



MARKET COMMENTS

In December, the MSCI Japan dropped a whopping -10% and for the year 2018 the Japanese market recorded a -17% decline. 2018 was the worst year since 2011. Against all seasonal odds, December was very weak and because of wide-spread liquidity concerns a difficult month to navigate. The fund's return was -4.14% last month, a rather disappointing ending to an already poor year. On the second trading day of December, the US equity market started to drop viciously. No Santa Claus rally this year and the US recorded its worst Christmas on record. Without any other noteworthy macro or micro news, Japanese equities were tightly correlated with US equities and collapsed in this liquidity air pocket. Our long mid/small capitalization stocks performed poorly, no matter how cheap or defensive the business models. We already had rather defensive stock positioning. As mentioned many times during the second half of 2018, we focused the long exposure on domestic companies with high recurring revenues. Unfortunately, many of these stocks are classified as Industrials and, we suspect, were sold by association, meaning because the stocks were part of some ETFs or cyclical baskets. Moreover, as ETFs faced heavy outflows at year-end, many stocks were sold regardless of valuation and/or fundamental soundness. Not only ETFs, but also active institutions faced redemptions and had to sell into an already very illiquid market.

SINGLE STOCK OBSERVATIONS

The top contributors last month were all short positions. The biggest contributor was Alps. We shorted Alps to hedge the Alpine long position. As mentioned in earlier newsletters, it is our opinion that Alps' take-over bid for Alpine was way too low and Alps was trying to steal the company from minority shareholders. The shareholder battle was resolved in December and we lost, 2/3 of shareholders agreed with the merger ratio and Alps acquired Alpine for a steep discount to intrinsic value. Last month we lost 1.34% on Alpine and gained 0.75% on Alps, thus the net loss on this failed attempt to get a higher offer from Alps cost us 0.6%. Another short that worked well was Pepper Food. We are convinced this fast-steak restaurant format has peaked in Japan, whilst the stock still trades at hyper-growth multiples. Same-store-sales are trending negatively and we see little reason why this trend will turn anytime soon. The stock had a short-squeeze in November (+29%) and resumed its downtrend in December, dropping 30%. This is a high conviction short, unfortunately borrow is limited and expensive, which diminishes the economics of this trade.

Ichigo, our multi-year core position, dropped 18% in December. Fundamentally, the collapse in the share price does not make any sense. The current valuation is extremely attractive. The

management announced a share buyback right after its 1st half results, because of the obvious mismatch in price and business outlook. Ichigo's team is one of the savviest real estate operators in Japan with pristine corporate governance. The company built a tremendous asset base and it still is a seller's market, thus we remain confident Ichigo will achieve its ambitious targets and, with the stock trading at its lowest Price-to-Book multiple since 2013, shareholders will be rewarded accordingly.

RISK ALLOCATION

The net exposure at the end of the month stood at 38% with a gross exposure of 118%. Adjusted for Nikkei futures hedges the net exposure was 30% and the gross exposure 125%. The beta-adjusted net exposure was 20%, as 18% of the 30% net exposure consisted of REITS.

STYLE ANALYSIS

In 2018, most quant related factors delivered negative returns. We observed a lot of erratic factor behavior in Japan. Value performed poorly last year and price momentum performed somewhat better, albeit basically flat for the year. Beta itself was very erratic with sudden upswings and reversals with a strong downward momentum into Q4.

OUTLOOK

In December, market participants were reminded of an old saying 'Don't Fight The FED'. This cycle it took nine small steps and quantitative tapering for investors to pay attention to the FED's action. In every cycle, the FED continued its hiking path until something breaks. The policy makers do not have a crystal ball and navigate by trial-and-error. Last month market participants voiced concerns about such an error and sold risk assets aggressively. Global equity markets have entered a bear market at lightning speed and the FED will have to pause, whilst in the meantime the lagged effects of its tightening will work its way through the system. The economic outlook worsened drastically with China at its epicenter. The second half of 2018 was all about macro and in 2019 top-down drivers will be all important. On balance, for risk assets to stabilize we need the US FED and Chinese PBOC to switch towards an accommodative stance. The BOJ will remain accommodative, Japanese equities are cheap, corporates will accelerate buybacks, but with current global economic deceleration we are increasingly selective and focus on high quality, domestic, cash rich companies with high recurring revenues. In the short book we aim at expensive cyclicals with apparent earnings risk, which has not been reflected in sell side consensus yet.



