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INVESTOR

JPMorgan Japanese Investment Trust

Investment companies | Annual Overview | 14 October 2024

Conviction drives returns

Having delivered impressive returns through 2023, Japanese markets have continued to rise this year, although it has not been entirely smooth sailing for the world's third-largest economy. A tumbling currency and a 41-year high for inflation set the stage for successive interest rate hikes for the first time in almost two decades. The second of these sent ripples through the stock market, contributing to a historic sell-off for Japanese equities. The recent volatility has been particularly harrowing for yen-sensitive exporters (which benefit from a falling currency), which include some of Japan's largest companies. Positively, JPMorgan Japanese Investment Trust (JFJ) has very limited exposure to these sectors of the market, focusing instead on high-quality growth stocks that stand to benefit from the structural changes occurring across the economy.

This strategy has led to a period of solid outperformance for JFJ's shares and has continued to deliver impressive fundamental results, with strong earnings and revenue growth witnessed across the portfolio. It remains early days in Japan's recovery; however, developments over the past year are increasingly encouraging and, for a newly-enlarged JFJ following the announced combination with Japan Small Cap Growth & Income, which is due to complete on 24 October 2024 subject to receipt of final approval from JGSI's shareholders, should provide the foundation for a period of long-term growth.

Capital growth from Japanese equities

JFJ aims to produce capital growth from a portfolio of Japanese equities and can use borrowing to gear the portfolio within the range of 5% net cash to 20% geared in normal market conditions.

Sector	Japan
Ticker	JFJ LN
Base currency	GBP
Price	557.0p
NAV	631.3p
Premium/(discount)	12.6%
Yield	1.2%

Over the past year, JFJ has outperformed its peer group by a wide margin

Corporate earnings in Japan have continued to accelerate

Over the last 12 months, dividends have grown at their fastest pace in over 20 years

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Contents

Domicile	England & Wales
Inception date	2 August 1927
Manager	Nicholas Weindling Miyako Urabe
Market cap	795.41m
Shares outstanding (exc. treasury shares)	142.802m
Daily vol. (1-yr. avg.)	336532.11
Net gearing	11.2%

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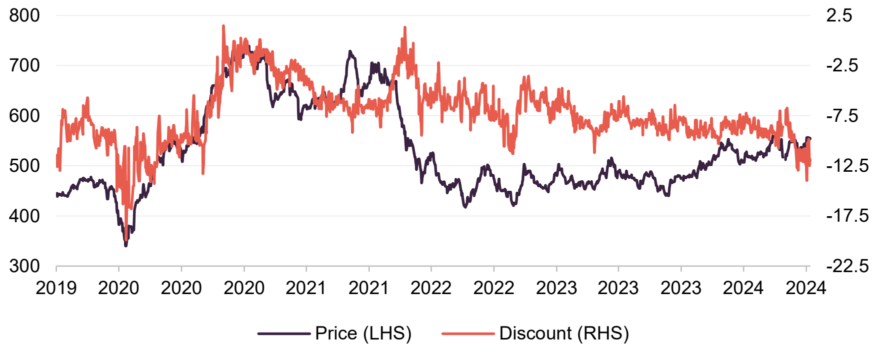
At a glance

Share price and discount

Over the 12 months to the end of September 2024, JFJ's discount moved within a range of 15.8% to a 6.4%, averaging 9.1%. At the time of publishing, the discount was 12.6%. The relatively tight band should be seen as a positive, given the volatility of previous years, and will hopefully set the stage for an inflection towards par and an eventual premium as the fund's long-term strategy beds in.

Time period 30 September 2019 to 10 October 2024

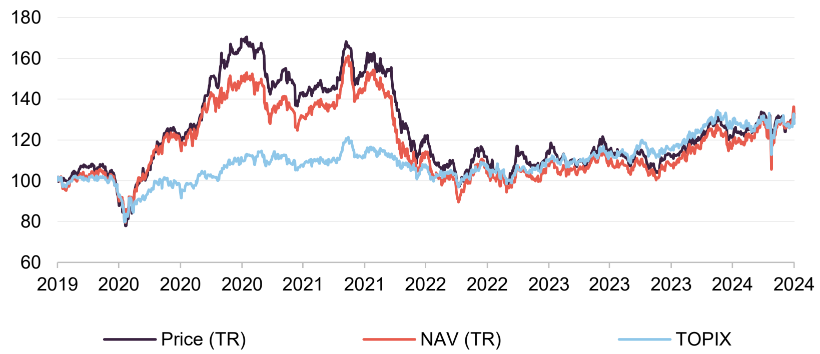


Source: Morningstar, Marten & Co

Performance over five years

Over the past year, JFJ has outperformed its peer group by a wide margin. In the longer term, performance remains in the middle of the pack, as value-focused companies have benefited from a global shift away from growth assets. However, as we have seen in recent months, market sentiment can swing quickly, and we expect JFJ to continue to generate strong returns going forward.

Time period 30 September 2019 to 30 September 2024



Source: Morningstar, Marten & Co

Year ended	Share price total return (%)	NAV total return (%)	TOPIX total return (%)	MSCI ACWI total return (%)
30/09/2020	41.8	35.0	2.0	5.3
30/09/2021	12.9	10.4	15.9	23.5
30/09/2022	(34.4)	(32.1)	(10.8)	0.6
30/09/2023	3.3	4.0	10.1	4.1
30/09/2024	22.4	24.1	10.3	19.9

Source: Morningstar, Marten & Co

Fund profile

Further information about the trust is available at www.jpmjapanese.co.uk

JPMorgan Japanese Investment Trust (JFJ or the trust) aims to achieve capital growth from investments in Japanese companies. For performance monitoring purposes, the trust is benchmarked against the returns of the Tokyo Stock Exchange Index (commonly known as TOPIX) in sterling.

The trust may make use of both long- and short-term borrowings with the aim of increasing returns.

Day-to-day investment management activity is the responsibility of JPMorgan Asset Management (Japan) Limited in Tokyo. The co-investment managers are Nicholas Weindling, who has had responsibility for JFJ's portfolio for more than a decade, and Miyako Urabe, who was appointed co-manager in May 2019. They are supported by a well-resourced team.

High-quality companies that are capable of compounding their earnings sustainably over the long term

The investment emphasis is on identifying high-quality companies that are capable of compounding their earnings sustainably over the long term. That means investing in companies in growing industries that have strong balance sheets and are resilient in the face of macro-economic issues.

Japan Small Cap Growth combination

On 31 July 2024, it was announced that, subject to the approval of shareholders in both companies, the assets of JP Morgan Japan Small Cap Growth & Income (JSGI) would be rolled into JFJ. JSGI shareholders will be entitled to elect to receive cash in respect of part or all of their shareholding, subject to an aggregate limit of 25% of JSGI's issued share capital (excluding any treasury shares). The current investment managers (Nicholas Weindling and Miyako Urabe) will continue to manage the enlarged JFJ portfolio, investing in accordance with JFJ's existing investment objective and policy. The transaction is expected to conclude by the end of October 2024.

