



Liontrust Japan Equity Fund

Q3 2023 review

Fund manager: Thomas Smith

The Liontrust Japan Equity Fund returned 3.4% over the quarter, against the 3.2% return from the TOPIX Index comparator benchmark and the 1.0% average return in the IA Japan sector, also a comparator benchmark*.

Japanese equities continued their strong run through the third quarter, rising by a further +3.2% and taking returns for the year to +9.1%. Key supportive factors included the gradual transition from deflation to a mildly inflationary economy, rising corporate return-on-equity (ROE) and shareholder returns driven by the Tokyo Stock Exchange's governance reforms, and the more resilient business cycle following a later reopening process and supply chain normalisation. Returns in JPY were stronger but this was offset by a weaker currency as the Bank of Japan sticks with loose monetary policy in stark contrast to other central banks around the world.

We continue to see progress being made on the back of the TSE's initiative in January aimed at getting companies to focus on their cost of capital and encourage those generating unsatisfactory returns to publish plans detailing how they intend to rectify this. The first and most straightforward step has seen companies reduce their complex web of cross-shareholdings and initiate share buybacks or raise dividends in order to improve the efficiency of balance sheets. The hope is that this can be followed by operational improvements that can sustainably raise the return on capital of corporate Japan. This year saw a record number of shareholder proposals at AGMs, many calling for improvements in capital efficiency, shareholder returns and corporate governance.

The Liontrust Japan Fund returned +3.4% during the third quarter of 2023 and +11.1% for the year to date. Key positive contributions came from financials, consumer discretionary and industrials sectors, which are well represented in the portfolio. Holdings such as Mitsubishi Heavy Industries (heavy machinery, including turbines and defence), Mitsubishi Motors (autos) and Eneos (refining and fuel distribution) all performed strongly.

The outlook for Japanese equities remains strong with robust earnings and ongoing corporate governance reform.

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

	Sep-23	Sep-22	Sep-21	Sep-20	Sep-19
Liontrust Japan Equity C Acc GBP	12.6%	-9.8%	16.2%	3.8%	1.8%
Topix	14.7%	-13.9%	15.3%	2.0%	-0.7%
IA Japan	11.3%	-15.4%	16.6%	5.6%	-1.1%
Quartile	3	1	3	2	1

***Source: FE Analytics as at 30.09.23**

****Source: FE Analytics as at 30.09.23. Quartiles generated on 07.07.23**

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 does not predict future returns. You may get back less than you originally invested.

We recommend this fund is held long term (minimum period of 5 years). We recommend that you hold this fund as part of a diversified portfolio of investments.

- Overseas investments may carry a higher currency risk. They are valued by reference to their local currency which may move up or down when compared to the currency of the Fund.
- This Fund may have a concentrated portfolio, i.e. hold a limited number of investments. If one of these investments falls in value this can have a greater impact on the Fund's value than if it held a larger number of investments.
- The Fund may encounter liquidity constraints from time to time. The spread between the price you buy and sell shares will reflect the less liquid nature of the underlying holdings.
- Outside of normal conditions, the Fund may hold higher levels of cash which may be deposited with several credit counterparties (e.g. International banks). A credit risk arises should one or more of these counterparties be unable to return the deposited cash.
- Counterparty Risk: any derivative contract, including FX hedging, may be at risk if the counterparty fails.

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.

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