



# IMI „Portfolio Manager’s Corner“

Ofi Invest Asset Management  
Japan Equity

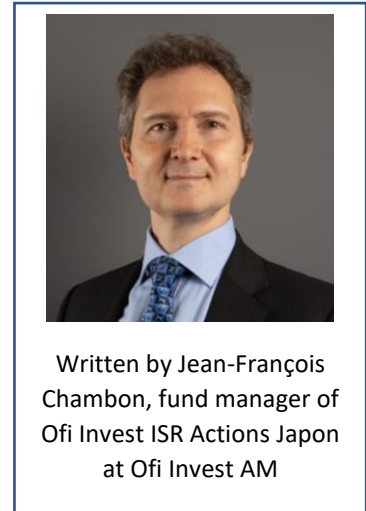


**Ofi invest**  
Asset Management



**TELOS: Mr. Chambon, could you please briefly explain why you have specialised as a fund manager in the asset class *Japan equity* presented.**

**Jean-François Chambon:** My specialization as a fund manager in Japanese equities is deeply intertwined with both my extensive professional background and my profound personal connection to Japan. Over the past 20 years, my professional endeavours have been focused on the Japanese financial market. This specialization is built upon a solid foundation of 13 years of experience in finance as a European analyst and fund manager, providing me with a comprehensive understanding of global financial dynamics.



The depth of my specialization is further enriched by my personal life. Having being married to a Japanese woman for 34 years and having known her for 38 years has given me an exceptional insight into Japanese culture, lifestyle, and consumer behaviour. This intimate connection with Japan extends beyond just familial ties; it has allowed me to understand the subtle intricacies that drive the Japanese market, something that is often invisible to an outsider.

My more than 60 trips to Japan for both business and pleasure have not only solidified my professional expertise but have also deepened my personal affinity with the country. Japan is much more than a market for me; it has been a second home, and this familiarity provides a unique perspective in understanding market trends and consumer responses, especially for products consumed daily in Japan.

Additionally, my tenure in Hong Kong, where our son was born, and the opportunity to work in a dynamic international financial hub, have broadened my perspectives, allowing me to compare and contrast different Asian markets effectively.

My published works on Japan, including three books with one more forthcoming, especially on entities like the Nissin Foods group<sup>1</sup>, have been a medium through which I've articulated my in-depth understanding of Japanese corporate culture and consumer dynamics. Writing these books has been a way to crystallize and share my insights, giving me a distinctive edge in market analysis.

Thus, my deep-rooted connection with Japan, encompassing personal relationships, extensive travel, familial ties, and intellectual pursuits, combined with my extensive experience in European finance, gives me a unique vantage point as a fund manager. It is this blend of personal immersion and professional expertise that sets me apart in the field of Japanese equities. For me, Japan is not just a career focus; it's a passion, an integral part of my life, and this passion translates into a profound understanding of the market that I believe is unmatched among my peers.

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<sup>1</sup> These companies are cited for information purposes only. This is neither an offer to sell nor a solicitation to buy securities

**TELOS: Which aspects predestine your fund for investment by (institutional) investors in the current environment?**

**Jean-François Chambon:** The fund offers direct exposure to the Japanese equity market, which is currently undergoing significant structural changes. This exposure provides investors with a unique opportunity to benefit from the evolving economic landscape in Japan.

### **Structural Economic Changes and Inflation Dynamics**

Japan is experiencing a notable shift in its inflation dynamics, moving away from two decades of near-zero or negative inflation. This long-lasting pick-up in inflation suggests a fundamental change in the economic environment, which could lead to new investment opportunities and growth sectors.

### **Supportive Valuations and TSE Reform**

From a global standpoint, Japanese equities present supportive valuations. The ongoing Tokyo Stock Exchange (TSE) reform is particularly beneficial, as it aims to foster better appreciation of undervalued stocks, offering potential for increased returns.

