

WS Morant Wright Japan Fund August 2024 Newsletter

£ Returns	Month	Year to Date	Since Inception (23 rd May 2003)
B Accumulation	-2.9%	+13.3%	+528.4%
TOPIX Net Total Return	-1.9%	+9.2%	+372.2%

Sources: Bloomberg and Waystone Management (UK) Limited

In a period of increased volatility for the stock market and continued strength in the yen, TOPIX recorded a decline of 2.9% for August in local terms. In the first three trading days of the month the index fell over 20%, which included its second largest daily fall ever, as investors digested the BoJ's increase in short term interest rates to 0.25% announced at the end of July and due to a concern over a potential slowing in the US economy. A speech by Deputy Governor Uchida, who indicated that the Bank would maintain its easy monetary policy whilst global markets remained volatile, then prompted a recovery.

Prime Minister Kishida, influenced by his poor approval ratings, announced that he would not contest September's LDP leadership election. At this stage, there is no clear candidate to succeed him but the government's main policies seem unlikely to change whoever wins.

Second quarter GDP rose by 3.1% on an annualised basis driven mainly by stronger consumer spending and capex. Wages grew by 4.5% in June thanks to bonuses and, although only a single month, this is the highest rate of growth since 1997. In addition, the National Personnel Authority recommended that wages should rise by 4.4% for Japan's public sector workers in the current fiscal year. This rise would be the highest for over thirty years and applies to just over 3m public employees. In particular, starting salaries for new graduates will rise by 15% following a 6% rise last year.

Corporate results for the first quarter of the new fiscal year have been slightly better than expected. More of our companies revised up than down, although the majority left their full year forecasts unchanged. Specialty chemicals company Adeka revised up its profit estimate for March 2025 after reporting recurring profit growth of 19% in the quarter. Honda reported a record quarter for profits thanks to strong sales of its hybrid cars, which are second only to Toyota globally. Notably, companies in the TOPIX index are still using an FX assumption of ¥145/\$ on average, similar to the current level.

Shareholder returns continued to rise at our companies as they make better use of their cash rich balance sheets. Even at this early stage of the year, a handful of companies have already revised up their estimated dividends. Dividend growth in aggregate for the portfolio is now forecast to be 11% this year. Share buybacks have also been substantial both in number and size. Almost half of the companies in the portfolio have announced them since April and the average size has been almost 5% of shares outstanding. In August there were large buybacks from Artience (8%) and Inpex (5%), both of which have been regular and significant buyers of their own shares. It was also encouraging to see Katakura, a textile company with significant net cash and real estate assets, announce a 2% buyback, its largest for three years. We have been engaging regularly with Katakura on this issue for the last few years.

Canadian retailer Alimentation Couche-Tard has made a preliminary bid for Seven & I, which has a market cap of \$37bn. If this offer succeeds it would be the largest foreign takeover of a Japanese company. The unsolicited bid is being assessed by a special committee set up by Seven & I in line with the new corporate takeover guidance issued in 2023 by METI. So far this year there have been 14 takeovers of listed Japanese firms by foreign companies. A second significant deal announced this month was the \$4bn agreed acquisition of Fujisoft, a software developer, by private equity firm KKR at a PBR of 4.3x. Interestingly, an activist investor had proposed that the company should go private at last year's AGM, an option that was subsequently recommended by a special committee set up to assess the proposal.

Valuations remain attractive with the portfolio standing at a PBR of 0.82x and a PER of under 11x. Our companies are continuing to improve their shareholder returns, spurred by pressure from investors and the TSE, while a more active M&A market will also help to realise the value in the portfolio.

**Stephen Morant, Ian Wright, Richard Phillips, Tom Mermagen, Andrew Millward,
 Denis Clough, Nick Sinclair and Karin Ri**

Fund	
Fund size	£682m
Number of holdings	63

Valuations	
Average PBR	0.82
Median EV/OP* (3/25e)	6.3
Weighted Average P/E (3/25e)	10.6
Net cash as % of market cap*	56%

*Net cash (including investment securities) and EV/OP figures exclude financials

Top Ten Holdings	% Fund
Sumitomo Mitsui Financial Group	3.7
Dai-ichi Life Holdings Inc	3.4
Tokyo Broadcasting System	3.3
Sumitomo Mitsui Trust	3.2
Mitsubishi UFJ Financial Group	3.0
Kinden	3.0
Concordia Financial Group Ltd	3.0
Sumitomo Electric Industries	3.0
Honda Motor Co. Ltd	2.9
Inpex	2.8

Market Cap Breakdown	% Fund
Large cap (>\$5bn)	39.2
Mid cap (\$1-5bn)	56.3
Small cap (<\$1bn)	4.1
Cash	0.4

NAV at 30 th August 2024	
B Accumulation	628.39p
B Income	524.52p

Dealing
 If you would like to deal in the fund, please contact Waystone Management (UK) Limited. Their telephone number is **0345 922 0044** or by email ordergroup@waystone.com

Please refer to the further fund details and important regulatory information on the reverse of this document

Fund Information		Dealing Information	
Fund type	UK authorised OEIC	Minimum investment	£5,000
Fund currency	Sterling	Dealing frequency	Daily
Launch date	May 2003	Deal cut-off point	12pm
Geographic exposure	100% Japanese equities	Valuation point	12pm
AMF	1.0%	Settlement	T+4 (subscriptions/redemptions)
OCF	1.19%	ACD	Waystone Management (UK) Limited
Share types	Accumulation and Income	Fund administrator	Link Fund Administrators Limited (A Waystone Group Company) Central Square 29 Wellington Square Leeds, LS1 4DL wtas-investorservices@waystone.com Tel: 0345 922 0044 Fax: 0113 224 6001

Share Identifiers	Bloomberg code	SEDOL	ISIN
B Accumulation	CFMWJBA LN	3301012	GB0033010124
B Income	CFMWJBI LN	3359806	GB0033598060

Performance	2023	2022	2021	2020	2019	2018	Since inception (May 2003)
B Accumulation Shares	+21.4%	+4.3%	+6.3%	-6.3%	+10.8%	-12.3%	+528.4%
TOPIX Net Total Return	+12.3%	-5.0%	+1.9%	+9.1%	+15.2%	-9.3%	+372.2%

TOPIX Net Total Return is used for the purpose of performance comparison only as it is a widely used benchmark which includes reinvestment of dividends (net of withholding tax) and which most closely reflects the type of companies in which the fund invests. All performance information is calculated by Morant Wright Management Limited using share price data provided by Waystone Management (UK) Limited. Index data are taken from Bloomberg. Performance is given in sterling terms based on the Fund NAV. Data are as at 30th August 2024 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 must read the KIID which can be obtained from Waystone Management (UK) Limited (<https://www.fundsolutions.net/uk/morant-wright-management-limited/ws-morant-wright-japan-fund/ws-morant-wright-japan-fund/>) or ourselves, along with the Fund Prospectus and the latest report and accounts.

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