

MORANT WRIGHT

MANAGEMENT LIMITED

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Morant Wright Sakura Fund January 2024 Newsletter

% Returns	Month	2023	Since Inception (7 th May 2013) (Yen B: 17 th April 2018)
Yen (unhedged)	+8.2	+39.2	+181.9
TOPIX Net Total Return	+7.8	+27.8	+162.3
Euro (hedged)	+8.4	+44.0	+167.3
Sterling (hedged)	+8.5	+44.7	+179.6
Swiss Franc (hedged)	+8.2	+40.2	+152.6
US Dollar (hedged)	+8.5	+45.8	+204.4
Yen B shares (unhedged)	+8.2	+38.7	+68.4

Performance given for accumulation shares
Sources: Bloomberg and Waystone Management Company (IE) Limited

TOPIX started the year strongly by rising 7.8% in yen terms, despite the devastation of the Noto Earthquake which hit Japan on New Year's Day. Larger companies led the increase with the TOPIX Core 30 index up by almost 10% while the TOPIX Mid 400 rose by just over 5%. At least 233 people died in the earthquake and a few of our companies suffered damage to local factories, although Noto Airport had re-opened by the end of the month.

Individual investors have shown more interest in Japanese equities following a rise in the tax-exempt allowance for Nippon Individual Savings Accounts (NISAs). The annual limit for these investment accounts has tripled to a total of ¥3.6m (\$25,000) from 1st January, and their tax-free status has been made permanent. According to the Nikkei newspaper, NISA purchases of equities through the leading online brokerages reached \$3bn in the first two weeks of January, almost three times the record for a single month. NISA applications have also doubled compared to last year.

As widely expected, the Bank of Japan kept monetary policy unchanged in its January meeting. The next meeting in March will be held as companies carry out their annual wage negotiations. The Japanese Business Federation has called for an increase of at least 5%, which would exceed last year's rise. Demand for new graduates in particular is very strong, resulting in starting salaries increasing by 16% at Dai-ichi Life and 25% at SMFG. Interestingly, the Ministry of Health, Labour and Welfare has just released its report on wages in 2023. This showed that smaller companies raised pay by 3.4% last year, reflecting the tight labour market.

Announcements by the Tokyo Stock Exchange are still having a positive effect on share prices, as we have highlighted before. In January, the TSE published its first list of companies that have issued plans to improve their valuations. Within the TOPIX Prime market, 40% of companies have so far announced strategies and the list will be updated monthly. Although the hurdle rate to be included is low, the TSE intends to publish examples of good and bad plans to help improve understanding. Within our portfolio, over half of our companies have announced plans to improve their valuation. Almost all of these strategies include quantitative targets for ROE and shareholder returns, and often a reduction in cross-shareholdings as well. We continue to engage with our companies on these issues.

We were encouraged to see Kinden, an electrical engineering company held in the portfolio, announce one such plan after our numerous engagements with management, including voting against directors at the last three AGMs and writing to management each time to explain our concerns. The company has announced a rise in the payout ratio to 50-60% including share buybacks in order to raise the company's ROE. As a result, this year's dividend will increase by 50% and the company will buy back 2.2% of its shares, most of which will be cancelled. It also intends to reduce the number of cross-shareholdings by around a quarter by March 2027. Given Kinden currently has net cash and investments worth close to 70% of its market cap there is still a long way to go and we will continue to urge the company to keep raising return on equity.

The TSE initiative continues to have other consequences. After the raft of MBOs in late 2023, two more companies have announced plans to go private. Aoki Super and Payroll are both small companies but are being bought out at premiums of around 40%. Elsewhere, Fuji Soft, a software development company with a market cap of \$3bn, confirmed that it had received "multiple" offers to be bought. Fuji Soft had previously set up a privatisation panel to consider its future as a listed company.

Despite rising share prices, our companies still have substantial net cash and investments worth an average of 56% of market cap (ex-financials) which gives them considerable scope to continue raising dividends and buy back shares. The TSE measures and ongoing shareholder pressure have combined to help focus management attention on improving returns.

