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PROFESSIONAL

JPMorgan Japanese Investment Trust

Investment companies | Update | 12 March 2025

Winds of change

After years of incrementally-positive but slow-moving reforms, we are now starting to see real momentum across Japan's corporate landscape as companies embrace governance changes and capital efficiency improvements. Over the past 12 months, dividend growth has accelerated to its fastest pace in 20 years and buybacks have reached record highs, climbing well above previous averages. This dramatic shift towards more shareholder-friendly policies and a removal of traditional barriers to M&A has resulted in a wave of interest from international investors looking to capitalise on the deep discounts at which many Japanese corporates now trade.

The JPMorgan Japanese Investment Trust (JFJ) is uniquely positioned to capitalise on these developments and has delivered a NAV total return of 21.2% over the past year; more than double the return of the TOPIX index. We believe this is just the tip of the iceberg, given the breadth of Japan's structural economic transformation now occurring.

Sector	Japan
Ticker	JFJ LN
Base currency	GBP
Price	565.0p
NAV	631.2p
Premium/(discount)	(10.4%)
Yield	1.2%

Capital growth from Japanese equities

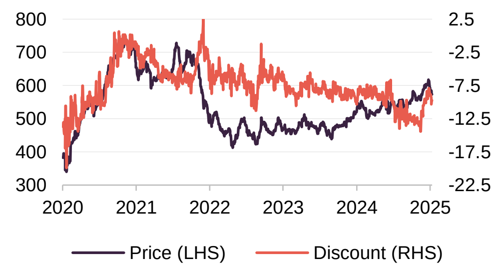
JFJ aims to produce capital growth from a portfolio of Japanese equities and can use borrowing to gear the portfolio within the range of 5% net cash to 20% geared in normal market conditions. The trust is benchmarked against the returns of the Tokyo Stock Exchange Index (commonly known as TOPIX) in sterling.

Year ended	Share price total return (%)	NAV total return (%)	TOPIX total return (%)	MSCI ACWI total return (%)
28/02/2021	72.0	50.2	16.5	19.0
28/02/2022	(20.9)	(18.8)	(1.6)	12.4
28/02/2023	(8.0)	(5.1)	3.2	2.8
28/02/2024	14.3	20.1	19.3	17.3
28/02/2025	11.8	8.5	1.1	14.7

Source: Morningstar, Marten & Co

Share price and discount

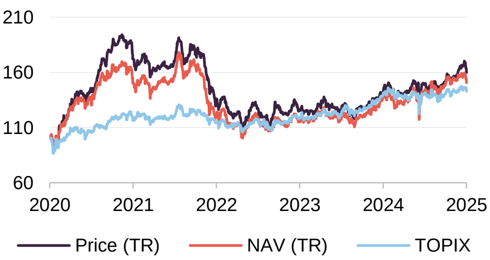
Time period 28/02/2020 to 10/03/2025



Source: Morningstar, Marten & Co

Performance over five years

Time period 28/02/2020 to 28/02/2025



Source: Morningstar, Marten & Co

Contents

Domicile	England & Wales
Inception date	2 August 1927
Manager	Nicholas Weindling Miyako Urabe
Market cap	795.73m
Shares outstanding (exc. treasury shares)	163.85m
Daily vol. (1-yr. avg.)	347,532 shares
Net gearing	15.4%

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Click for an updated JFJ factsheet

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Click for links to trading platforms

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.

On 31 July 2024, it was announced that the assets of JP Morgan Japan Small Cap Growth & Income (JSGI) would be rolled into JFJ. The combination of the two JPMorgan funds increased the net assets of JFJ to approximately £1bn, making it comfortably the most liquid and largest dedicated Japan trust.

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.

Market backdrop

It has been over 10 years since the late Prime Minister Shinzo Abe's introduction of his Stewardship Code to improve corporate governance and shareholder engagement in Japan. This was part of broader suite of reforms made to revitalise the economy, which had been stuck in a prolonged deflationary slump for much of the last three decades. Now, after several false starts, it seems clear that we are finally beginning to see the fruits of this labour.

Several key events over the last two years highlight the developing cultural shift towards a more transparent and efficient market environment and away from the sub-optimal capital allocation policies and financial conservatism which has stifled returns for investors. Early in 2023, the Tokyo Stock Exchange (TSE) made an announcement threatening to delist those companies unable to "comply or explain why" they continue to trade at less than the value of their shareholders' equity. The fact that this applied 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.

Japanese companies must now consider takeover approaches rather than simply ignoring them.

