



# United Japan Discovery Fund

**Quarterly Report**  
**31 October 2018**



# UNITED JAPAN DISCOVERY FUND

## GENERAL INFORMATION ABOUT THE FUND

### Commencement Date

United Japan Discovery Fund (the “Fund”) was launched on 12 October 2015 and the initial offer period was 21 days, up to 1 November 2015. The Fund commenced investment on 2 November 2015.

### Fund Category and Type

Fund Category - Wholesale (Feeder Fund)

Fund Type - Growth

### Name of Target Fund

Target Fund - United Japan Small and Mid Cap Fund (the “Target Fund”)

### Investment Objective, Policy and Strategy of the Fund

#### Investment Objective of the Fund

The Fund seeks to provide investors with long term capital appreciation by investing in the United Japan Small and Mid Cap Fund (the “Target Fund”) which has an investment focus in Japan.

#### Investment Policy and Strategy

The Fund seeks to achieve its investment objective by investing a minimum of 90% of the Fund's net asset value (“NAV”) in the United Japan Small and Mid Cap Fund (“Target Fund”) at all times. Accordingly, this Fund will have a passive strategy as all the investment decisions will be made at the Target Fund level.

#### Asset Allocation

- A minimum of 90% of the Fund's NAV in the Target Fund; and
- Up to 10% of the Fund's NAV in liquid assets.

#### Performance Benchmark

Morgan Stanley Capital Investment Japan Small Mid Cap Index (“MSCI Japan SMID Cap Index”), which is also the performance benchmark of the Target Fund.

(Bloomberg Ticker: MXJPSM Index)

## Classes of Units

(1) MYR hedged Class and (2) MYR Class.

MYR hedged Class and MYR Class were launched on 12 October 2015.

## Distribution Policy

Subject to the availability of income, distribution is incidental. Distribution of income will only be made from realized gains or realized income.

**MANAGER'S REPORT – UNITED JAPAN DISCOVERY FUND  
 QUARTERLY REPORT  
 (1 AUGUST 2018 TO 31 OCTOBER 2018)**

**United Japan Discovery Fund - MYR hedged Class**

**Fund Performance Review**

For the period under review, the United Japan Discovery Fund (MYR hedged Class) registered a negative return of 7.08%, outperforming the benchmark return of -7.95%.

The Fund is 97.16% invested in the Target Fund as at end October 2018.

**Fund Performance Data (as at 31 October 2018)**

	1 m	3 m	6 m	12 m	YTD	Since inception (2 November 2015)
United Japan Discovery Fund (MYR hedged Class)	-8.29%	-7.08%	-3.85%	2.80%	-3.03%	53.85%
Benchmark: MSCI Japan SMID Cap Index (JPY)	-9.98%	-7.95%	-9.91%	-8.35%	-11.82%	7.79%



Source: UOBAM(M), Bloomberg as at 31 October 2018

Note: The performance of the Fund is benchmarked against the MSCI Japan SMID Cap Index.

Past performance is not necessarily indicative of future performance and unit prices and investment returns may go down, as well as up.

<b>United Japan Discovery Fund - MYR hedged Class</b>	<b>As at 31 October 2018</b>
Net Asset Value (RM million)	64.43
Units In Circulation (million)	124.73
Net Asset Value Per Unit (RM)	0.5168
Highest Net Asset Value Per Unit (RM)	0.7729
Lowest Net Asset Value Per Unit (RM)	0.4275

### **United Japan Small and Mid Cap Fund (Target Fund)**

#### **Target Fund Performance Review**

The Target Fund has been consistently generating the quarterly basis excess return since February 2017. Meanwhile, although the Target Fund outperformed the benchmark during the quarter from August to October 2018 as well, the actual performance figure was negative due to the uncertain market condition.

Many stocks included in the Target Fund announced their 1Q earnings results of their fiscal year (April 2018-March 2019) during the period but some of them were heavily sold because the results were weaker than the market expectation. However, the Target Fund saw that those price actions were only pricing in the quarterly results and missed to identify the value of earnings growth over the next three years. Therefore, the Target Fund increased the weight of those stocks that declined sharply over the period because they were significantly left undervalued.