### **Geopolitical Context and Foreign Investment**

In light of the current geopolitical tensions between China and the USA, there has been a renewed interest from foreign investors in the Japanese equity market. This shift in investment flows further supports the attractiveness of our fund in the global investment landscape.

### **Domestic Investment Encouragement through NISA**

Changes to the Nippon Individual Savings Account (NISA) system, which encourages Japanese individuals to invest in equities, particularly in local stocks and mutual funds, have led to increased domestic investor participation. This government-backed initiative not only stimulates the Japanese market but also provides a more robust investment environment for our fund.

### **Proven Track Record of Alpha Generation**

Our fund has a long-term track record of generating alpha, demonstrating our team's ability to consistently deliver superior returns relative to the market (the XL share class of the fund performance is over its benchmark over 3 years, 5 years, 8 years and 10 years)<sup>2</sup>.

### **Focus on Extra-Financial Indicators**

We place thorough attention on extra-financial indicators, including ESG (Environmental, Social, and Governance) factors, which is increasingly important for institutional investors focused on sustainable and responsible investing<sup>3</sup>.

In summary, our Japanese equity fund is well-suited for institutional investors who wish to gain exposure to Japanese equity markets and whose risk profile and investment horizon are in line with the fund. This is due to its strategic positioning in a transforming Japanese market, supportive valuation dynamics, and our proven

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<sup>2</sup> Past performance is no guarantee of future performance.

<sup>3</sup> find more information about the asset management company's policy on factoring in sustainability risk on the [www.ofi-invest-am.com](http://www.ofi-invest-am.com) website.

ability to navigate and capitalize on these changes. The current global and domestic shifts only enhance the fund's appeal, making it a compelling choice in the present investment environment.

**TELOS: Mr. Chambon, perhaps you can give our readers a brief insight into the engine room. How is your investment process structured and what role does ESG play?**

**Jean-François Chambon:** Our investment process begins with a top-down approach that incorporates long-term thematic trends alongside a macroeconomic perspective. This strategic view helps us identify overarching themes and economic conditions that are likely to influence various market sectors.

Following the top-down analysis, we focus on **sector allocation**. This step is critical as it allows us to identify which sectors are best positioned to benefit from the identified macroeconomic trends and long-term themes.

After determining our sector focus, we proceed to **stock-picking**. This involves a detailed analysis to select companies within these sectors that we believe have the potential for growth and align with our investment themes.

**Position sizing** is the final step in our portfolio construction process. The size of each investment reflects the conviction of our portfolio management team, balancing exposure and risk contribution to align with our investment objectives.

**Risk management** is central to our portfolio construction. We incorporate scenario analysis to anticipate potential market changes and risks, as we aim at protecting the portfolio from adverse movements and ensuring stability.

Our **research process** leverages on external research partners. This approach enables us to gather comprehensive, in-depth insights from experienced professionals.

**Our fund's commitment to Environmental, Social, and Governance (ESG) factors is a cornerstone of our investment philosophy.** We recognize the importance of sustainable investing practices and are dedicated to integrating ESG considerations thoroughly into our investment decisions<sup>4</sup>.

Our fund proudly holds the **French ISR** (Investment Socially Responsible) **label**, reflecting our commitment to responsible investment practices. We implement a **'best-in-class' approach**, which involves a rigorous analysis of ESG factors across all sectors. This approach excludes the least ranked 20% of companies in each sector based on their MSCI ESG scores, ensuring we aim at investing only in companies that demonstrate strong ESG performance relative to their sector peers. Up to 10% of issuers may not have an ESG rating and we also remind that any methodology has limitations.

The first stage of our ESG process involves **normative screening**. At this step we apply the exclusion of companies involved in controversial activities or products, such as controversial weapons. This aligns our investments with fundamental ethical standards and global norms.

In addition to normative screening, we also apply **sector-specific exclusions**. This involves avoiding investment in sectors that pose significant ESG risks or are misaligned with sustainable practices. Examples

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of such sectors include tobacco, palm oil, and thermal coal. These exclusions are based on our assessment of the long-term sustainability and ethical implications of these industries <sup>5</sup>.