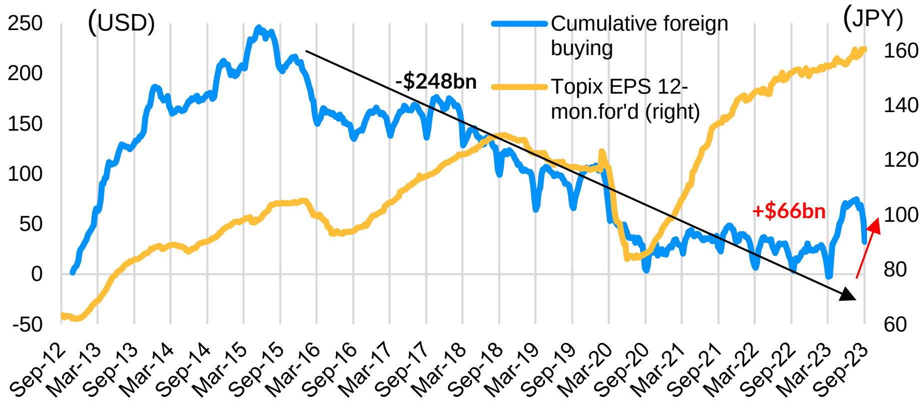
Later that year, the Ministry of Economic Trade and Industry (METI), introduced M&A guidelines which effectively obliged Japanese companies to consider takeover approaches rather than simply ignoring them, as had long been standard practice. These guidelines also required companies to disclose any bids to the market, fostering competition for assets amongst competing bidders.

Additional requirements around the reduction of cross-shareholdings and efforts to increase board independence have all worked together to create an environment where shareholder interests are now starting to be put first, a mindset which had long been an afterthought for Japanese corporates and management teams.

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.

After years of incrementally positive, but slow-moving reforms, these developments have finally begun to build their own momentum. 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, accelerating well past previous levels. Without their traditional protections, interest from activists, private equity, and overseas corporates in Japanese companies has spiked, and it has been reported that Japanese M&A lawyers have been inundated with requests from listed Japanese companies for advice on the options available should any unsolicited bids emerge. As global investors seek to unlock the significant value that exists across Japan's corporate landscape, manager Nicholas Weindling notes that such a scenario would have been unthinkable 10 years ago.

Figure 1: Cumulative purchases of Japanese equities by foreign buyers (JPY Billions)



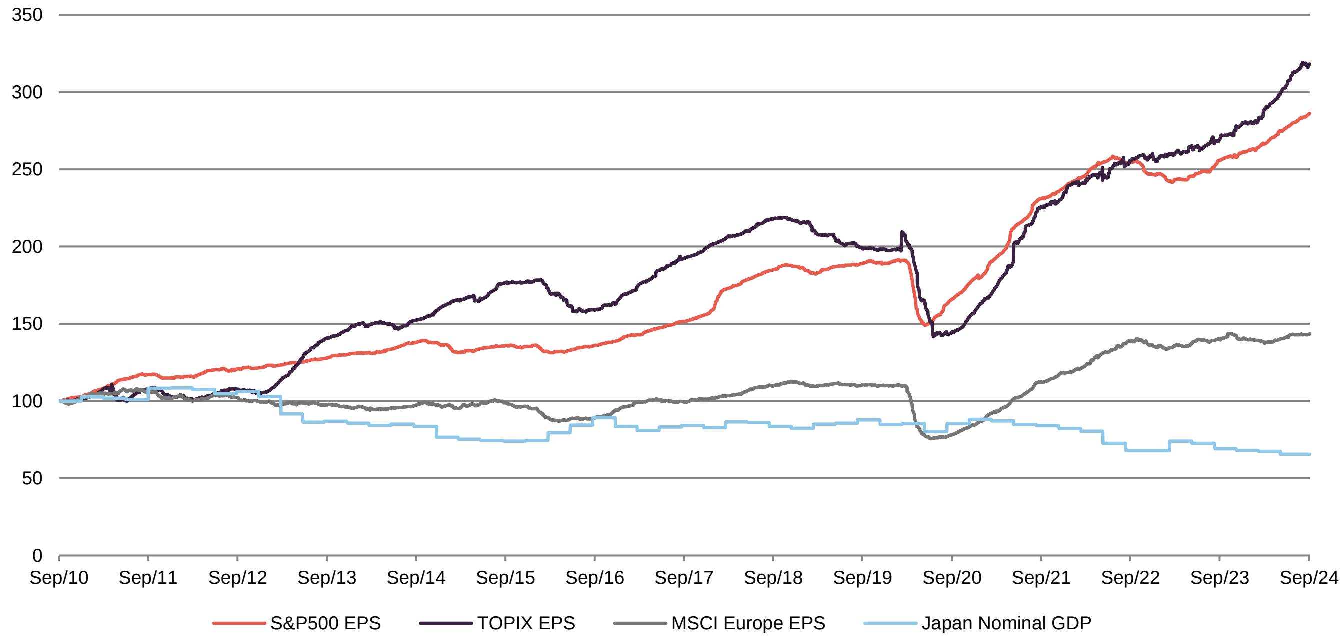
Source: JPMorgan Asset Management

Earnings growth for the TOPIX over the past 15 years has outpaced even the much-vaunted S&P 500.

The appeal is centred on the view that the fundamental performance of Japan's corporate sector has not been constrained by the stagnation of its economy. Japan is home to some of the world's leading companies, from consumer technology to AI hardware and robotics. Many of these maintain dominant, highly profitable market positions, often in niche but globally important sectors. As result, corporate earnings in Japan have continued to soar despite the economic challenges, and as highlighted in Figure 2, earnings growth over the past 15 years has outpaced even the much-vaunted S&P 500.

