



## MARKET COMMENTS

Last month the market, measured by the Topix (TPX) benchmark, declined -1% in Japanese Yen (JPY) terms. The TPX initially appreciated +3% and from mid-month dropped -4% to end June in negative territory. The JPY was rather weak and in US dollar terms the TPX actually declined -2.8%.

Cyclical sectors continued to underperform. The Materials sector declined by -5%, followed by Financials -3% and IT -2.8%. On the other side, Health Care was up +1.8%, Telecom +1.5% and Consumer Staples as well as Discretionary appreciated more than +1% each. The Energy sector had a big jump due to the long negotiated merger of two major refining companies.

## SINGLE STOCK COMMENTS

The biggest contribution last month came from the long position in Alpine. The stock rallied +7.9% and contributed +28bps. Parent company Alps Electric, which holds 40.4% in subsidiary Alpine, wants to acquire the remaining outstanding shares to make Alpine a wholly owned subsidiary. Alps Electric's proposal is significantly below what can be deemed fair value. At the shareholder meeting on June 21<sup>st</sup> the current Alpine board was not defeated, but had extremely low approval rates for Japanese standards. Thus, only a small increase in opposing votes, a 2/3 majority will be needed, will make it highly unlikely to accept the current take over proposal at the extraordinary shareholder meeting in December. With the rapid change in shareholder structure it seems increasingly unlikely that Alps Electronics can get away with stealing Alpine from its minority shareholders. For the records, we voted in favor of the agenda items proposed by HK based activist Oasis, who aimed to facilitate a special dividend, replace a director in the Audit and Supervisory Committee and promote an additional independent director.

On the other hand, we voted against the prolongation of the take-over poison pill at Heiwa Real Estate, which unfortunately was dismissed and the stock obviously reacted negatively and declined -14% last month. We are especially disappointed that Mitsubishi Estate owning 10% of Heiwa Real Estate approved the poison pill. Clearly the Mitsubishi Estate management, grossly neglecting its own shareholders, was not willing to embrace its fiduciary duty under the new stewardship code which aims to empower shareholders. That said, the pressure on Heiwa management will build and more buybacks in

combination with higher dividends will be a strong demand from shareholder's.

The biggest loser last month was Suruga bank. We clearly underestimated the impact of how negative sentiment might become. The stock dropped another -22% and peak-to-trough lost 2/3 of its market capitalization, some 400bn JPY or 3.7bn US dollar. However, the decline in market capitalization in relation to the estimated impact on the business does not make sense in our opinion. The jury is still out, and admittedly judging based on the price action over the past month we have been wrong on this one.

## RISK ALLOCATION

At the end of the month the net exposure stood at 37%, which looks lofty but includes 15% REIT exposure, yield 5-7% p.a. and tends to be negatively beta correlated. The gross exposure increased to 136% as we are increasingly comfortable with the current positions.

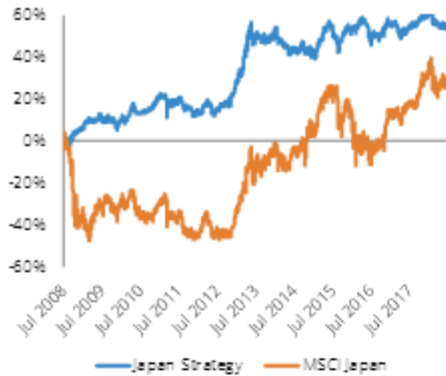
## STYLE ASSESSMENT

Value continued its drastic underperformance in June. We decided to de-emphasize the weight of value in the systematic hedge book and started to adjust for momentum neutrality. Over the past 10 years we have proven to add tremendous alpha in the long book, however the valuation related shorts over the past 5 years have been suboptimal, to say the least. Therefore we have balanced the hedging program consisting of most extremely valued stocks based on our quant model and introduced a price momentum adjustment to avoid blow-off shorts.

