MARKET COMMENTS

In February, the MSCI Japan appreciated +2.2% in Japanese yen (JPY). The month started off with a short-lived sell-off and swiftly continued to climb the wall of worry. Global economic growth continued to decelerate. Downward earnings revisions in Japan re-accelerated, however market valuations approached attractive levels. The index trades at 13x price-to-earnings (P/E) and 1.2x price-to-book (P/B). Inexpensive indeed, considering that these measures fail to reflect the massive cash pile on corporate balance sheets and to adequately account for the tremendous value of real estate and cross-shareholdings at historical costs. Back to macro, the US FED, price setter of global liquidity, made a dramatic turnaround in policy and tries to reassure market participants that it will not kill the bull market. Easier said than done, but market participants are embracing the new-found dovishness at the US central bank and negative sentiment quickly faded with the VIX dropping to 13 last month. The China-led global slowdown is for a real and with yield curves flattening recession probabilities are spiking. Therefore, not surprisingly, defensive sectors such as healthcare (+7%), consumer staples (+4%), utilities (+2.8%) and telecoms (+3.7%) vastly outperformed last month. Such an equity rally with defensives outperforming needs to be treaty with caution, nevertheless we are surprised by the impulsiveness and extent of the rally so far.

SINGLE STOCK OBSERVATIONS

We have limited exposure in the above-mentioned sectors and the remaining industries did move much. The biggest positive outlier in February was Findex. The stock's price behavior is reminiscent of what happened in the 4th quarter of last year and so far in 2019. To begin with, Findex is a small cap with just 200mn USD market cap and average daily liquidity can be just 700.000 USD and even less at times. The company develops software specifically for Japanese hospitals to enhance productivity. A great, asset light business with strong growth perspective, but no sell side analyst covers the stock. In the liquidity event of Q4 2018 the stock first collapsed in October by -17% and in December by -25%. Indeed, without any news that might matter, as its business model is insulated from China growth fears and for that matter global growth. Nevertheless, the stock was caught up in spurious correlations and in sympathy (leverage connects as all) sold off. As of end of February, the stock has fully recovered and some more, again without any news. Such excessive downside volatility is hard to envision beforehand and annoying to say the least. Because of the size and liquidity constraints it was and remains a small position however this franchise provides tremendous opportunities.

The biggest negative contribution last month came from MTG. It was a small position to begin with, however, the stock declined 44% in February. Investors including ourselves were surprised by the negative impact of the Chinese crackdown on illegal importing of consumer products by resellers. Explained in very general terms, Chinese communist party enforces stringent control on almost all sectors of its economy and therefore many products are not available domestically. Therefore, it is a lucrative business to buy products overseas and import back into China to sell at a premium. As of Jan 1st, China introduced new rules to this arbitrage game, which led to pre-buying and thereafter de-stocking. One of the major sales channels of MTG is the reseller market and we underestimated that MTG had such a high exposure, which drove the massive earnings miss in February.

RISK ALLOCATION

Net exposure increased somewhat from 14% end of January to 23% end of February. The gross exposure also increased from 136% to 140%. Overall not a substantial change to total risk, but nevertheless worth mentioning that we added to conviction long positions and at the same time have plenty of short opportunities, because our weak economic outlook provides plenty of earnings risk.

STYLE ANALYSIS

With 10-year yields declining globally and yield curves flattening value as a style is in a tough spot. Defensive sectors had tremendous outperformance last month as did growth versus value.

OUTLOOK

The most common complaint about investing in Japan is the apparent lack of high quality growth businesses. In our opinion, there are plenty of thus but most of the time valuation does not make holding the stock appealing to investors. We follow many of those high quality franchises for a long time, but only occasionally, an attractive entry point presents itself. Because cost-of-capital in Japan has been lower for longer and balance sheets are overcapitalized there is indeed a scarcity premium for high Return-on-Equity growth businesses. We, and with us our clients, suffered dearly in the 4th quarter of 2018, and there are many lessons learned. Most important of all, the liquidity air pocket scared away the last strong hands and has offered plenty of quality franchises at reasonable prices.

