

# MORANT WRIGHT MANAGEMENT LIMITED

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## LF Morant Wright Japan Fund October 2018 Newsletter

NAV at 31<sup>st</sup> October 2018: Accumulation: A Shares 389.88p, B Shares 420.96p  
Income: A Shares 380.47p, B Shares 386.76p

| £ Returns              | Month | Year to date | Since Inception<br>(23 <sup>rd</sup> May 2003) |
|------------------------|-------|--------------|--|
| A Shares               | -6.5% | -7.3%        | +289.9%  |
| B Shares               | -6.4% | -6.9%        | +321.0%  |
| TOPIX Net Total Return | -7.3% | -3.1%        | +238.2%  |

*Performance given for accumulation shares*

*Sources: Bloomberg and Link Asset Services*

TOPIX fell almost 10% in local currency terms over the month which was the fourth worst monthly return over the last decade. Overseas investors sold nearly ¥4trn of stock in the futures and cash markets in the first four weeks of October. This brings the total amount of net selling by foreigners to over ¥10trn so far this year, which is the highest figure in over 15 years. Having been relatively quiet in August and September, the BOJ became much more active by buying ETFs on twelve occasions during October. This investment brought it back in line with the annual target of ¥6trn and dampened speculation that the BOJ was starting to taper its asset purchases. Interestingly, the monthly average for the short selling ratio was 45.8%, a record high.

It seems increasingly likely that the rise in the consumption tax from 8% to 10% will go ahead in October 2019. The government is conscious of the possible negative economic consequences and has been preparing measures to offset them, including a large stimulus package. The LDP is also preparing to relax visa restrictions for foreign employees in order to alleviate the labour shortage. The new proposals would allow unskilled workers to stay for up to five years and skilled workers to remain indefinitely.

We are in the middle of the half-year results season. This has been mixed with some companies affected by the abnormally strong typhoons in the Kansai region and the earthquake in Hokkaido in September. Several firms have suffered from a slowdown in capital investment in China or pressure on profit margins from higher raw materials prices. Honda announced good numbers and raised its full year operating profit forecasts due to strength in its motorcycle business. Canon Marketing revised down its full year earnings because of weakness in the sales of digital SLR cameras. Sumitomo Warehouse revised down because of an impairment charge at a subsidiary but announced plans to buy back and cancel 2% of its shares and to raise its dividend. NTT DoCoMo announced a very large buyback (¥600bn) and also stated that it would consider leveraging its balance sheet to carry out further share repurchases.

The trend for companies to buy in listed subsidiaries continues. ORIX has announced that it will offer a 24% premium to take full ownership of condominium builder, Daikyo. Similarly, NTT will pay a 30% premium to buy out minority shareholders in property developer NTT Urban and JTEKT a 35% premium to take control of subsidiary Daibea. There has also been more significant M&A activity by overseas companies with Johnson & Johnson buying its Japanese cosmetics affiliate Ci:z at a 55% premium and French auto parts company Faurecia bidding for Clarion, which is currently a subsidiary of Hitachi.

We cannot recall a time when the net cash and investments as a percentage of market capitalisation was as high as the current figure of 64% for our portfolio, which now stands at 0.8x tangible book value and on an EV/OP ratio of around 4 times. In the shorter term, the market may be correct to discount a cyclical downturn from a slowing Chinese economy and trade tensions but in the longer term the arguments that we have made many times before – improving profitability and a greater focus on corporate governance and shareholder returns – remain intact. 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<br>B Shares: Accumulation and Income                       |
| Share fees  | A Shares: 1.5% Management Fee<br>B Shares: 1.0% Management Fee<br><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<br>Arlington Business Centre<br>Millshaw Park Lane<br>Leeds LS11 0PA<br><br>Tel: 0345 922 0044<br>Fax: 0113 224 6001 |
|--------------------|--|

|                       |            |
|-----------------------|------------|
| <b>Bloomberg Code</b> |            |
| A Accumulation        | CFMWJAA LN |
| B Accumulation        | CFMWJBA LN |
| A Income              | CFMWJAI LN |
| B Income              | CFMWJBI LN |

|                |         |
|----------------|---------|
| <b>SEDOL</b>   |         |
| A Accumulation | 3301001 |
| B Accumulation | 3301012 |
| A Income       | 3359798 |
| B Income       | 3359806 |

|                |              |
|----------------|--------------|
| <b>ISIN</b>    |              |
| A Accumulation | GB0033010017 |
| B Accumulation | GB0033010124 |
| A Income       | GB0033597989 |
| B Income       | GB0033598060 |

|                                 |               |
|---------------------------------|---------------|
| <b>Top Ten Holdings</b>         | <b>% Fund</b> |
| Mitsubishi UFJ Financial        | 3.3           |
| Sumitomo Mitsui Financial Group | 3.1           |
| Kinden                          | 3.1           |
| Sumitomo Mitsui Trust           | 3.0           |
| Nippon Television Network       | 3.0           |
| Tokio Marine Holdings Inc       | 2.9           |
| Sumitomo Electric Industries    | 2.8           |
| Toyota Industries               | 2.8           |
| Medipal Holdings                | 2.8           |
| Tokyo Broadcasting System       | 2.7           |
| <b>Number of Holdings</b>       | <b>56</b>     |
| <b>Fund Size</b>                | <b>£492m</b>  |

## Performance

|                        | 2017   | 2016   | 2015   | 2014  | 2013   | Since inception<br>(May 2003) |
|------------------------|--------|--------|--------|-------|--------|-------------------------------|
| A Shares               | +16.3% | +26.2% | +21.3% | +2.0% | +24.7% | +289.9%                       |
| B Shares               | +16.9% | +26.8% | +21.9% | +2.5% | +25.4% | +321.0%                       |
| TOPIX Net Total Return | +15.3% | +24.0% | +16.6% | +2.3% | +23.9% | +238.2%                       |

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 31<sup>st</sup> October 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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