Despite this, Japanese market dominance has failed to translate into comparable shareholder returns due to its deep inefficiencies, a reluctance toward M&A and a tendency to retain underutilised, non-core assets. As such, these companies often trade at deep discounts to their global peers.

Figure 2: TOPIX, S&P 500, MSCI Europe EPS & Japan Nominal GDP CY 2010 – CY 2024



Source: Marten & Co, Bloomberg

International investors have continually attempted to tap into this opportunity, only to be stymied by the deep-seated financial conservatism and a cultural resistance to activism. This explains why the recent developments have been met with such enthusiasm, as investors look to capitalise on easily achievable capital efficiency gains, examples of which are discussed in the asset allocation section beginning on page 7. Nicholas notes that we have only just scratched the surface of this opportunity, and the gains still to be realised from corporate governance reforms and other structural changes will be much more significant than those we have seen to date.

In August 2024 Canadian corporate Alimentation Couche-Tard announcing a takeover offer to acquire Seven & I Holdings.

The first domino

In August 2024, we reached a watershed moment, when Canadian corporate Alimentation Couche-Tard announced a takeover offer to acquire Seven & I Holdings, the parent of Japanese convenience store chain 7-Eleven. The initial offer of about $38.5bn, the largest-ever foreign takeover bid for a Japanese company, was subsequently increased to $47bn in October 2024. With a competing offer from a member of the founding Ito family falling through due to a lack of suitable financing, Seven & I have moved to appoint its first foreign CEO as part of an effort to fend off the Couche-Tard bid (we discuss this in more detail on page 9).

The outcome of the deal carries significant implications beyond the immediate benefit to shareholders. It is widely regarded as a test of Japan's readiness to adopt a form of shareholder capitalism that it has traditionally resisted. As Nicholas notes, this means that we can now start to consider other possible Japanese candidates for M&A activity, and he believes the bid can act as a real catalyst for the market.

The spring wage negotiations known as the shunto agreed a 5.3% wage increase, the highest in 33 years.

Improving economy

The corporate reforms and other structural changes have coincided, and in many cases helped propagate a resurgence in economic prospects across Japan. As noted, for many years, the economy has been stuck in neutral, causing growth and wages to stagnate. However, in 2024, with economic conditions improving and boosted by the strength of the recent corporate action, the spring wage negotiations known as the shunto agreed a 5.3% wage increase, the highest in 33 years. With inflation also rising to a 41-year high, the Bank of Japan (BOJ) announced in March that it would be raising interest rates for the first time in 17 years. Since then, we have seen two additional hikes, the latest of which was implemented in January 2025, bringing the bank's policy rate to 0.5%.

In March 2024, the Bank of Japan (BOJ) announced that it would be raising interest rates for the first time in 17 years.

This normalisation of wages and interest rates is a welcome change for investors, and the central bank remains committed to bolstering liquidity and stimulating growth as it steadily reverts its long-running negative interest rate policy. However, the effects of Japan's past continue to have a heavy bearing, most notably on the currency. Even after the BOJ's recent increases, the gap in interest rates between Japan and the world's other developed markets remains significant, especially in comparison to the US. As a result, the yen has fallen to record lows vs the USD.

This has weighed heavily 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. Positively, the pressure on the yen has reduced in recent months as US interest rates have begun to fall, although it is still trading well below long-term averages.

JFJ investing in companies, not the economy

Even so, as Nicholas is keen to stress, JFJ is investing in companies, not in the economy. He notes that many investors confuse economic growth with corporate fundamentals. However, the real opportunity for investors in Japan is primarily a bottom-up story as the market begins to better realise the value of its shareholder equity. The challenges created by the currency and broader economic conditions remain a secondary concern and have little bearing on the investment decisions of the trust.

Many investors confuse economic growth with corporate fundamentals.

This is one of the most compelling aspects of the JFJ story, with the portfolio structured towards the growth opportunity in Japanese equities as well as the benefits accruing from the corporate governance reforms and other structural changes occurring in Japan.

In addition, due to its targeted approach, we believe JFJ is nicely desynced from the broader market and provides an excellent foil for investors whose beta is becoming more and more tied to the fortunes of the US and a global macro-economic narrative that remains deeply uncertain. With the market grappling with the ongoing impact of higher interest rates, geopolitical conflicts, trade disputes, and a general lack of clarity around US economic policy under President Trump, the bottom-up investment narrative taking place in Japan should be seen as an excellent diversifier.

Boots on the ground

Given the speed and breadth of the changes occurring in Japan, Nichols places huge emphasis on JFJ's boots-on-the-ground approach. He notes that almost 46% of companies within the TOPIX index have zero analyst coverage, compared to just 2% of the S&P 500, and almost 70% of companies with a market cap in excess of $10m are covered by three or fewer analysts.

