# RMB Japan Fund

RMB FUNDS

## Portfolio Update: Third Quarter 2022

For the third quarter ended September 30, 2022, the RMB Japan Fund (the "Fund" or "RMBPX") was down, -8.33%, net of fees. During the same period, the MSCI Japan Total Return Index (dividends reinvested), which represents large capitalization companies in Japan, was also down, -7.67% in USD. Year-to-date, the Fund was down -24.06%, outperforming the benchmark which was down -26.38%.

| | 3 Months | YTD | 1 Year | 3 Years | Since Inception |
|---|---|---|---|---|---|
| RMBPX | -8.33% | -24.06% | -27.10% | -3.55% | -3.42% |
| MSCI Japan Index | -7.67% | -26.38% | -29.30% | -2.65% | -2.37% |

***Inception date: 12/27/17. Performance over one year is annualized. The performance data quoted represents past performance and is not a guarantee of future results. The investment return and principal value of an investment will fluctuate, so that those shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the data quoted. To obtain performance as of the most recent month end, please call 855-280-6423. The Fund's gross expense ratio is 1.38% and the net expense ratio is 1.30%.***

***RMB Capital Management, LLC (the "Adviser" or "RMB") has contractually agreed to reduce its compensation due from and/or assume expenses of the Fund to the extent necessary to ensure that the Fund's operating expenses (excluding interest, taxes, brokerage commissions and other transaction costs, expenditures that are capitalized in accordance with generally accepted accounting principles, acquired fund fees and expenses, short sale dividends, and extraordinary expenses not incurred in the ordinary course of business) do not exceed 1.30% of the average daily net assets of the Class I shares (the "Expense Cap"). The Expense Cap is in effect until April 30, 2023 and cannot be terminated prior thereto without the approval of the Fund's Board of Trustees.***

## Overview of Third Quarter

In the third quarter, volatility remained elevated across global equity markets. Early in the quarter, markets were rallying, as concerns over inflation waned and investors prematurely attempted to price in a potential reversal of the Fed's rate cycle in the near future. Japanese equities also rebounded strongly, further supported by a landslide victory by the Liberal Democratic Party (the "LDP") in the upper house election following the assassination of former prime minister Shinzo Abe. The rally turned out to be short-lived, however, as investors finally woke up to the reality that inflation might remain high for a long time and the Fed is fully committed to prioritizing taming inflation over other economic considerations. Inflation has so far been relatively muted in Japan, with its core inflation still remaining below 3%. As the Bank of Japan ("BOJ") is still working on its multidecade project of igniting sustained wage inflation, this backdrop allowed the central bank to diverge from other central banks and remain relatively accommodative in terms of keeping rates low. In the meantime, the Japanese Yen has been the primary victim of this policy divergence, with the currency dropping another -6.22% to 24-year lows against the dollar during the quarter. The rapid depreciation finally forced the Ministry of Finance ("MOF") to tap into its $1.3 trillion foreign currency reserves and intervene in the currency market to deter any further speculative movements, although the BOJ appears unlikely to budge anytime soon.

## Contributors and Detractors

Enplas Corp. (6961 JP, +20.66%) and Recruit Holdings Co. Ltd. (6098 JP, -1.99%) were two major contributors during the quarter.

Enplas Corp. is a manufacturer of engineering plastic products for electric components, office equipment, and automobile parts. The company also makes semiconductor testing devices and burn-in sockets. During the quarter, this hidden semiconductor winner was firing on all cylinders, beating the market's expectations and raising guidance again, mainly driven by stronger-than-expected burn-in socket sales. Primarily used in the R&D and testing stages, demand for the company's sockets continued its strong growth momentum boosted by servers and automotive applications, even when other parts of the semiconductor industry began to expose weaknesses. Investors also welcomed management's decision to cancel most of its treasury shares. More importantly though, we think that its depressed initial valuation levels helped a lot for the stock to react aggressively to those positive developments, with other small-cap semiconductor names we hold performing relatively stable as well. As our investment thesis materialized and our target price was met, we fully exited from the position.

**RMB Japan Fund**
**THIRD QUARTER 2022 CONTRIBUTION REPORT (in USD[1])**
*Ranked by Basis Point Contribution*

| | Basis Point Contribution | Total Return |
|---|---|---|
| **Top Contributors** | | |
| Enplas Corp. | +22 | +20.66% |
| Recruit Holdings Co. Ltd. | +16 | -1.99% |
| Nippon Steel Corp. | +8 | +2.57% |
| Fast Retailing Co Ltd. | +7 | +1.71% |
| ULVAC Inc. | +6 | +4.22% |
| **Bottom Detractors** | | |
| Sony Group Corp. | -93 | -21.16% |
| Mitsubishi UFJ Financial Group Inc. | -86 | -14.16% |
| Nikon Corp. | -81 | -17.05% |
| Subaru Corp. | -57 | -14.64% |
| Mitsui Fudosan Co. Ltd. | -45 | -10.42% |

[1] All return figures above are lower than the returns in local currency due to the -6.22% depreciation of the Japanese Yen during the quarter.