*Source: UOB Asset Management Ltd*

#### **Target Fund Performance Data (as at 31 October 2018)**

	1 m	3 m	6 m	1 year	3 years (annualised)	Since inception (10 March 2014) (annualised)
United Japan Small and Mid Cap Fund (JPY Class)	-9.06%	-8.12%	-5.69%	0.38%	13.76%	16.84%
Benchmark: MSCI Japan SMID Cap Index (JPY)	-9.96%	-7.41%	-9.24%	-6.86%	4.21%	9.43%

*Source: UOB Asset Management Ltd, Fund Factsheet as at 31 October 2018*

#### **Investment Policy and Strategy employed by the Target Fund**

In terms of stock selection, the Target Fund focused on investing in companies which are left undervalued compare to the target price derived from their Enterprise Value ("EV") analysis. The Target Fund has a large exposure toward domestic demand related sectors such as "Services", "Information & Communication" and "Retail Trade", which they believe it will benefit more for both short and mid-term from the growth strategies such as foster of new industries led by deregulations and structural reforms.

## Outlook and Strategy of the Target Fund

The Target Fund believes that Japan's fundamentals are substantially solid and are having momentum which can be confirmed from the economic indicators such as Gross Domestic Product ("GDP"), Bank of Japan ("BOJ")'s Tankan survey and labor market statistics etc. Meanwhile, there are uncertainties globally that include the trade conflicts between the United States of America ("U.S.") and the other countries, mainly China, at the moment.

Under such market environment, the Target Fund will follow its investment policy which is always same. The Fund aims to identify companies that can show earnings growth regardless of Japan's economic cycles as well as global uncertainties which their current share prices are missing to identify the value of their future growth. Many of the stocks included in the Target Fund are related to deregulations and structural reforms in Japan. Because when the driver of earnings growth is backed by these elements, the earnings will be less affected by the economic cycles and the global uncertainties.

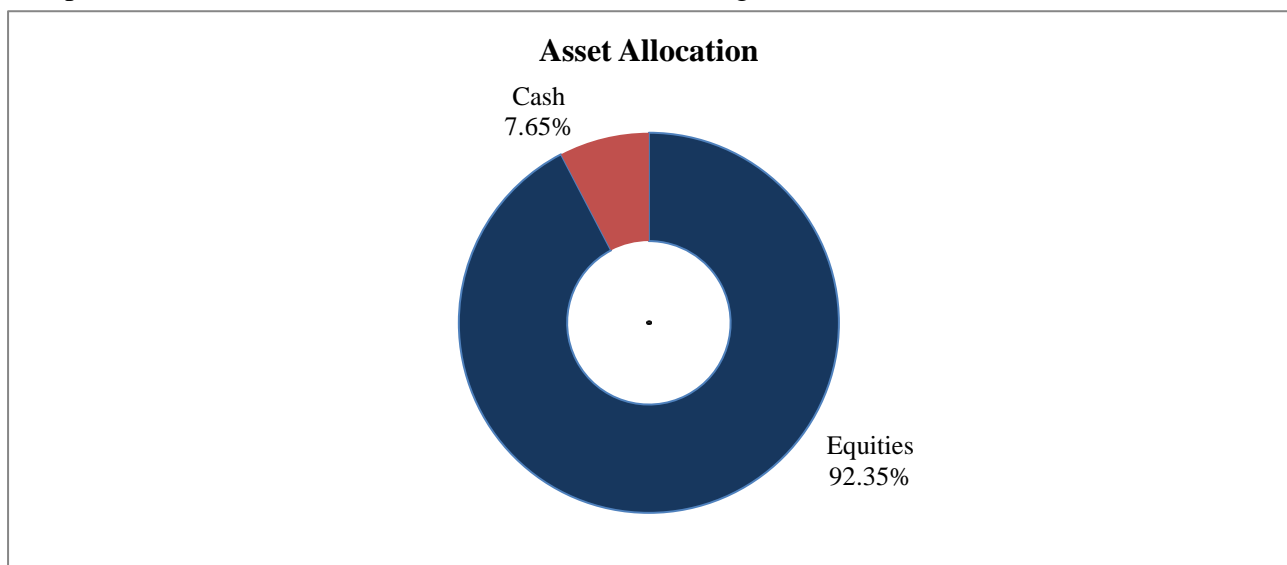
Source: UOB Asset Management Ltd

## PORTFOLIO STRUCTURE

The table below is the asset allocation of the Fund for MYR hedged Class for the financial period under review.

