

## Japan High Conviction after Abenomics



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### Key Points

- Japan's New Prime Minister, Yoshihide Suga, signalled a continuation of Abenomics growth policies. He is also likely to accelerate structural reforms
- The UK and Japan reach an agreement to a new trade deal, and China leads the recovery - factories in China are evidently busier, with robotics and automobiles driving activity
- This month we highlight three Covid-era winners - resilient innovative companies that could continue to emerge even stronger. Investment themes include Electric Vehicles(EV), smart devices and logistics automation.

### Japan's New Prime Minister

As widely expected, Yoshihide Suga, former chief cabinet secretary, was voted as Prime Minister on 16 September. Shinzo Abe announced his resignation at the end of August, citing ill-health.

Suga stated his top priorities to be managing the pandemic and strengthening the economy. He signalled a **continuation of Abenomics growth policies** - monetary easing, fiscal spending and structural reforms.

As former chief cabinet secretary coordinating policies under former Prime Minister Shinzo Abe, Suga is keen to push for reforms he has proposed throughout the years. These include **deregulation, digital transformation**, as well as policies to boost competition and consolidation. He is also keen to accelerate the pace of administrative reforms around bureaucratic sectionalism to raise the effectiveness of his policies.

### New Trade Deal

The UK and Japan have reached an agreement to the discussions for a **bilateral free trade deal**, said to closely mirror the existing Japan-EU Economic Partnership Agreement. For the UK, this is the "first major trade deal as an independent trading nation", and UK officials claim this will boost trade between the two countries by about £15bn. For both countries, this deal is also an important step towards having the UK join the Trans-Pacific Partnership trade deal.

## Summer Days

In August, Japan emerged from a heatwave that frequently pushed temperatures above 40 degrees centigrade in some regions. Equity markets have also experienced a large temperature gradient over the past few weeks. Following a steep decline towards the end of July, the TOPIX index registered solid gains in August. Pent up demand following the end to the nationwide state of emergency and demand stimulus measures such as government cash benefit payments contributed to the recovery in domestic demand in June.

## An Olympian Challenge



The pandemic has forced the first ever postponement of the modern Olympics. The Tokyo 2020 Olympic Games are now set to begin from July 23rd 2021, and this is expected to be the most ecologically focussed Olympic tournament in history – with unprecedented use of renewable energy to power the games, widespread use of recycled materials and even artfully designed cardboard furniture for the athletes' village.

In retrospect, it could be said that the Tokyo Summer Olympics in 1964 were a watershed for Japan, transforming the country into an economic powerhouse. For the Tokyo 2020 Olympic Games, this event should offer a belated opportunity for the country to demonstrate its leadership on sustainability issues. This environmental leadership is also demonstrated by some of the companies highlighted in this month's report.

## China is Awake and Leads the Recovery

China's economy is crucial for many Japanese companies, and it grew more strongly than expected in the second quarter, at 3.2% year on year. China is the first major economy to almost fully reopen and return to positive territory after the Covid-19 outbreak.

Factories in China are evidently busier, with robotics and automobiles driving activity. Exports also increased with a spike in global demand for medical supplies and electronic products.

## Quality Companies Emerging Even Stronger

This month, we will look at three companies that have shone during the pandemic. They may not be household names, but they are resilient innovative companies that could continue to emerge even stronger.

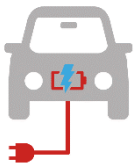
We focus on long-term investment themes such as factory automation, energy conservation technologies, changing demographics and the rising middle-class in other Asian countries. As a `structural front runner`, Japan has been addressing issues such as an ageing population long before most other countries, forcing Japanese companies to accumulate know-how in key technologies and services. The proximity of the massive Asian market also enables Japanese companies to expand and build upon their strong presence in the region.

## **Japan High Conviction Fund Investment Themes**

### **NIDEC**

#### **Automotive Traction Motors for Electric Vehicles**

Portfolio Weighting: 7.5% (as at June 30, 2020)



The automobile industry is going through a technological revolution, with the electrification trend driven by energy security and environmental issues. NIDEC, the largest holding in the portfolio, aims to strengthen its position by focusing on the **electric vehicles (EV)**, with the belief in a **sustained global shift towards EVs and plug-in-hybrid electric vehicles (PHEV)**.

In the UK, alternative fuel (electric and hybrid) cars outsold conventional diesel cars for the first time in the second quarter of this year. This shift is likely to accelerate as the UK government prepares to introduce new rules and phase out new fossil fuel cars and vans, possibly as early as 2030.

NIDEC is the world's largest precision motor manufacturer, and posted better quarterly results than expected in July. Despite production shutdowns by most major automakers around the world, NIDEC was able to sustain profitability by reducing costs, mainly thorough manufacturing cost improvements and fixed cost rationalisation. NIDEC also benefitted from sales of motors for laptop computers given the jump in demand as telecommuting and home working increased worldwide.

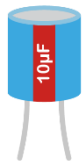
NIDEC entered the market for automotive traction motors with the launch its e-axle, a key component for EVs and PHEVs that combines an electric motor, gears and an inverter in one unit, making it a fully integrated traction motor system.