Beyond sector-specific exclusions, we apply a **best-in-class filter across all sectors**. This filter eliminates the worst-performing 20% of companies in terms of ESG within each sector, according to MSCI ESG rankings. This method allows us to focus on companies that are not only industry leaders in financial performance but also in their ESG practices.

Our ESG commitment extends beyond initial investment screening. **We continually monitor the ESG performance of our holdings and engage with companies** to encourage improvements in their ESG practices. This active engagement reflects our belief that constructive dialogue can lead to positive changes in corporate behaviour and practices.

**TELOS: Can you please say something about the performance of the fund in the past period and also about what risks may be associated with the approach.**

**Jean-François Chambon:** In 2023, the XL share class of our fund demonstrates a robust performance, with a 115.3% return in EUR over the past ten years. This performance is notably about 8.9% above our benchmark (Topix Net Total Return). This consistent outperformance across various market environments, particularly during high drawdown phases like March 2020, underscores the resilience and efficacy of our investment approach. Please find our annual returns below for the last ten years.

Our strategy is actively managed without any benchmark constraint. The performance over the past five years can be attributed to both our sector allocation strategy and our stock-picking capabilities, with the latter being the primary driver of our performance. The portfolio's resilience, especially in turbulent market conditions, reflects our deep understanding of the Japanese market and our ability to identify value across different sectors.

However, in 2023, the XL share class of our fund has underperformed its benchmark by approximately -1.8%. This can largely be attributed to our strict adherence to our sector & normative exclusion policy as part of our ESG commitment<sup>6</sup>.

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Fund	9,1%	22,0%	8,1%	11,3%	-7,2%	22,9%	3,2%	10,8%	-9,2%	13,7%
Benchmark	9,9%	24,1%	6,6%	11,3%	-9,8%	21,0%	3,3%	8,4%	-9,6%	15,5%

<sup>5</sup> Details of the exclusion policy are available on the [www.ofi-invest-am.com](http://www.ofi-invest-am.com) website.

<sup>6</sup> Past performance is no guarantee of future performance.

## **Performance Impact of ESG Exclusions<sup>7</sup>**

Our ESG approach involves a two-tier exclusion process: normative screening and sector-specific exclusions. While this aligns our investments with ethical standards and sustainability considerations, it has also led to significant underperformance of companies excluded from our investment scope. In particular, certain sectors that we avoid due to their ESG risks – such as tobacco, palm oil, and thermal coal – have outperformed in the short term, impacting our fund's performance negatively in 2023.

## **Risks Associated with our Approach<sup>8</sup>**

The primary risk associated with our approach is the potential underperformance relative to benchmarks that do not apply similar ESG constraints. By excluding certain companies and sectors, we may miss out on short-term gains these entities might offer. However, we believe that this approach is aligned with our long-term investment philosophy and commitment to sustainable and responsible investing. Additionally, our investment approach has a bias towards large capitalization companies, which could limit exposure to potential growth opportunities in small and mid-cap sectors.

Additionally, our focus on Japanese equities inherently carries market-specific risks, including currency fluctuations, economic policy changes, and exposure to regional geopolitical tensions. However, our rigorous analysis and risk management strategies are designed to mitigate these risks.

In summary, while our fund has demonstrated a strong track record of outperformance, our commitment to ESG principles and focus on Japanese equities come with specific risks and challenges. We continue to adapt our strategies to navigate these complexities, aiming to deliver sustainable and responsible long-term returns for our investors.

It's important to reiterate that part of our ESG strategy involves rigorous exclusion lists. The first stage of our ESG process, normative screening, excludes companies involved in controversial activities or products, such as controversial weapons. Additionally, we apply sector-specific exclusions, avoiding investment in sectors with significant ESG risks or unsustainable practices, including tobacco, palm oil, and thermal coal. These exclusions are based on our assessment of the long-term sustainability and ethical implications of these industries, reflecting our commitment to responsible investing even in the face of short-term performance impacts.

