Liontrust Japan Equity Fund

Q4 2022 review

Fund manager: Chris Taylor

The Liontrust Japan Equity Fund returned 1.3% in over the fourth quarter, against the 5.1% return from the TOPIX Index comparator benchmark and the 3.4% average return in the IA Japan sector , also a comparator benchmark*.

This quarter, TOPIX, TSE Mothers and TSE Growth led the local performance tables rising by 5.2%, 5.04% and 5.00% respectively. In the case of the first and last of the three indices, this was principally due to the late surge shown by the banks and insurance companies.

The TOPIX Index started the period at the 1,836 level before it rallied to close at just over 2,018 at the end of November in response to the Yen's October weakening to 150 versus the US Dollar as investors focused on the resultant potential for substantial lift to 2023 corporate profits. Thereafter, a reversal in the Yen combined with the broadening of the Bank of Japan's 10 year bond yield trading band hit the market with the exception of the banking and insurance sectors that were held to benefit from this development.

The Bank of Japan's (BoJ) decision to broaden the acceptable yield band on the benchmark 10-year government bond to +/- 50 basis points (0.5%) from +/- 25 basis points was seen as an effective rate rise and the could well be followed by further widening of the band. Such a move had been expected to take place next spring when the term of the current BoJ governor came to an end on the 8th of April.

That said, the move was most likely driven by PM Kishida's electoral support collapsing down to only 25% upon resurgent inflation, aided by a weaker Yen, undermining real incomes. This "rate hike" reflected what had already happened in the government bond market and helped strengthen the Yen back to near the 130 to the US Dollar. However, the other monetary targets adopted by the Bank remain unchanged.

The Fund's equity portfolio suffered from poor stock selection in the strongly performing financials sector as well as in materials, industrials and consumer discretionary categories. In addition, the Fund's returns were held back by its overweight position in property that was the worst performing sector.

As usual, individual stocks showed disparate performance often strongly contrary to the underlying sector's returns. For instance, while financials gained 20%, led by the banks climbing by an average of over 26%, our holdings being mainly non-banks returned between -3% and 5% with our sole bank SMFG, rising only around 12%.

Similarly relative outperformance within the industrials sector that rose 2.5% was shown by Nabtesco, Keyence and Mitsubishi Heavy Industry gaining 13.7%, 10.2% and 8.9%, while at the other end of the spectrum were machine tool firms Okuma and Amada that fell -4.8% and -5.1% respectively accompanied by Daikin Industries tumbling -9.4%.

Despite Materials rising 5.9%, only 2 of our stocks did better, namely Shin-etsu Chemical and JFE, the steel firm ,which rose 13.2% and 14.5% respectively, while the rest of our holdings failed to achieve the overall sector's rate of return.

Likewise, among our consumer discretionary holdings, the auto firms, Toyota and Subaru underwhelmed, falling -3.4% and -6.4%, widely missing the appreciation shown by the sector as a whole.

We expect fundamentals to remain relatively beneficial for Japanese equities, despite the Bank of Japan's move as many of the underlying firms have balance sheets with no/low debt meaning they are better placed to ride out central banks raising rates further and faster than generally expected.

There also remains their strategic advantage of a geographic distribution of operations having a relatively high exposure to the US and the non-OECD markets with a correspondingly lower one to UK/Europe than their major competitors, particularly their European rivals, thereby sidestepping the fallout from the Ukrainian invasion. In terms of positioning, the Fund will remain overweight in large and mid-sized, well financed, industry dominant Japanese multinationals.

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

	Dec-22	Dec-21	Dec-20	Dec-19	Dec-18
Liontrust Japan Equity C Acc GBP	-3.0%	-0.4%	13.4%	19.8%	-17.4%
Topix	-4.5%	1.7%	9.1%	14.2%	-8.7%
IA Japan	-8.1%	1.8%	13.8%	17.2%	-11.4%
Quartile	1	4	2	1	4

***Source: FE Analytics as at 31.12.22**
****Source: FE Analytics as at 31.12.22. Quartiles generated on 06.01.23**

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.

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