FUND PROFILE

RSMR
Our Research. Your Success.

NIKKO ASSET MANAGEMENT

JAPAN VALUE FUND

December 2022

RSMR RATED FUND

OUR RESEARCH. YOUR SUCCESS

CONTENTS

FUND PROFILE – NIKKO AM JAPAN VALUE FUND

OUR FUND PROFILES provide an in-depth review of our leading rated funds and are designed to give advisers, paraplanners and analysts an 'under the bonnet' view of the fund. In providing more detailed commentary than a standard fund factsheet we believe our fund profiles set the standard for the next generation of research notes, aiding in fund selection and in meeting the ongoing suitability requirements expected by the FCA, and helping ensure firms deliver good client outcomes.

All of our rated funds are subject to rigorous and ongoing scrutiny on both a qualitative and quantitative basis. Our fund methodology is available for download from the RSMR Hub – www.rsmr.co.uk

The **Nikko AM Japan Value Fund** has been an RSMR rated fund since June 2021. The fund uses a research-driven approach, which although bottom-up focused, is macro aware. The investment philosophy of the value team aims to deliver superior performance by making long-term investments in undervalued companies expected to undergo change. The team hopes to make high returns in stocks by owning them through this period of market re-rating.

Graham O'Neill, Senior Investment Consultant, RSMR

Graham began his career in the investment industry over thirty years ago. After graduating from the University of Kent with a Degree in Economic Analysis, History and Policy, he joined London & Manchester, later joining Phillips Drew, then GRE as a UK based fund manager. He then moved to Abbey Life Ireland, where he held the position of CIO running their Managed and large Equity funds. Graham joined RSMR in 2010.

IA JAPAN

The Nikko AM Japan Value Fund is categorised within the IA Japan sector. Funds in this sector invest at least 80% of their assets in Japanese equities. The IA Japan sector contains over 90 funds available for investors and financial advisers to choose from, covering a large variety of investment strategies and styles, including active, passive, and enhanced index funds. A number of funds adopt style or market-cap based strategies including value and growth-biased themes, market-cap focused or multi-cap strategies. Funds that invest in a specialist theme must still meet the geographic requirements of the sector.

The variations between the funds makes it difficult for an investor to compare them as different strategies will clearly perform differently depending on market conditions. It is important to recognise this when looking at both absolute and relative performance numbers for funds in the IA Japan sector, and this is particularly relevant for the Nikko AM Japan Value Fund as relative performance can be volatile.

Japan has seen a sharp depreciation of the yen versus the US dollar and in fact against most of its major trading partners. At the onset of Abenomics the yen fell just over 60% (2011 to 2013) and during this period the market grew 2.2x from its low. Over the past two years the yen has declined 44% versus the US$ but the market has not seen anything like the previous gains. Japan has suffered due to concerns over inflation despite its economy being different from other developed countries and whilst the nominal inflation rate has approached 3%, core CPI inflation remains at 1%. The government in Japan has asked companies to increase wages in line with inflation but the next wage round is not due until the spring, so conditions for the consumer will remain tough until at least then.

Another factor behind the decline in the yen is the fall in the trade surplus, and Japan now has a deficit in traded goods. The Bank of Japan wishes to keep the current yield control policies in place until CPI inflation reaches 2% and believes that 3% wage increases are necessary for this target to be achieved. For as long as the Bank of Japan can maintain its monetary policy in the current form, the yen is likely to stay weak, with implications for the economy and the types of stocks which will perform well. With yen weakness, and a trend against globalisation, many companies are re-shoring having moved production overseas when the currency was strong. This includes sectors such as manufacturing, semiconductors, and apparel.

The Japanese government had a cautious approach to re-opening, and restrictions on inbound tourism were only lifted fully in mid-October 2022 but with the currency weak it is expected that overseas tourism will pick up significantly. Japanese domestic consumers are facing a cost of living squeeze, although not on the same scale as in Europe, and so domestic consumption is likely to remain muted and levels of GDP growth relatively low. However, companies in Japan can outperform GDP growth as yen weakness and domestic reopening provides a favourable tailwind for a number of sectors. Valuations in Japan are now in line with, or lower, than many other developed markets allowing scope for strong stock pickers to deliver positive returns over the medium term. Corporate Japan remains in a healthy place with low levels of gearing and many companies having net cash and there continues to be a greater focus on corporate governance and increasing returns to minority shareholders.

