



BULL MARKET RESUMES

In February, the fund gained +1.6%. The bull market accelerated and lifted the Topix index by +8.6% into mid-month, just to enter a nosebleed correction in the second half, correcting by -5.1%. Violent price action indeed, but nothing particular unusual in Japan.

In our opinion, the market is climbing the proverbial wall-of-worry. Worried about social media induced short-squeeze campaigns; worried about inflation accelerating and bond vigilantes forcing yields higher; worried about the “bubble-in-everything” popping ... at the height of a bubble there are no worries, only FOMO. Of course, valuations in US markets are extreme and higher yields are negative for crowded quality growth mega-caps, but Japanese equities are cheap and value stocks are sought after. Higher inflation expectations are conducive for Japanese equities to outperform. Indeed, it is head scratching that US equities are selling off already on a yield “scare”, whilst the 10-year US Treasury yields are approaching just 1.5%. However, in our opinion, it is the speed of repricing in fixed income that matters, selling begets selling and throws the risk-parity strategies under the truck, especially when fixed income assets sell off in unison with equities.

On Feb 25th, the VIX jumped 35% when the S&P500 index declined 2.5%, just 3% off its all-time-high. That is what you get in a highly leveraged financial system, when money is literally free and access to debt widely available. So far, many of those excesses seem US related, but it is naïve to assume it stays there, “debt connects us all”.

SINGLE STOCK COMMENTS

The best performing positions last month were QD Laser, Maeda Road, Fujitec, Ichigo and Daibiru. We were fortunate to participate in the initial public offering of QD Laser, a truly unique business proposition and the share price shot ‘literally’ to the moon. Equally important, in January we wrote about our positions in the Maeda family (Maeda Corp.; ticker 1824 and Maeda Road; ticker 1883) and one of its affiliates, Toyo Construction (ticker 1890). The latter being currently attacked by an activist. On Feb 24th, the Maeda family announced great news. It will merge itself and the listed subsidiaries into a newly to be established holding company, and cancel all currently outstanding treasury shares. The merged holding company will have (at current prices) a market capitalization of JPY280bn and JPY112bn in cross-shareholdings, which we expect to be unwound and used for buybacks as well as buying-in our other long position Toyo Construction, which is 20% owned by Maeda Corp..

The worst performing positions were short Japan Airlines, long Metawater, short All Nippon Airlines, short Olympus, long Elecom. The airlines are considered post-Covid re-opening trades, but, in our opinion, air travel will only slowly recover rather than the anticipated V-shape. Of course, the comps are easy, but it has been a dreadful industry before Covid19 and will remain so once the pandemic is over. In the meantime, the oil price seems to recover faster than passenger growth will.

During the past two months we have built a significant position in Info Services International-Dentsu (ISID – ticker 4812). We initiated a long position in June 2020, whilst shorting Dentsu; the largest traditional advertising company in Japan. Dentsu has a majority stake in ISID. With its bloated cost base and reliant on fading, but still rather influential TV advertising, we figured that Dentsu is a Blue Chip destined to be disrupted. The way Millennials consume media requires a new approach to build brands and to engage with younger demographics. In the new digital world Dentsu faces tough new competitors, such as Accenture and Nomura Research Institute that were not competing in the analogue era. From shorting Dentsu, we learned that ISID provides (amongst others) digital marketing solutions. We came to the conclusion that there is great mutual dependency between Dentsu and ISID, as circa 30% of ISID’s revenues are (in)directly from Dentsu and its customers. On the other hand, Dentsu cannot win a new advertising account without ISID presenting a digital campaign. What triggered us recently, was the announcement by Dentsu to sale-and-lease back its headquarter building in Shiodome. The rumored value of this building is JPY300bn (USD2.75bn). ISID’s market cap is about JPY240bn (USD2.2bn). As Dentsu already owns 61.8%, only 38.2% needs to be bid for, of course with a pleasing premium for minority shareholders. 38.2% of JPY240bn is JPY91.7bn, thus Dentsu has plenty of firepower even adding in its recent announcement to buyback JPY30bn of its own shares to calm-down and appease its own revolting shareholders. In the current corporate governance regime, it is a given that the Dentsu board has to decide (at some point !), whether to sell its majority stake or buy-in the minorities. Even if Dentsu decides to do nothing for the time being, ISID is still good value with solid fundamentals in a growing industry.