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Leveraging its local, well-resourced team, JFJ aims to meet with as many companies as possible, attending thousands of meetings in a typical year, which is crucial given the breadth of the market – the benchmark TOPIX index consists of 2,000 companies and a total of 4,000 companies are listed on the Tokyo Stock Exchange. This approach gives the managers unique insights into the market and has enabled JFJ to unearth companies such as semiconductor testing specialist Advantest, and Osaka Soda Company, the world's number-one producer of silica gel used in producing fast-growing GLP-1 obesity drugs. Both are now long-term core holdings and have performed exceptionally well. You can read about these companies here, and here.

Politics

In September 2024, Shigeru Ishiba became Japan's Prime Minister following the resignation of Fumio Kishida, whose popularity had fallen following a scandal in the ruling Liberal Democratic Party as well as growing dissatisfaction within the electorate about deteriorating living standards. Nicholas believes this change of leadership is unlikely to have a significant impact on policy direction, and in the same vein as above, it is expected that the current political uncertainty in Japan will have minimal bearing on the portfolio.

Asset allocation

An active share of 82% is the clearest indicator of the portfolio's targeted approach, with the managers seeing limited value in tracking the broader benchmark over the long term. As we have discussed in previous notes, this view has, at times, impacted JFJ's relative returns (for example, during the recent rally of large-cap, low-quality exporters) and more cyclical companies which have benefitted from the falling yen. However, 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 12.

> An active share of 82% is the clearest indicator of the portfolio's targeted approach.

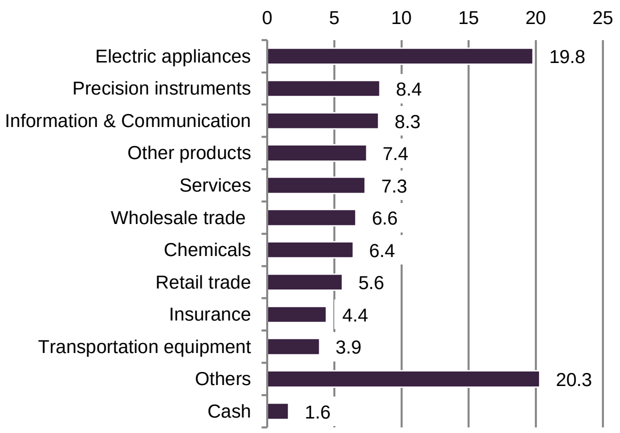
This active approach also explains the differences in portfolio characteristics highlighted in Figure 3. JFJ trades at a considerable premium to the broader market on a forward price multiple; however, the trust becomes considerably cheaper when accounting for its much-higher expected earnings growth. Given the speed at which operational developments are occurring across the portfolio, we also believe this growth estimate is likely conservative, providing even greater value for investors.

Figure 3: Portfolio characteristics as at 31 December 2024

	Portfolio	Benchmark
12-month forward P/E	19.2x	14.1x
Return on equity	13.7%	9.4%
Five-year EPS expected growth rate	11.3%	9.5%
Number of issuers	60	2,122
Active share	82.0%	-

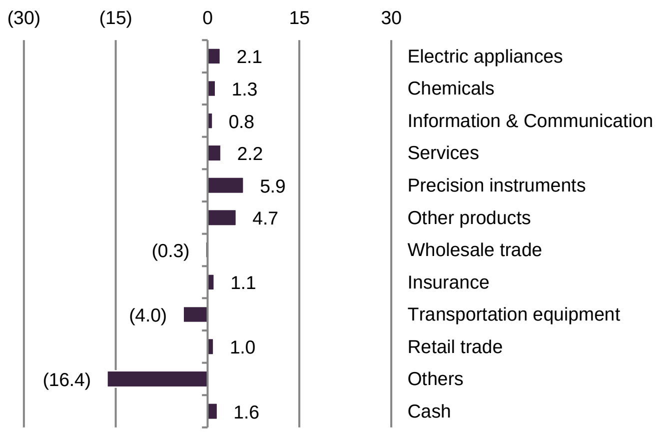
Source: JPMorgan Asset Management

Figure 4: JFJ portfolio breakdown by sector 31 December 2024



Source: JPMorgan Asset Management

Figure 5: JFJ sector weight relative to weight in benchmark 31 December 2024



Source: JPMorgan Asset Management

Portfolio activity and top 10 holdings

Nicholas and the JFJ team continue to take an active approach to the management of the trust. Since we last published, Sony, Seven & I, and Rakuten Bank have moved into the top 10, replacing Shin-etsu Chemical, Nintendo, and Secom.