FUND CHARTS AND FACTS



TOP 5 GROSS POSITIONS

| |
|--------------------------------|
| Ichigo Hotel REIT Investment C |
| Toshiba Plant Sy |
| Taihei Dengyo |
| Maeda Road Const |
| Ichigo REIT |

TOP 5 MOVERS

| | |
|------------------|-------|
| Alps Elec | 0.75% |
| Sharp Corp | 0.53% |
| Pepper Food Serv | 0.50% |
| Shinoken Group | 0.29% |
| Shimamura Co | 0.29% |

TOP 5 SHAKERS

| | |
|------------------|--------|
| Toshiba Plant Sy | -1.45% |
| Alpine Elec | -1.34% |
| Taihei Dengyo | -0.62% |
| Ichigo Group | -0.53% |
| Ariake Japan | -0.50% |

FUND FACTOR

| | Long | Short |
|------------------------|------|-------|
| Price to Earnings (PE) | 14.3 | 19.1 |
| EV/EBITDA | 11.4 | 13.9 |
| Price to Book (PB) | 1.4 | 2.4 |
| Dividend Yield | 2.7 | 2.1 |
| EV/IC | 1.2 | 2.5 |
| 1 month momentum | -9.3 | -9.4 |
| 12-1 month momentum | 4.0 | -5.4 |

FUND PERFORMANCE*

| | |
|-------------------------------|---------|
| Month to date performance | -4.14% |
| Year to date performance | -13.45% |
| Inception to date performance | 38.99% |

**based on share class B EUR*

FUND FACTS*

| | |
|----------------------|--------|
| Fund size in mln EUR | 90.87 |
| Fund size in mln USD | 103.87 |
| Firm size in mln EUR | 218.07 |
| Firm size in mln USD | 249.28 |

RISK STATISTICS

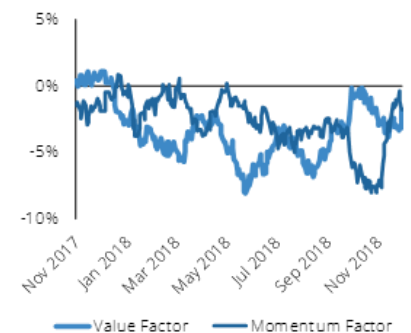
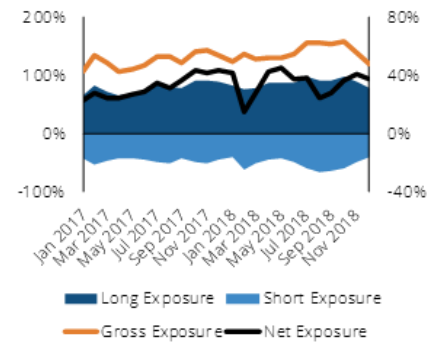
| | |
|---|-------|
| Net Exposure | 38% |
| Gross Exposure | 118% |
| Volatility (ex-ante; 3 months daily data) | 5.5% |
| Beta (ex-ante) | 0.29 |
| Sharpe Ratio | 0.46 |
| Sortino Ratio | 0.82 |
| Sterling Ratio | 0.38 |
| Max Drawdown (monthly) | -8.4% |
| Annualized Return | 3.2% |

SECTOR EXPOSURES (IN PERCENT)

| | Long | Short | Net | Gross |
|----------------------------|------|-------|-----|-------|
| Consumer Discretionary | 1 | -8 | -7 | 10 |
| Consumer Staples | 4 | -7 | -3 | 11 |
| Energy | 0 | 0 | 0 | 0 |
| Financials | 3 | -3 | 0 | 6 |
| Health Care | 1 | -1 | 0 | 2 |
| Industrials | 32 | -9 | 23 | 41 |
| Information Technology | 7 | -2 | 5 | 8 |
| Materials | 4 | -2 | 3 | 6 |
| Real Estate | 21 | -7 | 14 | 29 |
| Telecommunication Services | 0 | 0 | 0 | 0 |

GENERAL STATISTICS

| | |
|-----------------------|---------|
| % Return long book | -11.02% |
| % Return short book | -10.44% |
| # Long stocks | 50 |
| # Short stocks | 22 |
| % Long stocks ↑ | 12% |
| % Short stocks ↓ | 73% |
| # Up days / Down days | 6 / 13 |
| Turnover as % NAV | 62% |



| FUND PERFORMANCE: CLASS B EUR | Year | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | YTD | ITD |
|-------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------|--------|
| | 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% | -0.16% | -1.08% | -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% | -0.29% | 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% | 3.39% | -2.83% | -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% | |

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