NIKKO ASSET MANAGEMENT

Nikko Asset Management (Nikko AM) are specialists in Asian equity and Asian fixed income investing. They are headquartered in Tokyo and have US$186bn in assets under management (as at 30.9.22) and $3.87 bn in the Japan Value Equity strategy. Nikko AM specialises in investment solutions with core strengths in Asia-centric strategies, capitalising on Asia's dynamic economies. They have an on-the-ground presence in China, Japan, Hong Kong, Singapore, Malaysia, Australia, and New Zealand and currently have 213 investment professionals. They also have offices in London, Edinburgh, Frankfurt, Luxembourg and New York.

Nikko AM was established over 60 years ago and is one of the largest asset management firms headquartered in Asia.

Nikko AM's teams have expertise in different regions and asset classes and their investment approach uses a boutique structure which they feel is best suited to tackle the range of market conditions and country specific differences. Each investment team has complete investment autonomy, but they have firm wide resources supporting this and the quality standards imposed are centralised so areas such as risk management, compliance, and client servicing all follow the same firm-wide standards backed by the Group resource.

NIKKO AM JAPAN VALUE

Managers	Shigeru Aoyagi, Shinya Takada, Takaaki Harashima.
Structure	SICAV
IA Sector	Japan
Launched	February 2016
Fund Size	£151 million (as at 30th November 2022)

Fund Management Team

The Chief Portfolio Manager for this strategy is Shigeru Aoyagi who started his career with Nikko Securities in 1986 and joined Nikko International Capital Management (a predecessor of Nikko AM) on the asset management side of the business in 1995. He has managed the Japan Value Strategy since inception and has led the team managing the strategy since 2010. Senior Portfolio Managers on the team include Takaaki Harashima, who started his career at Yamaichi Securities in 1996 and was a portfolio manager and sector analyst at Nomura Asset Management and SG Yamaichi Asset Management (currently Amundi Japan) before joining Nikko AM in 2000 as a sector analyst. He later became a value analyst, and then moved on to the portfolio management team of this strategy in 2005.

Shinya Takada is the other Senior Portfolio Manager. He started his career at Daiichi Life Insurance in 1996 and has worked at Asahi Life Asset Management and Meiji Dresdner on the asset management side, joining Nikko AM in 2004 as a sector analyst, later moving to the value analyst team, and has been a portfolio manager on the strategy since 2012.

In addition, there are three dedicated value analysts for this team:

- Tatsuro Ochi joined Nikko AM at the start of 2015, and also serves as a portfolio manager on the value team.
- Kozue Saito joined Nikko AM as a fixed income analyst in 2007 and subsequently became a value style analyst in 2011; she has also served as a proxy voting analyst since 2018.
- Tatsuhiko Ikeda joined Nikko AM in 2014; since April 2022, he has concurrently worked as a portfolio manager on the Research Active Management Team; previously, he also served as a sector analyst covering chemicals, steel, non-ferrous metals, trading companies and marine transportation.

The dedicated value style analysts were added to the team in October 2004, partly in reaction to a significant increase in the number of companies listed on the Tokyo Stock Exchange First Section, which had been making coverage more challenging. Additionally, rather than relying solely on the research produced by sector analysts as well as his own research efforts, the manager felt that dedicated value style analysts would increase the team's capacity to closely research stocks in line with the value investment approach (seeking catalysts for structural change).

The value style analysts are complemented by an experienced team of 13 sector analysts, who have an average of 15 years' industry experience and an average of 10 years' experience working with Nikko AM. There are also four analysts and one group manager in Nikko AM's Active Ownership Group that specialise in proxy voting and in conducting governance meetings mainly with the smaller cap names currently held in Nikko AM's Japanese equity portfolios (both active and passive) which are not covered in the core research universe.

Fund Objectives & Targets

The 80 to 100 stock portfolio has a low turnover of 20-40% per annum, with an expected holding period of 3 to 5 years. The strategy aims to achieve outperformance versus the TOPIX Total Return Index of approximately 3% per annum relative to the benchmark over a 3 to 5-year period, with a tracking error of approximately 4%.