Figure 6: JFJ's 10 largest holdings as at 31 December 2024

Stock	Sector	Portfolio weight 31 December 2024 (%)	Portfolio weight 31 August 2024 (%)	Change (%)
Hitachi	Electric appliances	5.5	6.5	(1.0)
Asics	Other products	4.6	5.2	(0.6)
Tokio Marine	Insurance	4.4	4.9	(0.5)
Advantest	Electric appliances	4.3	3.6	0.7
Itochu	Wholesale trade	4.0	4.5	(0.5)
Keyence	Electric appliances	3.7	4.6	(0.9)
Sony	Electric appliances	3.1	--	
Seven & I	Retail trade	3.1	--	
Hoya	Precision	3.1	3.7	(0.6)
Rakuten Bank	Bank	3.0	--	
Total		38.8		

Source: JPMorgan Asset Management

Figure 7: Seven & I Holdings

Source: Bloomberg

Seven & I Holdings

As noted, Seven & I Holdings is the world's largest operator of convenience stores and is currently the subject of a bid from its global rival, Canada's Alimentation Couche-Tard, which operates Circle K store.

Unlike traditional western stores, convenience stores are a pillar of Japanese life, offering services ranging from groceries to banking and everything in between. The business models are uniquely Japanese, dominating domestic markets as they sprawl across multiple industries. Seven & I control roughly half of this market in Japan. Despite this, the company's share price lags well behind those of its international peers.

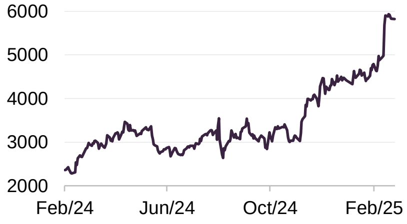
Its poor shareholder returns form the justification for Alimentation Couche-Tard's bid, with the Canadian company identifying a range of easily achieved capital efficiency improvements, such as the divestment of non-core assets, as a way to drive up the company's return on equity. The company has responded by doing just that in an effort to push up the valuation ahead of its annual shareholder meeting in May. In addition to the appointment of a new CEO and a $13.5bn buyback allocation to be used over the next five years, it announced the sale of its superstore unit to Bain Capital for $5.5bn and a significant reduction of its ownership of Seven Bank.

In the months following the initial bid, shares of Seven & I rallied strongly, up almost 50%, providing an excellent example of the potential upside from foreign investment, although some of the shine was taken off the rally when it was announced the Ito family's management buyout had fallen through.

Despite the recent efforts of the new management team and CEO, shares in Seven & I remain attractively valued, trading at forward earnings multiple of 22x. Based on the recent strength, the managers have reduced their position, although it remains a top 10 holding, accounting for over 3% of the portfolio.

As we have discussed, the offer is the largest foreign takeover bid in Japanese history and will likely have implications for far beyond the shareholders of both companies.

Figure 8: Rakuten Bank



Source: Bloomberg

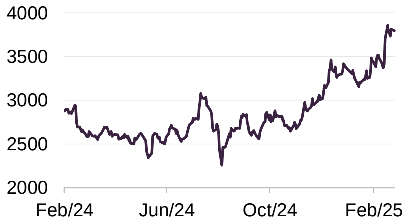
Rakuten Bank

JFJ has traditionally held an underweight to the Japanese banking sector relative to its TOPIX benchmark (this currently sits at almost 5%). Despite this, it maintains a 3% weighting to the digitally focused Rakuten Bank. The company is a subsidiary of Japanese e-commerce and technology conglomerate Rakuten Group and has been able to leverage this relationship to develop one of the largest user bases in the domestic banking sector, exploiting its parent company's extensive digital ecosystem.

The bank – which went public in 2023, with the Rakuten Group maintaining a controlling share – is a targeted play on the shift towards digitalisation. It is the country's largest digital lender. Japan is a notable laggard when it comes to the adoption of technologies considered part of everyday life in many western countries, such as ecommerce (only 22.4% of Japanese medium sized companies are selling online), and cashless payments (worth just 35% of total sales).

Although deposits remain well below those of more traditional lenders, these are growing at more than twice the pace of those of its brick-and-mortar rivals, and Rakuten boasts and impressive outlook with plans to boost its deposit base by an average of 20% per year through to 2027. Reflecting its progressive roots, the company has also embraced the ongoing governance reforms, establishing a diverse, independent board as well as an advisory group to manage potential conflicts of interest with its parent company.

Figure 9: Sony



Source: Bloomberg

Sony Group

Sony Group, the well-known consumer electronics conglomerate, is an excellent example of benefits of a more proactive approach to capital management. After years of mounting losses in its legacy consumer electronics business, the company underwent an aggressive restructure, investing heavily in new technologies such as electric vehicles while remodelling itself into a global entertainment business. Its aggressive M&A tactics and renewed focus on growth have seen a dramatic increase in profitability that has contributed to a strong rally in its shares, which now trade at their highest level in more than two decades.

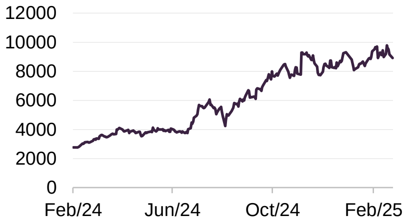
The company provides JFJ with exposure to a number of secular growth themes, especially in its global content business, with additional upside expected from ongoing governance reforms. The company has made solid progress in delivering capital efficiency improvements, especially relative to some of its less-progressive Japanese peers, and its recent returns reflect the benefits of this approach. In 2024, Sony announced it would significantly increase its buyback allocation and continue to grow dividends, with a target of a 40% total payout ratio by March 2027, leading to significant rally in its shares.

