

SHINING A LIGHT ON..... JPMORGAN JAPANESE INVESTMENT TRUST

Update....

Japan is not a strategy always favoured by investors. There are many challenges and returns tend to be lumpy rather than consistent. Investors may therefore rightly feel there are better opportunities in other regions. For those looking to invest in Japan this is one investment we would suggest that investors explore further.

The fund is managed by Nicholas Weindling and where there is a significant point of difference is that the fund is run from Tokyo where Nicholas and his team are based. This is very unusual in this sector and provides a unique insight to the market. The fund has a bias to quality and growth with a focus on the small and mid-cap market.

We started by talking about the outlook and Nicholas explained that Japan is a highly cyclical market with over 50% of companies exporting. So when there are concerns of a global recession Japan will be hit. Equally with a strengthening yen exporters have been hit but other companies with a domestic focus, like telecoms and consumer staples, have seen an upgrade and this is where the fund is focused.

Nicholas added that Japan is not as good as it was 12 months ago. The consumption data is disappointing with wages increasing and costs coming down. Workers haven't seen wage increases for 15 years and they need to understand that it is normal for wages to go up and for them to spend. Equally the BOJ must convince people inflation is here to stay so there are still challenges.

Abenomics is good for the country; Abe remains popular, there is no support for the opposition this gives stability in government and the BOJ. If you compare to other developed countries where there is greater uncertainty this is a big reason to consider Japan. There are changes coming through on corporate governance with dividends, buy-backs etc but investors need to see this over a 5 to 10 year period.

One big area of success is tourism and they are ahead of target through relaxing visa restrictions and seeing visitors from a growing Asian middle class helped by a weaker yen.

So what has gone well – wages are up, weaker yen, corporate reforms, better female participation but they are behind the inflation target, labour reforms are weak and no movement on immigration.

From an investment viewpoint Nicholas believes there are lots of opportunities. Where he is investing is healthcare (18%), improving corporate governance (17%), e-commerce (13%), stock specific (13%) tourism (12%), aging population (10%), Japanese brand (8%) and factory automation (7%).

Talking in more detail, Nicholas added that tourism has been a theme for a while with Chinese tourists up 100% and places of opportunity include hotels, cosmetics and pharmaceuticals. Aging Japan is another area which includes drugstores which are unconsolidated at the moment and he sees many opportunities and then within healthcare there are companies like Asahi Intecc who are a global leader in guide wire. Other companies include Shimano who have 80% market share in high end gears and Pigeon with a 50% market share in China.

In summary for investors looking to invest in Japan then this is a fund to consider. This is about investing in new Japan and seeking companies which reflect this. You are unlikely to see old Japan i.e.

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car manufacturers, and this approach is reflective in the performance. It is worth adding that with the focus on quality there is a premium to be paid but the argument is that these are growth stories rather than value traps.

Fund performance

Performance from 1 January 2011 is to 30 April 2016:

	2011	2012	2013	2014	2015	2016
JP Morgan Japanese Ord	-11.69%	4.41%	49.07%	0.07%	27.30%	-5.56%
Db x-trackers MSCI Japan	-14.46%	3.73%	24.61%	-1.48%	14.20%	-4.71%

Performance over 1 year, 3 years and 5 years.

	1 Year	3 Years	5 Years
JP Morgan Japanese Ord	0.23%	28.81%	78.27%
Db x-trackers MSCI Japan	-6.18%	7.58%	34.35%

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.

The source of information in this note has been provided by JP Morgan and is correct as at April 2016. 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.