

Global Fundamental

Q4 2023 Review

Liontrust Japan Equity Fund



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The Liontrust Japan Equity Fund returned 0.1% over the quarter, against the 3.4% return from the TSE TOPIX Index comparator benchmark and the 3.7% average return in the IA Japan sector, also a comparator benchmark*.

Japanese equities had a solid end to the year, rising by a further +3.4%, spurred on by increased confidence in a soft landing for the US economy and expectations the Federal Reserve will begin cutting interest rates in 2024. Further 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 resilient business cycle following a later reopening process and supply chain normalisation.

We continue to see progress being made on the back 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 BoJ continues to edge towards monetary policy normalisation with a further relaxation of its yield curve control. In October the upper limit for ten year yields moved to 1% and the expectation is that negative interest rates will be removed some time during the first half of 2024.

The Liontrust Japan Fund returned +0.1% during the fourth quarter of 2023 and +11.2% for the year as a whole. Key positive contributions came from the IT and materials sectors, which was offset by consumer discretionary, especially autos (Mitsubishi Motors and Subaru Corp). With regard to stock specifics, Shin-Etsu Chemical was the top contributor over the quarter, followed by Tokyo Electron.

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

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

	Dec-23	Dec-22	Dec-21	Dec-20	Dec-19
Liontrust Japan Equity C Acc GBP	11.2%	-3.0%	-0.4%	13.4%	19.8%
TOPIX	12.8%	-4.5%	1.7%	9.1%	14.2%
IA Japan	11.6%	-8.1%	1.8%	13.8%	17.2%
Quartile	3	1	4	2	1

*Source: FE Analytics, as at 31.12.23, primary share class, total return, net of fees and income reinvested.

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 does not predict future returns. You may get back less than you originally invested. We recommend any fund is held long term (minimum period of 5 years). We recommend that you hold funds as part of a diversified portfolio of investments.

Overseas investments may carry a higher currency risk. They are valued by reference to their local currency which may move up or down when compared to the currency of the Fund.

This Fund may have a concentrated portfolio, i.e. hold a limited number of investments. If one of these investments falls in value this can have a greater impact on the Fund's value than if it held a larger number of investments.

The Fund may encounter liquidity constraints from time to time. The spread between the price you buy and sell shares will reflect the less liquid nature of the underlying holdings.

Outside of normal conditions, the Fund may hold higher levels of cash which may be deposited with several credit counterparties (e.g. International banks). A credit risk arises should one or more of these counterparties be unable to return the deposited cash.

Counterparty Risk: any derivative contract, including FX hedging, may be at risk if the counterparty fails.

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.

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