

MORANT WRIGHT

MANAGEMENT LIMITED

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WS Morant Wright Japan Fund September 2024 Newsletter

£ Returns	Month	Year to Date	Since Inception (23 rd May 2003)
B Accumulation	-1.5%	+11.6%	+519.2%
TOPIX Net Total Return	-1.6%	+7.4%	+364.7%

Sources: Bloomberg and Waystone Management (UK) Limited

Topix was down 1.7% in yen terms after a sharp drop on the final day of the month. Investors were wrong-footed by veteran politician Shigeru Ishiba's surprise victory in the LDP leadership election having previously expected that Sanae Takaichi, known to favour looser monetary policy, would win. Mr. Ishiba broadly supports normalisation of monetary policy and is considered hawkish on defence but we don't expect any dramatic departures from existing policy. He has since called a general election for the 27th October. The yen strengthened to ¥142 against the dollar at the month end on the news of his victory and after a narrowing of the interest rate differential following the Fed's rate cut two weeks earlier.

Core inflation accelerated in August to 2.8%, and real wages rose in July for the first time in 27 months thanks to higher bonus payments. Meanwhile, corporate capex rose by 7.4% in the second quarter. Tourist numbers reached a new record high for a single month in August.

Among our holdings, electrical engineering firm Kandenko raised its recurring profit forecast by 16% and its dividend by 19% thanks in part to strong private sector investment. Broadcaster TBS Holdings almost doubled its net profit forecast after reporting a ¥24.1bn gain on the partial sale of its shareholding in Tokyo Electron. This shareholding alone is worth around ¥410bn, more than two thirds of TBS's market capitalisation. The trend of selling cross-shareholdings received a boost this month after the General Insurance Association of Japan announced that non-life insurers will abolish the practice of cross-shareholdings and asked members not to acquire new stakes.

There were several instances of activist investors taking or adding to positions in our portfolio companies. An activist reported a 6% stake in specialty chemicals company Zeon for instance. Based on publicly disclosed ownership data, we know that there are at least 26 holdings in the fund, roughly 40%, with an activist invested.

Elsewhere in the market, Seven & I Holdings rejected an initial takeover bid from Canadian convenience store operator Alimentation Couche-Tard. It also secured a "core" national security designation from the Ministry of Finance, which is the highest ranking. This might be an attempt to thwart the bid but commentators suggest it is unlikely to prove a major barrier. Otherwise, dealmaking remains brisk. Bain launched a counteroffer for KKR target Fuji Soft and it is encouraging to see more competitive bids. Bain will also partner with management at Trancom, a major logistics company, to take the company private at a 41% premium and at a price to tangible book ratio of 2x.

The Nikkei published research this month that TOPIX companies collectively have ¥25trn (\$175bn) of unrealised gains on their real estate. This is reflected at our holdings where the market value of rental real estate can be significant and in some cases far exceeds the book value. For instance, Mitsubishi Logistics owns rental real estate with a book value of ¥143bn but has a market value of ¥415bn which compares to a market capitalisation of ¥395bn. The company is beginning to realise some of these gains by selling rental assets. Moreover, we expect there to be large unrealised gains on the land used in its core warehousing business. In addition to the rental real estate, the company has net cash and investments worth ¥145bn. There is clearly tremendous scope to realise value from such situations.

Valuations of the fund look very attractive against both net assets and earnings with an understated price to book ratio of 0.80x, EV/OP of 6.5x, and PER of just 10.0x. We see an increasing number of ways to realise this value thanks to rising activism and M&A transactions.

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

Fund	
Fund size	£646m
Number of holdings	61

Valuations	
Average PBR	0.80
Median EV/OP* (3/25e)	6.5
Weighted Average P/E (3/25e)	10.0
Net cash as % of market cap*	58%

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

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

Market Cap Breakdown	% Fund
Large cap (>\$5bn)	36.2
Mid cap (\$1-5bn)	58.3
Small cap (<\$1bn)	4.3
Cash	1.2

NAV at 30 th September 2024	
B Accumulation	619.23p
B Income	516.87p

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	Waystone Fund Administrators Limited 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%	+519.2%
TOPIX Net Total Return	+12.3%	-5.0%	+1.9%	+9.1%	+15.2%	-9.3%	+364.7%

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 30th September 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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