## **TELOS: For which investor group is the fund suitable in your opinion?**

**Jean-François Chambon:** The fund is designed to cater to a diverse range of investors, though it's important to recognize that, as with any equity fund, there is inherent market risk involved. Here are the key aspects that determine its suitability:

### **Risk Awareness**

As an equity fund, it's crucial for potential investors to be aware that there is always a risk associated with market fluctuations. This is an important consideration for all investor types.

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<sup>7</sup> Details of the exclusion policy are available on the [www.ofi-invest-am.com](http://www.ofi-invest-am.com) website.

<sup>8</sup> Details of the risks are available in the prospectus available on [www.ofi-invest-am.com](http://www.ofi-invest-am.com).

## **Style-Agnostic Approach**

Our fund is agnostic in style; we are neither exclusively a growth-style nor a value-style fund. This flexibility allows us to adapt our investment approach depending on market conditions, making the fund suitable for investors who seek a versatile investment strategy.

## **Low Volatility**

Historically, the fund has exhibited low volatility, which might be particularly appealing to investors who are risk-averse or those looking for more stability in their investments.

## **Risk Management**

We maintain a cautious approach with a significant emphasis on risk management. This makes the fund ideal for institutional investors who require diligent management and robust risk mitigation.

## **Diverse Share Classes**

The fund offers a variety of share classes, catering to both large institutional investors and retail investors. This includes both hedged (vs Japanese Yen currency) and unhedged shares, providing flexibility based on the investor's risk appetite and currency exposure preferences.

## **Currency Consideration and Hedged Shares**

Given that the Japanese currency can significantly impact market performance, we offer hedged share classes. This is particularly beneficial for investors who are concerned about currency risk spoiling the market performance of their investments.

## **Commitment to ESG Principles**

Additionally, our fund's strong commitment to Environmental, Social, and Governance (ESG) principles makes it particularly attractive to investors who are conscious about responsible investing. Our ESG strategy includes rigorous normative screening to exclude companies involved in controversial activities or products, such as controversial weapons. We also apply sector-specific exclusions, avoiding investments in sectors with significant ESG risks, like tobacco, palm oil, and thermal coal. This approach aligns with the growing trend of sustainable investing, making our fund an excellent choice for investors who prioritize ethical and sustainable investment practices alongside financial returns<sup>9</sup>.

In summary, our fund is well-suited for a wide range of investors, from large institutions to individual retail investors, particularly those who value a style-agnostic approach, low volatility, and a strong emphasis on risk management. Please remind that any equity investment implies a risk of loss of capital.

The availability of hedged shares also makes it a viable option for those looking to mitigate currency risk. Furthermore, our strong commitment to Environmental, Social, and Governance (ESG) principles enhances the fund's appeal, particularly for investors who prioritize ethical and sustainable investment practices. Our rigorous normative screening and sector-specific exclusions ensure that our investments align with high standards of responsibility and sustainability, making our fund a compelling choice for those seeking to combine financial returns with positive social and environmental impact.

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<sup>9</sup> find more information about the asset management company's policy on factoring in sustainability risk on the [www.ofi-invest-am.com](http://www.ofi-invest-am.com) website. we also remind that any methodology has limitations

**TELOS: Mr. Chambon, let's take a look into the crystal ball - How do you assess the further development of the markets, also with a view to the fund you manage?**

**Jean-François Chambon:** When considering the future development of the markets, especially in relation to the fund, several factors come into play<sup>10</sup>:

#### **Continued Support for Japanese Equities**

The factors that have bolstered Japanese equities throughout 2023 are expected to continue into 2024. These include the country's exit from deflation, improvements in corporate governance, and diversified investment flows from foreign investors. These elements should maintain a supportive environment for Japanese stocks.

