

Henderson Horizon Japanese Smaller Companies Fund

February 2017

Fund manager name: Yunyoung Lee

Overview

The Japanese small cap market advanced in February in response to favourable earnings results announcements. Given these announcements, 2017 profits forecasts for the Russell-Nomura Small Cap Index were revised up. In addition, expectations for Trump's tax plan drove overall Japanese equity markets up in early February, although late in the month large caps underperformed small caps on the back of uncertainties about the tax plan and the yen's appreciation. Overall, small caps outperformed large caps over the month.

Performance and activity

Positive contributors included Nippon Soda (chemical), Toyo Tire & Rubber (tyre manufacturer), Seiko Holdings (watchmaker), Isetan Mitsukoshi Holdings (department store), and Nippon Electric Glass (LCD glass and glass fiber). Nippon Soda's share price jumped from its low valuation level after favourable results were announced. Toyo Tire & Rubber rallied after investors confirmed favourable demand for large-rim tyres in the US market and limited downside risk of seismic isolation rubber problems. Seiko Holdings surged after earnings results, which represented a sign of bottoming out, were reported. Isetan Mitsukoshi Holdings performed well due to improvement in earnings momentum and the announcement of a share buyback, while Nippon Electric Glass reported a good outlook for 2017.

Major negative contributors included Pioneer, Relia and Cookpad. We added positions in these three firms in February as we believe that investors are underappreciating the companies. We initiated a position in Internet Initiative Japan which we think is undervalued, and closed a position in Round One.

Outlook

Amid uncertainty around Trump's presidency, we continue to look for new investment ideas based on catalyst and valuation upside. We will be increasing our meetings with the management teams of all our holdings so that we can continue to tactically re-balance the portfolio to reflect our current conviction levels.

Note: Reference to any specific company or stock is for information purposes only and should not be construed as a recommendation to buy or sell the same.

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