

JK Japan Fund

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August 2022

The Fund rose +0.40% in August, (Yen Class, Net of Fees, performance data below).

Overview

We would like to respectfully offer our best wishes to King Charles III and all his family on the passing of his mother, Queen Elizabeth II. Japanese Emperor Naruhito and Empress Masako will travel to Britain to attend Queen Elizabeth II's state funeral and to pay their respects. This is very unusual, as traditionally, a Japanese Emperor stays away from funerals, whether at home or abroad, because of a cultural belief based in the Shinto religion that considers death impure.

Britain and Japan enjoy strong historical ties that underpin their increased cooperation in recent years. The UK and Japan signed a free trade agreement in October 2020, marking the beginning of a new phase in a dynamic economic partnership. Furthermore, Japan is Britain's closest security partner in Asia.

The Yen hit new lows in August touching Yen 144 / \$. This is still being driven by widening USD/Yen interest rate differentials and Japan/Kuroda (the BOJ Governor) is showing no signs of putting up rates anytime soon. Note though Kuroda's term ends in April 2023 and successors may take a different path.

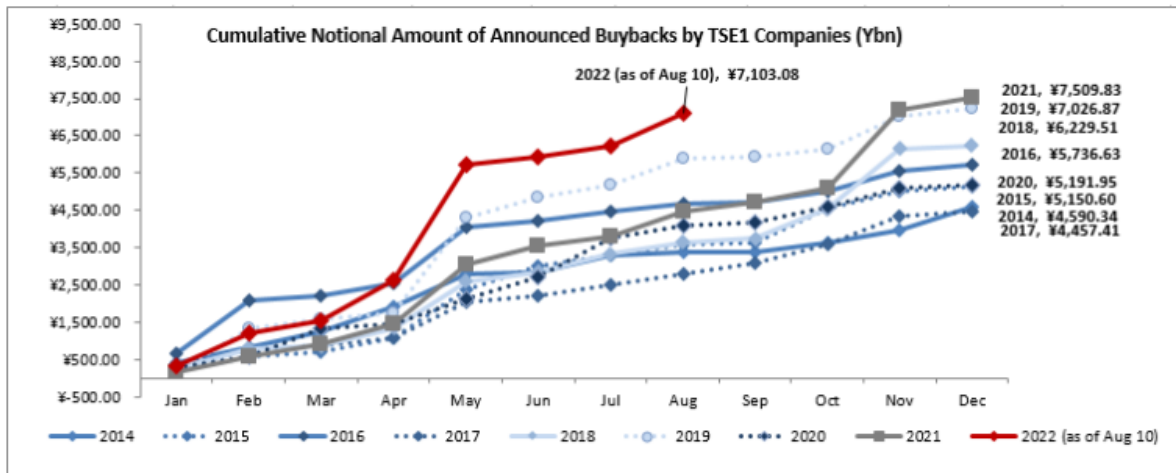
On the energy front, Japan has 33 nuclear reactors, of which 10 are currently in operation. Nuclear power accounted for 25% of total power generation in FY2010 (55 plants in operation), prior to the earthquake in March 2011, but only 6.5% in FY2021. In addition to these 10 reactors, the government's latest plan is to bring online seven more reactors from summer 2023. If all seven reactors are restarted, Goldman Sachs estimate that Japan's nuclear power generation would increase by 75% vs. FY2021 (Source: Goldman Sachs).

Overseas investors probably don't realise just how much Covid is lingering in Asia in terms of lockdowns and restrictions. Japan has only just begun to reopen properly for overseas visitors. Foreigners last year spent \$850 million in Japan vs \$35 billion in 2019 (40 times more). Arrangements are being made to end its daily limit on arrivals from overseas by October, and they are considering removing other constraints. China, one of Japan's biggest trade partners, on the other hand is still under heavy covid restrictions and the economy is suffering as a result.

However, on the upside, Japan company share buybacks look set to reach record highs (see chart below). Year to date, Yen 7 trillion have been announced and if this were to reach say Yen 10 trillion by year end, that would be 2.5% of Topix Market Cap (approx. Mkt. Cap. Yen 400 trillion). Combine this with the expected 2.5% Dividend Yield gives Topix a combined Yield of about 5% (and about 12x PER).

