

Janus Henderson Horizon Japanese Smaller Companies Fund

August 2019

Fund manager names: Yunyoung Lee

Overview

The Japanese equity market fell in August and small caps underperformed large caps. The market was still volatile as it reacted to President Trump's announcements regarding the US-China trade war. After Trump announced the additional tariff hike on Chinese imports, the yen appreciated and the Japanese equity market tumbled. The top three negative sector contributions in the small cap index were marine transportation, nonferrous metals and rubber products, which are all exposed to currency movement and global economic conditions. On the other hand, domestic-demand related sectors such as real estate, foods, and retail trade outperformed.

Performance and activity

Positive contributors included Relia (call centers), Unizo Holdings (real estate), Nichicon (electric components), Shochiku (movies), and Meidensha (electric machinery). Relia's share price jumped after the announcement of strong earnings results as profitability of existing projects improved. Unizo's share price continued to rise as SoftBank Group's Fortress Investment Group appeared to be a white knight as it blocked a hostile takeover bid by travel agency H.I.S, which was announced in July. Nichicon's share price surged as sales of household energy storage showed strong growth. Households who live in houses with solar panels are expected to purchase the product as the feed-in tariff scheme with its high selling price is wound down from November 2019. Shochiku increased on the back of favourable domestic box office takings during the summer.

Major negative contributors included Nippon Soda (chemicals), Yonex (badminton rackets), Central Glass (chemicals), Topy Industries (steel), and Sakata Inx (packaging ink). Nippon Soda's share price dropped after its quarterly results announcement. Although results were weak, mainly due to a delay in shipment of agrochemicals, raw materials for lithium-ion battery began to contribute to earnings. We retain a large position given the growth potential. Yonex declined as a result of poor quarterly results. We like its high global market share of badminton rackets and expect a recovery in sales momentum going forward. Thus, we maintain the position. We expect good growth potential of Sakata Ink's packaging ink thanks to expansion of the plastic packaging market in Asia. We increased our position in the company when its share price declined as a result of developments in the US-China trade war.

Source: Janus Henderson Investors, as at 31 August 2019

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