The investment philosophy of the value team is to look to deliver superior performance by making long-term investments in undervalued companies expected to undergo change. The team aims to invest when they spot a catalyst for change rather than waiting to see if there is evidence of change occurring. The research seeks undervalued companies that offer goods and services that society needs which is different to other value strategies. The approach is contrarian and focuses on undervalued companies likely to undergo transformation and the team hopes to make high returns in stocks by owning them through this period of market re-rating. The Japanese economy is mature and as a result the overall stock market at the index level is highly cyclical. The team believe this allows seasoned investors to take advantage of repeated patterns. The team looks to consistently apply a contrarian value-orientated investment approach to generate excess returns.

Examples of undervalued companies that are expected to undergo transformation include those in crisis mode where poor standing in the market compels management and employees to make fundamental changes, companies whose mind set is changing towards enhancing corporate value, and those with an attractive potential that has not been reflected in the market price or valuation.

Companies that offer goods and services needed by society would generally demonstrate business continuity, offer downside protection, and are likely to possess a turnaround catalyst even if they are temporarily undervalued. Research seeks to identify companies with these three attributes. The fund is looking to achieve 3% outperformance p.a. relative to the TOPIX index of the largest 2,100 companies, with a tracking error of approximately 4% p.a. and is managed within a risk budget to keep the overall fund within this tracking error, which helps to explain why sector deviations have not been huge. The fund has a strong value bias and is mid-cap orientated, with a market cap cut-off of roughly $500m with the team also taking into account the free float of the shares.

Investment Process

The team aims to understand whether poor stock performance is due to structural or cyclical issues. They are looking for strong returns from stocks that are underperforming due to structural issues, but which possess a turnaround catalyst. These are described as Phase 1 stocks, which is a long-term cycle due to exogenous events or idiosyncratic structural issues and will typically last 2-3 years. Companies in this phase have the potential to realise a significant turnaround and will then start generating positive cash flow when moving into Phase 2 (typically 1-2 years) although underperformance may occur due to cyclical issues. The team are wary of avoiding value trap stocks on optically low valuations.

There is a focus on the catalyst to turn the stock price around for the Phase 1 stocks which could be a supply side catalyst (a structural change due to a company's own efforts) or a demand side catalyst (a structural / environmental change in the market). For either of these catalysts the question is asked 'does the company have products / services / human resources that are needed by the market to capture new demand?'. Phase 2 stocks can be underperforming due to cyclical issues which could be the economic cycle in general, or the product life cycle the company faces so there is then an assessment of the type of cycle and the position within this. There can be a delay between upfront investment and recovery, cyclically depressing profitability and there can also be other cyclical factors unique to the company or the business cycle of the sector in which it operates.

The premise of the approach is that in a mature economy, both the market and most individual companies will show cyclicality, and this fund looks to take advantage of this cyclicality by buying low and selling high. It is contrarian and buys when valuations are depressed taking a 3–5-year view which seems to be the expected period for a company to show cyclical improvement. In fact, one of the sell disciplines is that if a company does not make any progress in terms of its operations over three years, the position is sold to avoid value traps.

The first stage of the process is to define the potential investment universe where quantitative valuation measures including PE, PB and P/cash flow are used, and this is followed by detailed qualitative bottom-up fundamental research and analysis. All listed stocks (approximately 3,700 names) are screened, and the fund focuses on roughly the bottom 50% of this universe, but excludes companies with high credit risks, low liquidity (the typical market cap cut-off is $500m), and those that do not meet other measures looking at free float. Poor governance risk stocks would also be excluded at this stage. This results in a value research universe of 600-700 names.

The ideas generated by the value team are Phase 1 stocks. The value team, including the analysts, spend their resources discovering these undervalued stocks. The research process focuses on multiple layers of the company from senior management to employees as well as considering historic information. Along with standard financial information the team looks for factors which explain the poor stock performance, aiming to understand the financials. They also screen for any negative legacy issues such as lawsuits, or excess personnel, together with unfavourable non-financial information to ensure the company will continue to survive and that there is limited downside when an investment is made. The identification of the turnaround catalyst is then focused on, finding attractive non-financial information such as talented staff, a brand, or technology. To understand a company the value team meets senior management and employees, conducts site visits, and speaks to competitors and they look to find causal relationships and grasp changes. The research process produces a buy list of approximately 200 stocks.

