

Great earnings and more buybacks to come

After the strong month of June, July turned out to be a quiet month. Our Japan strategy declined -1.33% in euro terms, whilst the TOPIX index declined -0.99% in the same currency. July was rather uneventful in terms of market moves. The intra-month TOPIX high versus low was just 4.5%, which is surprisingly small for Japan. Index volatility compressed as investor's focus shifted from top-down to bottom-up as earnings season started. For most companies the April-June quarter is the first quarter of fiscal year March 2022. Most companies posted great earnings numbers compared to consensus as well as guidance, but at the same time many companies are still hesitant to increase full year guidance, which, more often than not and in our opinion wrongly, leads to a negative price reaction.

The biggest contributor on the long side this month was **JTower (ticker 4485)**. The stock rallied +29% in July and contributed +52bps. In November last year, this stock contributed +80bps and we closed it after having rallied 150% from September '20 lows into January '21 highs. After a whopping 50% drop this year, we decided to re-visit JTower's fundamentals and with the basic investment thesis unchanged, we re-entered a long position. JTower is the only independent telecom tower company in Japan. It operates inside towers (think shopping malls and large buildings) as well as outside towers. The business case is such that JTower invests in building out tower coverage, which the telecom providers can rent. Instead of each telecom provider building its own tower network they can share towers in certain areas and thereby save capital expenditure. It is a rather simple business idea, but it requires savvy execution to get those competing telecom operators to share infrastructure. JTower's CEO Atsushi Tanaka was the telecom analyst at Goldman, worked at eAccess, and founded JTower in 2012. The business model requires a lot of up-front investment, which is only done if demand is committed, and therefore earnings are depressed in the early years due to heavy depreciation burden. As such the stock trades at very high Price-to-Earnings multiples, but as commitments for rental agreements come in the visibility on future cash flow is very high. On average, a tower costs about JPY15mln. Each mobile carrier pays JPY2mn annually. JTower earns >50% margin on the towers, which indicates a tenancy ratio of two. Those are terrific economics and self-funding. The Ministry of Economy, Trade and Industry (METI) stimulates the carriers to share infrastructure in densely populated areas to increase efficiency and in July JTower announced the acquisition of 71 towers from NTTWest. This carve-out from a dominant player accelerates JTower's growth trajectory and confirmed our thesis.

Reading the sell side analyst reports, we get the impression that market participants have difficulties assessing and deriving an

appropriate intrinsic value. Having studied comparable business models outside Japan, we found the current share price offers excellent risk/reward.

We determine risk/reward by assessing intrinsic value on one hand and potential price draw-down risk. As such, not only single stock position sizing is extremely important, but portfolio construction is an equally important feature for us. In that context, we also allocate a small portion to hyper-growth, early-stage SaaS platforms. This basket (Base, Kaizen, Uzabase, Change, Speee) has pure optionality and we consider these small positions as option premiums paid. The asymmetry of these exponential business models is tremendous and a small allocation can have disproportional positive impact overall portfolio returns. The age of disruption has only just started in Japan, the price volatility and draw-downs of this basket is tremendous and tends to be negatively correlated with yields (lower yields -> higher share price). Whilst our deep value situations are positively correlated with yields (higher yields -> higher share prices). The barbell approach, having exposure on the extreme ends of the value distribution, makes tremendous sense to us. On one hand, the deep value situations have tangible assets such as Real Estate or land with unrealized gains or a massively over-capitalized balance sheet with obvious cash-hoarding or cross-shareholdings. The complication is one of unknown duration to achieve an attractive IRR, that's where engagement comes in to pull forward those juicy returns. On the other hand, the SaaS platforms have tremendous addressable market potential in Japan. In this case the biggest risk lies with execution; if the management team is not able to scale up rapidly. then the option will expire worthless without any tangible asset backing.

ISID (ticker 4812) was the biggest loser this month. After the massive run up in June, the share price gave back some of its gains. To us, it becomes increasingly obvious, that this listed subsidiary is an increasingly strategic asset for its parent, Dentsu. ISID delivers the back-bone and connectivity for front-end digital marketing solutions. The business ISID gets from Dentsu is highly margin accretive and growth is accelerating. The longer Dentsu waits the higher the bid price will have to be.

OUTLOOK

Current earnings season is extremely encouraging, especially on the margin side the increased cost efficiency is remarkable. With the structural labor market shortage, due to declining working population, Japanese companies are embracing productivity-enhancing IT solutions. Margins are trending higher, which is great, however the percentage of companies with net cash above 20% of equity reached new all-time high. Buyback announcements were plentiful, but just not enough yet, which bodes well for our engagement efforts and future returns.

STRATEGY CHARTS AND FACTS



TOP 10 POSITIONS

INFO SERVICES INTL DENTSU	6.2%
DAIBIRU	6.0%
FUJITEC	4.5%
HEIWA REAL ESTATE	3.6%
JTOWER	3.1%
TAIHEI DENGYO KAISHA	2.8%
USS	2.6%
NOMURA RESEARCH INSTITUTE	2.6%
TAKARA LEBEN INFRASTRUCTURE	2.4%
SONY GROUP	2.4%

TOP 5 MOVERS

JTOWER	0.44%
DAISEKI ECO. SOLUTION	0.23%
NEC NETWORKS & SYSTEM	0.16%
TOSEI	0.13%
NIPPON ROAD	0.13%

FUND PERFORMANCE*

	PJRF	TOPIX
Month to date performance	-1.33%	-0.99%
Year to date performance	3.84%	3.08%
Inception to date performance	27.55%	6.13%

*Inception date 17 February 2020, Total Net Return TOPIX Index in euro performance

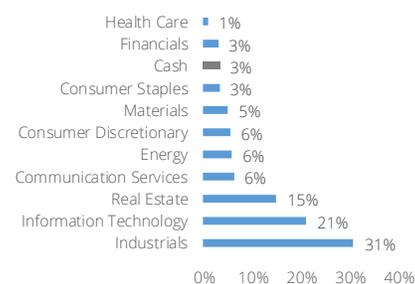
FUND FACTS*

Fund size in mln EUR	32.65
Fund size in mln USD	38.75
Firm size in mln EUR	179.49
Firm size in mln USD	213.05

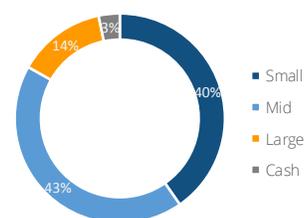
TOP 5 SHAKERS

INFO SERVICES INTL DENTSU	-0.30%
BASE	-0.21%
HEIWA REAL ESTATE	-0.20%
ARIAKE JAPAN	-0.18%
CREO	-0.17%

SECTOR EXPOSURE



MARKET CAP EXPOSURE



STRATEGY PERFORMANCE

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	ITD
2021	-0.81%	1.60%	4.09%	-2.87%	-2.29%	5.72%	-1.33%						3.84%	27.55%
2020		0.74%	5.93%	4.50%	4.60%	-0.81%	-7.66%	4.43%	7.08%	0.54%	1.97%	0.28%	22.83%	22.83%



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