

## Fund Fact Sheet

30/09/2021

### Asset Class

Equities Japan, all caps

### Fund Characteristics

AUM (¥)	¥ 99'283 mn
AUM (€)	€ 770,4 mn
Launch date	27/06/2011
Oldest share class (B)	LU0578148453
Turnover (2020) <sup>1</sup>	55%
Reference currency	JPY
Hedged share classes available in	EUR / USD / CHF
Legal structure	SICAV, UCITS
Domicile	Luxembourg
European Passport	Yes
Countries of registration	AT, BE, CH, DE, DK, ES, FI, FR, GB, IT, LU, NL, NO, SE, SG, PT

### Representative Market Index

MSCI Japan NR JPY

### Fund Manager

**Steve Glod** joined Banque de Luxembourg's Financial Analysis and Asset Management department in 2001. Since 2011, he has been in charge of Japanese equity investments for the Bank's funds range. Between 2005 and 2010, he was co-manager of US equity investments for the Bank's funds range. Steve has a degree in Mechanical Engineering with a specialisation in business management, and a doctorate in technical sciences from the Swiss Federal Institute of Technology in Zurich (ETH Zurich). He obtained the CEFA (Certified EFFAS Financial Analyst) diploma in 2002.

### Management Company

BLI - Banque de Luxembourg Investments  
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### Dealing & Administrator Details

European Fund Administration (EFA)	
Tel	+352 48 48 80 582
Fax	+352 48 65 61 8002
Dealing frequency	daily**
Cut-off time	12:00 CET
Front-load fee	max. 5%
Redemption fee	none
NAV calculation	daily <sup>2</sup>
NAV publication	www.fundinfo.com

<sup>1</sup> min (purchases, sales) / average of net assets

<sup>2</sup> Luxembourg & Japan banking business day

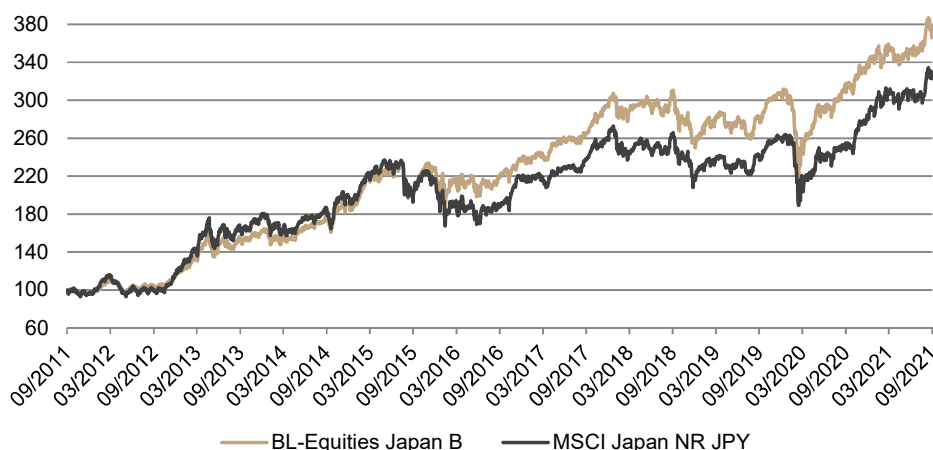
<sup>3</sup> since 28/06/2011

### Investment Objective

The objective of the fund is to achieve long-term capital gains and to outperform its relevant market index by investing in Japanese companies benefiting from a sustainable competitive advantage. In order to achieve this objective, the fund manager implements an active investment strategy based on strong convictions.

### Key Facts

- Concentrated portfolio of Japanese companies (40-60 securities).
- Bottom-up investment approach with a focus on companies enjoying a strong competitive advantage.
- Significant deviations from its relevant market index in terms of sector and market cap allocations.
- Sound balance between export and domestic oriented companies.
- Low turnover.
- Lower volatility than the market.
- Fully invested.