The reasons for undervaluation can be excess human resources, or too high a level of assets within the business, or that the market or company does not realise the net worth of the business or its potential. Many Japanese companies used to trade on conglomerate discounts some years ago, but this has now started to rectify itself as companies have carved out unprofitable businesses or bought in the shares of listed minorities. The levels of M&A in Japan have increased. When the team find a company trading below its book value, they will speak to the management to discuss ways to unlock the value, perhaps through technology as has been the case in companies with exposure to the hydrogen power sector. Kawasaki Heavy Industries restructured and focused on its growth areas, which included robotics and medical as well as hydrogen. These shares have risen by 70% since purchase, but the growth rate will continue to be strong, and in these circumstances, the team do not leave a turnaround story at an early stage.

Companies with huge NAV through cross shareholdings in other businesses have been a feature of the Japanese market, but whereas 30 years ago this was around 50% of companies, it has now fallen to around 14%.

Portfolio Construction

Phase 1 companies are initially identified by the value team and companies in Phase 2 may well be on the radar of the broader generalist sector analysts who also support the growth, core, and dividend teams. These analysts provide a pooled resource to the fund management team as a whole.

There are no sector constraints on portfolio construction, but the risk tolerance requirements allow a maximum 4% tracking error and the usual UCITS rules apply, so a single stock holding cannot be more than 10% of the portfolio. Phase 1 stocks comprise 60-70% of the portfolio and as of 30 September 2022 these have a price to book of 0.79x and a dividend yield of 3.42%. Phase 2 stocks are 30-40% of the portfolio with a price to book of 1.51x and a dividend yield of 2.25%. The overall portfolio has a price to book of 0.92x and a dividend yield of 3.07%.

Sales can occur for a number of reasons, such as replacing a stock where the price target has been achieved, or if there is declining confidence in management or the business strategy. Stocks will also be reviewed and possibly sold if there is a deviation of the fundamental metrics from expectations (thesis not playing out). If the team loses faith in the quality of the management, the stock is sold. In 2020, Hitachi Metal was sold as the stock re-rated when there was a proposal to carve out the business and sell it to an investment fund. Honda subsidiary Keihin was trading on a PE of 10x and price to book of 0.7x when purchased – it was bought out by Honda in 2020 and delisted.

Two risk models are combined to evaluate portfolio risk –the Barra model and also a proprietary risk model which complements this. The proprietary model is based on 18 factors and 33 sub factors using TSE classifications.

While the fund is bottom-up in construction, the portfolio managers do consider macro factors as they believe it would be foolish to ignore big picture issues. For example, today, long term interest rates appear to be rising which is beneficial for some value names and resulted in the fund increasing its weighting to banks in the spring of this year. Companies researched in Phase 2 will also benefit from the views of the sector analyst team and each of the sector analysts meet with the portfolio manager once a month to discuss the latest views. At extremes the fund can hold higher levels of cash, and this occurred in February 2020 when there was concern about the spread of Covid-19 and the reinvestment of this after the market sell off helped to drive the strong performance seen last year, despite the fact that growth outperformed value overall. To avoid value traps, when investing in Phase 1, a company is generally given 1 to 3 years to show signs of improving prospects which is in line with the medium-term corporate plan for each business. Companies on the right track will be held onto for a number of years if it is felt there is significant upside in the shares as the team does not want to sell out of turnaround stories too early.

ESG

Nikko AM has made ESG a central element of its management philosophy in order to implement its fiduciary principles and fulfil its stewardship responsibilities. ESG is seen as essential for putting fiduciary principles into practice. ESG is integrated into all investment decisions through the incorporation of Creating Shared Value (CSV) Evaluations which comprise 12 factors from three categories: competitiveness, ESG, and financial strength. The ESG category accounts for five of 12 factors: Human Resources, Carbon Neutral, Environmental & Social, Management Execution, and Resilience. ESG integration places ESG into investment decision making and ESG active ownership focuses on stewardship, voting rights, and engagement. CSV evaluations utilise the work of Harvard University Professor Michael Porter which states the creation of social value leads to economic value with comprehensive evaluation of a firm on competitiveness, ESG factors and financial strength.

Nikko AM has used CSV evaluations since 2013. These are integrated with the original Porter's Five Forces of barriers to entry, threat of substitutes, bargaining power of customers, or suppliers and competitive rivalry together with financial strength evaluation looking at return to shareholders as part of this. Nikko AM looks to avoid investing in firms with government risk and promotes better governance through engagement and since 2015 has avoided investing in firms with perceptible corporate governance risk. The analysts assess governance risk on an individual basis and work with governance specialists on engagement if issues arise.