As we highlighted when the transaction was first announced, the combination of the two JPMorgan funds will increase the net assets of JFJ to approximately £1bn. This will make it comfortably the most liquid and largest dedicated Japan trust, fulfilling the market's desire for scale, which has become increasingly apparent in recent years. The deal also makes sense at a portfolio level, with clear similarities across the two investment mandates with almost 40% of JSGI's companies already a part of JFJ's portfolio. This also greatly improves the ease with which the two companies will be amalgamated, although the managers have noted that they may look to move some of JSGI's positions, such as its smaller-cap holdings in sectors that are already covered in the JFJ portfolio. This will become clearer once the deal is formalised; however, as a whole we expect the transition to be a relatively seamless one.

JSGI shareholders may elect for a cash option, up to an aggregate limit of 25% of the company's outstanding shares, excluding shares held in treasury, at a 2% discount to its residual formula asset value (the NAV adjusted for the costs of the deal).

In addition to the increased scale and secondary market liquidity, the deal is expected to reduce JFJ's annual management fee from 0.58% on net assets to around 0.49% (depending on the uptake of the cash exit opportunity for JSGI shareholders). The marginal fee rate will be 0.35% on net assets in excess of £750m. For JSGI shareholders rolling into JFJ, this represents a significant reduction in headline management fees from 0.83%. Ongoing charges are expected to be 0.62% in the 12 months following the transaction compared to 0.75% in the half-year to 31 March 2024.

Following the completion of the transaction, the JFJ board (which will be increased to seven persons with the addition of one member from the existing JSGI board) intends to undertake a review of JFJ's dividend policy, as it is noted that that JSGI has paid an enhanced dividend since 2018.

Market backdrop

Early in 2023, the Tokyo Stock Exchange (TSE) made an announcement which threatened to delist those companies unable to "comply or explain" why they continue to trade at less than the value of their shareholders' equity. That this applies to almost 50% of the companies listed on its exchanges (compared to just 5% for the S&P500) is a prime example of the inefficiencies that have plagued Japanese markets.

This announcement from TSE is part of a long list of measures adopted by Japanese institutions in recent years as the economy attempts to lift itself out of a decades long deflationary spiral. By all accounts, these changes have gathered momentum and appear to be having a positive effect. The benchmark TOPIX index is up 53% over the last two years, while the Nikkei 225 made headlines recently for recording a new high-water mark, more than 30 years on from the last peak made during the Japanese asset price bubble in 1989.

It is not the first-time that corporate reforms have promised a new dawn for Japanese equities. Over the past decade, there have been a number of periods where optimism has led to significant capital inflows into the world's third largest economy, only to fizzle out as fundamental realities failed to match the hype. This goes some way towards explaining why the recent rally continues to be met with some scepticism, particularly among foreign investors whose allocations remain relatively muted when measured against Japan's overall share of equity value. The market has seen roughly US$75bn of foreign inflows since 2023; well down on the circa US$250bn that exited the market over a six-year period from 2017.

Positively, there are strong arguments to be made that corporate overhauls are having a much more profound impact on both corporate attitudes and underlying fundamentals this time around. For example, over the last 12 months dividends have grown at their fastest pace in over 20 years while share buybacks have reached fresh all-time highs year-to-date, accelerating well past previous levels.

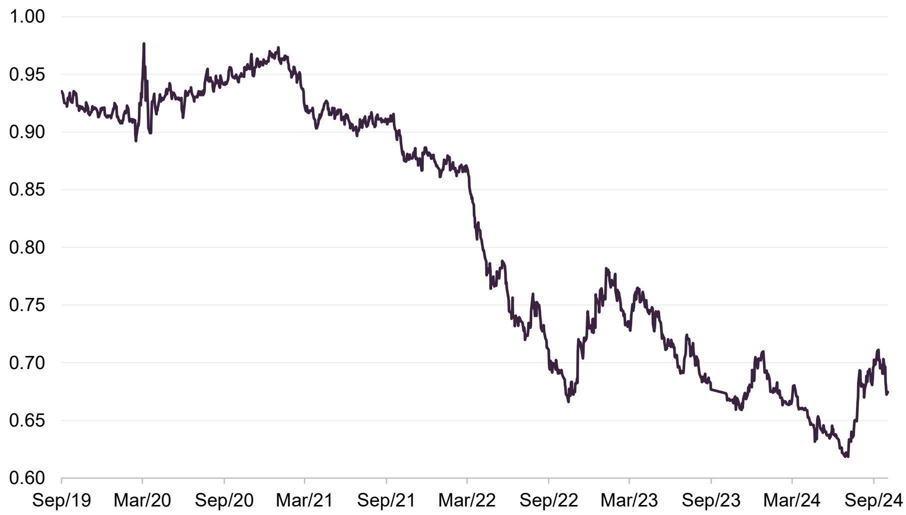
The $38.5bn offer for Seven & i Holdings from Canadian company Alimentation Couche-Tard provides another example of the changing corporate landscape and the potential to attract foreign capital. This was made possible thanks to the introduction of a takeover code and is the first time we have seen a foreign bid for a major Japanese company.

It has certainly helped that this momentum has coincided (and in many cases helped propagate) a period of ongoing economic strength, with strong capital expenditures, real wage growth (growing above the rate of inflation), and other factors, such as tourism lifting GDP. Over the course of 2023, this was particularly notable bearing in mind the wider slowdown across the global economy, with Japan's economic cycle appearing to nicely de-synchronise from the rest of the world, offering another leg to the bull case for the country's capital markets.

New year challenges

2024 has brought its own challenges, however. With economic conditions improving and inflation rising to a 41-year high, the Bank of Japan (BOJ) moved to shift away from its ultra-easy monetary policy settings (which have been in place in an attempt to stimulate growth). In March, the BOJ announced it would be raising interest rates for the first time in 17 years, while also altering its long-running yield curve control policy (another tool used to manage interest rates), allowing the 10-year government bond yield to climb above 1%. Four months later, the Bank doubled down with an additional hike which can only be described as a shock, given the preceding price action. Japanese equities tumbled 22% over just three trading sessions – a remarkable figure for a developed market index – as it got tangled up in the unwinding of the yen carry trade (where an investor borrows money in yen at a low interest rate to invest in a higher yielding asset. This is commonly used in foreign exchange markets) and a volatility shock emanating out of the US, driven by weak economic data. The sell-off was bookended by a single-session fall of 12%, one of the worst days in Japanese market history, especially for rate-sensitive exports. Notably, the TOPIX has since recovered these losses as the market attempts to reconcile the diverging fortunes of its monetary policy outlook.