Performance	YTD	2020	2019	2018	2017	2016
Fund (B shares)	8,5%	10,3%	19,6%	-12,7%	23,9%	3,4%
MSCI Japan NR JPY	14,4%	8,8%	18,5%	-15,1%	19,7%	-0,7%

Performance	1 month	3 months	6 months	1 year	3 years	5 years	since launch <sup>3</sup>
Fund (B shares)	0,5%	4,4%	3,6%	17,7%	18,8%	67,7%	262,1%
MSCI Japan NR JPY	4,4%	5,1%	5,3%	29,1%	22,2%	72,3%	194,8%

Annualised Performance	1 year	3 years	5 years	since launch <sup>3</sup>
Fund (B shares)	17,7%	5,9%	10,9%	13,4%
MSCI Japan NR JPY	29,1%	6,9%	11,5%	11,1%

Annualised Volatility	1 year	3 years	5 years	since launch <sup>3</sup>
Fund (B shares)	10,8%	15,6%	13,7%	15,5%
MSCI Japan NR JPY	14,0%	18,1%	15,9%	18,6%

The market index (MSCI Japan NR) is shown in the performance chart as well as in the performance tables above for performance measurement purposes only and it should under no circumstances be considered as an indication of a specific investment style or strategy.

Investors are also invited to consult the performance chart disclosed in the key investor information document of the sub-fund.

**Current Portfolio**

30/09/2021

**Top Holdings**

Asahi Intecc	2,9%
Shimano	2,8%
Obic	2,8%
Secom	2,8%
Kao	2,7%
Komatsu	2,5%
Nintendo	2,5%
Disco	2,4%
Toray Industries	2,4%
Nichirei Corp	2,4%
<b>Weight of Top 10</b>	<b>26,2%</b>
<b>Number of holdings</b>	<b>52</b>

**Asset Allocation**

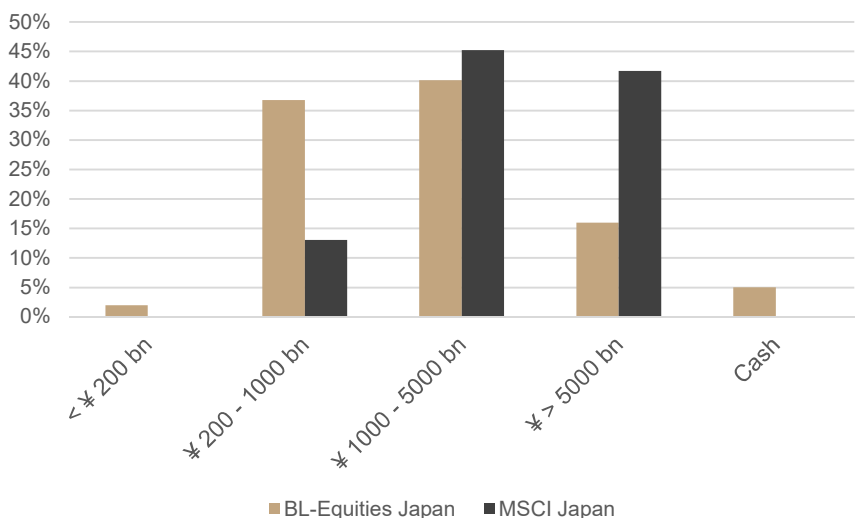
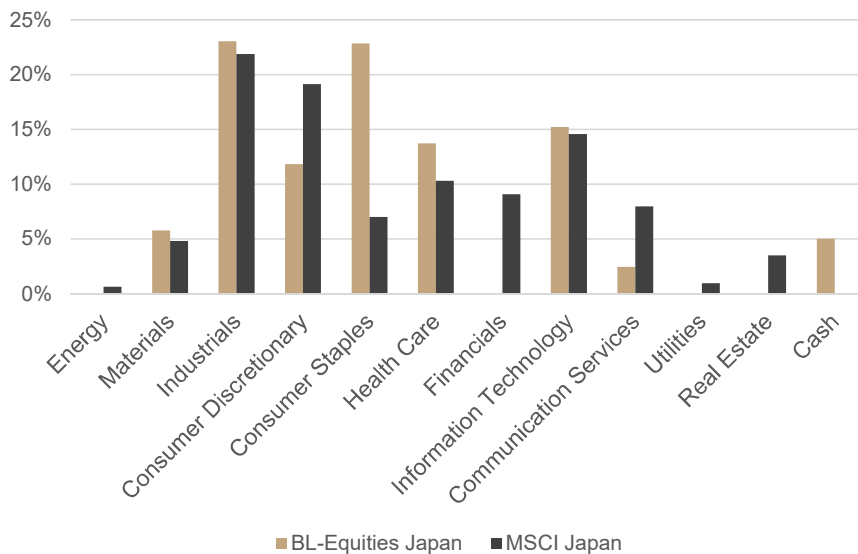
Japan	95,0%
Cash	5,0%