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

Fund	
Fund size	\$898m
Number of holdings	58

Valuations	
Average PBR	0.85
Median EV/OP* (3/24e)	6.5
Weighted Average P/E (3/24e)	11.0
Net cash as % of market cap*	56%

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

Top Ten Holdings	% Fund
Tokyo Broadcasting System	3.8
Mitsubishi UFJ Financial Group	3.2
Sumitomo Mitsui Financial Group	3.2
Kinden	3.2
Sumitomo Mitsui Trust	3.1
Toyota Industries Corp	3.1
Honda Motor Co. Ltd	3.0
Dai-ichi Life Holdings Inc	2.8
Inpex	2.8
Concordia Financial Group Lt	2.8

Market Cap Breakdown	% Fund
Large cap (>\$5bn)	39.8
Mid cap (\$1-5bn)	52.1
Small cap (<\$1bn)	5.2
Cash	2.9

NAV at 31 st January 2024	
Yen	¥2,819.19
Sterling	£27.96
US Dollar	\$30.44
Euro	€26.73
Swiss Franc	CHF25.26
Yen B	¥1,683.64

Dealing
If you would like to deal in the fund, please contact Waystone Management Company (IE) Limited. You can contact them by telephone on +353 1 400 5300 or by emailing investordealing@linkgroup.ie

Please refer to the further fund details and important regulatory information on the reverse of this document

Fund Information		Dealing Information	
Fund type	UCITS OEIC, authorised in Ireland	Minimum investment	¥1,000,000 (Japanese Yen shares) US\$5,000 (US Dollar shares) £5,000 (Sterling shares) CHF5,000 (Swiss Franc shares) €5,000 (Euro shares)
Fund currency	Japanese Yen Hedged classes available in £, \$, €, CHF Unhedged classes available in ¥, €, £ and \$	Dealing frequency	Daily
Launch date	May 2013	Deal cut-off point	11.00am (Irish time)
Geographic exposure	100% Japanese equities	Valuation point	12.00pm (Irish time)
AMC	1.00% (JPY B Class 0.75%)	Settlement	T+4 (subscriptions/redemptions)
OCF	1.21% (JPY B Class: 0.96%)		
Share types	Accumulation and Distributing	Fund administrator	Link Fund Administrator Ireland Limited (LFAI) (A Waystone Group Company) 35 Shelbourne Rd, Ballsbridge, Dublin 4, D04 A4E0 Ireland Tel: +353 1 400 5300 Fax: +353 1 400 5350

Share Identifiers	Bloomberg code	SEDOL	ISIN
Euro Acc Hedged	MWSKEUR	B7ST847	IE00B7ST8472
Euro Dist Unhedged		BYWNV45	IE00BYWNV454
Yen Acc Unhedged	MWSKYEN	B9140F8	IE00B9140F89
Yen B Acc Unhedged	MWSKYBA	BF1FZN6	IE00BF1FZN69
Sterling Acc Hedged	MWSKSTL	B840XH9	IE00B840XH97
Sterling Dist Unhedged		BYWNV34	IE00BYWNV348
Swiss Franc Acc Hedged	MWSKCHF	B93V6N7	IE00B93V6N72
US Dollar Acc Hedged	MWSKUSD	B8JTQR2	IE00B8JTQR23
US Dollar Dist UnHedged	MWSKEUR	B7ST847	IE00BYWNV561

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 Company (IE) Limited. Index data are taken from Bloomberg. Performance is given in sterling terms based on the Fund NAV. Data are at 31st January 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 Company (IE) Limited or ourselves at <https://www.morantwright.co.uk/morant-wright-sakura-fund>, along with the Fund Prospectus and the latest report and accounts. Please also refer to https://www.linkgroup.eu/media/1617/20210730-shareholder-rights-policy_final.pdf for a full summary of investor rights. The Fund Manager, Waystone Management Company (IE) Limited, a company incorporated under the laws of Ireland having its registered office at 35 Shelbourne Rd, Ballsbridge, Dublin, D04 A4E0 Ireland which is authorised by the Central Bank of Ireland has appointed Morant Wright Management Limited as Investment Manager to this fund. Waystone Management Company (IE) Limited, has the right to terminate the arrangements made for the marketing of funds in accordance with the UCITS Directive. A summary of investors rights may be found here: <https://www.waystone.com/waystone-policies/>.

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