PAST & CURRENT POSITIONING/STRATEGY

One of the differentiating features of the strategy is that in addition to the more typical analyst team that works on a generalist basis for different style strategies, there are also three dedicated analysts working solely on the value strategy. These value analysts carry out the due diligence work on stocks thrown up by the screening process, looking for change that will act as a catalyst for improving the use of assets, creating/maintaining capital efficiency, and increasing future earnings, all of which could lead to a re-valuation of the share price. The analysts and portfolio managers on the team work together, looking at a company's context within the industry as well as the potential for self-help, such as the more effective use of tangible and intangible assets. The value analysts pay attention to the prospects for balance sheet or cash flow improvements but also take into account the quality of goods and services and employee confidence / satisfaction as part of the analysis. Whilst screening highlights stocks on a low valuation, the analyst role is to look for factors that will support a firm's recovery with the team then visiting companies to assess management strengths, capabilities, and commitment to change. Corporate contact provides an opportunity to make a subjective judgement as to whether management is likely to realise objectives. Even when sector analysts come up with recommendations and ideas, the value analysts on the team do their own due diligence work before a stock is included in the fund. The views on individual sectors are updated on a monthly basis and are provided to the portfolio managers by the sector analyst team, together with updates from their own company visits and discussions with sell side analysts. There is also input from the strategists at Nikko AM to identify new trends in the marketplace.

The key difference between the value style analysts working for the team, and the sector analysts working for the wider asset management business, is that the value analysts focus their research on structural changes. The value analysts will often have a longer investment horizon as very often ideas take time to work, and the three analysts are generalists across all sectors.

Looking at the big calls in the fund at the sector level, there are overweights to consumer discretionary and within this Sony and department store J Front are favoured names. The latter should benefit from the re-opening of the country post Covid-19 and increased levels of tourism. The overweight in Communication Services favours Nintendo with its gaming consoles. Industrials are an overweight and within this electronics and construction companies are favoured although these positions are as a result of bottom-up stock picking.

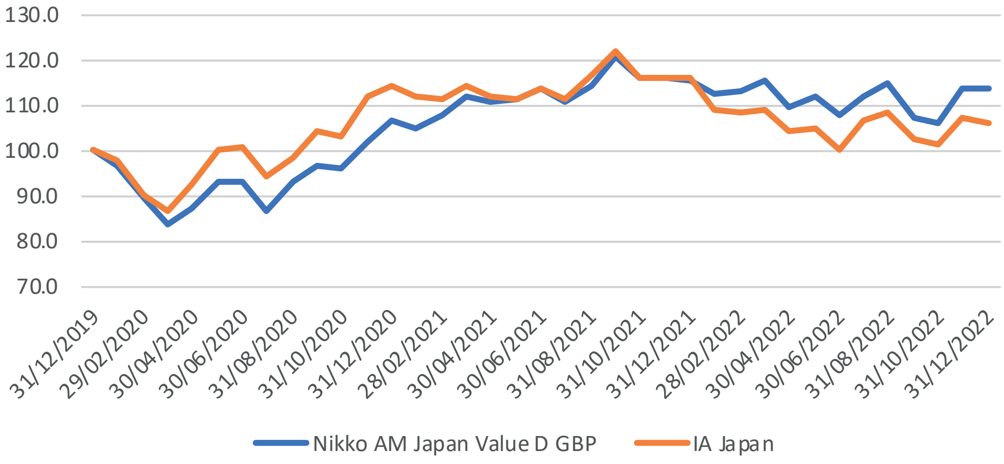
The fund's top active weights, Nintendo and Sony, have been present for a good while and remain conviction holdings. Nintendo is delivering high earnings growth, leveraging its internet pricing and increasing income in areas such as Super Mario and Pokémon. Sony has transitioned into a full-blown tech company with the addition of an entertainment business and is setting up a semiconductor joint venture with TSMC and an EV joint venture with Honda. The market cap split of the fund shows an overweight to mid-caps and also small caps, with the fund underweight in large cap stocks, but roughly neutral in mega caps. This positioning is similar to last year.

