

### WS Morant Wright Japan Fund October 2024 Newsletter

£ Returns	Month	Year to Date	Since Inception (23 <sup>rd</sup> May 2003)
B Accumulation	-1.5%	+10.0%	+509.8%
TOPIX Net Total Return	-1.7%	+5.6%	+356.7%

Sources: Bloomberg and Waystone Management (UK) Limited

Topix rose by 1.9% in local terms. The market was weak prior to the lower house election on 27<sup>th</sup> October but recovered sharply despite the inconclusive result. The ruling Liberal Democratic Party lost its majority in Japan's lower house for the first time since 2009, and now does not have a majority of seats even in combination with its traditional coalition partner Komeito. The LDP and Komeito will either try to find another coalition partner among the smaller parties or rule as a minority government. After the election the yen weakened to its lowest level since July.

Core CPI rose by 2.4% in September. Japan's largest trade union federation said it will seek another pay rise of at least 5% in the 2025 wage negotiations. Expectations are therefore building for another BoJ rate hike.

Results announcements so far for the quarter ending September have been mixed. Profits in the construction industry are recovering strongly with electrical engineering firm Kandenko, for instance, reporting a 62% increase in H1 operating profit. On the other hand there have been several guidance cuts in the autos sector due to weak demand in China and production stoppages for certain Toyota Motor models, though Toyota has since resumed production of the models in question. Similarly, a recovery in semiconductor-related demand for electronics companies has not yet materialised. Shareholder returns announcements, however, have been overwhelmingly positive. Possibly at the prompting of an activist investor, speciality chemicals company Zeon announced a new 4% dividend on equity policy, a doubling of its ongoing share buyback, and an ¥8.4bn gain on the sale of cross-shareholdings. As a result of the new policy it hiked its dividend by 50% for a yield of 5.2%. Auto parts company Tokai Rika, an exception in the auto parts sector, revised its profit forecasts upwards and amended its dividend policy to a 3% dividend on equity such that the shares now yield 4.1%. We have engaged with Tokai Rika on numerous occasions to improve shareholder returns and capital efficiency.

The Nikkei reported that the total value of share buybacks announced in the first half of the fiscal year was ¥10.7trn, a record high and double last year's amount. There were several buyback announcements from our holdings including steelmaker Yamato Kogyo, which now plans to repurchase shares worth 5.5% of its market capitalisation over the next year. This will be the company's largest buyback since 2010 and there is clearly scope for more given that it has net cash and investment securities equivalent to its market capitalisation. It was also encouraging to see more progress on cross-shareholding unwinding within the Toyota group, as Toyota Industries announced it would sell all its Denso shares, worth more than ¥400bn, over the next three years.

M&A continues with both technology company NEC and housebuilder Daito Trust announcing acquisitions of listed subsidiaries at significant premiums. Franco-Italian eyewear company EssilorLuxottica reported this month it had taken a 7.4% stake in Nikon, with which it has a small lens venture. In response to a higher takeover bid from Alimentation Couche-Tard, Seven & I Holdings announced it will establish a holding company for its supermarkets, specialty stores and other businesses with the possibility of spinning it off to focus on its convenience stores, something that activists have been advocating for years.

Valuations are attractive and there is large scope for the portfolio holdings to improve capital efficiency by returning their abundant net cash and investments to shareholders. Optimisation of business portfolios is increasingly featuring in our discussions with company management as well, where concentrating on lucrative core businesses could lead to major improvement in margins and ROEs.

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

Fund	
Fund size	£630m
Number of holdings	60

Valuations	
Average PBR	0.82
Median EV/OP* (3/25e)	6.6
Weighted Average P/E (3/25e)	10.6
Net cash as % of market cap*	55%

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

Top Ten Holdings	% Fund
Sumitomo Mitsui Financial Group	4.0
Tokyo Broadcasting System	3.2
Sumitomo Mitsui Trust	3.2
Mitsubishi UFJ Financial Group	3.2
Dai-ichi Life Holdings Inc	3.1
Sumitomo Electric Industries	3.1
Honda Motor Co.	3.0
Concordia Financial Group	2.9
Kinden	2.9
Inpex	2.8

Market Cap Breakdown	% Fund
Large cap (>\$5bn)	37.1
Mid cap (\$1-5bn)	57.0
Small cap (<\$1bn)	5.4
Cash	0.5

NAV at 31 <sup>st</sup> October 2024	
B Accumulation	609.84p
B Income	509.03p

**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](mailto: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	Waystone Fund Administrators Limited Central Square 29 Wellington Square Leeds, LS1 4DL <a href="mailto:wtas-investorservices@waystone.com">wtas-investorservices@waystone.com</a> 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%	+509.8%
TOPIX Net Total Return	+12.3%	-5.0%	+1.9%	+9.1%	+15.2%	-9.3%	+356.7%

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 31<sup>st</sup> October 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.

Copyright 2024. All rights reserved.