	As at 31 October 2018 (%)
Collective investment scheme	97.16
Cash and others	2.84
<b>Total</b>	<b>100.00</b>

The pie chart below shows the asset allocation of the Target Fund as at 31 October 2018.



Source: UOB Asset Management Ltd

## **OTHER MATTER**

- (a) As at 31 October 2018, there was no subscription of units in MYR Class. As such, for the period under review, there was no return for MYR Class.

### **Market Review**

During August to October, the Tokyo Price Index ("TOPIX") declined 6.1%. As at the end of September, Japan stock indices were showing positive performance mainly due to favorable improving situation regarding the trade conflict between the U.S. and China. However, the sharp decline was created in October triggered by the U.S. market. The strong U.S. economic indicators raised interest rates which caused the stock market plunge. The stock markets globally were affected by this negative event and the Japan stock market was one of them.

Meanwhile, Japan stock market gained six consecutive trading days at the end of November which we saw it as an improvement in investors' risk-sentiment. There was money flow into strong earnings companies that included the stocks in the Target Fund during the period.

*Source: UOB Asset Management Ltd*



**UNITED JAPAN DISCOVERY FUND**

**STATEMENT OF FINANCIAL POSITION (UNAUDITED)  
AS AT 31 OCTOBER 2018**

	Note	31.10.2018 RM	30.04.2018 RM
<b>ASSETS</b>			
Investments	1	63,522,385	51,242,172
Forward foreign currency contracts	2	326,297	754,759
Amount due from Manager		-	198,806
Cash at bank		1,369,591	478,922
<b>TOTAL ASSETS</b>		<u>65,218,273</u>	<u>52,674,659</u>
<b>LIABILITIES</b>			
Amount due to Manager		749,815	-
Amount due to Trustee		3,435	2,756
Accruals		11,659	20,675
<b>TOTAL LIABILITIES</b>		<u>764,909</u>	<u>23,431</u>
<b>UNITHOLDERS' EQUITY</b>			
Unitholders' capital		59,977,564	36,460,498
Retained earnings		4,475,800	16,190,730
<b>TOTAL EQUITY, REPRESENTING NET ASSET VALUE ("NAV") ATTRIBUTABLE TO UNITHOLDERS</b>		<u>64,453,364</u>	<u>52,651,228</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u>65,218,273</u>	<u>52,674,659</u>
<b>NET ASSET VALUE ATTRIBUTABLE TO UNITHOLDERS</b>			
- MYR HEDGED CLASS		<u>64,453,364</u>	<u>52,651,228</u>
<b>UNITS IN CIRCULATION</b>			
- MYR HEDGED CLASS		<u>124,726,106</u>	<u>82,261,001</u>
<b>NET ASSET VALUE PER UNIT IN MYR</b>			
- MYR HEDGED CLASS		<u>0.5168</u>	<u>0.6401</u>
<b>NET ASSET VALUE PER UNIT IN RESPECTIVE CURRENCIES</b>			
- MYR HEDGED CLASS (MYR)		<u>0.5168</u>	<u>0.6401</u>

The accompanying notes form an integral part of the unaudited financial statements.

**UNITED JAPAN DISCOVERY FUND**

**STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)  
FOR THE QUARTER OF 1 AUGUST 2018 TO 31 OCTOBER 2018**

	<b>01.08.2018 to 31.10.2018 RM</b>	<b>01.08.2017 to 31.10.2017 RM</b>
<b>INVESTMENT (LOSS)/INCOME</b>		
Interest income from deposits with a licensed financial institution	12,224	3,590
Net (loss)/gain on investments at fair value through profit or loss (“FVTPL”):		
- net realised gain on sale of investments at FVTPL	-	284,796
- net unrealised (loss)/gain on changes in fair values	(3,993,498)	1,364,749
Net realised (loss)/gain on forward foreign currency contracts	(1,266,503)	446,561
Net realised foreign currency exchange loss	(4,681)	(10,282)
Net unrealised gain on forward foreign currency contracts	616,516	201,894
	<u>(4,635,942)</u>	<u>2,291,308</u>
<b>EXPENSES</b>		
Manager’s fee	20,944	8,168
Trustee’s fee	9,630	3,783
Auditors’ remuneration	2,344	2,269
Tax agent’s fee	1,059	1,059
Other expenses	2,219	7,445
	<u>36,196</u>	<u>22,724</u>
<b>NET (LOSS)/INCOME BEFORE TAXATION</b>	(4,672,138)	2,268,584
Tax expense	-	-
	<u>-</u>	<u>-</u>
<b>NET (LOSS)/INCOME AFTER TAXATION, REPRESENTING TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE FINANCIAL PERIOD</b>	<u>(4,672,138)</u>	<u>2,268,584</u>
Net (loss)/income after taxation is made up of the following:		
Realised (loss)/income	(1,295,156)	701,941
Unrealised (loss)/income	(3,376,982)	1,566,643
	<u>(4,672,138)</u>	<u>2,268,584</u>

The accompanying notes form an integral part of the unaudited financial statements.

