

## **SHINING A LIGHT ON..... JP MORGAN JAPANESE TRUST**

### **At a glance**

Historically, the best time to invest is when something is unloved. Japan is one of those regions which polarises opinion and perhaps there are good reasons not to invest. In a recent update we indicated that to get the full benefit of returns there is a logical argument to invest in a fund which has a currency hedge. This is because the depreciation of the Yen is needed to stimulate growth within the Japanese economy.

Based on pure logic and the fact that very few managers seem willing to discuss the currency dilemma it seems we are steered towards a currency hedged fund. But it is something we remain uncomfortable with because you are making a decision on unknown factors which you can't control.

What we have been searching for is a manager who will talk through all the noise to give an open view and enable investors make an informed decision. Potentially we think we have found that manager. The fund may not appeal to all investors but the style is interesting and something that is very different. The fund is available as a fund and an Investment Trust and the Investment Trust has the stronger performance.

The fund / trust does not have a hedge and interestingly in 2013 it produced almost identical returns to a hedge fund (although there is a hedged version available). So the question is, how can the trust achieve this without the hedge?

### **Who are the team behind the fund?**

The fund is co-managed by Nicholas Weindling - he also co-manages the investment fund version of the trust and the smaller companies' fund. He joined the firm in 2006 from Baillie Gifford in Edinburgh where he spent four years, initially as a UK large cap analyst and latterly as a Japanese equities investment manager.

He is based in Tokyo alongside a team of ten people who are mixture of Japanese and Non-Japanese giving a unique insight to the daily happenings in Japan. He assumed the role of co-manager of the investment trust five years ago and the fund version of the trust two years ago.

### **Fund highlights?**

Nicholas' view of Japan is very positive and having someone on the ground gives a very different perspective to those based in London. He explained that the stability of government shouldn't be underestimated and is extremely positive for Japan. The latest election guarantees stability for a minimum of 3 to 4 years and more importantly you have an accommodative Bank of Japan who want and will do anything to make Japan recover.

On the ground Nicholas is seeing positive trends – vacancy rates for offices are falling and rent is going up. There are also indications that wages are going up and despite companies posting record earnings growth shares prices remain at historic lows.

The fund has a bias to mid and small-cap companies and this is where Nicholas sees the greatest value and where he can extract the best growth.

## LWM Consultants Ltd

---

We discussed some of the themes and he explained some of these come from being based in Japan. Tourism is a new theme he is playing, on the streets of Tokyo you can see the impact of this with more Asian and Western tourists. Three years ago it was almost unheard of, now that is changing and it is likely to grow more. We touched on the Yen and he explained that actually Yen weakness is good for this sector and therefore even without the hedge the Trust can benefit.

Touching on the Yen, it was the first time that someone was open with their thoughts. When we talk about hedging it is seen as all encompassing. Nicolas argues this is dangerous, he admits the Yen has fallen strongly against the dollar and could weaken further but the fall is less pronounced against the Euro, Australian Dollar and Sterling. With the Euro he doesn't feel there is as great a flexibility for the Yen to weaken further. So even with hedging there appears an additional layer of complexity.

Other areas which he invests in includes an area where people argue you shouldn't invest in Japan for, that is the ageing population. He argues that there are opportunities to make money from this sector and this is a theme that is reflected in the portfolio. Another area is e-commerce, in Japan this is around 4% of total sales, in the UK this is 14% so he believes this is an area which will grow.

One point that he mentioned which is interesting is that many discount Japan because of the debt burden but actually there are many good things happening and strong companies. Japan is a leader in robotic assembly and robotic innovation, and it is not just about the brands we see some of whom he believes have massive structural problems but those which are new like Shimano who dominate the global bike brake market and it is these companies that are the future of Japan.

The fund will not appeal to all investors because it is skewed towards the mid and small cap market with around 60 holdings which means it will be volatile. Nicholas looks at a three year holding period to allow themes to play out and he believes that the stock market remains cheap and this will reverse. The investment trust currently has a 10% discount which should help returns if he is correct in his thinking.

In summary Nicholas has demonstrated that even without the hedge managers can deliver strong returns (although these are not guaranteed), clearly the hedge will play a part but knowing how to play it adds to the complexity surrounding this. The fund might act as a blend alongside a hedged fund but it will be significantly more volatile because of its exposure to small and mid-cap companies and this will not appeal to all investors

### Fund performance

Performance for the past five year's (from 1 January 2010) vs Neptune Japan and db x-trackers MSCI Japan Fund is shown below:

	2010	2011	2012	2013	2014	2015 *
<b>JP Morgan Japanese Investment Trust</b>	24.38%	-11.59%	4.41%	49.07%	-1.48%	4.43%
<b>Neptune Japan Opportunities Fund</b>	-0.11%	-21.57%	17.15%	50.74%	1.30%	-1.99%
<b>Db x-trackers MSCI Japan ETF</b>	17.46%	-14.46%	3.73%	24.61%	-0.52%	4.28%

**\*1 January to 31 January 2015**

	12 months	3 years	5 years
<b>JP Morgan Japanese Investment Trust</b>	8.92%	60.14%	72.51%

## LWM Consultants Ltd

---

<b>Neptune Japan Opportunities Fund</b>	8.80%	70.81%	40.74%
<b>Db x-trackers MSCI Japan ETF</b>	12.16%	32.82%	34.16%

*You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well as rise. The total return reflects performance without sales charges or the effects of taxation, but is adjusted to reflect all on-going fund expenses and assumes reinvestment of dividends and capital gains. If adjusted for sales charges and the effects of taxation, the performance quoted would be reduced.*

### **Conclusion**

This fund might be a consideration against a hedge share class but it will be volatile and therefore may not appeal to all investors.

*The source of information in this note has been provided by JPMorgan and is correct as at February 2015. These are notes from meeting the fund manager or representative and should not be seen as a recommendation to purchase any fund mentioned. Any reference to shares is not a recommendation to buy or sell. Should you wish to make a decision based on these notes we cannot take responsibility for this and you should carry out your own research before making a decision. You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well rise.*