



## MARKET COMMENTS

The Japanese market had an “incredibly” flat month, - 0.01%, measured against the MSCI Japan index. Price swings on an index level were rather muted considering the circumstances. The colliding forces of this tug-of-war were on the one side the fallout of an unprecedented collapse in economic activity. On the other side, the cavalry of the BOJ with gigantic USD1bn a day interventions to support the equity market. Central bankers used to be lender of last resort, these days its main purpose is that of a buyer of last resort. Obviously, this mission is not allowed to fail and the BOJ continues with its heavy hand on risk-off days. Capital markets have stopped functioning properly as its main purpose is price discovery. There is no price to be discovered, prices are set by altering the demand side of the equation. Thanks to benchmarking and with it the passive vehicles such as ETFs, the Central Planners can use this (well-intentioned) market proxy to pursue its social goals. What a gigantic conflict of interest the BOJ's monetary policy has created! Japan is in pursuit of improving its corporate governance, whilst its very same monetary intervention is supporting those share prices of companies whose management should be shamed and blamed for failure.

At this juncture we eagerly await the results of recent annual shareholder meetings (AGMs). This AGM season is extremely important to test our thesis whether we are in an acceleration phase of the corporate governance roll-out. We have certainly done our part and already started preparing for next year. Many companies implemented the required rules, such as improving diversity and increasing independence, adjusting incentive structures and communication with investors. These compliance driven measures will have to show-up in better decision making at some point; only time will tell and our engagement is focused on accelerating the discussion. In June, the long book outperformed the index by +0.3% and the short book delivered most of this month's contribution with a decline of -4%.

## SINGLE STOCK OBSERVATIONS

4 out of the top 5 winners in June were short positions. We held significant short positions in the transport sector, especially rail companies, for two very important reasons. One, the number of employees returning to work will be gradual and public transportation needs to facilitate more space per passenger (most relevant for air travel). Two, most of the rail companies own hotel, retail and office real estate. As such, these assets are partially impaired and rail companies face significant mid-term earnings risk and write-downs. In addition, these short positions serve as hedges for our existing long exposure in real estate pure-play developers such as Ichigo Holdings and Tosei.

The only long position showing up in the top 5 contributors was Nihon M&A. 60-70% of the long book consists of engagement situations and 30-40% consists of asset-light, high CFROI compounders. Nihon M&A is such a high CFROI business model. With weak demographics and a structurally tight labor market, vast amount of smaller companies will have to consolidate or find different succession venues; Nihon M&A is a consultant and facilitating this process.

The magnitude of single stock losses was muted last month. The biggest single stock loss was 0.28%, a short position in Tokyo Century Corp. We expected a significant impairment loss from its recently acquired aircraft leasing business. Although we still believe the company to face substantial headwinds, its largest shareholder Itochu has increased its stake by buying shares in the market. To us, it seems Itochu has a different rational/motivation to buy into this company at current time and price. At the announcement of the Itochu transaction we closed the short position as it is difficult to argue with a counterpart of size and with ambiguous motivation.

## RISK ALLOCATION & STYLE PERFORMANCE

June was a rather systematic month from a style perspective. Value underperformed and Price Momentum, Quality and Earnings factors performed very well. The gross exposure stood at about 200% and the net exposure at 40%. We expanded the number of long positions to 67, most new additions are engagement related and listed subsidiaries. These situations are smaller companies with limited liquidity, as such it takes time to build reasonable exposure.

## OUTLOOK

As the global economy starts to recover from its worst slump in recorded history, the short term visibility is extremely murky. What we do know is that the Covid crisis has accelerated several trends in Japan. The crisis jump-started a wide-spread adoption of digital ways to interact, to consume, to distribute and to sell goods and services. In a traditional ecosystem with hesitation to change, the Covid crisis acted as a catalyst to change behavior. Only time will tell how permanent and persuasive the shifts are. It certainly accelerated a) the demise of traditional department stores b) cutting out the middle man and direct sales through e-commerce c) dramatic shift to online customer engagement and ad-spend. The Japanese ecosystem is very employee and customer centric and both are experiencing a drastic shift in behavior with many losers and winners. We truly hope, and the coming weeks will tell, that the voting behavior at this year's AGMs will be a similar tipping-point situation that acts as a structural catalyst. With Covid (hopefully) diminishing we look forward to intensify communication with various management teams and encourage them to address the massive undervaluation of their company's share price.



**FUND CHARTS AND FACTS**



**TOP 5 GROSS POSITIONS**

TAKARA LEBEN INFRASTRUCTURE
HEIWA REAL ESTATE CO LTD
CANADIAN SOLAR INFRASTRUCTUR
CENTRAL JAPAN RAILWAY CO
NOMURA REAL ESTATE HOLDINGS

**TOP 5 MOVERS**

EAST JAPAN RAILWAY CO	0.43%
CENTRAL JAPAN RAILWAY CO	0.37%
DAITO TRUST CONSTRUCT CO LTD	0.35%
NIHON M&A CENTER INC	0.23%
DENTSU GROUP INC	0.22%

**TOP 5 SHAKERS**

TOKYO CENTURY CORP	-0.28%
SYMEX CORP	-0.26%
TOYO CONSTRUCTION CO LTD	-0.23%
KYOWA KIRIN CO LTD	-0.21%
KOSAIDO CO LTD	-0.17%

**FUND PERFORMANCE\***

	USD <sup>^</sup>	EUR <sup>*</sup>
Month to date performance	0.92%	0.83%
Year to date performance	-1.65%	-2.17%
Inception to date performance	7.57%	55.51%

\*based on share class B EUR, <sup>^</sup>based on share class C USD

**FUND FACTS\***

Fund size in mln EUR	138.38
Fund size in mln USD	155.42
Firm size in mln EUR	166.63
Firm size in mln USD	184.93

**RISK STATISTICS**

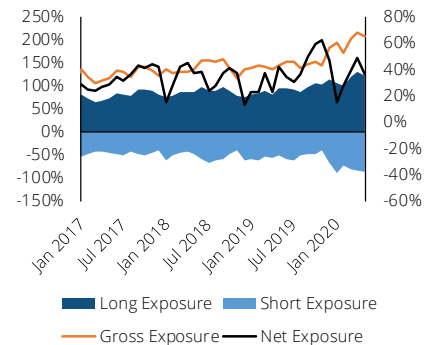
Net Exposure	36%
Gross Exposure	207%
Volatility (ex-ante; 3 months daily data)	10%
Beta (ex-ante)	-0.02
Sharpe Ratio	0.54
Sortino Ratio	0.86
Sterling Ratio	0.28
Max Drawdown (monthly)	13.5%
Annualized Return	3.8%

**SECTOR EXPOSURES (IN PERCENT)**

	Long	Short	Net	Gross
Consumer Discretionary	13	-5	8	18
Consumer Staples	2	-3	-1	5
Energy	9	0	9	9
Financials	2	-2	0	4
Health Care	2	0	2	2
Industrials	38	-15	24	53
Information Technology	22	0	22	22
Materials	7	0	7	7
Real Estate	22	-4	19	26
Communication Services	3	-2	1	5
Utilities	0	-2	-2	2

**GENERAL STATISTICS**

% Return long book	0.30%
% Return short book	-3.93%
# Long stocks	67
# Short stocks	16
% Long stocks ↑	42%
% Short stocks ↓	88%
# Up days / Down days	11 / 10
Turnover as % NAV	75%



## FUND PERFORMANCE

CLASS B 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%								-0.76%
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 C 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%								0.18%
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%	0.16%	0.38%	4.78%	4.78%

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