**UNITED JAPAN DISCOVERY FUND**

**STATEMENT OF CHANGES IN NET ASSET VALUE (UNAUDITED)  
FOR THE QUARTER OF 1 AUGUST 2018 TO 31 OCTOBER 2018**

	<b>Unitholders' capital RM</b>	<b>Retained earnings RM</b>	<b>Total net asset value RM</b>
Balance as at 1 August 2017	1,317,999	10,577,477	11,895,476
Movement in net asset value:			
Total comprehensive income for the financial period	-	2,268,584	2,268,584
Creation of units			
- MYR HEDGED CLASS	17,917,735	-	17,917,735
Cancellation of units			
- MYR HEDGED CLASS	(5,392,092)	-	(5,392,092)
	<u>13,843,642</u>	<u>12,846,061</u>	<u>26,689,703</u>
Balance as at 31 October 2017			
Balance as at 1 August 2018	39,810,411	18,088,899	57,899,310
Movement in net asset value:			
Total comprehensive loss for the financial period	-	(4,672,138)	(4,672,138)
Creation of units			
- MYR HEDGED CLASS	20,666,199	-	20,666,199
Reinvestment of units			
- MYR HEDGED CLASS	8,940,961	-	8,940,961
Cancellation of units			
- MYR HEDGED CLASS	(9,440,007)	-	(9,440,007)
Distributions	-	(8,940,961)	(8,940,961)
	<u>59,977,564</u>	<u>4,475,800</u>	<u>64,453,364</u>
Balance as at 31 October 2018			

The accompanying notes form an integral part of the unaudited financial statements.

**UNITED JAPAN DISCOVERY FUND****STATEMENT OF CASH FLOWS (UNAUDITED)  
FOR THE QUARTER OF 1 AUGUST 2018 TO 31 OCTOBER 2018**

	<b>01.08.2018 to 31.10.2018 RM</b>	<b>01.08.2017 to 31.10.2017 RM</b>
<b>CASH FLOWS FROM OPERATING AND INVESTING ACTIVITIES</b>		
Proceed from sale of investments	-	1,340,486
Purchase of investments	(11,098,837)	(10,785,821)
Interest received from deposits with a licensed financial institution	12,224	3,590
Manager's fee paid	(16,922)	11,474
Trustee's fee paid	(9,122)	(3,781)
Payment of other fees and expenses	(3,708)	(9,041)
Net realised foreign currency exchange loss	(4,681)	446,561
Net realised loss on forward foreign currency contracts	(1,266,503)	(10,282)
Net cash used in operating and investing activities	<u>(12,387,549)</u>	<u>(9,006,814)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from creation of units	20,462,553	16,288,284
Payment for cancellation of units	(9,258,409)	(5,944,888)
Net cash generated from financing activities	<u>11,204,144</u>	<u>10,343,396</u>
<b>NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(1,183,405)</b>	<b>1,336,582</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE FINANCIAL PERIOD</b>	<u><b>2,552,996</b></u>	<u><b>227,485</b></u>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL PERIOD</b>	<u><b>1,369,591</b></u>	<u><b>1,564,067</b></u>
Cash and cash equivalents comprise the following:		
Cash at bank	<u>1,369,591</u>	<u>1,564,067</u>

The accompanying notes form an integral part of the unaudited financial statements.