The performance presented above is sourced through Factset Research Systems Inc. Past performance is not indicative of future results, and there is a risk of loss of all or part of your investment. The above does not represent all holdings in the Fund. Holdings listed might not have been held for the full period. To obtain a copy RMB's calculation methodology and a list of all holdings with contribution analysis, please contact your client service team.

Recruit Holdings Co. Ltd. is a leading marketing and human resource ("HR") solutions company in Japan. The company also operates fast-growing online HR technology platforms overseas, such as "Indeed" and "Glassdoor." The company's shares have long been traded at premiums relative to the broad equity market in Japan, reflecting its dominant market leadership in Japan and rapid growth overseas. The quarter overall was not necessarily a strong one for the company's stock, with positive quarterly earnings being offset by a deteriorating outlook for the labor market in the U.S. The stock's performance was overall mixed, with the U.S. dollar-based stock price actually ending the quarter slightly below the starting price. In the middle of the quarter, however, the market gave us a great opportunity to trim the position further by creating a short-lived growth stock rally where investors got overly excited about the forward-looking market environment. Although the market's excitement proved to be premature, we took the opportunity to slash our position size, resulting in a positive contribution from the stock, despite its negative absolute return through the quarter. Although it turned out to be a timely trading decision, we believe that it was a result of our valuation discipline rather than short-term trading skills.

Sony Group Corp. (6758 JP, -21.16%) and Nikon Corp. (7731 JP, -17.05%) were two major detractors during the quarter.

Sony is a global leader in various business domains across video game hardware, platform & software; music recording and publishing; motion pictures and TV programming; image sensors manufacturing; and the design and manufacture of consumer electronics such as mobile phones, digital cameras, and TVs. Sony is also engaged in financial services businesses such as life insurance and banking. The stock's poor performance has persisted throughout the year since Microsoft's (MSFT US) plan to acquire Activision Blizzard (ATVI US) came out at the beginning of the year. Sales of the PlayStation ("PS") 5 system so far has not met investors' elevated expectations either, with its sales growth trending below those of the PS 4 in the past. While we are still in the early innings of the new console's adoption curve and the weak sales have largely been due to Sony's production issues rather than demand, this lack of momentum warrants monitoring, as it directly leads to fewer software sales. A lower installment base also negatively affects Sony's negotiation power against third-party game developers and we have started seeing some developers reconsidering their initial plan to release game titles exclusively on the PS platform in a concern that Sony's platform alone might not give them enough scalability. Sony is a valuable intellectual property holder across video games, music, and films, capable of creating cross-industry synergies among them, but the rapidly changing video game market would also require accelerated investments by the company to stay relevant.

Nikon is one of the leading manufacturers of mid- to high-end digital cameras and lenses. The company also manufactures semiconductor equipment, healthcare device, optical components, and inspection devices. Despite having a consensus-beating quarter, Nikon's stock has performed poorly since earnings day, as investors became increasingly cautious that global recession and weakening consumer demand could weigh on the company's consumer business that had benefitted from global pent-up demand. Further, a deteriorating outlook for the global semiconductor equipment industry also raised investors' concerns over the company's lithography business. Although the company's businesses tend to be highly cyclical, we also note that the stock's valuation reflects a high level of volatility. The distribution of outcomes can be wide, but we believe that, on average, the stock is reasonably priced to balance its risk and reward for long-term investors.

## Portfolio Activity

During the quarter, we initiated a position in Sanyo Shokai Ltd. (8011 JP), a luxury apparel manufacturer with a turnaround story. We also reentered Kao Corp. (4452 JP), a manufacturer of cosmetics and household products.

We fully liquidated our position in Enplas Corp. (6961 JP) as our target has been met.

## Outlook

As we expected, the Fed appears to be fully committed to cooling off the labor market, even if it would require it to tip the U.S. economy into a recession. With the labor market equilibrium clearly hovering above the market, the Fed still needs to work through excess demand before it can see the unemployment rate beginning to go up. Given this background, we think that any potential rate cut discussions might prove to be largely premature. The Fed remembers its mistake of cutting back too early in 1980 and is likely to try not to make the same mistake. With global funding costs increasing rapidly, investors are becoming concerned about potential cracks in some highly levered vulnerable areas in the system. We are cautiously monitoring these areas as well.