- Inflation remains low in Japan
- Interest rates also low and unlikely to change short term, although BOJ Chief Kuroda due to retire in Apr 2023

- MSCI Japan is near the low of the last 20 years in PER terms and 1 standard deviation cheaper to the 20Y average
- Japan has the biggest upside globally if the valuation resets to past 15-year average (Source: Jefferies, See chart below)
- And Japan has the lowest downside if the 12-month Forward PE falls to GFC levels (Source: Jefferies, See chart below)
- And of course, the Yen is VERY CHEAP

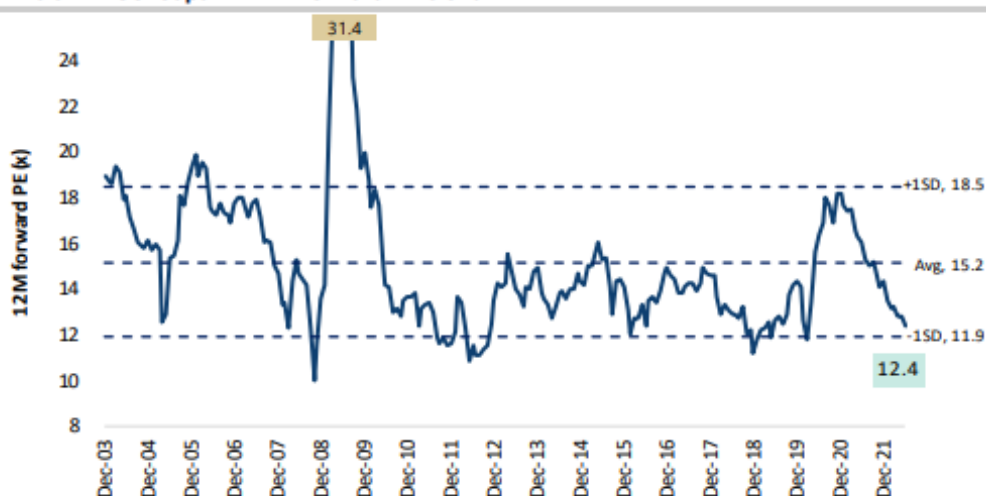


Source: Quick data as of 12Aug22. Past performance is not indicative of future results.

Source: Goldman Sachs

MSCI Japan is near the low of the last 20 years in PER terms and 1 standard deviation cheaper to the 20Y average (Source: Jefferies)

Exhibit 4: MSCI Japan - 12M forward PE trend



Source: Jefferies, Factset

MSCI Japan is the cheapest it has been in 20 years relative to MSCI AC World on a Forward PER basis

Exhibit 5: MSCI Japan vs MSCI AC World – Relative 12M forward PE

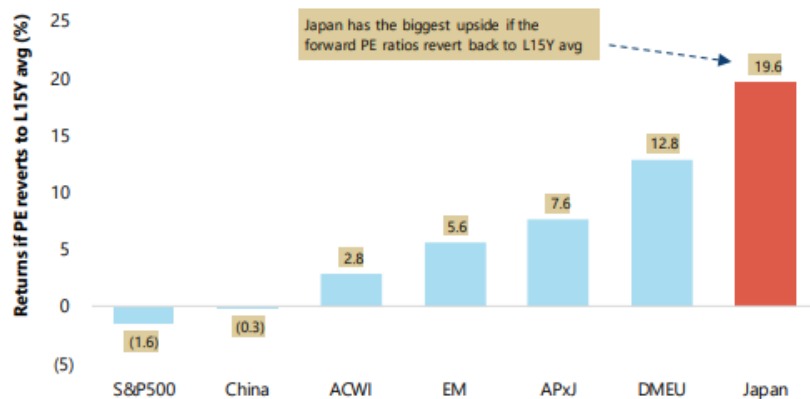


Source: Jefferies, Factset

Japan has the biggest upside globally if the valuation resets to past 15-year average