Other portfolio developments & new positions

In addition to the new top 10 holdings, the managers have initiated new positions in IHI Corp, Maruwa, and Mitsui E&S. In recent months, they have also exited outright holdings in Murata Manufacturing, Infomart Corp, and Wealthnavi.

IHI Corp

Figure 10: IHI Corp



Source: Bloomberg

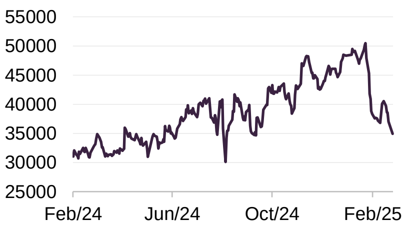
IHI is a position that Nicholas and the team are very excited about, reflected in its over-3% weighting, which is a large position for a new holding. IHI is a diversified heavy industry company with major operations in aerospace, energy, infrastructure, and industrial machinery. Its aerospace operations are a particular focus for JFJ thanks to the sector's improving growth outlook. This has been boosted by Japan's renewed focus on defence spending, due in part to rising regional security concerns relating to China and North Korea. The government has pledged to double defence spending by 2027 to 2% of GDP, aligning it with NATO standards. IHI is well positioned to capitalise on this spending, thanks to partnerships with companies including Rolls-Royce and General Electric to produce jet engines both for commercial and defence applications.

In order to capitalise on these developments, the company has undergone a significant restructure in recent years, divesting multiple non-core assets to focus on its aero engines, spare parts, and maintenance businesses. This has already had a significant impact on capital efficiency and profitability, with the company noting that its mid-term operating margin and return on invested capital targets have already been achieved ahead of schedule. These developments have not gone unnoticed by the market, with shares in the company up over 200% in the past year. Despite this, IHI continues to trade on an attractive valuation, trading on a forward P/E of just 14.7x.

In our view, IHI provides a great case study of the types of opportunities available across the Japanese market, as well as potential to drive returns through improved capital allocation.

Maruwa

Figure 11: Maruwa

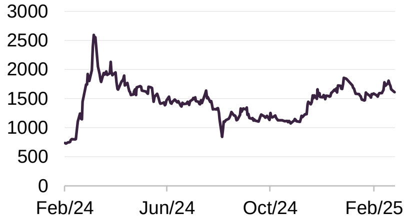


Source: Bloomberg

Maruwa is a leading maker of ceramic components used for optical transceivers in AI-data centres. Thanks to its strong market position in this niche, high-margin business, the company has been able to generate strong free cashflow and consistently high and rising profitability over the past decade. As we see with many Japanese companies, an aversion to redistributions or reinvestment means this has resulted in the company becoming significantly overcapitalised.

Although Maruwa has made efforts to improve its governance and transparency, so far there appears to be limited progress in addressing the issues with its balance sheet making it a prime target for the ongoing reforms.