As the market is attempting to price in a recession, more defensive names with a stable business model were increasingly bought while cyclical names were sold. The same phenomenon was observed in geographical allocations, with more cyclical economies being sold off further, despite their low valuations. While it might sound like common sense to go defensive at the bulge of a recession, and it still is, we also think that we might continue to see rates remaining high even as outputs are coming down in today's market environment. In the absence of typical rate cuts that we are used to in the early part of a recession, longer-duration assets might not get as much of a boost as they have in typical recession moments in the past. If that were to be the case, valuation should matter more this time around.

On the currency front, the MOF's intervention amidst the Yen's freefall drew global attention and investors are skeptical that the intervention will not be enough to reverse the current trend. It is not meant to. Although we are not a big fan of the dissonance between the BOJ and MOF ourselves and are skeptical about the cost-effectiveness of the intervention, we would still like to point out that the MOF goal here is only limited to deter any speculative bets in the currency market, so that the currency would not deviate too far from its fundamentals. Also, despite the BOJ's extremely accommodative rhetoric covering headlines, the BOJ's quantitative tightening has been running in the background by reducing its balance sheet by close to 8% from the peak. Being done by not rolling over its matured loan balance provided as a direct stimulus during the pandemic, this tighter balance sheet could give the central bank more room to fully focus on the yield curve control policy for the time being. Overall, the BOJ looks to have no intention to give up its decades-long aspiration to achieve wage inflation, and, if anything, the central bank probably sees this high inflation environment as a great chance to finally achieve that goal. Being in the liquidity trap for decades, achieving structurally positive inflation expectations could jumpstart an expansionary credit cycle if executed right.

Another near-term catalyst specific to Japan is its decision to reverse three years of COVID-induced border closures and fully reopen its borders to foreign tourists and business travelers starting in October. We also note that the reopening is scheduled prior to the National Congress of the Chinese Communist Party in mid-October. We believe that the timing reflects some expectations that China might loosen up its travel restrictions after cementing President Xi's third term. Pre-COVID-19, close to 10 million out of 30 million foreign visitors in Japan were Chinese and the number has been close to zero in the past 3 years. Given the weak currency, more foreign tourists might consider Japan as their "inflation vacation" destination away from rising costs in their home countries. While we have an elevated cash level in the Fund temporarily, we are committed to identifying and cautiously investing in attractively valued stocks that could outperform over a full market cycle.

As always, thank you for your support and trust in the Fund. We look forward to updating to you in the next quarter.

Sincerely yours,

Masakazu Hosomizu, CFA
Partner, Portfolio Manager

**TOP FIVE HOLDINGS AS OF 9/30/22**

| Position | % of Assets |
|---|---|
| Mitsubishi UFJ Financial Group Inc. | 5.18% |
| TV Asahi Holdings Corp. | 4.68% |
| ITOCHU Corp. | 4.62% |
| Ono Pharmaceutical Co. Ltd. | 4.55% |
| Nikon Corp. | 4.09% |

*Holdings are subject to change. The above is a list of all securities that composed 23.12% of holdings managed as of 9/30/2022 under the RMB Japan Fund ("Fund") of RMB Capital Management, LLC ("RMB Capital") based on the aggregate dollar value. This list is provided for informational purposes only and may or may not represent the current securities managed. It does not represent all of the securities purchased, sold, or recommended for advisory clients (under the Fund or otherwise) during the calendar quarter ending 9/30/2022. The reader should not assume that investments in the securities identified and discussed were or will be profitable. For a complete list of historical recommendation for the Fund, please contact RMB Investors Trust at 855-280-6423.*

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***Investors should consider the investment objectives, risks, charges, and expenses carefully before investing. For complete information about the Fund, including a free prospectus, please contact RMB Investors Trust at 855-280-6423, or visit the website at www.rmbfunds.com. The prospectus contains important information about the funds, including investment objectives, risks, management fees, sales charges, and other expenses, which you should consider carefully before you invest or send money.***

*All investing involves risk including the possible loss of principal. The Fund invests in foreign securities which may be less liquid, subject to currency-rate fluctuations, be in areas with political and economic instability and be subject to less strict regulation of the securities markets.*

*An investment cannot be made directly in an index. The index data assumes reinvestment of all income and does not bear fees, taxes, or transaction costs. The investment strategy and types of securities held by the comparison index may be substantially different from the investment strategy and types of securities held by the Fund. The MSCI Japan Index is designed to measure the performance of the large- and mid-cap segments of the Japanese market. With approximately 320 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in Japan.*



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