Japan is most attractively valued globally

Exhibit 6: Global regions returns – If PE goes back to L15Y avg



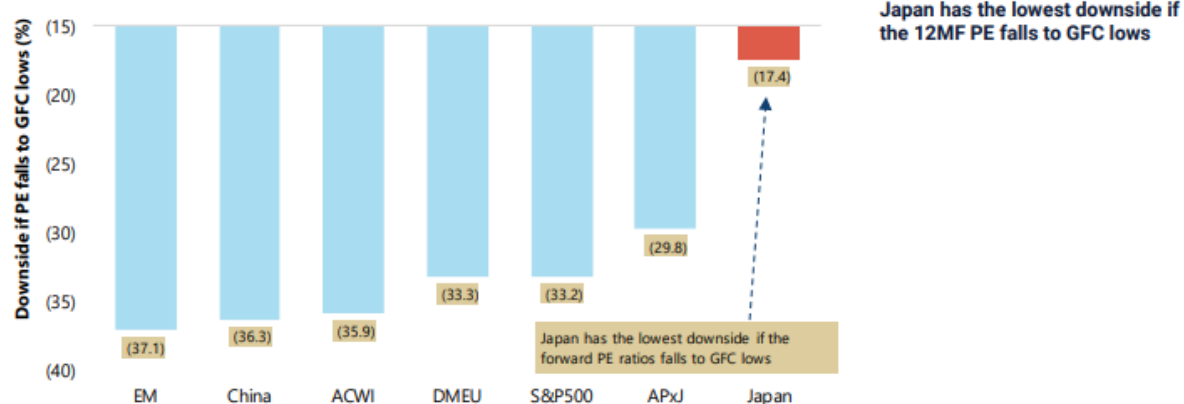
Japan has the biggest upside globally if the valuation resets to past 15-year average

On the other hand, US has most downside, driven by valuation de-rating

Source: Jefferies, Factset

And Japan has the lowest downside if the 12-month Forward PE falls to GFC levels

Exhibit 7: Global regions downside – If PE falls to GFC lows



JK Japan Fund

During August, the only change in the Fund was a reduction in our holding of Daiichi Sankyo (4568), which had a strong run in the first two weeks of August, rising +30%.

Earnings in aggregate for Q1, ending 30th June 2022, for the Fund came in slightly above Bloomberg forecasts, helped by the weaker Yen. We completed many zoom calls with the companies we hold last week and, in general the mood is upbeat, despite some supply chain issues, although these seem to be easing somewhat.

Buyback announcements in JK Japan Fund

These are being announced daily as Q1 results to 30th June have now been completed. Here are some examples of the companies in our portfolio that have already announced buybacks and more are expected.

NTT (9432)
Toyota (7203)
Sony (6758)
Shin-Etsu Chem (4063)
Nidec (6594)
Fujitsu (6702)
Murata (6981)
Hoya (7741)
Mitsubishi UFJ (8306)
SMFG (8316)
Tokio Marine & Fire (8766)

Here is a small selection of summary points from our meetings

Tokyo Electron (8035) (not currently held, but on watchlist to re-purchase)

- Grew market share in all SPE categories in FY21
- Placed better than competitors to deal with shortages and negotiate prices with suppliers
- Etch system becoming an increasingly important technology and where TEL has most room for growth given low market share.
- Targeting a 50% payout ratio through combination of dividends and flexible buybacks
- Dividend Yield 4% (2x cover) and Return on Equity of 35%, Debt to Common Equity 0.3%

Hoya (7741)

- Succeeding in passing on higher input costs to customers
- 30% OPM target achievable
- Guiding for 10% revenue and EPS growth
- Significant medium-term growth opportunity in 2nm technology for Blanks business
- 3.5-inch HDD business bottoming out this quarter
- IT business significant beneficiary of weak yen
- Change of leadership at US eyeglasses business sounds promising
- Return on Equity 22%, Debt to Common Equity 3%

Toyota (7203)

- Order backlog of 3 million cars
- This is particularly concentrated in high-end cars where chip shortages are more acute, but are beginning to ease
- As these orders are filled, margins will improve as sales mix shifts towards higher-end cars
- Strong demand in US for hybrid cars given high gasoline prices
- Helping suppliers absorb raw material costs near-term in order to bolster long-term competitiveness of supply-chain
- PER 10x, Price Cash Flow 8x

Nidec (6594)

- Sales expected to hit ¥4tn by 2025 from ¥2tn in 2021
- Long-term sales target of ¥10tn by 2030, representing a 20% CAGR
- EV business expected to grow significantly as e-axle adoption grows
- Built a strong foothold in China: currently serve 11 auto models, with 3 new customers placing orders recently
- 27% market in China's e-axle market (ex. in-house OEMs: Tesla, BYD)
- Sales target of ¥500bn for EV business by 2025, representing a 50x increase from 2020 sales of ¥10bn
- EV business expected to be OP positive by September 2023
- China lockdowns and semi shortages have weighed on margins, but volume should improve from here
- ACI business driven by long-term growth in robotics motors & gears for fulfilment centres
- Still concerns over succession plan from founder, Nagamori-san
- Bullish on long-term prospects given strong leadership position in structural growth end markets