OUTLOOK

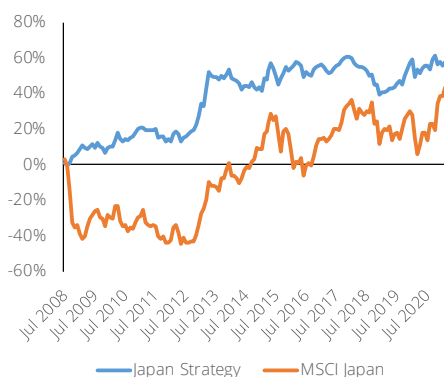
Earnings proved to be surprisingly resilient, though expectations were low given current circumstances. However, most of our companies presented great results, admittedly, some benefited from the pandemic, others cut costs aggressively and even more importantly, announced share buybacks in light of low valuations. Economic activity is skyrocketing and improvements in corporate governance is accelerating. However, another generational shift has emerged. Good old traditional Japan with its paternalistic, feudalistic



organizational structures is going digital. Finally, the age of disruption has hit Japan and beyond the irritating buzz words such as IoT and AI, we find the emergence of SaaS platforms being the true trigger of disruption. Whilst we own deep value

engagement situations, we have several tiny positions, which we consider call option premia, with tremendous convexity; such as Sansan, FeedForce, Kaizen Platform, WealthNavi, Base Inc, and QD Laser

FUND CHARTS AND FACTS



TOP 5 GROSS POSITIONS

DAIBIRU
TAKARA LEBEN INFRASTRUCTURE
CANADIAN SOLAR INFRASTRUCTURE
FUJITEC
HEIWA REAL ESTATE

TOP 5 MOVERS

QD LASER	0.83%
MAEDA ROAD CONSTRUCTION	0.49%
FUJITEC	0.44%
ICHIGO INC	0.36%
DAIBIRU	0.34%

TOP 5 SHAKERS

JAPAN AIRLINES	-0.43%
METAWATER	-0.32%
ANA HOLDINGS	-0.29%
OLYMPUS	-0.28%
ELECOM	-0.25%

FUND PERFORMANCE*

	USD [^]	EUR [*]
Month to date performance	1.63%	1.55%
Year to date performance	0.27%	0.15%
Inception to date performance	9.74%	57.99%

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

FUND FACTS*

Fund size in mln EUR	139.56
Fund size in mln USD	168.50
Firm size in mln EUR	169.75
Firm size in mln USD	204.95

RISK STATISTICS

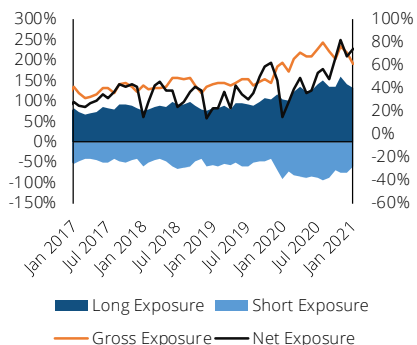
Net Exposure	74%
Gross Exposure	192%
Volatility (ex-ante; 3 months daily data)	8%
Beta (ex-ante)	0.27
Sharpe Ratio	0.53
Sortino Ratio	0.85
Sterling Ratio	0.28
Max Drawdown (monthly)	13.5%
Annualized Return	3.70%

SECTOR EXPOSURES (IN PERCENT)

	Long	Short	Net	Gross
Consumer Discretionary	6	-8	-2	13
Consumer Staples	0	-5	-5	5
Energy	17	0	17	17
Financials	5	-2	3	8
Health Care	1	-5	-4	7
Industrials	40	-13	27	54
Information Technology	25	-6	19	31
Materials	8	-2	6	11
Real Estate	18	-1	17	19
Communication Services	3	-4	-1	7
Utilities	0	-2	-2	2

GENERAL STATISTICS

% Return long book	3.17%
% Return short book	6.33%
# Long stocks	69
# Short stocks	13
% Long stocks ↑	54%
% Short stocks ↓	69%
# Up days / Down days	12 / 8
Turnover as % NAV	69%



FUND PERFORMANCE

	Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	ITD
CLASS EUR	2021	-1.38%	1.55%											0.15%	57.99%
	2020	1.70%	-6.30%	2.66%	-1.17%	1.80%	0.83%	0.23%	-1.54%	3.86%	1.16%	-2.95%	0.82%	0.67%	57.76%
	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%

	Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	ITD
CLASS C USD	2021	-1.34%	1.63%											0.27%	9.74%
	2020	1.57%	-5.92%	2.93%	-0.95%	1.90%	0.92%	0.29%	-1.39%	3.49%	1.12%	-2.51%	0.85%	1.93%	9.45%
	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							1.17%	0.64%	1.13%	1.21%	0.16%	0.38%	4.78%	4.78%

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