

Sector Zen Firmly in Positive Performance Territory in 2017

Stockholm (HedgeNordic) – The Norwegian-based Sector Zen, a value-driven long/short equity fund investing in the Japanese equity market, posted a monthly return of 0.86% in July, bringing the year-to-date return to 5.41%. The fund's 2017 performance will also receive a one percentage point boost later this year, as one of its long positions was recently announced to be subject to a takeover bid at a 48% premium in middle November. All things considered, Sector Zen appears to be on track to deliver the highest annual return since posting a staggering return of 28.79% in 2013.

Sector Zen seeks to capitalize on the fact that approximately two-fifths of the 2,015 companies comprising the Tokyo Stock Price Index (TOPIX) trade below book value. According to a fresh letter to shareholders issued by the fund, most of these companies are found within the small- and mid-cap universe of stocks, which are ignored by both the buy- and sell-side communities. 55% of companies that represent the broad Japanese small-cap universe receive zero analyst coverage, which creates attractive investment opportunities for stock picking-oriented niche strategies. More importantly, roughly two-thirds of Sector Zen's long portfolio comprises attractively-valued subsidiaries of larger parent companies. This implies buy-ins and spin-offs will continue to represent a major driver for the Oslo-based fund's returns going forward.

On August 3, a wholly owned subsidiary of Itochu and a wholly owned subsidiary of FamilyMart announced plans to jointly make a takeover bid for the shares of credit card company Pocket Card in November or later. The two subsidiaries and Pocket Card's largest shareholder, Sumitomo Mitsui Financial Group, intend to take the company private, with minority shareholders set to be bought out via a cash bid at a 48% premium. Sector Zen's holding in Pocket Card accounted for approximately 2% of the fund's net asset value prior to the takeover, with the position anticipated to contribute nearly 1% to the overall return on a gross basis. This was the 30th takeover within the fund's long book since inception.

Sector Zen's 0.86% return in July was predominantly driven by four listed subsidiaries of larger parent companies: Toyo Kohan, Shin-Etsu Polymer Mitsubishi, Nichyu Forklift, and Torii Pharmaceutical. The short book impacted the July performance by 0.6%, predominantly reflecting a rally in the share price of Yaskawa Electric after releasing a strong earnings report. The fund's portfolio comprises 51 positions as of the end of July, of which 39 longs and 12 shorts. The portfolio exhibits a gross exposure of 126% and a net long exposure of 44%.