Figure 1: JPY versus USD 30 October 2019 to 30 October 2024



Source: Bloomberg

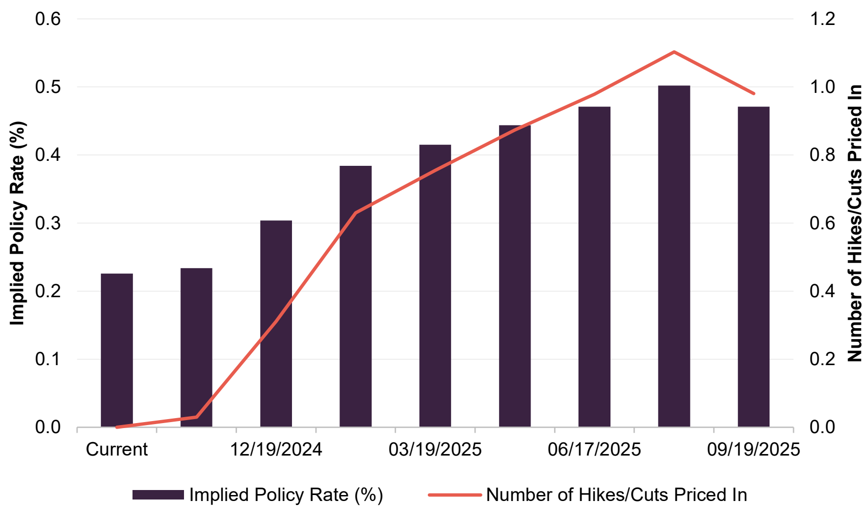
The announcement has helped lift the currency from a 34-year low against the dollar; however, there remains a significant interest rate disparity between Japan and other major global economies, particularly the US. The weak currency has weighed on economic performance, driving up the cost of food and energy and contributing to a steep drop-off in consumer spending, which makes up more than half of Japan's GDP. Additionally, the falling yen has created a barrier for foreign investors, with returns eaten away by the depreciating currency.

Additional volatility was caused by the somewhat unexpected election of new PM Shigeru Ishiba, who promptly called for a general election on 27 October in order to consolidate his Liberal Democratic Party. Markets fell following the announcement, however, have since recovered. The JFJ managers note that they see no immediate policy implications and have made no changes to the portfolio as a result.

Optimism despite speedbumps

These developments have contributed to the market consolidation over the last few months, with the TOPIX trending sideways since March (notwithstanding the August fireworks). Despite this, there remains cause for optimism for both the short-term headwinds created by the currency, and Japan's broader economic trajectory.

Figure 2: Japanese implied overnight rate & number of rate hikes



Source: Bloomberg

Since the end of June, the yen has recovered around 7% against the dollar as the market has reacted to the BOJ's interest rate tightening cycle and signs that the US economy is beginning to soften – although recent data out of the US suggests this transition may be slower than initially thought. Whilst the currency remains deeply depressed, the BOJ's relatively hawkish outlook (relating to higher interest rates, as shown in Figure 2) now stands in contrast to that of the US, which should pave the way for further gains.

More importantly, the key drivers of Japan's economic renaissance are as strong as ever and should not be discounted due to the external influence of the US and other factors. As noted, the most important development remains the ongoing corporate governance reforms – which we have discussed in detail in previous notes – with the structural transformation across the market being the key to unlocking long-repressed value.

However, there remain other, less-talked-about, factors which will continue to drive momentum.

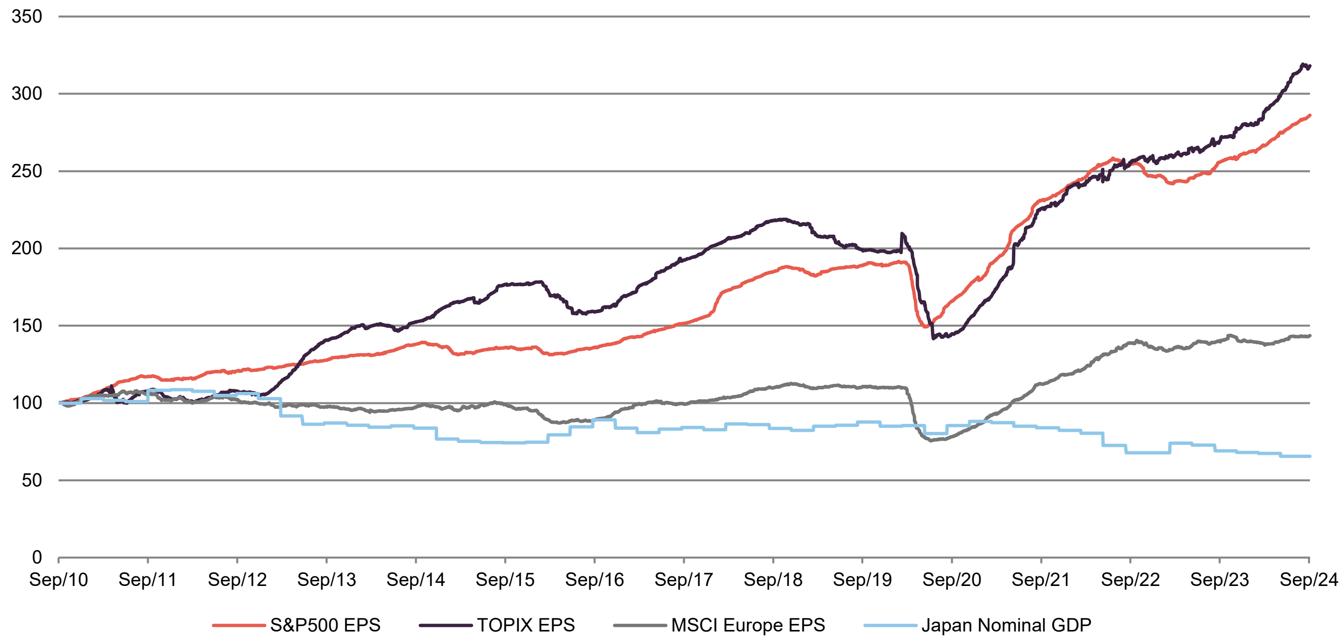
As JFJ's manager notes, Japan is at a very early stage of digitalisation compared to the rest of the world. For example, cashless payment use has only just reached 30% (including credit and debit cards), while just one in five Japanese medium-sized businesses are selling online at rates well below other developed counterparts. Increasing the adoption rate of these and similar technologies is a simple but effective way to improve the flow of money, helping drive the domestic demand which remains the growth engine of the economy.

Japan is also home to some of the world's largest and most-advanced robotics companies, which are capitalising on the global industrial automation boom as supply chains restructure following the COVID-19 pandemic. Crucially, these advancements will help accelerate productivity across the workforce while helping address the demographic issues stemming from its ageing population and shrinking workforce.

