LIONTRUST

GLOBAL EQUITY

Liontrust Japan Equity Fund

Q2 2021 review

Fund manager: Chris Taylor

The Liontrust Japan Equity Fund returned -4.3% over the quarter, ahead of the TOPIX's -6.7% and the IA Japan sector average of -7.8 (both comparator benchmarks). This performance places the Fund in the top quartile of its sector for the period under review.*

This quarter, mid-cap and smaller capitalized stocks held up better by falling only -2.2% and -1.7% respectively. The largest firms fared worse on expectations of a global slowdown, whilst the growth category was hard hit by escalating discount rate, both the actual interest rate and the uncertainty components rising.

TOPIX started the period at the 1,946 level before enduring a seesaw quarter. It slid down to just breach 1,830 by mid-May as the negative global implications of the Ukrainian invasion upon various commodity markets and inflation hit home. Thereafter, the Index rallied roughly 120 points on the positive influence upon Japanese corporate profits of a weakening Yen, hitting 1,969 a month later.

Then began a sharp decent to 1,818 ahead of a Federal Reserve rate hike and despite the Yen falling to a 24 year low against the US Dollar and China beginning to open up before these latter two influences were viewed more positively by investors to see TOPIX recover to the 1,870 level for the month end.

We anticipate the 1st July tragic death of former Premier Abe and the LDP's widened "supermajority" in parliament after Sunday 3rd July's Upper House election contest will see government policies remain almost unchanged with only the likely restart of nuclear reactors and repeal of Article 9 of the constitution so permitting the broader use of Japan's Defence Forces being enacted in the near term.

Beyond that, the April 2023 expiry of the current Bank of Japan's Governor's term will see Kuroda probably replaced and a new 10-year benchmark bond target yield of 0.50% put in place versus the current 0.25% level,

The Fund's equity portfolio benefitted from its exposure to the energy, real estate and financials as well as being underweight IT. By contrast, our materials and industrials positions detracted from the Fund's overall return. Likewise, the Fund was hindered by holding no utilities or telecoms stocks.

The financials sector eked out a gain of only 0.2% where our investments in Mitsui Fudosan and Mitsubishi Estate property companies rose by +8.3% and +4.4% respectively accompanied by Sumitomo Mitsui Trust climbing +4.5%. Otherwise, the non-bank financials moved in the opposite direction, SBI and JAFCO falling by -14.4% and -12.8% respectively.

As usual, individual stocks showed disparate performance often strongly contrary to the underlying sector's returns. For instance, the consumer discretionary sector, in aggregate, fell by -6.12%, however, vehicle manufacturer Subaru rose by +23.8% on a total return basis. Similarly, relative outperformance within the industrials sector that fell -6.7% was shown by Mitsubishi Heavy Industry (+18.0%), NGK Spark Plug (+24.6%) NTN Bearings (+21.0%), all on better-than-expected quarterly results.

By contrast, specialist machine tool firm Keyence tumbled almost 19% as the semiconductor industry investment cycle was deemed to have peaked, construction stocks did well, with all 4 of our holdings: Taisei (+19.5%), Shimizu (+2.0%), Haseko (+12.9%) and Sumitomo Mitsui Construction (+10.8%) all posting gains.

We expect Japanese equities to do relatively well. Firstly, due to their balance sheets, with their no/low debt condition, meaning they are better placed to ride out central banks raising rates further and faster than generally expected. Next, their geographic distribution of operations with a relatively high exposure each of the US and the non-OECD markets with a correspondingly lower one to UK/Europe than their major competitors, particularly their European rivals, so sidestepping the worst of the economic fallout from the Ukrainian invasion.

Lastly, the Yen's likely drift lower on widening interest rate spreads should boost Japanese corporate profits. As such, the Fund will remain overweight in large and mid-sized, well financed, industry dominant Japanese multinationals that are set to benefit most from the currency's likely weakening.

Discrete years' performance (%), to previous quarter-end:**

	Jun-22	Jun-21	Jun-20	Jun-19	Jun-18
Liontrust Japan Equity C Acc GBP	-8.2%	17.9%	6.9%	-5.2%	8.2%
Topix	-8.7%	10.4%	5.6%	-2.5%	9.1%
IA Japan	-11.4%	13.2%	7.8%	-3.4%	10.7%
Quartile	1	1	2	4	3

***Source: FE Analytics as at 30.06.22**

****Source: FE Analytics as at 30.06.22. Quartiles generated on 06.07.22**

For a comprehensive list of common financial words and terms, see our glossary at:
https://www.liontrust.co.uk/benefits-of-investing/guide-financial-words-terms

Key Risks

Past performance is not a guide to future performance. The value of an investment and the income generated from it can fall as well as rise and is not guaranteed. You may get back less than you originally invested.

The issue of units/shares in Liontrust Funds may be subject to an initial charge, which will have an impact on the realisable value of the investment, particularly in the short term. Investments should always be considered as long term.

Investment in the Fund involves foreign currencies and may be subject to fluctuations in value due to movements in exchange rates. The Fund may invest in emerging markets/soft currencies or in financial derivative instruments, both of which may have the effect of increasing volatility.