Company management are relatively upbeat in Japan. Japan Steel Works, which manufactures specialised steel for power clients including the nuclear industry, is confident demand will be strong with global energy related issues. Roland Berger has exposure to the apparel industry through its consultancy business and believes that consumers in Japan will divide into three segments. The first will continue to enjoy goods consumptions such as fast fashion clothing items, the second will want higher end more ethically produced goods favouring brands like Patagonia and this part of the market should see growth of 10% to 15% p.a. The third segment, minimalist consumers, is growing strongly and the apparel sector is changing in order to grow, businesses need empathy with their consumers to make their brands differentiated.

Recent fund changes include the purchase of Stanley Electric which provides affordable auto parts and had fallen 50% from its high after an investment programme, and Maxell, an electronic component maker, which again had fallen heavily from its high point to trade on around 10x earnings and 0.68x price to book. Some stocks such as Nippon Yakin Kogyo and Daiwa House Industry were sold after a strong run up in the share price.

PERFORMANCE

Fund vs IA Sector



Source: Nikko AM January 2023

In 2021 the A share class of the fund returned 9.14% in sterling, substantially outperforming the TOPIX Total Return Index. The market was strong on expectations of a global recovery as the worst of the pandemic passed and during the first quarter of the year the Nikkei rallied to around 30,000. The market and economy in Japan were affected by the Covid-19 Delta variant in the summer and by Omicron late in 2021, and this was negative for domestic demand and domestic sectors. On the political front a new Prime Minister was appointed in October 2021 and the lower house elections saw a resounding victory for the ruling LDP Party. The fund performed strongly over the year and there was a particularly strong recovery in value stocks in the first half and stock selection was excellent. During 2021 over 7% of gross outperformance came from stock selection whilst sector allocation added 66bp. Sector allocation benefitted from underweight positioning in Staples and Healthcare whilst top contributors included Mitsui O.S.K. Lines, a marine transportation company, which delivered solid earnings due to strong freight rates. Snow Peak is an outdoor clothing and goods retailer which saw strong demand for its camping related products which boomed that year in Japan and the company also sells to the US, China, and Europe. Kadokawa Corp is an integrated media business which delivered strong earnings on an attractive valuation with good intangible assets in gaming and animation content. It has business tie ups with both Sony and Tencent.

Year to date to end October 2022 the fund has outperformed by just over 2% at the net level and over 3% on a gross basis with again the bulk of the returns coming from stock picking which delivered positive attribution of close to 2.5% whilst sector allocation added 76bp on a gross basis. Japan has been heavily influenced by external factors this year such as higher global bond yields, the Russian invasion of Ukraine and inflationary pressures, and with interest rates held steady the yen has weakened substantially versus the US dollar. There has now been an acceleration in the Covid-19 vaccination roll out and cases in Japan peaked in February, although there was a smaller wave during the summer. The government only fully relaxed border controls with no testing of arrivals on 11th October so tourism has opened relatively late in Japan.

Stock selection was once again positive and the fund benefitted from not owning a number of the highly rated technology / internet related names which came off quite sharply in 2022 including Recruit Holdings, Tokyo Electron which is in the semi-conductor related industry, Keyence in automation, and Nidec. Growth names in Japan have been hard hit in 2022 and the fund has benefitted from a tailwind to value. Strong performers held include Kintetsu World Express, a top tier logistics business which agreed to be bought out by its parent company and rose around 47% on the bid. Inpex, Japan's largest oil and gas producer has also unsurprisingly been a good performer this year. Other top performers include Jgc Holdings in Industrials and Nintendo, together with Mitsubishi Heavy Industries.

The bottom five underperformers calendar year to date until end of October include Sony Group due to concerns about the deteriorating macro or external environment but Nikko AM continues to expect strong synergy effects between the company's main movie and music properties over the long term. Recent guidance has been positive, and the shares have rebounded. Snow Peak is a manufacturer of high-end outdoor apparel and gear and having risen 3.6x over the past two years saw a pull back after profit taking and shorter term earnings growth on the back of higher input costs. The company has started a major expansion into overseas markets which provides strong profit potential going forward.

Other detractors include Daiichi Sankyo which is a major pharmaceuticals company and not owning this has proved a relative detractor. Ibiden is an electronics material manufacturer specialising in semiconductor packages which saw a pull-back in its share price after strong gains in the Covid related period with the stock still being held due to its long-term competitive advantage in this market. Minebea Mitsumi is a ball bearing manufacturer with 60% global market share for miniature ball bearings. The share price has fallen due to concerns about the deteriorating macro environment, but the stock continues to make internal progress on structural reform and is expanding its business portfolio through M&A activity.

