

MORANT WRIGHT

MANAGEMENT LIMITED

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WS Morant Wright Nippon Yield Fund March 2024 Newsletter

£ Returns	Month*	Year to Date	Since Inception (1 st October 2008)
B Accumulation	+4.7%	+13.4%	+626.3%
TOPIX Net Total Return	+3.0%	+10.7%	+227.3%

Sources: Bloomberg and Waystone Management (UK) Limited
*Month end date 28th March

Topix rose 3.6% in March in local terms. As widely expected the Bank of Japan ended its negative interest rate policy by raising rates for the first time in 17 years. It simultaneously abandoned yield curve control, ended purchases of ETFs and REITs (though in practice it had stopped buying some time ago) and pledged to gradually reduce its purchases of commercial paper and corporate bonds. Somewhat surprisingly the yen weakened modestly to its lowest level in 34 years, close to ¥152 against the dollar.

Inflation remains robust, as core CPI jumped to 2.8% from 2.0% in February, after the effect of government energy subsidies fell out of the calculation. Japan's largest trade union group, Rengo, announced that its member unions have secured pay rises of 5.3% on average in this year's negotiations, exceeding last year's 3.8%.

Payouts to shareholders from listed companies will reach another all-time high of ¥25trn (\$165bn) for the fiscal year ending March 2024 according to the Nikkei newspaper. Amongst our companies, we were pleased to see construction and civil engineering firm Obayashi upgrade its dividend policy and commit to a 10% ROE target. Despite a 24% rise this month the shares still yield 4%. This new policy actually goes further than an activist shareholder proposal in June 2023 for which we voted but which failed to pass. Similarly, Fuji Media announced a buyback of 4.6% of its shares using the proceeds of a ¥16bn gain on the sale of listed equity holdings citing the need to improve capital efficiency. We have engaged with both of these companies on their overcapitalised balance sheets. There was more good news on investment security sales at Sumitomo Electric, which recorded a large gain on the sale of shares in an Indian affiliate, and Zeon, which continues to sell down its stake in Yokohama Rubber.

Elsewhere, Dai-Ichi Life published its new mid-term plan with an enhanced shareholder return policy. The company upgraded its dividend payout ratio from 30% to 40% and announced a ¥100bn buyback for 5.3% of its outstanding shares. It will also cut its cross-shareholdings by 30% over three years to help it achieve an ROE of 10%.

The lack of a market for corporate control has historically depressed valuations in Japan but this is changing. Dai-Ichi Life made a rare unsolicited counterbid for Benefit One in December, which was successful, and this month Brother Industries made a counterbid to a proposed MBO at Roland DG at a slightly higher premium. Hostile takeovers are becoming more common too, as logistics company AZ-COM Maruwa Holdings offered a 47% premium for its competitor Chilled & Frozen Logistics Holdings after merger talks broke down. The asset rich balance sheets and modest valuations of many Japanese companies are attracting attention from private equity investors as well. Deal value in 2023 almost trebled compared to the annual average of the last five years according to Bain & Co.

Clients often ask us about the large "hidden" gains on real estate at Japanese companies. Hino Motors illustrated this well when it announced a ¥40bn gain on the sale of an idle piece of land with a book value of only ¥4.1bn. This came just six months after it announced a ¥50bn gain on the sale of land with a book value of ¥0.1bn. These gains, with a combined worth of ¥90bn, compare to a market capitalisation of just ¥300bn. We believe many of our holdings could also generate profits by selling real estate assets with low book values.

Our portfolio companies continue to improve capital efficiency under growing pressure from investors. With net cash worth 40% of the portfolio there is clearly considerable scope to do so, and earnings multiples are attractive.

Fund	
Fund size	£734m
Number of holdings	65

Valuations	
Average PBR	0.90
Median EV/OP* (3/24e)	7.6
Weighted Average P/E (3/24e)	12.1
Net cash as % of market cap*	40%

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

Top Ten Holdings	% Fund
Sumitomo Mitsui Financial Group	3.6
Mitsubishi UFJ Financial Group	3.5
Dai-Ichi Life Holdings Inc	3.5
Sumitomo Mitsui Trust	3.4
Honda Motor Co. Ltd	3.3
Impex	3.2
Sumitomo Electric Industries	3.0
Concordia Financial Group Lt	2.9
Fuji Media Holdings	2.8
Yamato Kogyo Co Ltd	2.3

Market Cap Breakdown	% Fund
Large cap (>\$5bn)	35.9
Mid cap (\$1-5bn)	52.1
Small cap (<\$1bn)	7.2
Cash	4.8

NAV 28 th March 2024	
B Accumulation	699.71p
B Income	476.93p

Dealing
If you would like to deal in the fund please contact Waystone Management (UK) Limited. Their telephone number is 0345 922 0044 and their email is ordergroup@linkgroup.co.uk

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

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

Fund Information		Dealing Information	
Fund type	UK authorised OEIC	Minimum investment	£5,000
Fund currency	Sterling	Dealing frequency	Daily
Launch date	October 2008	Deal cut-off point	12pm
Geographic exposure	100% Japanese equities	Valuation point	12pm
AMF	1.0%	Settlement	T+4 (subscriptions/redemptions)
OCF	1.18%	ACD	Waystone Management (UK) Limited
Share types	Accumulation and Income	Fund administrator	Link Fund Administrators Limited Central Square 29 Wellington Square Leeds, LS1 4DL investorservices@linkgroup.co.uk Tel: 0345 922 0044 Fax: 0113 224 6001

Share Identifiers	Bloomberg code	SEDOL	ISIN
B Accumulation	CFMWNBA LN	B42MKS9	GB00B42MKS95
B Income	CFMWNYB LN	B2R83B2	GB00B2R83B20

Performance (%)	2023	2022	2021	2020	2019	Since inception (1 st October 2008)
B Accumulation Shares	+18.9	+8.8	+11.6	-5.9	+11.9	+626.3
TOPIX Net Total Return	+12.3	-5.0	+1.9	+9.1	+15.2	+227.3

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 28th March 2024 and accurate as at that date.

Dividends

Ex-Dividend Date	31 Oct 2018	30 Apr 2019	31 Oct 2019	30 Apr 2020	31 Oct 2020	30 Apr 2021	31 Oct 2021	30 Apr 2022	31 Oct 2022	30 Apr 2023	31 Oct 2023
Dividend per 'B' Income Share	4.2703	5.7753	5.1285	6.2359	4.1192	5.8480	5.0278	6.8290	5.631	7.0071	5.7134

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-nippon-yield-fund/ws-morant-wright-nippon-yield-fund/>) or ourselves, along with the Fund Prospectus and the latest report and accounts.

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