Valuations back up reform narrative

While the economic narrative captures much of the attention, corporate earnings have laid the foundation for the market's outperformance in recent years. As Figure 3 highlights, earnings in Japan have continued to accelerate, running well ahead of both nominal growth and also the returns of the high-performing S&P500. Notably, the TOPIX would be even further ahead of the benchmark US index if we exclude the so-called "Magnificent 7" companies which accounted for almost 50% of its earnings during the most recent quarter.

Figure 3: TOPIX, S&P 500, MSCI Europe EPS & Japan Nominal GDP 2010 – 2024



Source: Marten & Co, Bloomberg

This rate of earnings growth has supported valuations that remain at a significant discount to global peers, as highlighted in Figure 4.

Figure 4: Valuation of various indices as at 30 September 2024

	Div Yield (%)	P/E	Fwd P/E	P/B
MSCI Japan Small Cap	2.58	16.98	13.11	1.28
MSCI World Small Cap	2.03	18.93	15.37	1.60
MSCI Japan	2.11	16.13	14.77	1.48
MSCI World	1.77	21.43	18.52	3.59

Source: MSCI

JFJ targeted for growth

The manager believes that targeting the developments discussed above is the best way to deliver long term performance. This strategy has led to mixed results over the last few years. However much of this is due to the relative growth of low-quality exports and more cyclical companies which have benefitted from the falling yen and a global flight towards larger caps and more value-orientated positioning. The manager sees little utility in the sentiment-driven fluctuations of these companies, many of which operate in stagnant or declining industries. Longer term, this strategic conviction has led to solid outperformance over the market and peer group as we highlight in the performance section, beginning on page 13.

We continue to believe that targeting investments exposed to the structural changes occurring across the economy remains comfortably the most viable path to significant, long-term outperformance– not just vs. Japanese markets, but also against global benchmarks. Indications of this potential were evidenced in the price action over the last few months, mostly notably following the 31 July rate hike that saw a number of rate sensitive cyclicals collapse, dragging down the index. As a result, JFJ has now outperformed over the past year and, as we have discussed, the manager is increasingly confident that this momentum can be sustained in light of the speed and breadth of the changes taking place across Japan.

Asset allocation

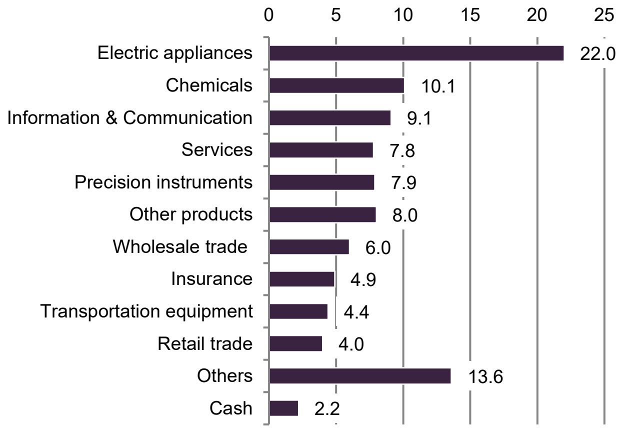
Bearing in mind the structural differences between JFJ's portfolio and that of the index, it is no surprise that it trades at a relative premium on a forward price multiple as shown in Figure 5. However, the trust becomes considerably cheaper when accounting for its much-higher expected earnings growth. Given the speed in which operational developments are occurring across the portfolio, it is hoped that this rate can increase further, providing even greater value for investors.

Figure 5: Portfolio characteristics as at 30 June 2024

	Portfolio	Benchmark
12-month forward P/E	21.4x	15.0x
Return on equity	11.3%	8.9%
Five-year EPS expected growth rate	12.9%	10.6%
Number of issuers	56	2,136
Active share	80.6%	

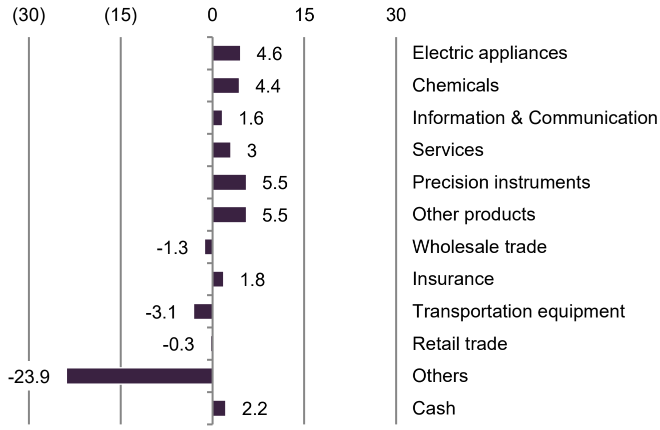
Source: JPMorgan Asset Management

Figure 6: JFJ portfolio breakdown by sector 31 August 2024



Source: JPMorgan Asset Management

Figure 7: JFJ sector weight relative to weight in benchmark 31 August 2024



Source: JPMorgan Asset Management

Portfolio activity and top 10 holdings

Given the fast-moving economic backdrop, the managers have continued to fine-tune the portfolio. There have been several developments since our most recent note, with Advantest – a new purchase for the company – Nintendo, Secom, and Hoya moving into the top 10 replacing Sony, OBIC, Tokyo Electron, and Nippon Telegraph, the latter of which has been sold outright.

Figure 8: JFJ's 10 largest holdings as at 31 August 2024

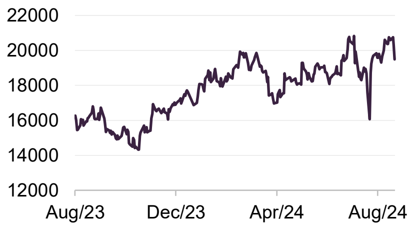
Stock	Sector	Portfolio weight 31 August 2024 (%)	Portfolio weight 30 September 2023 (%)	Change (%)
Hitachi	Electric aapliances	6.5	3.6	2.9
Asics	Other products	5.2	3.9	1.3
Tokio Marine	Insurance	4.9	5.1	(0.2)
Keyence	Electric appliances	4.6	5.3	(0.7)
Itochu	Wholesale trade	4.5	3.4	1.1
Shin-etsu Chemical	Chemicals	4.3	4.3	-
Hoya	Precision	3.7	3.4	0.3
Advantest	Electric appliances	3.6	-	3.6
Nintendo	Other products	2.8	2.7	0.1
Secom	Services	2.8	1.5	1.3
Total		42.9		

Source: JPMorgan Asset Management

Figure 9: Advantest Corp

Source: Bloomberg

Figure 10: Hoya



Source: Bloomberg

The new top 10 additions include:

Advantest Corp

Advantest is the world's largest supplier of chip testing equipment, controlling over 50% of the market. The company has its sights set on increasing its already dominant share of this secular growth market which has expanded rapidly in recent years as chip complexity has increased along with the build-out of data centres and AI. Its shares have matched this momentum, almost tripling since the beginning of 2023. While this has seen valuation multiples expand, the company continues to see rapidly increasing demand, announcing a 53% upgrade to its operating profit guidance for the 2025 financial year (FY2025) from ¥90bn to ¥138bn. Further momentum is expected as demand for cloud technology and AI accelerates. The company is also increasingly bullish on increasing its market dominance, targeting a 7% increase in market share over the next few years.