FUND CHARTS AND FACTS

TOP 5 GROSS POSITIONS

Toshiba Plant Sy
Ichigo Hotel REIT Investment C
Taihei Dengyo
Ichigo REIT
Ichigo Group

TOP 5 MOVERS

Findex Inc.	0.28%
Toyo Constructio	0.24%
Heiwa Real Estat	0.18%
Maeda Corp	0.16%
Toshiba Tec Corp	0.14%

TOP 5 SHAKERS

MTG	-0.24%
Sharp Corp	-0.21%
Nissin Foods	-0.20%
Ariake Japan	-0.11%
Pepper Food Serv	-0.09%

FUND FACTOR

	Long	Short
Price to Earnings (PE)	13.5	18.5
EV/EBITDA	11.4	15.5
Price to Book (PB)	1.4	3.7
Dividend Yield	2.7	1.8
EV/IC	1.2	4.1
1 month momentum	5.1	2.0
12-1 month momentum	-7.6	-19.4

FUND PERFORMANCE*

Month to date performance	0.00%
Year to date performance	1.04%
Inception to date performance	31.91%

**based on share class B EUR*

FUND FACTS*

Fund size in mln EUR	91.93
Fund size in mln USD	104.68
Firm size in mln EUR	216.66
Firm size in mln USD	246.72

RISK STATISTICS

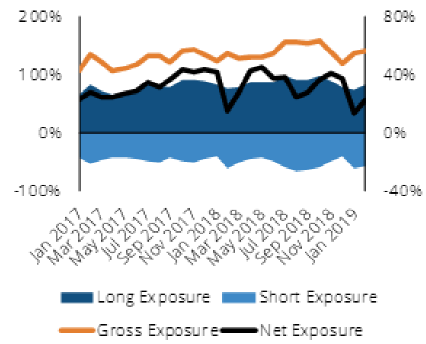
Net Exposure	23%
Gross Exposure	140%
Volatility (ex-ante; 3 months daily data)	5.5%
Beta (ex-ante)	0.29
Sharpe Ratio	0.47
Sortino Ratio	0.83
Sterling Ratio	0.39
Max Drawdown (monthly)	-8.4%
Annualized Return	3.2%

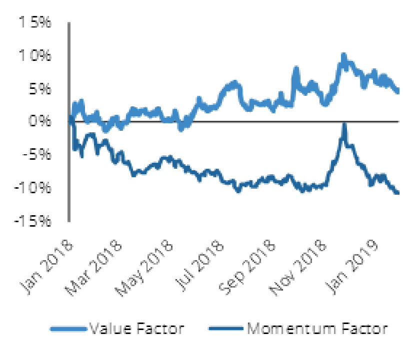
SECTOR EXPOSURES (IN PERCENT)

	Long	Short	Net	Gross
Consumer Discretionary	1	-12	-11	14
Consumer Staples	4	-6	-2	11
Energy	0	0	0	0
Financials	4	-3	1	7
Health Care	1	-1	0	1
Industrials	30	-7	22	37
Information Technology	6	-2	5	8
Materials	3	-2	1	5
Real Estate	22	-10	12	32
Telecommunication Services	0	0	0	0

GENERAL STATISTICS

% Return long book	5.00%
% Return short book	4.06%
# Long stocks	48
# Short stocks	19
% Long stocks ↑	67%
% Short stocks ↓	37%
# Up days / Down days	11 / 9
Turnover as % NAV	47%





FUND PERFORMANCE: CLASS B EUR

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	ITD
2019	1.05%	0.00%											1.04%	31.91%
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%	30.55%
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%	50.84%
2016	1.27%	0.92%	1.18%	-0.16%	-1.08%	-4.33%	2.12%	-1.05%	-0.29%	2.38%	0.88%	0.39%	2.07%	46.13%
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%	43.17%
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%	34.60%
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%	44.00%
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%	19.43%
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%	7.64%
2010	0.73%	-0.23%	3.52%	3.39%	-2.83%	-1.31%	1.23%	-0.37%	0.91%	1.13%	1.40%	1.89%	9.67%	12.69%
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%	2.75%
2008							0.96%	-1.35%	1.40%	3.44%	0.52%	1.39%	6.46%	6.46%

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