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FUND COMMENTARY Year to date to 30 September 2024 CT (Lux) Japan Equities



Daisuke Nomoto
Fund Manager
Since: 14/12/2023

Fund Information

You are investing in a fund that is actively managed in reference to the benchmark below. Please refer to the Prospectus and KIID for the Fund objective.

Fund Benchmark: MSCI Japan Index

Inception Date: 14/12/2023

Fund Currency: JPY

Fund Domicile: Luxembourg

SFDR: Article 8*

Performance

- The MSCI Japan index declined by 5.9% in yen over the quarter, but posted a gain of nearly the same amount in US dollars.

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Positioning

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*The Fund promotes environmental or social characteristics and is categorised as Article 8 under the EU Regulation 2019/2088 on sustainability-related disclosures in the financial services sector (SFDR). Please refer to www.columbiathreadneedle.co.uk for further disclosures. The decision to invest in the promoted fund should take into account all the characteristics or objectives of the promoted fund as described in its prospectus.

Activity

We initiated several new positions over the period. The largest of these were ...Suzuken, Kakaku.com, Morinaga & Company and Kokuyo.

Suzuken is one of Japan's largest pharmaceutical wholesale distributors. We are constructive on the earnings outlook for the business due to its strong market share in the distribution of rare disease drugs. The firm also has a leading digital portal site relative to its competitors. Furthermore, we are positive on the company's capital management policy.

Kakaku.com is an online product-comparison firm and one of the major players in the online restaurant reservation industry. We see opportunities for ongoing growth in Tabelog, its restaurant discovery and booking service, and Kyujin Box, its job-search site. More broadly, we are optimistic on the long-term earnings profile for the company due to its strong brand recognition and market-leading services, which continue to attract customers. Furthermore, Kakaku's operating profit growth is healthy, while dividend payouts are attractive.

Morinaga is a long-established food company specialising in confectionary. The firm has a large market share in Japan and a growing presence globally. We are constructive on Morinaga's strong product cycle, high-quality management team, and focus on shareholder returns. We also believe the environment of higher consumer prices will serve as an additional tailwind.

Kokuyo is a stationary, office supplies and office furniture company with a global presence. We are optimistic on Kokuyo's healthy sales and profit growth, which we expect to be driven by strong domestic demand for furniture. Our conviction is further supported by management's strategic long-term vision and the company's significant market share.

Sales included Marubeni, DMG Mori and Renesas Electronics. We felt that trading house Marubeni had a lower-quality balance sheet and management team, while profits were more sensitive to the US dollar. Meanwhile, we closed the position in machine-tool manufacturer DMG Mori, to book profits as the stock had risen significantly since our purchase and had reached our valuation target. We exited semiconductor manufacturer Renesas Electronics as we had concerns about near-term earnings volatility, and saw more attractive risk/reward opportunities elsewhere.

Outlook

We expect Japan's economic momentum to continue to be supported by moderate inflation, corporate governance reforms and optimism surrounding wage growth.

The authorities' favourable focus on corporate governance should provide support to equities over the long term. To address the deep valuation discount associated with poor capital allocation, the Tokyo Stock Exchange has requested that companies reconsider their cost of capital and share prices. These reforms continue to encourage Japanese companies to put excess cash to work to improve return on equity in the following ways: investing in organic and inorganic investments for sustainable growth (R&D and human capital); boosting share buybacks; raising dividends; and unwinding cross-shareholdings (the last factor has historically been a chronic drag on capital efficiency).

The end of deflation has also improved investor sentiment as moderate levels of inflation should trigger a positive economic cycle and benefit consumers and corporates. In addition, a positive cycle of increasing wages and rising asset flows should support growth, and investment has catalysed economic momentum.

In terms of monetary policy, the BoJ has started to unwind the large-scale monetary easing which prevailed during Japan's deflation era. These revisions included lifting the negative interest-rate policy earlier this year, with the possibility of further rate hikes going forward.

Japanese stocks remain attractive from a valuation perspective, trading significantly below their historic levels and relative to global peers. Japan is in a transformational decade and presents an increasingly compelling long-term investment opportunity for active investors. The world's fourth-largest economy is characterised by a combination of technological prowess, well-established infrastructure and economic stability. Recent catalysts have created a paradigm shift, which makes us even more excited about Japan's investment landscape for the decade ahead.

Key Risks

The value of investments can fall as well as rise and investors might not get back the sum originally invested.

Where investments are in assets that are denominated in multiple currencies, or currencies other than your own, changes in exchange rates may affect the value of the investments.

The Fund has a concentrated portfolio (holds a limited number of investments and/or has a restricted investment universe) and if one or more of these investments declines or is otherwise affected, it may have a pronounced effect on the Fund's value.

The Fund may invest in derivatives (complex instruments linked to the rise and fall of the value of other assets) with the aim of reducing risk or minimising the cost of transactions. Such derivative transactions may benefit or negatively affect the performance of the Fund. The Manager does not intend that such use of derivatives will affect the overall risk profile of the Fund.

The Fund applies a range of measures as part of its consideration of ESG factors, including the exclusion of investments involved in certain industries and/or activities. This reduces the investable universe, and may impact the performance of the Fund positively or negatively relative to a benchmark or other funds without such restrictions.

The fund typically carries a risk of high volatility due to its portfolio composition or the portfolio management techniques used. This means that the fund's value is likely to fall and rise more frequently and this could be more pronounced than with other funds.

The risks currently identified as applying to the Fund are set out in the "Risk Factors" section of the prospectus.

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