



Ninepoint International Small Cap Fund Market View

July 26, 2019

Dear Clients and Colleagues:

Japan is commonly known for its aging population, frequent earthquakes and clean environment. You might also have heard of its lifetime employment system. Unlike in western countries, where people tend to change jobs for better opportunities and higher compensation, in Japan it is quite common for employees to work at the same company for their entire lives. There is a good reason for this. "Nenko Jyoretsu" is a Japanese wage system of promoting employees based on the number of years they have worked for the same company. When you leave one company for another, regardless of your experience, you start back at the company's entry level salary and benefits package. As a result, it restrains people from changing jobs.

Why does this employment system exist at all? One of the reasons is that there are many large companies in Japan. Their common practice is to hire graduates right out of school, and they expect employees to stay with the company until they retire. Recruitment is based on a candidate's academic background and general potential, and large companies spend a lot of money training their new employees every year. Because of this practice, it is often more difficult to get a job if you are not a recent graduate.

However, things have been changing in recent years. According to Japan's Statistics Bureau, in 2018 the number of Japanese workers who changed jobs hit a 10-year high, reaching 3.29 million, the highest since 2008. As the following chart shows, about 43% of those who changed jobs were between 15 and 35 years of age.

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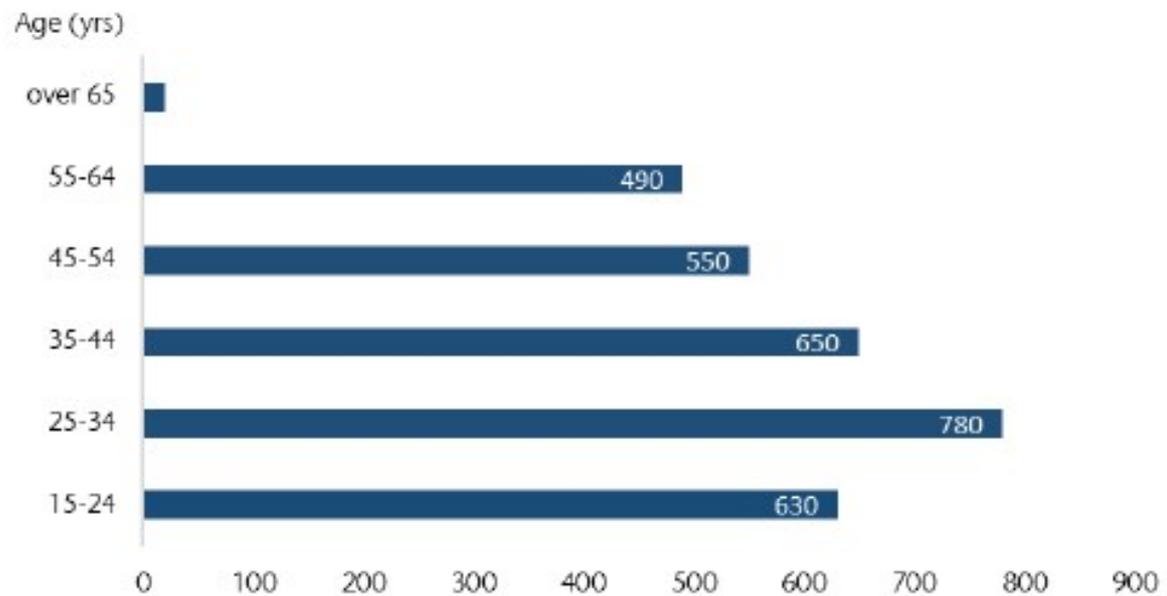
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Number of job changers in Japan, 2018 (in thousands)



Source: Japan's Statistics Bureau; compiled by Global Alpha.

To compete with their global peers, more and more Japanese companies are moving away from the lifetime employment system towards a skill- and experience-based wage system, so there is less incentive for people to stay at the same corporation for life. Also, due to the aging population, labour shortages have become severe in Japan. Companies are having a hard time finding employees, so they offer higher compensation and better working conditions to attract potential candidates. Studies also show that millennials are more open to the idea of switching jobs. Supply and demand in the job changing market is growing. This is where recruitment agencies and job advertising companies like En-Japan Inc. come into play. We initiated a position in En-Japan in late December 2018.

As a pioneer in Japan's internet recruitment advertising industry, En-Japan operates the second largest online job board in the country, with a 25% market share, right behind Recruit Holdings Co., Ltd. The company mainly targets job changers under 35 years old. A major differentiator of En-Japan's job board is the detailed and objective information it provides on hiring companies. Unlike Indeed or LinkedIn, where companies write their own postings, En-Japan's copywriters create detailed employment ads based on their interviews with companies. The ads are written from a job seeker's perspective, contain comments about the rewards and challenges of the position and provide feedback from current and former employees. It is ranked as the best career change site in terms of user satisfaction. The company also has a recruitment agency business which is supported by the database from its job board business.

Although there are many players in Japan's recruitment-related market, En-Japan, Recruit and Persol are the only three companies that have both agency and job board businesses. En-Japan targets large companies to maintain higher margins. There is little competition from Indeed, which in Japan is a job aggregator and only provides the minimum amount of information on hiring companies.

Why did we establish a position in En-Japan? First, it was a good entry point after the market sell-off in Q4/2018, the result of concerns over the economic slowdown in Japan. Another catalyst was the company's joint venture with LINE Corporation. They launched LINE Career in October 2018. On LINE Career, people can view and apply for jobs directly from the LINE app, the largest mobile messenger app in Japan. En-Japan has a clear medium- to long-term growth strategy driven by the job search and new HR-tech businesses. The company forecasts 20% revenue growth in the near term and 10% in the long term, much faster than the industry average.

Have a great week ahead.

The Global Alpha team

NINEPOINT INTERNATIONAL SMALL CAP FUND - COMPOUNDED RETURNS¹

	1M	YTD	3M	6M	1YR	INCEPTION
Fund	0.2%	9.7%	-3.1%	5.3%	-0.8%	-0.4%
Index	-0.2%	7.4%	-4.3%	3.4%	-6.8%	-5.1%

¹ All returns and fund details are a) based on Series F units; b) net of fees; c) annualized if period is greater than one year; d) as at June 5, 2019; e) annual returns are from 03/15/2018. The index is 100% MSCI EAFE Small Cap NR USD (CAD) and is computed by Ninepoint Partners LP based on publicly available index information.

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