Impressive December for Sector Zen on Japan resurgence

The Oslo-based Sector Zen fund, a value-driven long/short strategy focused on Japanese equity, delivered a riveting 11.40% performance in December. This effectively doubled total return for 2012 to 20.22%.

The strategy, which has a capacity to absorb $200 million under existing liquidity conditions, currently manages $50 million.

The fund's long positions in three companies — namely Takeuchi, Toyo Kohan and Daiwa Industries — contributed the most to the end-year gain, after their respective share prices rose 53%, 41% and 36% during the month.

Trond Hermansen, the fund's PM, described the investing environment as still favourable given the attractive opportunities in Japan. These are emerging from a combination of numerous neglected and undervalued stocks, particularly within the small and mid-cap space, given the tailwinds from restructuring, industry consolidation, and ownership changes.

Hermansen notes that there have been 15 takeovers within Sector Zen's long book since inception in 2006, at an average premium of more than 30%. The fund at present holds 29 positions, more than half of the long book, in listed subsidiaries of larger parent companies, of which the manager believes the majority will become fully owned over time.

On top of this, the macro environment has turned more favourable due to political changes and pressure on the Bank of Japan to adopt a more aggressive monetary policy. The resulting yen weakness is positive both for the economy and equities. The team believes value-style investing will continue to do well in Japan, as has been the case over the past four decades.

"The combination of deep value and catalysts in the form of potential ownership changes will likely continue to create robust alpha. We try to avoid exposures to factors and themes which in our opinion will not deliver robust alpha," said Hermansen.

He added that his team constantly makes gradual changes to the fund's portfolio, rotating into cheaper laggards to make sure that the strategy has a deep value bias on the long side and a fairly contrarian portfolio.