



Liontrust Japan Equity Fund

Q1 2023 review

Fund manager: Chris Taylor

The Liontrust Japan Equity Fund returned 6.2% over the quarter, against the 3.2% return from the TOPIX Index comparator benchmark and the 3.3% average return in the IA Japan sector, also a comparator benchmark*.

The TOPIX Index closed 2022 at the 1,890 level before rallying to close at just over 2,070 by the end of the first week in March, with investors responding favourably to the natural gas price falling back to below its pre Ukraine invasion level as the OECD managed to largely wean itself off Russian supplies and oil prices fell back in tandem. The implication was that both previous economic and corporate profits forecasts would therefore prove to have been overly pessimistic.

This rally was swiftly and brutally reversed by the news of successive small US banks going bust shortly followed by Credit Suisse having similar problems and being taken over by UBS. In the face of this, investor confidence crumbled with TOPIX tumbling over 120 points to the 1930s by mid-March. Thereafter, investors regained their nerve as news of the various rescue measures came in and ahead of what is expected to be a reasonably good earnings reports season after the financial year close on 31st March. The Index managed to end the quarter just back up over the 2,000 mark.

The Fund's equity portfolio strongly benefitted from its significant overweight position in both the materials and industrials sectors while also having no exposure to telecoms. In financials, the position was more mixed, having sold out of the real estate sector to increase our exposure to the banks, for a small net negative impact. That said, we expect the slow upwards trajectory of Japanese interest rates to ultimately help the banks (higher loan margins) but weigh on the property companies (high net debt burdens). Here, roughly a third of Japan's quoted companies would financially benefit from higher rates as they have more cash than debt on their balance sheets.

As usual, individual stocks showed disparate performance often strongly contrary to the underlying sector's returns. For instance, whilst materials led the broad market by gaining 18.8%, among our holdings, only Shin-etsu Chemical, the semiconductor substrate and building materials combine, managed to beat that figure with a 31.7% return. The other firms only managed to appreciate by between 2.7% and 14.8%, so overall we underperformed in that sector.

By complete contrast the Fund's industrial holdings, almost outperformed the sector's 7.1% gain across the board, with many rising by over 20% such as Okuma (machine tools), NTN (bearings) and Keyence (semiconductor manufacturing equipment) that increased by 25.7%, 27.7% and 25.3% in turn.

Currently, we expect fundamentals to remain relatively beneficial for Japanese equities, with forecasts indicating that collectively, the Japanese market remains the only major OECD region to show profits growth. This expectation arises from a combination of Japanese firms' strategic advantage of a geographic distribution of operations with a relatively high exposure to the US and the non-OECD markets with a correspondingly lower one to UK/Europe, accompanied by the delayed benefits of the lower gas/oil prices and a slightly weaker Yen. In addition, they long ago decided to cut their overall dependence on China both as a cheap manufacturing location and a source of profitable growth, preferring instead to relocate and refocus on the rest of the Far East and India, well ahead of their US/UK/EU rivals. Therefore, the Fund will remain overweight in large and mid-sized, well financed, industry dominant Japanese multinationals.

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

	Mar-23	Mar-22	Mar-21	Mar-20	Mar-19
Liontrust Japan Equity C Acc GBP	4.2%	-5.8%	40.7%	-4.0%	-7.8%
Topix	2.3%	-3.1%	24.4%	-2.9%	-2.1%
IA Japan	0.7%	-4.4%	31.8%	-3.4%	-3.6%
Quartile	1	3	1	3	4

*Source: FE Analytics as at 31.03.23

**Source: FE Analytics as at 31.03.23. Quartiles generated on 07.04.23

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 is not a guide to future performance. The value of an investment and the income generated from it can fall as well as rise and is not guaranteed. You may get back less than you originally invested.

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.

Investment in the Fund involves foreign currencies and may be subject to fluctuations in value due to movements in exchange rates. The Fund may invest in emerging markets/soft currencies or in financial derivative instruments, both of which may have the effect of increasing volatility.

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