020 | 1.57% | -5.92% | 2.93% | -0.95% | 1.90% | 0.92% | 0.29% | | | | | | | 0.47% |
| 2019 | 1.33% | 0.25% | 0.75% | 1.29% | 0.45% | 0.87% | 1.82% | 0.43% | -1.19% | 3.77% | 2.35% | 2.36% | | 15.37% | 7.38% |
| 2018 | -0.27% | -1.58% | -0.86% | -0.36% | -0.05% | -0.09% | -0.64% | -1.42% | 0.52% | -3.33% | 0.20% | -3.81% | | -11.17% | -6.93% |
| 2017 | | | | | | | 0.00% | 1.17% | 0.64% | 1.13% | 1.21% | 0.38% | | 4.78% | 4.78% |

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