Hoya

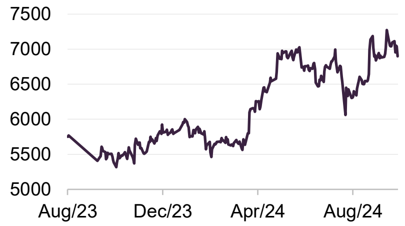
Hoya is a manufacturer of high-precision optical glass. Its products are used in a wide variety of end products – from glasses and contact lenses to digital cameras and medical devices. It is a market-leader in its key business segments and reinforces this position through investment in research and development.

Its positioning in relatively niche but globally important sectors provides the key to maintaining strong margins. This is especially true for its info tech segment, where its HDD glass substrates and EUV mask blanks are used in the manufacturing of hard drives and semiconductor equipment. Both of these industries continue to expand thanks to the increasing data requirements driven by cloud technology, and, more recently, AI. The mask blank technology in particular is crucial, given that Hoya is one of only two companies able to produce these products. With extremely high barriers to entry, it is hoped the segment can continue to generate strong cashflows for the company going forward, which can be used to expand its research and development and investment in other technologies.

Other portfolio developments & new positions

In addition to the top 10, the company has also added new positions in Koa, and Kinden, and have sold outright Ibiden, Miura, Nippon Telegraph, and Square Enix. We have also seen positive developments relating to existing holdings including Softbank and Recruit Holdings.

Figure 11: Kao Corp



Source: Bloomberg

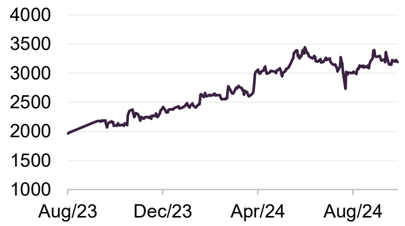
Kao Corp

Like Softbank, leading consumer goods retailer Kao is another company that JFJ has held previously. The manager sold the stock based on poor operational performance following the pandemic, with Kao consistently underperforming its peer group, its return on equity ratio being one of the worst in the industry despite boasting a portfolio of market leading brands.

Since then, the company has made considerable changes to its organisational structure, such as a plan to restructure its cosmetics business, narrowing down its focus from the current 19 brands to a core of six. These developments have already begun to improve operational performance and have occurred much quicker than the market had anticipated, with the benefits flowing through to the company's shares, which are up 31% over the past year.

The company provides an excellent example of the opportunities which are available across the Japanese economy as these types of restructures take shape.

Figure 12: Kinden Corp



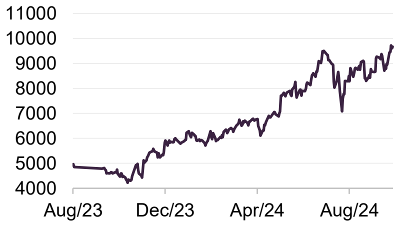
Source: Bloomberg

Kinden Corp

Electrical and telecommunication engineer company Kinden ticks multiple boxes for the JFJ managers. Similar to Advantest, Kinden holds structural upside through the design construction and maintenance of datacentres, which have become increasingly crucial to the growth of AI and the cloud. This increasing demand has helped drive improved sales growth and profitability as the company's backlog has increased rapidly. In addition, it has made great strides in its efforts to improve corporate value, as one of the many Japanese companies which has traded on a price to book value of less than 1x. So far this year, Kinden has announced a number of initiatives which seek to address this issue, and we have already seen considerable improvement with the company now trading in line with its shareholder equity.

The company has also announced a new shareholder return policy, increasing its dividend payout ratio from 30% to 40% for a total payout ratio of 50%–60% by FY2023 (a measure of the percentage of a company's after-tax earnings which are paid to shareholders).

Figure 13: Recruit Holdings



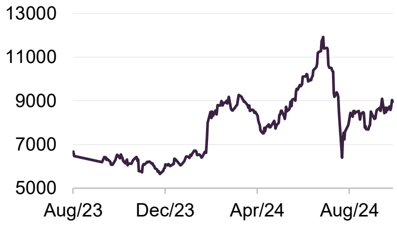
Source: Bloomberg

Recruit Holdings

Recruit Holdings has been a long-term position for JFJ and has vaulted into the top 10 after a stellar year which has seen its shares grow by over 100%. The company, which owns the world's top employee website, Indeed, and HR platform Glassdoor, has capitalised on market share gains following the COVID-19 pandemic and now finds itself in a position of strength as the labour market has rebounded both in Japan and abroad (over half its revenues are generated outside of Japan, the bulk of which come from US-based Indeed).

The company has embraced governance reforms and a shift towards more shareholder-friendly policies, implementing new pricing models and cost-saving measures in an effort to modernise its operations. Recruit also recently issued a buyback authorisation of ¥600bn (roughly USD$4bn), around 6% of its outstanding shares. It has also been a target of activism, with ValueAct Capital announcing a stake in the company in November 2023. The US-based hedge fund identified what it believes is an opportunity for Recruit to double its share price if it can improve its capital allocation.

Figure 14: Softbank



Source: Bloomberg

Softbank

SoftBank is one of Japan's largest publicly-traded companies and owner of stakes in many energy, financial and technology companies. JFJ had previously held a stake in SoftBank which was exited after a strong rally with the managers holding doubts over its future strategy. Since then, the group has listed its subsidiary ARM, a chipmaker, in the US last year. This has greatly improved visibility regarding the value of the whole group, and the managers have re-entered on the view that it is now trading at a wide and appealing discount to NAV.

Performance

As the chart in Figure 15 shows, JFJ suffered a steep decline in its relative performance towards the end of 2021 as more growth-focused stocks struggled, triggered by rising interest rates across Japan's develop market peers. This resulted in the company giving back all the relative gains that it had made over the previous two years, leaving it marginally behind its peer group and benchmark over the last five years.

More recently, however, the trust's returns have been strong, as shown in Figure 16. This reflects the managers' conviction in the structural changes occurring across the Japanese economy. As noted in the asset allocation section, these have begun to have a positive effect on business fundamentals with strong earnings and revenue growth witnessed across the portfolio. This has occurred during a period of weakness across broader market benchmarks in Japan, driven by its more cyclical exposure, and given we are still in the early stages of this transition, we believe there remains significant scope for JFJ to continue to outperform.

