



Liontrust Japan Equity Fund

Q2 2023 review

Fund manager: Thomas Smith

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*.

Japanese equities had a solid first half of 2023, rising by +5.7%. Key supportive factors included the gradual transition from deflation to a mildly inflationary economy, rising corporate ROE and shareholder returns driven by the Tokyo Stock Exchange's governance reforms, and the more resilient business cycle following a later reopening process and supply chain normalisation. Returns in JPY were stronger but this was offset by a weaker currency as the Bank of Japan sticks with loose monetary policy in stark contrast to other central banks around the world.

Following the reporting of FY 3/23 earnings came a busy AGM season in Japan. This came on the heels of the TSE's initiative in January aimed at getting companies to focus on their cost of capital and encourage those generating unsatisfactory returns to publish plans detailing how they intend to rectify this. The first and most straightforward step has seen companies reduce their complex web of cross-shareholdings and initiate share buybacks or raise dividends in order to improve the efficiency of balance sheets. The hope is that this can be followed by operational improvements that can sustainably raise the return on capital of corporate Japan. This year saw a record number of shareholder proposals at AGMs, many calling for improvements in capital efficiency, shareholder returns and corporate governance.

The Liontrust Japan Fund returned 7.5% over the first half of 2023. Key positive contributions came from the materials and industrials sectors, which are well represented in the portfolio. Holdings such as **JFE Holdings** (steel) and **Shin-Etsu Chemical** (semiconductor wafers and building materials) in the materials sector, and machine tools companies **Okuma** and **Amada** and air conditioning equipment manufacturer **Daikin Industries** in the industrials sector all performed strongly. This was partially offset by very strong returns from some companies in the technology sector which are not held in the portfolio.

The outlook for Japanese equities remains strong with robust earnings and ongoing corporate governance reform.

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

	Jun-23	Jun-22	Jun-21	Jun-20	Jun-19
Liontrust Japan Equity C Acc GBP	10.2%	-8.2%	17.9%	6.9%	-5.2%
Topix	12.4%	-8.7%	10.4%	5.6%	-2.5%

IA Japan	12.7%	-11.4%	13.2%	7.8%	-3.4%
Quartile	3	1	1	2	4

***Source: FE Analytics as at 30.06.23**

****Source: FE Analytics as at 30.06.23. Quartiles generated on 07.07.23**

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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