

MORANT WRIGHT MANAGEMENT LIMITED

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Morant Wright Sakura Fund May 2018 Newsletter

NAV at 31st May 2018: Euro: €15.91, Japanese Yen: ¥1,672.24, Sterling: £16.00
Swiss Franc: CHF15.55, US Dollar: \$16.32, Yen B shares: ¥990.68

Returns	Month	Year to date	Since Inception (7 th May 2013) (Yen B: 17 th Apr 2018)
Yen (unhedged)	-3.9%	-6.3%	+67.2%
TOPIX Net Total Return	-1.7%	-3.1%	+60.4%
Euro (hedged)	-3.8%	-6.5%	+59.1%
Sterling (hedged)	-3.7%	-6.3%	+60.0%
Swiss Franc (hedged)	-3.9%	-6.7%	+55.5%
US Dollar (hedged)	-3.7%	-5.8%	+63.2%
Yen B shares (unhedged)	-3.8%	N/A	N/A

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. 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, around 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 **+353 1 400 5300**.

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 for details.

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

AUTHORISED AND REGULATED BY THE FINANCIAL CONDUCT AUTHORITY
REGISTERED IN ENGLAND NUMBER 3692692

Morant Wright Sakura Fund Information

Fund type	Offshore OEIC, domiciled in Ireland
Fund currency	Base currency: ¥ Hedged classes available in: £, \$, €, CHF Unhedged class available in ¥, £, \$, €,
Launch date	May 2013
Geographic exposure	100% Japanese equities

Share types	Accumulation
Share fees	1% Management Fee (all other shares) 0.75% Management Fee (Yen B shares) <i>No performance fee except Yen B shares</i>
Minimum investment	€5,000 (Euro shares) ¥1,000,000 (Japanese Yen shares) £5,000 (Sterling shares) CHF5,000 (Swiss Franc shares) US\$5,000 (US Dollar shares)

Dealing frequency	Daily
Deal cut-off point	11.00am (Irish time)
Valuation point	12.00pm (Irish time)
Settlement	T+4 (subscriptions/redemptions)

Fund administrator	Link Asset Services 2 nd Floor, 2 Grand Canal Square Grand Canal Harbour Dublin 2 Ireland Tel: +353 1 400 5300 Fax: +353 1 400 5350
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UK tax status	Approved as a Reporting Fund by HMRC
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Bloomberg Code	
Euro Accumulating Hedged Class	MWSKEUR
Euro Unhedged Distributing Class	
Japanese Yen Accumulating Unhedged Class	MWSKYEN
Japanese Yen B Accumulating Unhedged Class	MWSKYBA
Sterling Accumulating Hedged Class	MWSKSTL
Sterling Unhedged Distributing Class	
Swiss Franc	MWSKCHF
US Dollar Accumulating Hedged Class	MWSKUSD
US Dollar Unhedged Distributing Class	
SEDOL	
Euro Accumulating Hedged Class	B7ST847
Euro Unhedged Distributing Class	
Japanese Yen Accumulating Unhedged Class	B9140F8
Japanese Yen B Accumulating Unhedged Class	
Sterling Accumulating Hedged Class	B840XH9
Sterling Unhedged Distributing Class	
Swiss Franc	B93V6N7
US Dollar Accumulating Hedged Class	B8JTQR2
US Dollar Unhedged Distributing Class	
ISIN	
Euro Accumulating Hedged Class	IE00B7ST8472
Euro Unhedged Distributing Class	IE00BYWNV454
Japanese Yen Accumulating Unhedged Class	IE00B9140F89
Japanese Yen B Accumulating Unhedged Class	IE00BF1FZN69
Sterling Accumulating Hedged Class	IE00B840XH97
Sterling Unhedged Distributing Class	IE00BYWNV348
Swiss Franc	IE00B93V6N72
US Dollar Accumulating Hedged Class	IE00B8JTQR23
US Dollar Unhedged Distributing Class	IE00BYWNV561

Top Ten Holdings	% Fund
Tokio Marine Holdings Inc	3.1
Sumitomo Mitsui Financial Group	3.0
Fuji Media Holdings	2.9
Tokyo Broadcasting System	2.9
Sumitomo Mitsui Trust	2.9
Nippon Television Network	2.9
Sumitomo Electric Industries	2.9
Toyota Industries	2.8
Kinden	2.8
Mitsubishi UFJ Financial	2.8
Number of Holdings	64
Fund Size	\$1,094m

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 based on the Fund nav data 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 Supplement, which can be obtained from Link Asset Services, 2nd Floor, 2 Grand Canal Square, Dublin 2, Ireland or ourselves.

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