



MARKET COMMENTS

The Japanese equity market refused to break higher and ended the month of May down -1.8%. So far, year-to-date the Japanese market declined -3.9%. Across the region, equities were weak with several Asian markets entering bear market territory. The rising rate environment with regards to the US dollar funding rate, tightens liquidity globally. Because the FED fund rate is THE most important variable to price marginal liquidity, rising rates impact most risky assets first. Despite the risk-off environment the fund's performance was flat last month. Defensive sectors continued to outperform with Japanese Consumer Staples appreciating +3.4% and Health Care +2%.

Global economic growth is strong, but decelerating. IT spending is strong, but bottlenecks emerged. Consumer sentiment is solid and labor markets have tightened, whilst wage inflation remains anemic. Capacity utilization is maxed out; all the above provides sufficient ammunition for the US FED to withdraw from accommodative monetary policy. The BOJ wants to be the last central bank to adjust its policy, because its price inflation target of 2% has not been reached. At some point, the BOJ will change its language, but for the time being, we expect no change with regards to BOJ policy. The long book nicely outperformed the overall market, the 50 stocks in the long book were flat, -0.15%. Whilst the 10 stocks in the short book corrected -4% in May.

SINGLE STOCK OBSERVATIONS

Pola Orbis increased +17%, the stock price hit new all-time highs and the position returned +45bps in May. With high demand for quality defensives, the stock continued to rally, supported by strong earnings and price momentum, despite valuation headwinds. As mentioned in prior newsletters we have significant exposure in listed real estate. Our real estate exposure started to perform well and Ichigo Group contributed +30bps last month. Besides niche-players such as Ichigo, we own specialty REITS and real estate indirectly through FujiMedia and Tokyu Corp. FujiMedia is a TV broadcasting company that owns vast prime land in Tokyo and Tokyu Corp., a rail company, owns key train station assets and currently redevelops its prime location Shibuya. Toshiba Plant Systems appreciated yet another +10% last month. Despite the steady grind higher, valuation is still undemanding and we still strongly believe that Toshiba will present its new strategy with, in our opinion, high odds that Toshiba Plant Systems will be part of Toshiba's core strategy and thus needs to be 100% consolidated. Toshiba's competitor, Hitachi, was in a similar situation and delisted Hitachi Plant in 2010. In any case, Toshiba Plant Systems' business is doing well; strong order growth and healthy margins, provide, in addition to its 1bn US\$ cash balance, sufficient valuation support.

The short position in LeoPalace added +26bps as the stock declined -18% last month, because the company announced an internal investigation relating to falsification of building construction specifications.

Unfortunately, Maeda Road gave back in May all the gains from April, and more. Maeda Road announced decent results, the stock jumped 3% on the numbers, but a lack of further catalysts to unlock the massive undervaluation of the company led to profit taking. Suruga bank was another stinker last month. For the regular read, please let me remind you that we have little exposure to banks, except for special situation, stock specific reasons. Suruga bank was the main lender to a small build-for-let condominium developer called Smart Days. Smart Days was not so smart after all and overpromised the yields from rental income to its, in general low-income, investors. Suruga's employees were accused of falsification of loan documents which led to a 200bn JPY (about 1.8bn US\$ write-down). We bought the initial long position after the scandal broke and, in our opinion, the stock already discounted a very dismal outcome. Needless to say, we were too early and lost -28bps.

RISK ALLOCATION

Net exposure increase somewhat to +45% of which 14% is low, or even negative, beta REIT exposure. The gross exposure remained constant at 130%.

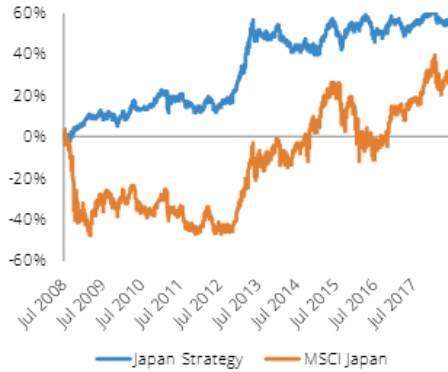
STYLE ASSESSMENT

Value as a style made a brief comeback and quickly returned into its downward trend. Market participants remain in a love with high price- and high earnings-momentum stocks. High price momentum stocks are treated as growth proxies and as long as earnings momentum is supportive, valuation seems to be disregarded. Quantitatively there is a strong correlation between steepness of the yield curve and performance of growth/value stocks. As the US yield curve flattened investors continue to prefer long duration 'growthy' business models.