Shin-Etsu (4063)

- Sales expected to grow 23% in FY2023, EPS more than 20%
- Sees robust demand for PVC in US given housing shortage and infrastructure upgrade
- Semi market structurally strong driven by digital transformation

Top 5 Winners in month	% Contribution	Top 5 Losers in month	% Contribution
TDK CORP	0.46	KONAMI GROUP	-0.22
DAIICHI SANKYO	0.46	SYSMEX CORP	-0.20
MODEC INC	0.23	NINTENDO	-0.17
IBIDEN	0.17	MIURA	-0.17
HOYA CORP	0.12	MITSUBISHI UFJ	-0.16

NAV as at 31-Aug-22	
YEN class	14,953.11
GBP class	149.56
USD class	151.39
Euro Class	118.36
GBP (Unhedged)	99.10

Source: Apex Fund Services (Ireland) Ltd.

JK Japan Fund is a daily dealing UCITS fund. It can be held by ISA's, SIPP's, Pensions, Charities, Family Offices, Endowments, as a direct holding or through a Private Wealth Manager. All classes have UK Reporting Status.

For more information on the Fund, please see www.jkim.co.uk

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Historic performance is not a guide to future returns.

Yen Class (%) ISIN IE00BJBY7C47													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Ytd
2022	-8.82	+0.02	+6.20	-4.69	+1.22	-5.90	+4.18	0.40					-8.04
2021	-0.84	+0.07	+4.41	-0.48	+1.99	+2.70	-2.02	+4.55	+3.58	-0.29	-1.93	+2.10	+14.40
2020			-1.90*	+7.29	+7.23	+2.46	-0.05	+4.34	+2.58	-1.31	+14.42	+1.74	+42.13

*Yen Class started on 03-Mar-20 Source: Apex Fund Services (Ireland) Ltd

GBP Class (%) ISIN IE00BJBY7B30													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Ytd
2022	-8.83	+0.08	+6.24	-4.58	+1.21	-5.92	+4.28	0.52					-7.67
2021	-0.83	+0.07	+4.47	-0.42	+1.89	+2.74	-1.98	+4.49	+3.60	-0.35	-1.95	+2.02	+14.33
2020			-2.16*	+7.28	+7.15	+2.58	-0.03	+4.31	+2.59	-1.32	+14.37	+1.74	+41.69*

*GBP Class started on 03-Mar-20 Source: Apex Fund Services (Ireland) Ltd

USD Class (%) ISIN IE00BJBY7911													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Ytd
2022	-8.78	+0.06	+6.20	-4.64	+1.25	-5.90	+4.47	0.43					-7.60
2021	-0.79	+0.09	+4.49	-0.39	+1.99	+2.70	-1.97	+4.55	+3.58	-0.26	-1.94	+2.21	+14.92
2020			-2.02*	+7.44	+7.21	+2.56	-0.03	+4.35	+2.62	-1.29	+14.40	+1.84	+42.57*

*USD Class started on 03-Mar-20 Source: Apex Fund Services (Ireland) Ltd

EUR Class (%) ISIN IE00BJBY7D53													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Ytd
2022	-8.92	+0.00	+6.00	-4.74	+1.06	-6.01	+4.30	0.30					-8.63
2021	-0.81	+0.01	+4.38	-0.51	+1.91	+2.69	-2.03	+4.50	+3.52	-0.34	-1.89	+2.05	+14.01
2020										-2.26*	+14.29	+1.71	+13.62*

*EUR Class started on 28-Oct-20 Source: Apex Fund Services (Ireland) Ltd

GBP (Unhedged) Class (%) ISIN IE00BMY4TW65													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Ytd
2022	-8.28	+0.34	+2.48	-6.58	+1.84	-7.67	+6.09	0.89					-11.34
2021	-2.47	-3.22	+1.53	+0.53	-1.08	+4.08	-1.26	+5.38	+4.50	-4.18	+1.68	-1.32	+3.70
2020										-3.69*	+11.72	+0.17	+7.78*

*GBP (Unhedged) Class started on 14-Oct-20 Source: Apex Fund Services (Ireland) Ltd

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