## OUTLOOK

The annual shareholder meetings are behind us and with earnings season starting mid July the market tends to focus on earnings momentum again. The global growth deceleration becomes increasingly obvious with China weakness being the biggest worry and the US steaming ahead. The entire global growth setting has late cycle characteristics with tight labor markets, oil spiking higher, whilst the FED continues to remove the punchbowl. So far so good, in a modest growth environment with FED-induced US dollar strength, corporate Japan will be able to deliver on its earnings and the Japanese equity market should be able to recover its year-to-date losses.

**FUND CHARTS AND FACTS**



**TOP 5 GROSS POSITIONS**

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

**TOP 5 MOVERS**

Alpine Elec	0.28%
Ichigo Hotel REIT Investment C	0.26%
Leopalace21 Corp	0.22%
Okamoto Inds	0.21%
Toshiba Plant Sy	0.20%

**TOP 5 SHAKERS**

Suruga Bank	-0.44%
Heiwa Real Estat	-0.39%
Pola Orbis	-0.29%
Nippon Building Fund	-0.19%
Taihei Dengyo	-0.18%

**FUND FACTOR**

	Long	Short
Price to Earnings (PE)	16.7	20.6
EV/EBITDA	11.4	14.6
Price to Book (PB)	1.7	4.3
Dividend Yield	2.2	1.7
EV/IC	1.2	3.4
1 month momentum	0.7	-2.6
12-1 month momentum	24.6	22.3

**FUND PERFORMANCE\***

Month to date performance	-0.36%
Year to date performance	-4.06%
Inception to date performance	54.07%

\*based on share class B EUR

**FUND FACTS\***

Fund size in mln EUR	98.47
Fund size in mln USD	103.39
Firm size in mln EUR	231.38
Firm size in mln USD	270.15

**RISK STATISTICS**

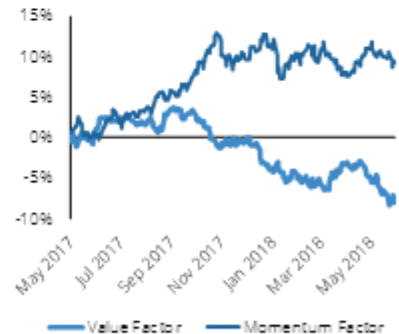
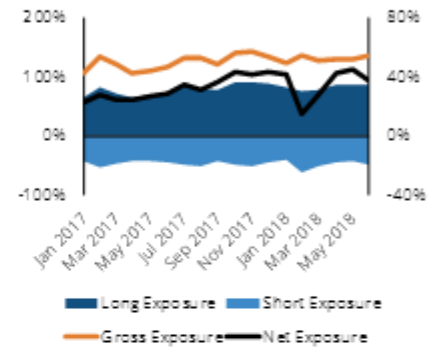
Net Exposure	38%
Gross Exposure	136%
Volatility (ex-ante: 3 months daily data)	5.5%
Beta (ex-ante)	0.29
Sharpe Ratio	0.65
Sortino Ratio	1.22
Sterling Ratio	0.53
Max Drawdown (monthly)	-8.4%
Annualized Return	4.4%

**SECTOR EXPOSURES (IN PERCENT)**

	Long	Short	Net	Gross
Consumer Discretionary	15	-9	6	24
Consumer Staples	5	-4	2	9
Energy	0	0	0	0
Financials	5	-3	2	8
Health Care	0	0	0	0
Industrials	29	-10	18	39
Information Technology	5	-5	0	10
Materials	4	-4	0	8
Real Estate	20	-6	15	26
Telecommunication Services	0	0	0	0

**GENERAL STATISTICS**

% Return long book	-0.05%
% Return short book	-3.08%
# Longstocks	52
# Short stocks	11
% Long stocks ↑	52%
% Short stocks ↓	64%
# Up days / Down days	10 / 10
Turnover as % NAV	65%



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%								-4.06%
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%	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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