Figure 15: JFJ performance relative to benchmark (TOPIX) and peer group to end September 2024

Source: Morningstar, Marten & Co.

Figure 16: Cumulative total return performance over periods ending 30 September 2024

	1 month (%)	3 months (%)	6 months (%)	1 year (%)	3 years (%)	5 years (%)
JFJ share price	0.9	3.5	2.6	22.4	(17.0)	32.88
JFJ NAV	0.4	5.5	5.3	24.1	(12.4)	30.62
Benchmark (TOPIX)	(1.9)	0.6	(2.2)	10.3	8.3	28.05
Peer group	(1.0)	0.7	(0.6)	13.0	(12.4)	30.62

Source: Morningstar, Marten & Co.

Peer group

Up-to-date information on JFJ and its peer group is available on our website

For the purposes of this note we have used the constituents of the AIC Japan sector as a peer group. The trusts listed here have roughly similar objectives except for CC Japan Income & Growth, which – as its name implies – places more emphasis on income generation and consequently has the highest yield. By contrast, JFJ's growth focus puts its yield towards the bottom end of the peer group.

Figure 17: JFJ's peer group comparison data as at 30 September 2024

	Discount (%)	Yield (%)	Ongoing charges (%)	Market cap £m
JPMorgan Japanese	(12.4)	1.2	0.74	784
Baillie Gifford Japan	(14.0)	1.3	0.67	653
CC Japan Income & Growth	(7.7)	2.8	1.06	257
Fidelity Japan	(13.4)	-	0.84	202
Schroder Japan	(13.5)	2.1	0.94	298
Peer group median	(10.9)	1.3	0.80	301
JFJ rank	2/5	4/5	2/5	1/5

Source: Morningstar, Marten & Co

JFJ is already the largest and most liquid trust in its peer group, with its scale boosted further by the anticipated combination of JSGI. This is also expected to see its ongoing charges ratio drop to 0.62% which would be the lowest in the peer group. The discount is the second lowest of this peer group, but the range here is quite tight. JFJ is not managed to produce a yield.

Figure 18: Cumulative NAV total return performance over periods ending 30 September 2024

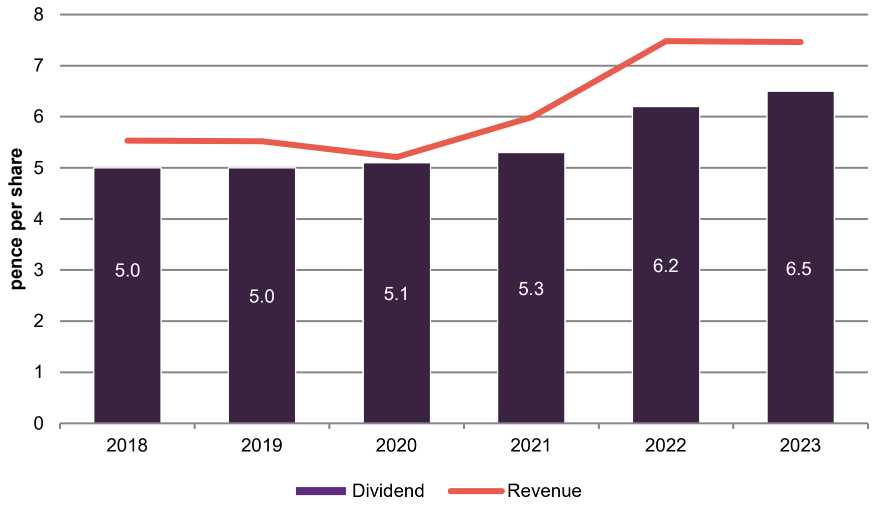
	1 month (%)	3 months (%)	6 months (%)	1 year (%)	3 years (%)	5 years (%)
JPMorgan Japanese	0.4	5.5	5.3	24.1	(12.4)	30.6
Baillie Gifford Japan	(1.0)	2.4	(0.6)	10.9	(17.1)	4.2
CC Japan Income & Growth	(2.3)	(2.7)	(3.5)	13.9	27.9	45.2
Fidelity Japan	(1.2)	(1.2)	(3.7)	4.8	(26.6)	9.5
Schroder Japan	(1.0)	0.7	(0.3)	13.0	23.3	44.1
Peer group median	(1.0)	0.7	(0.6)	13.0	(12.4)	30.6
JFJ rank	1/6	1/6	1/6	1/6	3/6	3/6

Source: Morningstar, Marten & Co

As noted, the managers' conviction has begun to generate strong portfolio returns over the past year, and as Figure 18 shows, JFJ has outperformed its peer group by a wide margin. In the longer term, performance remains in the middle of the pack, as value-focused companies such as CC Japan Income & Growth have benefitted from a global shift away from growth assets. However, as we have seen in recent months, market sentiment can swing quickly, and we expect JFJ to continue to generate strong returns going forward.