#### **Currency Dynamics and Global Macroeconomic Outlook**

A potential headwind for the Japanese market could be an appreciation of the yen, particularly against a weaker dollar, in the event of a global macroeconomic slowdown accompanied by declining interest rates. Such currency fluctuations can significantly impact export-oriented sectors and the overall market sentiment.

#### **Continued Profit Growth**

Profit growth among Japanese companies is expected to persist, driven by ongoing price increases. This underlying strength in corporate earnings should continue to provide a solid foundation for equity performance.

#### **Global Equity Risk Premium and Geopolitical Risks**

However, the global equity risk premium currently seems low, given the backdrop of slowing world growth and heightened geopolitical risks. These global factors need to be monitored closely, as they have the potential to impact market dynamics and investor sentiment.

#### **Cautious Investment Stance**

In light of these considerations, our fund maintains a cautious stance. We are strategically focusing on sectors and companies that are likely, according to our analysis, to benefit from long-term trends, while also poised to capitalize on a rebound in certain cyclical areas, such as the semiconductor industry.

#### **ESG Integration**

Additionally, our strong commitment to ESG principles remains a cornerstone of our investment approach. We believe that incorporating ESG factors is not only ethically important but also provides a lens through which long-term risks and opportunities can be assessed more effectively.

In conclusion, while there are positive indicators for the Japanese equity market, the potential for currency volatility and broader global economic challenges necessitates a careful and strategic approach. Our focus remains on identifying resilient sectors and companies with strong fundamentals and sustainable practices that align with long-term growth trajectories.

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<sup>10</sup> Our assumptions are assumed are the moment of this interview. These are subject to change in the time, and may not occur in the markets.



**TELOS: Finally, a personal question away from the markets - What topics do you deal with outside the professional environment?**

**Jean-François Chambon:** As you rightly pointed out, having a significant activity outside our professional world, especially in the demanding realm of financial markets, is not just a pastime – it's a necessity. It's the balance that keeps us grounded and sharp, enabling us to maintain composure amidst the volatility and stress inherent in our field.

In my case, it is writing! Writing is not just a hobby; it's a passion that transcends the boundaries of a mere pastime. It's an extension of my being, a parallel universe where I find solace and rejuvenation. My foray into the world of letters has been diverse and deeply fulfilling. To date, four of my books have been published, each a unique exploration of different genres and themes.

1. **'Ando Momofuku le maître des nouilles'** - This is a biography of Ando Momofuku, the founder of Nissin Foods. It was a journey not just into the life of a remarkable entrepreneur but also into the cultural and economic fabric that he influenced.
2. **'Papa, le combat pour la vie'** - My autobiography. Writing it was a cathartic experience, allowing me to introspect and share my life's journey, the struggles, triumphs, and insights.
3. **'Les contes d'Ishioka'** - A collection of fairy tales. Here, I delve into the realm of fantasy, weaving stories that I hope will ignite the imaginations of both old and young readers and transport them to magical worlds.
4. **'Ando Momofuku - Mister Noodles'** - This is an enriched second edition of the biography of the Nissin Foods group's founder, published in English. It allowed me to reach a broader audience and share this inspiring story beyond the Francophone world.

Furthermore, two more of my books are currently with my editor. And I've just completed a novel, which is a new adventure for me in the literary world.

Writing, for me, is more than a mere escape; it's a way of life. It's the counterbalance to the intensity of the financial markets, providing a creative outlet that helps me keep a 'cool head' regardless of the situation. It's a reminder that there's a world full of stories, emotions, and experiences beyond balance sheets and market fluctuations."

**TELOS: Mr. Chambon, thank you very much for the very interesting interview. We wish you continued success in managing your fund and, of course, lots of fun reading your books.**

**Contact:**

Stephan Jacobs, Geschäftsführer, Active Fund Placement GmbH

Telefon: +49 69 3487 2779-5

Mobil: +49 172 988 94 52

E-Mail: sj@fundplacement.de

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