The company is successfully supplying e-axles to Chinese automakers such as GAC Motor and Geely. In the Asian market, the `Aion S` model by leading Chinese EV producer GAC, launched last year using NIDEC's E-axles. In June, NIDEC's `E-Axle Ni150Ex` was adopted by two new EV models launched by Chinese automakers GAC and Geely.

### **Murata Manufacturing**

#### **Advanced Electronic Materials and Components**

Portfolio Weighting: 4.2% (as at June 30, 2020)



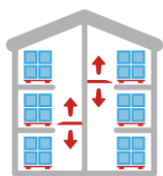
Murata Manufacturing is the world's leading producer of multi-layer ceramic capacitors (MLCCs) and has **captured 40% of the global market share**. Their products are used in video game consoles, tablets, PCs, automobiles and smartphones. MLCCs are small electronic components that are indispensable to electronic circuits, as they control temporary circuit storage/flow and noise suppression.

In their recent quarterly earnings report, the company announced a fall in orders from the previous quarter due to COVID-19, but has recovered since June after bottoming out between April and May. China resumed economic activity at an early stage, leading to a recovery in production. Demand remained firm for products related to 5G technology and for personal computers (PCs) as the number of people working from home grew significantly.

With the expanding market for **wearable devices and 5G smartphones**, the demand for compact, higher density electronic circuitry is likely to accelerate. Murata also aims to benefit from the **ongoing advancements in automobile technology** as progress towards automation continues.

## **Daifuku** **Logistics Automation**

Portfolio Weighting: 2.9% (as at June 30, 2020)



Daifuku is the world's largest logistics automations solutions provider, and provides **logistics automation solutions to the largest e-commerce giants in the world**. The company also produces of material handling systems, and also baggage handling systems for airports in the United States, United Kingdom, Netherlands and Malaysia and others.

With COVID-19, warehouses and factories are expected to invest further in **automation and reducing human contact**. According to results announced in August, the company has benefitted from an increase in e-commerce. Capitalising on secular trends and changes, the company sees further growth potential in ecommerce logistics and semiconductor-related businesses.

The company has a strong balance sheet and a net cash position.

In JPY, net of fees	3 Months	6 Months	YTD	1 Year	2 Years	3 Years	5 Years
<b>Nomura Japan High Conviction</b>	<b>9.86</b>	<b>29.97</b>	<b>12.90</b>	<b>31.47</b>	<b>8.19</b>	<b>12.78</b>	<b>10.49</b>
TOPIX TR JPY	2.79	7.70	-5.43	8.89	-1.44	2.11	3.00
<b>Excess</b>	<b>7.07</b>	<b>22.27</b>	<b>18.33</b>	<b>22.57</b>	<b>9.62</b>	<b>10.67</b>	<b>7.49</b>
Peer Group Rank	9	4	1	1	2	1	2
<b>Quartile</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>
Number of Funds Ranked	221	220	219	217	204	187	169

Source: Morningstar Direct as at 31-08-2020. Return data presented for the Nomura Funds Ireland Plc. Japan High Conviction Fund I JPY, in JPY, net of fees. Performance greater than 1 year is annualised. Morningstar Overall Ratings as at 31-08-2020. Copyright © 2020 Morningstar UK Limited. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results. Peer Group: Morningstar Open-Ended Funds: Japan Large Cap Equity.

## Fund Overview

Essentially a best ideas portfolio of Japan, the Japan High Conviction Fund is positioned to pick truly competitive global companies and unique Japanese game changers that take advantage of structural trends.



<b>Attractive 1<sup>st</sup> quartile returns since inception</b>	With a 5-star Morningstar Rating™, the fund has delivered consistent 1 <sup>st</sup> quartile returns across all time periods and delivered 5.3% p.a. annualised excess returns since inception*
<b>High conviction approach of 25-40 stocks</b>	A high conviction portfolio of quality stocks where company selection is paramount
<b>Experienced investment team managing \$5.7bn AuM</b>	The team manages approximately \$5.7bn in growth strategies including \$760m in the Japan High Conviction strategy and over \$240m in our dedicated UCITS fund
<b>Citywire award winning fund manager</b>	Citywire award winning Fund Manager, Shintaro Harada, CMA, has been with Nomura since 1993 and has pioneered Nomura's ROE-focused approach to growth investing
<b>Large dedicated research resource</b>	With over 30 research professionals on the ground, Nomura operates one of the largest, most experienced equity research teams in Japan. As a significant active investor Nomura has unrivalled depth and access to senior management teams across the country

\*Source: Morningstar Direct. Data presented as at 31/08/2020, net of fees for the Nomura Funds Ireland Plc Japan High Conviction Fund I JPY share class v.s. TOPIX TR JPY, calculated in JPY. Since inception: 7<sup>th</sup> August 2013. Past performance is no guarantee of future results. AUM as at 31/08/2020.

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The prospectus, key investor information document (KIID) and other fund related materials are available on the NAM UK website at [www.nomura-asset.co.uk](http://www.nomura-asset.co.uk)

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