Dividends

Figure 19: JFJ dividend history



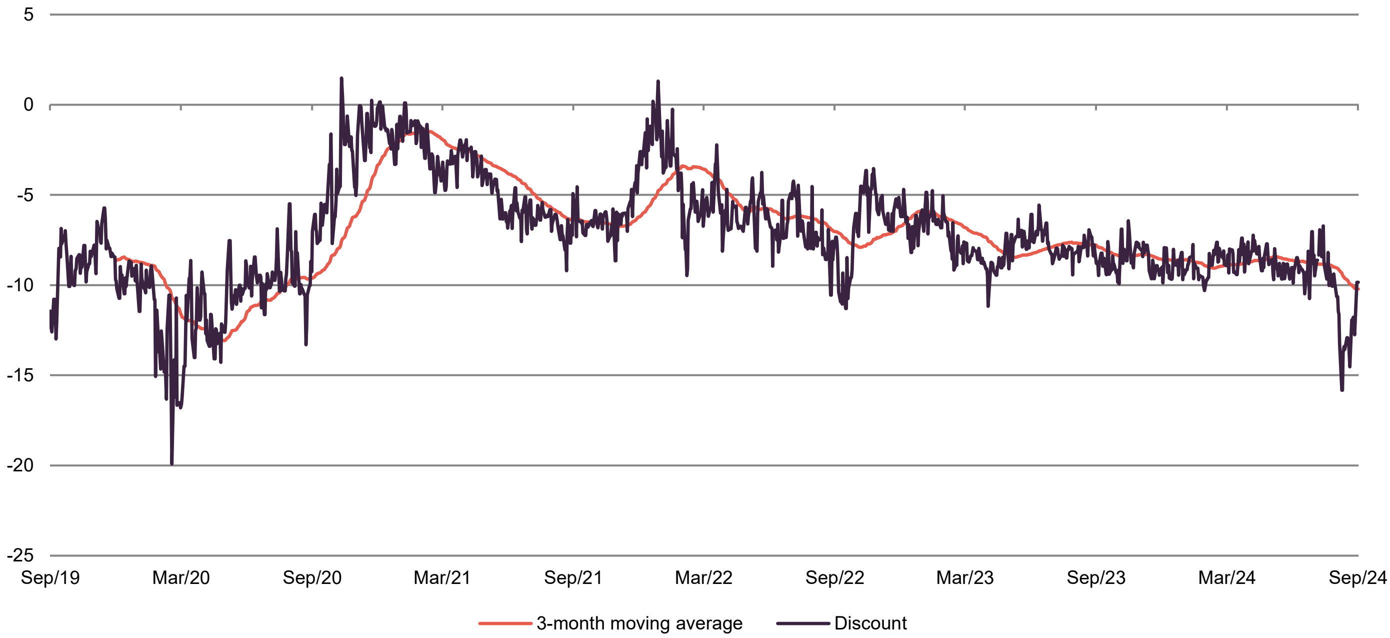
Source: JPMorgan Asset Management

The board's dividend policy is to pay out the majority of the revenue available each year. The investment objective's emphasis on capital growth means that income generation is not a focus for the managers. A revenue reserve has built up over the years and this stood at £10.6m at the end of September 2023.

Discount

Over the 12 months to the end of September 2024, JFJ's discount moved within a range of 15.8% to a 6.4%, averaging 9.1%. At the time of publishing, the discount was 12.6%. The relatively tight band should be seen as a positive, given the volatility of previous years, and will hopefully set the stage for an inflection towards par and an eventual premium as the fund's long-term strategy beds in.

Figure 20: JFJ premium/(discount) over five years ended 30 September 2024

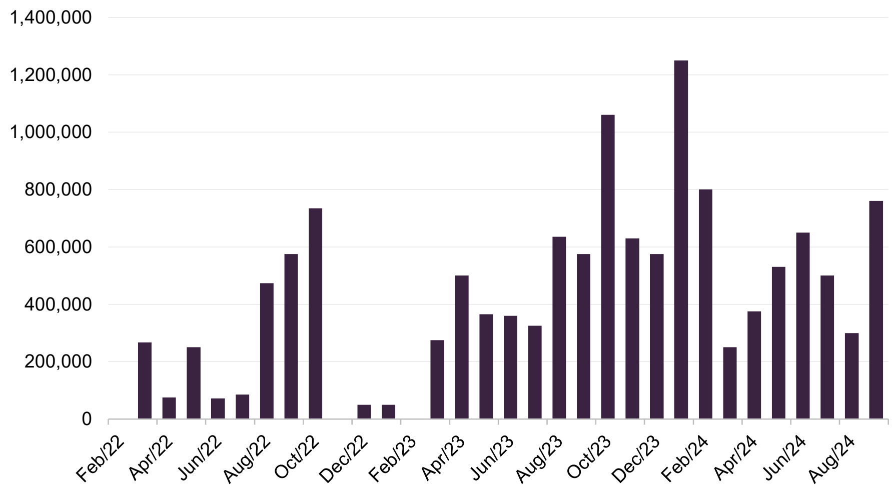


Source: Morningstar, Marten & Co

Buyback policy

In recent years, the company has kept a close eye on the level and volatility of its discount. Since 2020, this has resulted in increased expenditure on marketing and a series of targeted buybacks, with the board being increasingly active in recent years. As Figure 21 highlights, the company has repurchased around 11,000,000 shares over the last 12 months.

Figure 21: JFJ shares repurchased



Source: JPMorgan Japanese Investment Trust

Fees and costs

The trust employs JPMorgan Funds Limited as its Alternative Investment Fund Manager (AIFM) and company secretary. Management of the portfolio is delegated to JPMorgan Asset Management (UK) Limited, which in turn delegates day-to-day investment management activity to JPMorgan Asset Management (Japan) Limited in Tokyo. The manager is a wholly-owned subsidiary of JPMorgan Chase Bank which, through other subsidiaries, also provides marketing, banking, dealing and custodian services to the company.

Tiered management fee structure and no performance fee – fee to fall post-merger

JPMorgan Funds Limited is entitled to an annual management fee calculated as 0.65% of the first £465m of net assets, 0.485% on the next £465m and 0.40% on amounts above £930m. However, subject to the successful completion of the JSGI transaction, the blended annual management fee will be reduced to 0.49% on net assets, depending on the uptake of the cash exit opportunity. The marginal fee rate will be 0.35% on net assets in excess of £750m. For JSGI shareholders rolling into JFJ, this represents a significant reduction in headline management fees from 0.83%.

There is no performance fee. The contract can be terminated on six months' notice. For accounting purposes, in the last financial year the management fee was charged 10% against the revenue account and 90% against the capital account.

Other administrative expenses for the year ended 30 September 2023 amounted to £1,276k (FY22 £960,000).

For the year ended 30 September 2023, the trust's ongoing charges ratio was 0.74%, up from 0.68% for the prior year as the trust shrank in size (magnifying the effect of fixed overheads).

Capital structure

JFJ is a UK-domiciled investment trust with a premium listing on the main market of the London Stock Exchange. As at 31 August 2024, there were 161,248,078 ordinary shares in issue, of which 144,212,089 had voting rights and the balance of 17,035,989 were held in treasury.

The company's accounting year end is 30 September and AGMs are usually held in the following January. The last was held on 11 January 2024.

Gearing

The company has the ability to use borrowing to gear the portfolio within the range of 5% net cash to 20% geared in normal market conditions.

The company's gearing is facilitated by a ¥5bn floating rate revolving credit facility provided by Mizuho Bank and a series of senior secured loan notes:

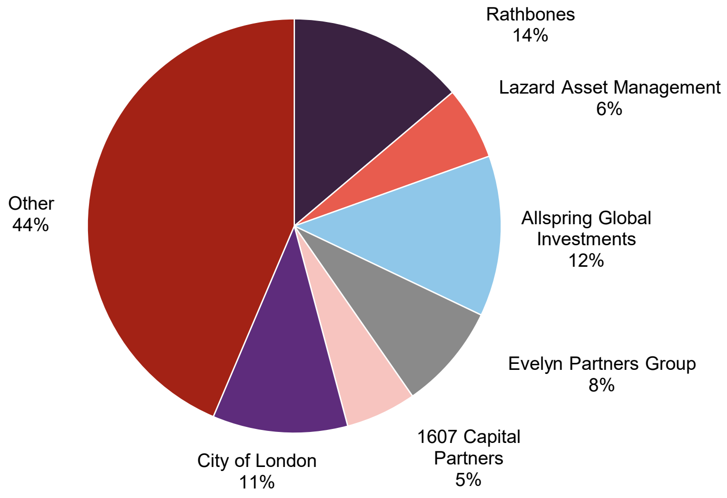
- ¥2bn fixed rate 10-year series A senior secured loan notes at an annual coupon of 0.76% which will expire on 2nd August 2028.
- ¥2.5bn fixed rate 15-year series B senior secured loan notes at an annual coupon of 0.95% which will expire on 2nd August 2033.