**New Investments in September**

no transactions

**Investments sold in September**

no transactions



Investor Type	Clean Share	Eligibility Restrictions	Share class	Currency	Currency Hedging	Income	Mgmt Fees	On-going Charges	SRRI	ISIN	Bloomberg Ticker
Retail	No	No	A	JPY	No	Dis	1,25%	1,43%	6	LU0578147992	BLEJPBA LX
Retail	No	No	B	JPY	No	Cap	1,25%	1,43%	6	LU0578148453	BLEJPBC LX
Retail	No	No	B EUR Hedged	EUR	Yes	Cap	1,25%	1,42%	6	LU0887931292	BLEJHAE LX
Retail	No	No	B CHF Hedged	CHF	Yes	Cap	1,25%	1,43%	6	LU1305478007	BLEJBCH LX
Retail	No	No	B USD Hedged	USD	Yes	Cap	1,25%	1,44%	6	LU1008595644	BLEJPH2 LX
Retail	Yes	Yes	AM	JPY	No	Dis	0,85%	1,03%	6	LU1484141814	BLEJBAM LX
Retail	Yes	Yes	BM	JPY	No	Cap	0,85%	1,03%	6	LU1484141905	BLEJPBM LX
Retail	Yes	Yes	BM EUR Hedged	EUR	Yes	Cap	0,85%	1,00%	6	LU1484142036	BLEJBME LX
Retail	Yes	Yes	BM CHF Hedged	CHF	Yes	Cap	0,85%	1,02%	6	LU1484142200	BLEJBMC LX
Retail	Yes	Yes	BM USD Hedged	USD	Yes	Cap	0,85%	1,03%	6	LU1484142119	BLEJBMU LX
Institutional	No	Yes	BI	JPY	No	Cap	0,60%	0,74%	6	LU0578148610	BLEQJAI LX
Institutional	No	Yes	BI EUR Hedged	EUR	Yes	Cap	0,60%	0,74%	6	LU1484142465	BLEJBIE LX
Institutional	No	Yes	BI CHF Hedged	CHF	Yes	Cap	0,60%	0,74%	6	LU1484142382	BLEJBIC LX

## Management Report

30/09/2021

During the month, the BL-Equities Japan (retail share class B Cap in JPY) returned 0.5%, while the MSCI Japan NR returned 4.4%. The Japanese market enjoyed a strong catch-up rally, outperforming most other markets and reaching new highs not seen since August 1990. The renewed interest from foreign investors was the main reason behind this strong performance. Many global investors reallocated more money to Japan, as they started questioning valuations of US equities and were confronted with uncertainties over regulatory measures in China. News flow in Japan on the other hand was rather reassuring, with vaccination rates continuing to gain traction and political uncertainties being lifted with the appointment of Mr. Kishida as the new president of the LDP. In terms of sector and style performance, the period proved extremely challenging for our investment style. While at the beginning of the month, growth and large cap stocks were driving strong market gains, towards the end of the month, value, cyclical and financial stocks were chased on the back of talks about higher rates and inflation. Needless to say that for both periods the portfolio's overweight position in defensive stocks, its mid-cap bias and the absence of financials and deep cyclicals did not help. In terms of individual performances, the three major contributors were TechnoPro, a staffing company, Murata Manufacturing, a manufacturer of electronic components and Sony. The three major performance detractors were Pigeon, Kobe Bussan and Asahi Intecc. Kobe Bussan suffered from profit taking after they released quarterly results that disappointed some investors. This did however not impact our long term thesis on the company.

In terms of portfolio management, apart from the usual adjustments to add to positions on weakness and take some profits on high valuations, no major transactions were made. Among the Top 10 holdings, Secom was among the companies whose weighting was increased. Secom is Japan's biggest provider of security services to commercial and residential customers. This business comprises electronic and on-line security solutions, static guard services and armored car services. Secom also offers fire protection (e.g. alarm systems), medical (e.g. remote patient monitoring), insurance, communication (e.g. data center services) and technology (e.g. online security) services, mostly through subsidiaries. It generates the vast majority of its revenues in Japan, but has some footprint in security in other Asian countries as well, for example through minority participations in Taiwan Secom and S1 (Korea). Secom is a portfolio holding since the launch of the fund.

