

MORANT WRIGHT MANAGEMENT LIMITED

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LF Morant Wright Japan Fund May 2018 Newsletter

NAV at 31st May 2018: Accumulation: A Shares 409.57p, B Shares 441.29p
Income: A Shares 399.68p, B Shares 405.44p

£ Returns	Month	Year to date	Since Inception (23 rd May 2003)
A Shares	-0.6%	-2.6%	+309.6%
B Shares	-0.5%	-2.4%	+341.3%
TOPIX Net Total Return	+1.6%	+1.5%	+254.3%

Performance given for accumulation shares

Sources: Bloomberg and Link Asset Services

Having been up for most of the month, TOPIX ended a little under 2% down in local currency terms as the machinations of Italian politics spilt over into world equity markets. This concern also carried over into the currency markets where the perceived "safe-haven" status of the yen saw it increase against all major currencies, rising from ¥150 to ¥145 against sterling. Our relative performance was disappointing as value continued to underperform growth significantly and, unlike last year where our small and medium stocks helped us to buck the trend and outperform, there has been no salvation so far this year.

After eight consecutive quarters of GDP growth, the economy declined in the first quarter due to weak business spending, lower residential investment and stagnant consumption. However, economists see little need for concern as a rebound is anticipated in the second quarter helped by stronger production and continued growth in exports. The tight labour market may at last be feeding through to wages which grew by 2.0% in March – the highest growth since 2004.

The full year results season has concluded. Sales grew by 7%, recurring profit by 14% and net profit by 21% – all to record highs. The growth in recurring profit was mostly driven by the manufacturing sector while the US tax cuts boosted net income. Return on Equity is now just under 10%. Forecasts for the new fiscal year have been generally cautious, with most companies using a conservative exchange rate of ¥105/\$. The current consensus amongst analysts, however, is for further growth of 2% in sales and 7% in recurring profit. Dividends rose by 13% in aggregate to ¥12.7trn with 60% of companies raising their dividend. So far in 2018, the value of announced share buybacks is 9% ahead of the corresponding period last year.

Shareholder activism is on the rise. We have a large shareholding in Tokyo Broadcasting which has an excessively strong balance sheet including a very large shareholding in Tokyo Electron which now represents almost 19% of its total assets. Asset Value Investors has proposed that 40% of this stake be distributed to shareholders, which amounts to a distribution of ¥344 per share against TBS's current share price of around ¥2,300. The Directors are opposing this shareholder motion and, given the 20% limit on foreign ownership of broadcasting companies, it may be difficult to achieve a majority. Nevertheless, it still puts significant pressure on the Board to change the company's capital structure. Another activist investor has taken a 5% stake in Olympus.

It is interesting to see Comsys and Kyowa Exeo, both telecom engineering companies, using their shares trading well above book value to take over much more cheaply rated smaller companies in the sector. They are taking advantage of new tax rules which mean that takeovers using shares instead of cash no longer give rise to an immediate capital gain for shareholders.

Nomura's forecast EPS for TOPIX is ¥123 which means that the P/E multiple for the market is around 14 times. The P/B is 1.3 times. By comparison, our portfolio is on 0.85 times book value and has a lower P/E despite the net cash position of our non-financials representing, on average, 55% of their market capitalisation. Our stocks may currently be out of favour but they can hardly be considered to be expensive. If you would like to deal in the Fund, please contact Link Asset Services. Their telephone number is **0345 922 0044**.

Stephen Morant, Ian Wright, Richard Phillips, Tom Mermagen, Andrew Millward and Denis Clough

The Fund is eligible for pensions and ISAs. Please contact Link Asset Services Limited for details.

Your attention is drawn to the important regulatory information on the reverse of this document.

LF Morant Wright Japan Fund Information

Fund type	UK authorised OEIC
Fund currency	Sterling
Launch date	May 2003
Geographic exposure	100% Japanese equities

Share types	A Shares: Accumulation and Income
	B Shares: Accumulation and Income
Share fees	A Shares: 1.5% Management Fee
	B Shares: 1.0% Management Fee
	<i>No performance fees</i>

Minimum investment	£5,000 (A and B shares)
Dealing frequency	Daily
Deal cut-off point	12pm
Valuation point	12pm

Fund administrator	Link Asset Services
	Arlington Business Centre
	Millshaw Park Lane
	Leeds LS11 0PA
	Tel: 0345 922 0044
	Fax: 0113 224 6001

Bloomberg Code	
A Accumulation	CFMWJAA LN
B Accumulation	CFMWJBA LN
A Income	CFMWJAI LN
B Income	CFMWJBI LN
SEDOL	
A Accumulation	3301001
B Accumulation	3301012
A Income	3359798
B Income	3359806
ISIN	
A Accumulation	GB0033010017
B Accumulation	GB0033010124
A Income	GB0033597989
B Income	GB0033598060

Top Ten Holdings	% Fund
Fuji Media Holdings	3.0
Tokio Marine Holdings	2.9
Sumitomo Mitsui Financial Group	2.8
Sumitomo Mitsui Trust	2.8
Kinden	2.8
Sumitomo Electric Industries	2.8
Tokyo Broadcasting System	2.8
Toda Corp	2.8
Medipal Holdings	2.7
Nippon Television Network	2.6
Number of Holdings	57
Fund Size	£530m

Performance

	2017	2016	2015	2014	2013	Since inception (May 2003)
A Shares	+16.3%	+26.2%	+21.3%	+2.0%	+24.7%	+309.6%
B Shares	+16.9%	+26.8%	+21.9%	+2.5%	+25.4%	+341.3%
TOPIX Net Total Return	+15.3%	+24.0%	+16.6%	+2.3%	+23.9%	+254.3%

Performance given for accumulation shares

All performance information is calculated by Morant Wright Management Limited using share price data provided by Link Asset Services. Index data are taken from Bloomberg. Performance is given in sterling terms based on the Fund NAV. Data are as at 31st May 2018 and accurate as at that date.

This document is issued and approved by Morant Wright Management Limited which is authorised and regulated by the Financial Conduct Authority.

Disclaimer

Please remember that past performance is not a guide to future performance. The value of the Fund and any income from it can fall as well as rise as a result of both market and currency fluctuations and investors may not get back the amount originally invested. Investors must be willing to accept some risk to their capital. Consequently, the fund may be suitable for investors who are looking to set aside their capital for the longer term (i.e. at least 5 years).

Before making an investment in the Fund you are strongly advised to read the Full Fund Prospectus and other regulatory documents, which can be obtained from Link Asset Services, Administration Office, 2 The Boulevard, City West One Office Park, Gelderd Road, Leeds, LS12 6NT or ourselves.

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