Figure 12: Mitsui E&S Co



Source: Bloomberg

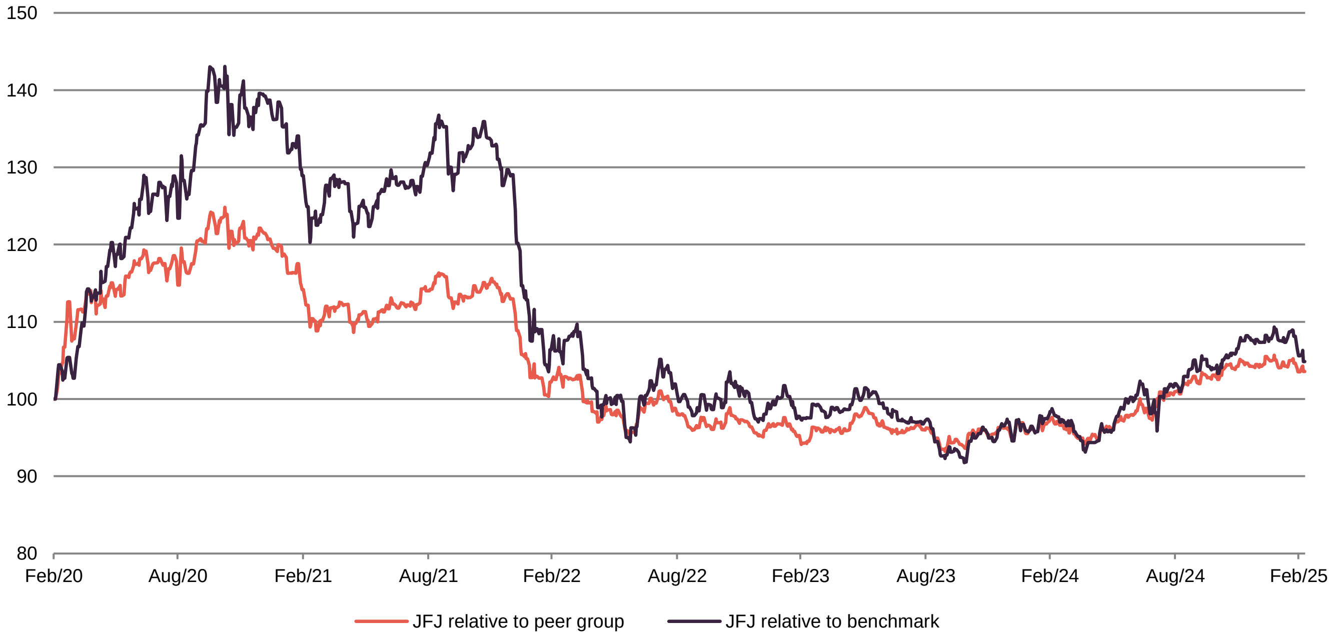
Mitsui E&S Co

Heavy industrial company Mitsui E&S, formerly Mitsui Engineering & Shipbuilding, is another company identified by the managers as having made significant strides in restructuring its operations in order to improve profitability and capital efficiency. In recent years, the company has been divesting both its shipbuilding and engineering businesses to focus on its ship engine and port crane verticals, which include operations in both Japan and the US via its subsidiary PACECO.

Its exposure to the US has enabled the company to capitalise on the deteriorating relationship between the US and China. Early in 2024, former US president Joe Biden announced an order around US port security related to Chinese made port cranes. This was part of a wider plan to invest US$20bn over the next five years to bolster port infrastructure and improve security. Mitsui E&S was seen as a potential beneficiary of this announcement and its shares rallied strongly over the course of the year. in November 2024, these rallied a further 16% as the company announced that it had won a contract from US port operating company International Transportation service to deliver eight cranes in Long Beach California.

Performance

Figure 13: JFJ performance relative to benchmark (TOPIX) and peer group to end February 2025



Source: Morningstar, Marten & Co

As we have noted, the high-conviction, active approach taken by JFJ can lead to periods of weakness versus the benchmark. However, over the long term, the managers' strategy has proven to be highly successful. When the trust does well, it tends to do very well as evidenced by the period of growth shown over the course of 2021 and 2022 in Figure 13. The trust then suffered a steep decline as more growth-focused stocks struggled, triggered by rising interest rates across Japan's develop market peers.

More recently, benchmark returns have been driven by low-quality exporters who have capitalised on the falling currency. Despite this, JFJ's performance has been strong, delivering a NAV total return of 21.2% over the past year – more than double that of the benchmark index – as the portfolio begins to capitalise on the structural improvements created by the accelerating reforms. Given that we are still in the early stages of this transition, we believe there remains significant scope for JFJ to continue to outperform.

Figure 14: Cumulative total return performance over periods ending 28 February 2025

	1 month (%)	3 months (%)	6 months (%)	1 year (%)	3 years (%)	5 years (%)
JFJ share price	(3.5)	4.8	6.5	11.8	17.6	59.9
JFJ NAV	(4.2)	(0.0)	4.3	8.5	23.6	50.9
Benchmark (TOPIX)	(2.4)	0.8	0.7	1.1	24.5	42.7
Peer group	(4.2)	(0.0)	1.5	2.9	23.6	50.7

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's 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 15: JFJ's peer group comparison data as at 10 March 2025

	Discount (%)	Yield (%)	Ongoing charges (%)	Market cap £m
JPMorgan Japanese	(10.5)	1.2	0.73	926
Baillie Gifford Japan	(13.5)	1.3	0.69	603
CC Japan Income & Growth	(9.2)	2.9	1.03	245
Fidelity Japan	(13.0)	0.0	0.99	192
Schroder Japan	(12.8)	4.5	0.95	288
Peer group median	(12.8)	1.3	1.0	288.0
JFJ rank	2/5	5/5	2/5	1/5

Source: Morningstar, Marten & Co

JFJ is comfortably the largest and most liquid trust in its peer group. Its scale was boosted by the recent combination with JPMorgan Japan Small Cap Growth & Income (JSGI), which was announced on 31 July 2024. We covered the details of this transaction in our previous notes, which you can see here. The deal also reduced JFJ's management fee from 0.58% on net assets to around 0.49%. The manager's marginal fee rate is 0.35% on net assets in excess of £750m.

JFJ's ongoing charges ratio dropped to 0.73% the second-lowest in the peer group.

Following the transaction, JFJ's ongoing charges ratio dropped to 0.73%, the second-lowest in the peer group; the expected on-going charge, 12 months post the merger, is predicted to come in at circa 0.64%. This would make it the lowest in the peer group going off today's numbers.