SUMMARY & EVALUATION

The fund is managed by a dedicated value team of six including desk analysts with research augmented by the sector analyst team at the firm who serve a number of differing strategies. Nikko AM themselves manage over $85bn in Japanese equities, making them a significant investor in the market with over £3bn in the value strategy and approximately £150m in this retail fund. The fund uses a research-driven approach, which although bottom-up focused, is macro aware, and the returns over the period even when value as a style has struggled have been highly credible, indicating the fund has avoided value traps. An example of this is that the team waited until 2021, when there was clear upward pressure on bond yields to increase exposure to the banking sector, recognising that the macro environment in much of the post GFC period was challenging for bank stocks.

Within the top holdings there are a number of names such as Sony, Nintendo, and SoftBank which are typically seen in more growth orientated strategies, with the difference being that this team bought the stocks when they were on relatively depressed valuations but are happy to let them run on in the fund whilst the re-rating and earnings upgrade story is intact, and the valuation remains modest for the expected future growth. This does seem to be a differentiating point from many value strategies often exit at too early a stage rather than stay the course when a stock is being reappraised by the market. The research process benefits from Nikko AM's strong foothold in the market and investment team which in FY2021 saw close to 3,000 one-on-one company management contacts. There are other differentiating features within this value approach, one of which is a focus on companies which realise that they need to change to survive, and also on businesses that supply products needed by society. This seems to have enabled the team to avoid companies seeing structural or secular declines in the product or service they offer.

This is a value orientated strategy, so unsurprisingly the best periods of performance have been when economies are re-bounding post-recession, such as in 2003 to 2006, or when Japan is pursuing policies to significantly boost domestic demand such as when Abenomics was first introduced. The fund also did well in the second half of 2016 and 2017 when global synchronised growth was relatively strong and similarly in the 2021 Covid-19 recovery period. The strategy is most likely to struggle when market valuations on cheaper stocks within the market deteriorate or are under pressure, and this would usually coincide with periods when the discount rate applied to future corporate earnings is declining. A world of gently rising bond yields and inflation expectations are likely to be the most benign macro backdrop for the strategy. In 2022 the weak yen has been a tailwind for performance, however the fund managers have proved that whilst those conditions suit the strategy best they do not need a true value market backdrop to deliver outperformance. The excellent long-term record of the strategy, the experience of the lead fund manager, backed up by the team dedicated research resource, and the wider research resource of Nikko AM in Japan equities fully justify an RSMR rating for the fund which is suitable as a core holding in portfolios.

ABOUT US

RSMR

Established in 2004 RSMR provides research and analysis to firms working across the UK's personal financial services marketplace.

Our work is completed with total impartiality, without any conflict of interest and delivered to a high professional standard by a team of experienced and highly qualified people.

Working with advisers

We provide specialist research, analysis and support to a diverse range of financial advisers and planners helping them to deliver sound advice to their clients, backed by rigorous and structured research and due diligence.

The main regulatory body in the UK, the FCA, states that personal recommendations made by advisers should be 'based on a comprehensive and fair analysis of the relevant market' and this has led to closer scrutiny of the whole advice process. Our solutions are designed to help advisers meet these challenges whilst recognising that advisory firms require a range of flexible options that best meet their own business needs and those of their clients.

Working with providers

We work with all the leading fund groups, life and pension companies and platform operators across the financial services sector offering straight forward and pragmatic advice to help add value and improve their business performance and efficiency whilst treating customers fairly in line with FCA requirements.

Ratings

Our innovative ratings are now recognised as market leading and cover a broad area of investment solutions including single strategy funds, SRI funds, Multimanager and multi-asset funds, DFMs and investment trusts. Our familiar 'R' logo is now recognised as a trusted badge of quality by advisers and providers alike and a 'must-have' when selecting funds. Our ratings are founded on a strict methodology that considers performance and risk measures but places a greater emphasis on the ability of fund managers to continue to deliver performance in the years ahead. based on our in-depth face-to-face meetings with fund managers across the globe.

We understand financial services and we will work alongside you to deliver tailored solutions that are right for your clients and your business.

Our research. Your success.

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