OUTLOOK

In the coming weeks, annual shareholder meetings will be held and we impatiently awaiting the outcome of the votes. We have increasingly voted against management boards where we see little to no progress in its attitude towards shareholder returns. Japan is on the cusp of a capital market revolution and times have changed, which is not recognized by most of the, still to gradual and slow moving, management teams hiding behind corporate culture instead of stepping up to its leadership responsibilities.

FUND CHARTS AND FACTS



TOP 5 GROSS POSITIONS

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

TOP 5 MOVERS

Pola Orbis (long)	0.45%
Ichigo Group (long)	0.30%
Toshiba Plant Sy (long)	0.29%
Leopalace21 Corp (short)	0.26%
Toray Industries (short)	0.17%

TOP 5 SHAKERS

Maeda Road Const (long)	-0.29%
Suruga Bank (long)	-0.28%
Heiwa Real Estat (long)	-0.26%
Shimachu (long)	-0.17%
THK (short)	-0.16%

FUND FACTOR

	Long	Short
Price to Earnings (PE)	16.5	16.5
EV/EBITDA	13.7	14.3
Price to Book (PB)	1.8	4.8
Dividend Yield	2.2	2.1
EV/IC	1.3	3.7
1 month momentum	0.4	-7.3
12-1 month momentum	28.7	53.4

FUND PERFORMANCE*

Month to date performance	-0.06%
Year to date performance	-3.71%
Inception to date performance	54.62%

**based on share class B EUR*

FUND FACTS*

Fund size in mln EUR	98.79
Fund size in mln USD	103.73
Firm size in mln EUR	235.97
Firm size in mln USD	275.45

RISK STATISTICS

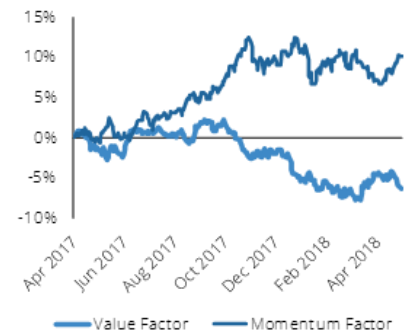
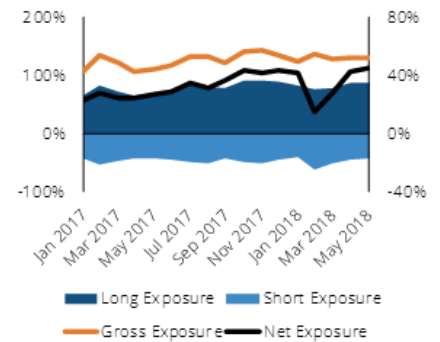
Net Exposure	45%
Gross Exposure	130%
Volatility (ex-ante; 3 months daily data)	5.5%
Beta (ex-ante)	0.29
Sharpe Ratio	0.66
Sortino Ratio	1.24
Sterling Ratio	0.53
Max Drawdown (monthly)	-8.4%
Annualized Return	4.5%

SECTOR EXPOSURES (IN PERCENT)

	Long	Short	Net	Gross
Consumer Discretionary	13	-9	4	22
Consumer Staples	7	-5	1	12
Energy	0	0	0	0
Financials	7	-2	5	8
Health Care	0	-1	-1	1
Industrials	27	-8	18	35
Information Technology	6	-5	1	10
Materials	4	-4	0	8
Real Estate	21	-9	12	29
Telecommunication Services	0	0	0	0

GENERAL STATISTICS

% Return long book	-0.15%
% Return short book	-3.95%
# Long stocks	50
# Short stocks	10
% Long stocks ↑	50%
% Short stocks ↓	90%
# Up days / Down days	7 / 15
Turnover as % NAV	69%



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%									-3.71%
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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