- ¥2.5bn fixed rate 20-year series C senior secured loan notes at an annual coupon of 1.11% which will expire on 2nd August 2038.
- ¥2.5bn fixed rate 25-year series D senior secured loan notes at an annual coupon of 1.21% which will expire on 2nd August 2043.
- ¥3.5bn fixed rate 30-year series E senior secured loan notes at an annual coupon of 1.33% which will expire on 2nd August 2048.

In April 2023, JFJ secured a three-year ¥10.0 billion floating rate revolving credit facility with ICBC Limited maturing on 14th April 2026. The facility has a non-utilisation fee of 0.60%.

Major shareholders

Figure 22: Major shareholders as at 30 September 2024



Source: JPMorgan Japanese Investment Trust

Core management team

Nicholas Weindling is a country specialist for Japan equities and a member of the Japan team within the Emerging Markets and Asia Pacific (EMAP) Equities team based in Tokyo. Nicholas joined JPMorgan Asset Management in 2006 from Baillie Gifford in Edinburgh, where he worked initially as a UK large-cap analyst and latterly as a Japanese equities investment manager. Nicholas obtained a BA (Hons) in History from Cambridge University. He was made manager of JFJ in August 2010.

Miyako Urabe is a country specialist for Japan equities, and a member of the Japan team within the Emerging Markets and Asia Pacific (EMAP) Equities team based in Tokyo. She joined JPMAM in 2013 from Credit Suisse Securities Equity Sales desk in Tokyo as an Asia ex-Japan specialist. Miyako began her career at Morgan Stanley MUFG Securities, covering Japan and Asia ex-Japan. She obtained a Bachelor's degree in Economics from Keio University, Japan.

Board

JFJ's board currently comprises six directors, all of whom are non-executive, considered to be independent of the investment manager and do not sit on other boards together. Brief biographies for each director are provided below. It is board policy that all directors retire and offer themselves for re-election at each AGM. The average length of service is 4 years, with Stephen Cohen, the chairman, being the longest-serving, with over seven years of service under his belt.

Christopher Samuel retired from the board on 11 January 2024. As planned, Stephen Cohen took up the position of chairman in Samuels' place, while Sally Duckworth replaced Cohen as chairman of the audit committee. Jonathan Kestenbaum joined the board on 1 October 2023 in advance of Samuel retirement.

Relating to the merger with JSGI and conditional on its approval, JSGI director Tom Walker will be appointed to the board. The board of the enlarged JFJ will therefore consist of the six current directors of JFJ and one director from the board of JSGI.

Figure 23: Board member – length of service and shareholdings

Director	Role	Date of appointment	Length of service (years)	Salary (£)	Shareholding
Stephen Cohen	Chairman	20 December 2016	7	51,500	15,000
Sally Duckworth	Chairman of the audit committee	31 October 2022	1	42,250	3,032
Sally Macdonald	Senior independent director	13 December 2018	5	36,500	4,383
George Olcott	Chairman of the remuneration committee	20 December 2016	7	35,500	8,367
Anna Dingley	Director	13 January 2022	2	35,500	1,563
Jonathan Kestenbaum	Director	1 October 2023	1	35,500	7,263
Average (service length, annual fee, shareholding)			4	39,458	6,601

Source: JPMorgan Japanese Investment Trust

Stephen Cohen (chairman)

Stephen has had over 34 years in executive roles in asset management, including setting up two businesses in Japan and living there for seven years.

He managed Japanese equity portfolios for 10 years. He also latterly ran a Japanese equity activist business. Currently, Stephen is a non-executive director of Schroder Capital Global Innovation Trust Plc.

Sally Duckworth (chairman of the audit committee)

Sally is an established entrepreneur, with over 20 years' experience of working in, investing in or advising companies, predominantly with a technology focus. She qualified as a Chartered Accountant with PricewaterhouseCoopers LLP, working in its financial institutions audit group, before joining JPMorgan. Sally has been an investment manager in early-stage technology venture capital, co-founded an angel network and taken several C-suite roles in growth companies.

Sally is a non-executive director and the chair of audit for Mobeus Income & Growth VCT 2 Plc, the non-executive chair of StorMagic Ltd and a non-executive director of Molten Ventures VCT Plc.

Sally Macdonald (senior independent director)

Sally has around 37 years' experience in asset management, of which seven were in UK markets and the balance in Asian markets. She was head of Asian equities at Marlborough Fund Managers until 2021.

Sally is a non-executive director of Fidelity Asian Values Plc and Evelyn Partners Fund Solutions Ltd. Her previous board experience includes the Royal College of Nursing Foundation.

Dr. George Olcott (chairman of the remuneration committee)

George has 15 years of investment banking and asset management business experience in Japan and Asia with SG Warburg/UBS, and has served on the boards of a number of listed Japanese corporations as an independent director (currently on the board of Kirin Holdings, and on the audit and supervisory board of Toyota Motor Corporation). He is a specially appointed professor and vice-president of Shizenkan University, and holds advisory roles at JR Central.

Anna Dingley (director)

Anna has a 25-year career spanning technology, finance and government sectors. She is the founder and managing director of Japan Connect Ltd, a Japanese business development consultancy which connects UK and Japanese entrepreneurs, investors, and executives. She is fluent in Japanese and was previously a trustee of The Japan Society in the UK.

Lord Jonathan Kestenbaum (director)

Jonathan has over two decades of private and public markets' investing experience across asset classes. He is a non-executive Director of Windmill Hill Asset Management, and an adviser to a range of interests associated with the Rothschild family. Until 2022, he was the Chief Operating Officer at RIT Capital Partners, the publicly-quoted investment trust. Jonathan was born and spent his early childhood in Japan and has therefore taken an active interest in the country, its companies and markets throughout his professional career.

Previous publications

Readers may be interested in our previous publications on JFJ, which are listed in Figure 24 below. These are available to read on our website or by clicking the links in the table.

Figure 24: Previous publications

Title	Note type	Publication date
Number one for a good reason	Initiation	09 September 2020
Strength to strength	Update	09 December 2020
Medium-term outlook undimmed	Update	24 May 2021
Bright long-term future	Annual overview	17 December 2021
Unjustified selloff creates opportunities	Update	5 July 2022
Backing the new Japan	Annual overview	22 March 2023
Are we there yet?	Update	17 January 2024

Source: Marten & Co

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