



UBAM – angel japan small cap equity

Quarterly Comment | Q4 2021

For Qualified Investors in Switzerland or Professional Investors or Eligible Counterparties as defined by the relevant laws.

Market Comment

- TOPIX (TR) growth during Q4 was -1.7% (JPY). The market decline was a result of inflation concerns caused by rising energy prices and supply chain problems, tapering forecasts for the US, and alarm over the spread of the omicron Covid variant. That said, we did see a rebound towards the end of the quarter as data came out suggesting lesser severity of illness caused by omicron and support from US equity market strength. This meant the overall quarterly fall only came to 1.7%.
- The market fell at the beginning of October given inflation concerns caused by rising energy prices and supply chain problems as well as US interest rate growth. Through the end of October, the market then grew as oil prices and US interest rates stopped rising, excessive inflation fears abated, and political risk faded as the ruling LDP party's victory in the end-October general election meant an increased likelihood of continued domestic political stability. Moving into late-November, the market then fell again as the discovery of omicron led to increased risk avoidance. Equity prices then rebounded as it became clear omicron presents a lower risk of severe illness, and strength in the US market propped up the Japanese market through the end of December.
- In December, equity prices rose at the beginning of the month, rebounding from the end-November decline caused by the hit to the economy as omicron made the rounds. The rebound came despite increasing infection numbers across the globe as more market participants came to see a lower risk of severe illness from omicron.
- The market fell during the middle of the December despite increased visibility for monetary policy following the FOMC's announcement of an accelerated tapering process, just as the market expected. The drop was caused by concerns over the Chinese economy following the decision by the People's Bank of China to lower rates.

Sources: UBP, Bloomberg Finance L.P.

Performance Review

- The portfolio outperformed the MSCI Japan Small Cap index by 1.40% net of fees (Institutional share class in JPY, LU0306285197). Stock selection was the main driver of underperformance while sector allocation was slightly in negative territory. Unlike during Q3, stock picking was very strong in Information Technology. Stock selection was also positive in Materials and Industrials. Communication Services, where the fund is overweight was negative from a stock selection standpoint.
- The fundamentals around the companies in our portfolio has not changed, as EPS growth is 32.3% this fiscal year and 39.9% next year. We believe it is a good opportunity to invest at a cheaper level.
- The best performing during Q4 was RORZE. The firm develops a transfer device that is indispensable in the manufacturing process of semiconductors and FPDs (flat panel displays such as liquid crystal panels). Even a single minute dust is not allowed in the semiconductor manufacturing process. The company's conveyors meet these requirements, and are highly competitive with excellent operational precision, high speed, and durability, and are supplied all over the world.
- The second-best performing stock was SNOW PEAK, a high-class outdoor equipment brand recognized for its quality. Recovering sales both in Japan and overseas, due to the rebuilding of its distribution network (including online) and increasing medium-term growth. Following the impact of COVID-19, increasing demands for outdoor activities to avoid 3 Cs (closed spaces, crowded places, and close-contact settings), so we added in August 2020.

Portfolio Activity

- We interviewed with 276 companies during Q4 and 1,080 in 2021. We added 3 companies and sold out 4 during the quarter to keep portfolio's best quality. During the whole year we added 16 names and sold out 17
- We sold out DIGITAL INFORMATION TECHNOLOGIES is a system development firm mainly for financial, IT and automobile industries and has many contracts with mega banks. The company is actively working not only on contract development but also and lately on the development of in-house developed software.
- We added ADWAYS INC, a major player of affiliate (performance-based) advertising companies in Japan. The firm is developing "UNICORN", an advertisement distribution automation tool for mobile applications. As a result, the company succeeded in automating all process related to distribution with AI and machine learning.
- The company was also affected by the movement to reduce hype on the Internet, but after the customer restructure had settled down, "UNICORN" entered the takeoff period and we started to add.

Outlook

- We expect market movements to remain unstable over the near term given fears over omicron. However, any impact on the global economy will be transitory and limited in scope. We expect the global economy to see continued growth through 2022. That said, we note that 2022 will also be the year we see full-on monetary tightening. While inflationary pressure and rising interest rates will no doubt drag on the global economy, we note that recent inflation has largely been the result of supply chain problems. We believe the supply chain will gradually resolve this problem and that interest rate growth and global economic expansion will continue while inflationary pressures come under control.
- The primary driver of the mid-month rise was a positive outlook on a new administration as Suga and his cabinet took their leave. With Fumio Kishida, also from the LDP, taking over as prime minister there has been no significant change to government policy. We expect the LDP will maintain its dominant position in government through the October general election and that it will push for further economic stimulus.
- The Japanese equity market underperformed other developed countries in 2021 because of the slow domestic economic reopening and the country's high degree of economic reliance on China, where economic growth slowed. In 2022 we expect the Japanese economy to get back into full swing, albeit at a slower pace than overseas, and the Chinese economy to recover. We expect Japanese GDP growth to be above 3% in 2022, higher than the above 2%-level achieved in 2021, while worldwide growth will slow YoY.
- We note that Japanese equities have historically tended to outperform during periods of rising rates. With the Japanese market currently recording a relatively low average PER of around 14x, we believe it can be expected to outperform its developed peers in 2022.

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