

MORANT WRIGHT

MANAGEMENT LIMITED

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WS Morant Wright Japan Fund January 2025 Newsletter

£ Returns	Month	2024	Since Inception (23 rd May 2003)
B Accumulation	+3.5%	+18.8%	+582.2%
TOPIX Net Total Return	+2.5%	+10.1%	+388.0%

Sources: Bloomberg and Waystone Management (UK) Limited

The equity market traded within a relatively narrow range during the month while Japanese government bond yields rose to their highest level in 14 years. The yen strengthened slightly but persistent weakness has made Japan a popular place for tourists: there were 37m foreign visitors in 2024, up 47% yoy, considerably higher than the previous record number of 31.9m in 2019.

The Bank of Japan (BOJ) raised its policy rate (overnight call rate) by 0.25% to 0.50%. Unlike the move last summer this had been well signalled and had little market impact. The accompanying Outlook Report was relatively hawkish with the BOJ revising up its inflation forecasts to above their target of 2% for the next three years citing labour shortages as a key upside risk to prices.

Japan's unemployment rate remained low at 2.4% in December, with total employment reaching a new record for the third consecutive month. Notably, employment among 15-24-year-olds saw a strong uptick. Base wages rose 2.7% in November, the largest increase in over 30 years. Aeon, the supermarket chain and the largest employer of part-time workers, is set to increase part time wages by 7%, the same as last year. Meanwhile, the number of foreign nationals working in Japan surged by 250,000 to 2.3 million, the largest year-on-year increase since records began in 2000.

We recently met with senior management of our two city bank holdings, MUFG and SMFG. Both highlighted expanding net interest margins following rate hikes and emphasised that achieving a price to book of 1x is "just the beginning." The expectation is for the BOJ to continue normalising interest rates and eventually raise them to 1% which bodes well for their profits.

Fuji Media, in which we are invested, saw its share price surge 27% during the month. The company has been embroiled in a scandal involving employee misconduct and an alleged cover up with the subsequent press conference described as a "car crash". Two directors have resigned so far and customers have been cancelling advertising contracts resulting in a downward revision to profits. We have engaged with the company for many years regarding capital management and board governance, voting against the re-election of directors. The scandal has raised hopes for a corporate governance overhaul and major strategic change. The stock still only trades at 0.5x book value, with net cash covering nearly 60% of its market capitalisation. This news has also led to speculation that other TV companies might come under pressure to realise their undervalued assets.

Last year was a record for Japan-related M&A, partly fuelled by private equity firms acquiring non-core assets as companies sharpen their focus on capital efficiency. This month Bain bid for aircraft parts manufacturer JAMCO and an activist launched an unsolicited tender offer to raise its stake in a JREIT. Recent transactions involving Sapporo and Seibu Holdings have highlighted the valuable real estate held within some Japanese companies.

The unwinding of cross-shareholdings is opening up shareholder registers with, for example, a large placing of Murata shares this month. Companies are increasingly conscious of their share prices announcing share buybacks at an unprecedented rate. NISAs are proving popular with ¥11.9trn invested in 2024 of which 38% was invested in Japanese shares.

In a recent interview with the Financial Times, Takeshi Niinami, president of Suntory and chairman of the Japan Association of Corporate Executives, suggested that Japan is reaching "a tipping point" and predicted that activism, private equity investment and domestic consolidation would continue. From a balance sheet perspective, the average net cash to market capitalisation in the portfolio remains over 50%, underscoring the potential for greater shareholder returns. In addition, we see considerable scope for operating margins to improve. We believe corporate Japan is still in the early stages of a multi-year transformation which will result in a significant re-rating of our portfolio.

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

Fund	
Fund size	£669m
Number of holdings	62

Valuations	
Average PBR	0.89
Median EV/OP* (3/25e)	6.7
Weighted Average P/E (3/25e)	11.7
Net cash as % of market cap*	51%

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

Top Ten Holdings	% Fund
Sumitomo Mitsui Financial Group	3.7
Sumitomo Mitsui Trust	3.6
Mitsubishi UFJ Financial Group	3.5
Tokyo Broadcasting System	3.3
Nippon Television Network	3.2
Toyota Industries Corp	3.2
Concordia Financial Group	3.1
Dai-ichi Life Holdings Inc	3.0
Honda Motor Co. Ltd	2.8
Sumitomo Electric Industries	2.7

Market Cap Breakdown	% Fund
Large cap (>\$5bn)	37.5
Mid cap (\$1-5bn)	56.4
Small cap (<\$1bn)	5.0
Cash	1.1

NAV at 31 st January 2025	
B Accumulation	682.21p
B Income	569.44p

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	2024	2023	2022	2021	2020	2019	Since inception (May 2003)
B Accumulation Shares	+18.8%	+21.4%	+4.3%	+6.3%	-6.3%	+10.8%	+582.2%
TOPIX Net Total Return	+10.1%	+12.3%	-5.0%	+1.9%	+9.1%	+15.2%	+388.0%

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 31st January 2025 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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