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 16: Cumulative NAV total return performance over periods ending 28 February 2025

	1 month (%)	3 months (%)	6 months (%)	1 year (%)	3 years (%)	5 years (%)
JPMorgan Japanese	(4.2)	(0.0)	4.3	8.5	23.6	50.7
Baillie Gifford Japan	(3.5)	3.0	1.5	2.9	4.9	23.3
CC Japan Income & Growth	(1.9)	(0.5)	0.7	0.1	38.1	71.4
Fidelity Japan	(5.0)	2.8	(0.2)	(5.9)	5.1	20.3
Schroder Japan	(4.3)	(0.7)	1.9	4.7	36.9	62.1
Peer group median	(4.2)	(0.0)	1.5	2.9	23.6	50.7
JFJ rank	3/5	3/5	1/5	1/5	3/5	3/5

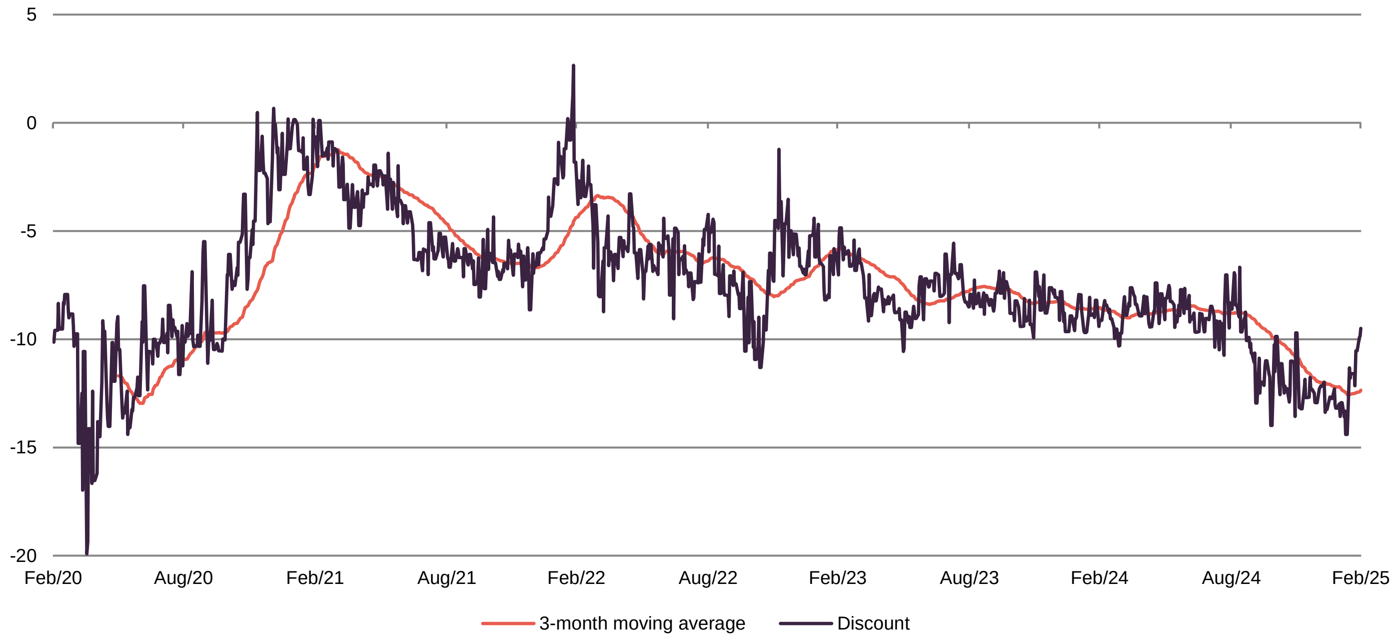
Source: Morningstar, Marten & Co

As noted, the managers' conviction has begun to generate strong portfolio returns over the past year, and as Figure 16 shows, JFJ has outperformed its peer group by a wide margin, highlighting the benefits of its targeted, high-conviction portfolio. 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, and the resurgence of some more cyclical sectors of the market.

Discount

Over the 12 months to the end of February 2025, JFJ's discount moved within a range of 14.4% to a 6.7%, averaging 10.2%. At the time of publishing, the discount was 8.9%. 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 corporate structural reforms and other changes to the Japanese economy continue to make progress.

Figure 17: JFJ premium/(discount) over five years ended 28 February 2025



Source: Morningstar, Marten & Co

Buyback policy

The company has been an active buyer of its shares over the last few years as it aims to manage the volatility of the discount and help address any supply and demand imbalance in the shares. To that end, during the past financial year, a total of 7,680,000 shares (5.4% of shares in issue) were repurchased. This follows on from the 2023 financial year, where 3,870,000 shares were repurchased.

Gearing

The company has the ability to use borrowing to gear the portfolio within the range of 5% net cash to 20%. As of 31 December 2024, gearing was equivalent to 15.4%.

During the year, the company decided not to renew its ¥5bn credit facility with Mizuho Bank Limited. Along with the short-term revolving facility of ¥10bn with Industrial and Commercial Bank of China Limited, London Branch, the company also has long-term fixed rate debt in place. The company has, post-year-end, started using Contracts for Difference (CFDs) as an alternative means of implementing gearing.

Previous publications

Readers may be interested in our previous publications on JFJ, which are listed in Figure 18 below. These are available to read on our website or by clicking the links in the table.

Figure 18: 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
Conviction drives returns	Annual overview	14 October 2024

Source: Marten & Co

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