**UNITED JAPAN DISCOVERY FUND**

**NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)**

**1. INVESTMENTS**

	<b>31.10.2018</b>	<b>30.04.2018</b>
	<b>RM</b>	<b>RM</b>
Investments designated as FVTPL:		
- foreign collective investment schemes	63,522,385	51,242,172
	<b>01.08.2018</b>	<b>01.08.2017</b>
	<b>to</b>	<b>to</b>
	<b>31.10.2018</b>	<b>31.10.2017</b>
	<b>RM</b>	<b>RM</b>
Net (loss)/gain on investments at FVTPL comprised:		
- net realised gain on sale of investments at FVTPL	-	284,796
- net unrealised (loss)/gain on changes in fair values	(3,993,498)	1,364,749
	<u>(3,993,498)</u>	<u>1,649,545</u>

Investments designated as FVTPL as at 31 October 2018 are as follows:

Name of Counter	Quantity	Cost RM	Fair value RM	Fair value expressed as a percentage of value of the Fund %
<b>COLLECTIVE INVESTMENT SCHEMES - FOREIGN</b>				
United Japan Small and Mid Cap Fund-JPY Distribution Class ("Target Fund")	832,211	62,040,314	63,522,385	98.56
<b>EXCESS OF FAIR VALUE OVER COST:</b>				
- UNREALISED FAIR VALUE GAIN		<u>927,617</u>		
- UNREALISED FOREIGN EXCHANGE GAIN		<u>554,454</u>		
<b>TOTAL INVESTMENTS AT FVTPL</b>		<u>63,522,385</u>		

## 2. FORWARD FOREIGN CURRENCY CONTRACTS

As at the date of statement of financial position, there are 6 (30.04.2018: 6 forward foreign currency contracts) outstanding.

The notional principal amount of the outstanding forward foreign currency contracts amounted to RM62,483,067 (30.04.2018: RM47,299,767).

The forward foreign currency contracts entered into were for hedging against the currency exposure arising from the investments in the collective investment schemes denominated in Japanese yen ("JPY").

As the Fund has not adopted hedge accounting, the change in fair value of the forward foreign currency contract are recognised immediately in the profit or loss.

## 3. MANAGEMENT EXPENSE RATIO ("MER")

	<b>01.08.2018 to 31.10.2018 %</b>	<b>01.08.2017 to 31.10.2017 %</b>
Manager's fee	0.03	0.05
Trustee's fee	0.02	0.02
Other expenses	0.01	0.07
Total MER	<u>0.06</u>	<u>0.14</u>

The MER of the Fund is the ratio of the sum of fees and expenses incurred by the Fund to the average NAV of the Fund calculated on a daily basis.

## 4. PORTFOLIO TURNOVER RATIO ("PTR")

	<b>01.08.2018 to 31.10.2018</b>	<b>01.08.2017 to 31.10.2017</b>
PTR (times)	<u>0.09</u>	<u>0.40</u>

The PTR of the Fund is the ratio of average acquisitions and disposals of the Fund for the financial period to the average NAV of the Fund calculated on a daily basis.

## 5. QUARTERLY REPORT

The quarterly report for the financial period from 1 August 2018 to 31 October 2018 is unaudited.

## **CORPORATE INFORMATION**

<b>Manager</b>	UOB Asset Management (Malaysia) Berhad (219478-X)
<b>Registered &amp; Principal Office</b>	Level 22, Vista Tower The Intermark 348, Jalan Tun Razak 50400 Kuala Lumpur  Tel: 03-2732 1181                      Fax: 03-2164 8188  Website: <a href="http://www.uobam.com.my">www.uobam.com.my</a>
<b>Board of Directors</b>	Mr Wong Kim Choong Mr Thio Boon Kiat (alternate to Mr Wong Kim Choong) Mr Seow Lun Hoo Mr Seow Voon Ping (alternate to Mr Seow Lun Hoo) Dato' Dr Choong Tuck Yew Mr Khoo Chock Seang En Syed Naqiz Shahabuddin Bin Syed Abdul Jabbar Ms Lim Suet Ling (Executive Director & CEO)
<b>Trustee</b>	Deutsche Trustees Malaysia Berhad (763590-H)
<b>Fund Valuation Service Provider</b>	Deutsche Trustees Malaysia Berhad (763590-H)
<b>Auditor of the Fund</b>	Ernst & Young (AF0039)
<b>Tax Agent of the Fund</b>	Deloitte Tax Services Sdn Bhd (36421-T)
<b>Solicitor of the Fund</b>	Wei Chien & Partners
<b>Investment Manager of the Target Fund</b>	UOB Asset Management Ltd (198600120Z)
<b>Sub-Manager of the Target Fund</b>	Sumitomo Mitsui Asset Management Company Limited

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