Recent stock price performance has been disappointing as the company is negatively impacted by the pandemic, while the announcement to increase investments for future growth has not been well received by investors either (especially by those with a shorter-term view). We remain confident that the company can generate good shareholder returns over the long term based on its competitive strengths and current attractive valuation. As the pioneer and clear leader in Japan's security services industry (market share of 60-70% in terms of number of electronic security contracts), Secom's competitive advantage is based on its ability to provide integrated security solutions, its strong client retention potential, a vast client network and significant economies of scale. Its business model is mainly based on long-term contracts that provide the customer with a complete security solution, including access to Secom's large network of first-responders, remote security monitoring and the rental of the equipment. These contracts initially cover 5 years and are then renewed annually. They provide Secom with a recurring revenue stream. As these contracts include the installation of sensors, as well as automatic upgrades and maintenance of the installed security systems, switching costs for customers are high. The expansion of new business segments helps gain new customers and often provide entry points to sell higher margin security products.

Secom has enjoyed high growth rates in the past and is well positioned to continue increasing the scope of its business activities. New products and services, like the use of artificial intelligence and 5G connection for security services, life care security (smart locks, patient monitoring) and information security (data management, electronic verification, cashless payments) provide growth opportunities. Secom should capture a larger part of the market for social infrastructure in Japan as it offers a wide range of business solutions around security and related services. This broad product portfolio and increasing sophistication, should allow Secom to gain new clients and increase the average value of its existing contracts. Long term growth drivers also include an ageing population (that has higher needs for security and medical monitoring solutions) and digitalization (demand for IT related security services). Although still a very small proportion of sales, overseas expansion also provides growth opportunities.

## Investment Approach

### Investment Principles

#### **Master Investment Risks**

Risks arise when the parameters of an investment are not properly understood.

#### **Focus on an entire business cycle**

Only over the long term stock markets reflect underlying economic fundamentals

#### **Focus on quality**

We invest in companies enjoying a sustainable competitive advantage.

#### **Focus on valuation**

The price paid for an investment determines its potential return.

#### **Focus on active management**

Portfolio structure deviates significantly from its relevant market index .

### Equity Investment Approach: Business-Like Investing

#### **Rationale**

We consider an equity investment as a long-term participation in a quality business. Our focus is on companies enjoying a tangible and sustainable competitive advantage ensuring high levels of profitability and strong free cash-flow generation.

#### **Quality**

In the first step of our investment process, we perform an in-depth review of the targeted company's business model in order to identify its tangible competitive advantage. A competitive advantage makes it stand out and creates barriers to entry for competitors.

In the second step we analyse whether the competitive advantage translates into high profitability and high levels of free cash-flow. We put a special emphasis on the analysis of the maintenance capex requirements of the targeted companies to make sure that the generated cash-flow is not absorbed by high investment needs to sustain its current business operations.

In the third step, we analyse how the company uses its capital. Company management faces the following options: investment in current business activities, development of new activities, takeovers, dividend payments, stock buybacks or debt repayments. It is important that the company reinvests its cash flow in activities that offer a similar or better return potential than its current businesses.

#### **Valuation**

Even investments in quality companies may lead to significant capital losses if the price paid for the investment is too high. To avoid this pitfall, we derive a fair value for each targeted company prior to investing. This fair value is based on the company's normalised free cash-flow and serves as reference point for our buy and sell discipline.

We only initiate a position if the company's stock price offers a discount against its fair value.

### Portfolio characteristics

BL-Equities Japan's investment portfolio consists of 40 to 60 stocks that meet our quality and valuation criteria.

Investments are concentrated in defensive sectors, such as health care or consumer goods as well as sectors in which Japanese companies benefit from significant competitive advantages (industrials, materials, technology). On the other hand there are sectors like financials, utilities or telecom where we find few - if any - companies that meet our criteria.

The portfolio of BL-Equities Japan tends to be geared towards mid-sized companies. In this market segment we find many candidates benefiting from competitive advantages in market niches. The large cap market segment of the Japanese stock market tends to be dominated by large industrial conglomerates, financial holdings and automobile companies that do not comply with our investment criteria.

While the portfolio structure (by sectors, market cap, ...) is purely the outcome of individual investment decisions, we differentiate between export-oriented and domestic companies. Since these two types of companies are influenced by different external factors, their market reactions also tend to be very different. In order to master the volatility level of the fund, we make sure to have a sound balance between the two types of companies.

We are convinced that our strategy to limit our investments to quality companies benefiting from a strong competitive advantage results in a superior risk - return profile compared to the benchmark over an entire market cycle.

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