

## BL-EQUITIES JAPAN

July 2019

### Management Report

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Fund Manager



During the month of July, the Japanese market traded in a narrow range and the MSCI Japan NR rose by 0.9%, with transaction volume being very low. The absence of major news flow and the publication of economic data showing no clear trend, led to this rather uninspired mood on the stock market. In terms of sector performance, communication services and utilities enjoyed the best performance while the more cyclical sectors, like materials or industrials were underperforming. The sole exceptions in these sectors were semiconductor related names that benefited from good results from TSMC and Texas Instruments. Aggressive growth stocks also performed very well during most part of the month.

The fund had a slightly negative performance in July and the BL-Equities Japan B Cap fell by 0.4%, thus lagging the main market indexes. While the absence of communication and utilities stocks clearly did not help, weak performances from several individual stocks were the main cause for the underperformance. Among the companies that fell after the publication of quarterly results is Konica Minolta, a global technology company that offers office services, medical solutions and industrial products. Our thesis on Konica Minolta is based on the potential for reorganisation and improvement in overall profitability. As such it is ranked into the "Established Value" category. While we are aware that the road to recovery for these types of companies can be rocky and short term visibility is low, the potential reward over the long-term justifies the investment. In terms of positive contributors to return, Nihon M&A Center, specialized in offering consulting and arranging deals for companies that are struggling to find a successor, and Disco, a provider of cutting tools for the semiconductor industry lead the table. As for the market, aggressive growth stocks in the "Growing Franchises" category had much higher returns than stocks in the other two categories.

In terms of management operations, **Rohto Pharmaceutical** was reintroduced into the portfolio, after having been sold in October 2018 for valuation reasons. Rohto Pharmaceutical is an major player in the domestic consumer healthcare sector. The company is specialised in dermatology and eyecare products, and also markets over-the-counter pain-relief and gastrointestinal medication. Following significant R&D efforts and targeted acquisitions, Rohto has reached a leading position in anti-allergy, eyecare, lip care, solar filters and dry skin products. The company is very active outside Japan, generating roughly 30% of its revenue in Asian markets with strong growth potential.

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### Current Portfolio

#### New Holdings

Rohto Pharmaceutical

#### Investments sold

No transaction

#### Sector Allocation

Energy	0,0%
Materials	3,9%
Industrials	27,4%
Consumer Discretionary	17,1%
Consumer Staples	22,0%
Health Care	10,3%
Financials	0,0%
Information Technology	16,2%
Communication Services	1,5%
Utilities	0,0%
Real Estate	0,0%
Cash	1,7%

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#### Market Capitalisations

Large Caps	(> ¥ 500 bn.)	74,5%
Medium Caps	(¥ 100-500 bn.)	22,6%
Small Caps	(< ¥ 100 bn.)	1,2%
Cash		1,7%

#### Top Holdings

Secom	2,6%
Bridgestone	2,5%
Systemex	2,4%
Shimano	2,3%
Obic	2,3%
Murata Manufacturing	2,2%
Asahi Group Holdings	2,2%
Kao	2,1%
Nihon M&A Center	2,1%
Hoya	2,0%
<b>Weight of Top 10</b>	<b>22,8%</b>
<b>Number of holdings</b>	<b>62</b>

#### Geographic Allocation

Japan	98,3%
Cash	1,7%

#### Company Profiles

Consistent Earners <sup>1</sup>	60,8%
Growing Franchises <sup>2</sup>	20,8%
Established Value <sup>3</sup>	16,7%
Cash	1,7%

Global Exposure	54,8%
Domestic Exposure	43,5%
Cash	1,7%

#### Performance (JPY)<sup>4</sup>

	since 31/12/2018	2018	2017	2016	2015	2014
Fund (B shares)	7,6%	-12,7%	23,9%	3,4%	20,6%	16,7%
MSCI Japan NR	6,8%	-15,1%	19,7%	-0,7%	9,9%	9,5%
Quartile	2	1	2	1	1	1

	3 months	6 months	1 year	3 years	5 years	since launch*
Fund (B shares)	-3,7%	3,2%	-7,6%	28,3%	62,1%	172,0%
MSCI Japan NR	-2,7%	1,5%	-7,3%	25,7%	30,8%	113,4%
Quartile	3	1	2	1	1	1

\* since 28/6/2011

#### General Information

Total Assets (Yen)	¥ 65855 mn
Turnover 2018*	20%
TER 2018 (class B shares)	1,46%
ISIN Code (class B shares)	LU0578148453
ISIN Code (class BI shares)	LU0578148610

\* min (purchases, sales) / average of net assets

#### Volatility<sup>4</sup>

	1 year	3 years	5 years
Fund (B shares)	13,7%	12,4%	15,8%
MSCI Japan	15,0%	14,9%	18,3%
Quartile	1	1	1

<sup>1</sup> Companies that distinguish themselves by a strong competitive advantage. This allows them to attain high levels of profitability and to generate steadily growing revenues over the long term. The potential for consistent and profitable growth is not entirely reflected in the current valuation of the company.

<sup>2</sup> Companies that are well positioned compared to their competitors and often benefit from innovative concepts and products to progress. They evolve in a favourable business environment, leading to high growth and improving quality ratios. Current valuation does not entirely reflect the positive growth outlook for the company.

<sup>3</sup> Companies that are well-established and benefiting from a good competitive position. In the short term however, they may face challenging business conditions and/or a difficult economic environment, leading to a deterioration of their quality ratios. This uncertainty leads to a depressed stock price and very low valuations.

<sup>4</sup> Source : Lipper

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