

Japan High Conviction in the Pandemic Era - When Quality Counts



Shintaro Harada, CMA

Chief Portfolio Manager, Japan High Conviction Strategy

Published 19th May 2020

Japan is one of those countries where contingency planning is a fact of life. Whether it's to allow for wholly unpredictable shocks such as earthquakes or to prepare for the more cyclical and foreseeable natural or economic events, a tendency of both households and corporations to combine high savings rates with a conservative outlook can pay off during periods of market stress.

The systemic shock of the Covid-19 pandemic is certainly one of those periods, and this preparedness indicates that Japan is probably better placed to outperform than some other equity markets. Indeed, Japanese companies have traditionally relied on cash-rich balance sheets to carry them through difficult times, after having weathered a long period of post-bubble low economic growth as well as the more acute disruption caused by natural disasters. Indeed, many of these companies offer an attractive combination of innovation, sound governance and balance sheet resilience.

While there are question marks over the trajectory of economic growth and corporate earnings, there is now a clear preference among investors for companies that offer high sustainable growth, resilient business models and strong balance sheets. It may be too early to determine the impact of this pandemic on fundamental long-term structural trends that have emerged over the years, but quality companies with game-changing technologies and growing businesses should continue to reign.

Japan High Conviction Fund – Current Investment Themes

In our search for companies that combine strength and growth opportunities, Nomura's Japan High Conviction Fund has assembled a truly active concentrated portfolio of quality companies, with exceptional management leadership and resilient business models. Structured around the JHC Fund's current investment themes, this report will show you how these companies are adapting, and even thriving, during this crisis. From cutting edge factory automation, medical equipment, online medical services, and specialised e-commerce companies that can benefit from the 'Stay-at-Home' economy, to consumer staples sectors such as Asia's leading producers of personal hygiene and baby care products, many stocks in the portfolio are thriving. Investors are likely to be attracted by their sometimes unique strengths in a challenging business environment.

Keyence

Portfolio Weighting: 6.4% (as at Mar 31, 2020)



The pandemic has given impetus for greater automation in many industries, as a post lockdown world could require companies to reduce human contact. Keyence is a global leader in factory automation and also carries substantial cash on its balance sheet. Specialising in products such as sensors and measuring instruments used in the automation of assembly lines, their expertise in providing customised solutions allows them to sustain high profit margins. Despite its conservative management style, Keyence employs a data driven culture that allows the company to navigate through even the most challenging situations. With demand for factory automation likely to pick up, evidence suggests the company will take this opportunity to strengthen its capabilities and grow its business worldwide.

NIDEC - *World's largest precision motor manufacturer*

Portfolio Weighting: 6.7% (as at Mar 31, 2020)



Demand for NIDEC's energy efficient motors is expected to accelerate amid rising demand for robotics, energy-efficient appliances, data centres and electric vehicles. In the near term, given its production and customer base in China and disruption to global automobile production, NIDEC was initially hit hard by the COVID-19 outbreak. Charismatic founder and chairman, Shigenobu Nagamori views this pandemic as an

opportunity to drive innovation by emphasising capital investment in growth areas such as 5G and traction motors for electric vehicles. He is also reviewing cost structures to raise the firm's profitability. In general, Japanese founders such as Nagamori-san have been shown to exhibit strong leadership in the face of such crises, driving their companies to adapt to sudden changes. With an aligned interest with their shareholders, they are able to implement a decisive top-down management style, which in this environment is seen to be more effective than a more consensus driven style of management. Studies show that in times of adversity, `owner-managed` companies in Japan have tended to outperform.

Sysmex - *Haematology (blood testing)*

Portfolio Weighting: 3.3% (as at Mar 31, 2020)



Sysmex is a global leader in haematology (blood testing), which includes measuring and analysing the number, type and size of red, white and other blood cells, which can be used to check for infections and other diseases. With over 80% of their revenues generated outside of Japan, their clinical testing equipment is used extensively by clinical labs, hospitals and health systems in over 190 countries.

Initiatives targeting coronavirus: Sysmex have developed a new method to diagnose COVID-19, with a small immunoassay device that can diagnose coronavirus infections with high sensitivity within 20 minutes. This can be easily installed in smaller medical facilities, and would be a less costly method compared to PCR (Polymerase Chain Reaction), which requires several hours and substantially more expensive equipment.

M3 - Online medical platform

Portfolio Weighting: 4.7% (as at Mar 31, 2020)



M3 runs online medical platforms that provide clinically useful content to over 6 million medical & healthcare professionals in Japan, the US, China, the UK, and other countries. Access to the portal site surged as medical professionals have begun to rely even more on this online platform, which has become a key part of the medical infrastructure during this pandemic. The pandemic has also accelerated the shift to digital platforms for pharmaceutical marketing, and M3 is in a strong position with a platform for pharmaceutical companies to deliver product information content to doctors. In China, the portal website designed for healthcare professionals has topped 3 million physician registrations, and is expanding steadily.

While M3's domestic market of Japan has been slow to adopt remote medical services, an era of social distancing means remote medical services are expected to play a pivotal role in healthcare. To protect front-line medical staff, the Japanese government launched an online health consultation service, which is run by a joint venture between M3 and social media company LINE. This service is available through the "LINE" app, which is one of the most widely used social media platforms in Japan with more than 80 million users. M3's strength is in its network and database of doctors and the company plans to actively expand the number of practitioners who can provide online health consultation services.

Monotaro - eCommerce

Portfolio Weighting: 2.0% (as at Mar 31, 2020)



Monotaro is a leading B2B ecommerce company specialising in MRO (maintenance, repair and operations) products in Japan, offering more than 18 million items to offices, manufacturers, car maintenance workshops and contractors. A beneficiary of the "stay-at-home" economy as more people have started to work remotely, the company has seen rapid growth in orders from individual retail customers. Its latest results announced in April, indicated a surge in orders from individual customers as a result of COVID-19.

Unicharm - Japan's leading producer of face masks and personal hygiene products

Portfolio Weighting: 5.6% (as at Mar 31, 2020)



Unicharm has seen a surge in demand for products that have rapidly become household essentials, including high-quality face masks and antibacterial wet tissues. Strong demand for their products is likely to continue, and lower fuel prices will also contribute to lower production costs. Since the first case of COVID-19 was confirmed, Unicharm has increased production to meet a flood of orders for their products.

FANUC - Robotics

Portfolio Weighting: 1.7% (as at Mar 31, 2020)



FANUC is the world's leading manufacturer of industrial robots and has a strong balance sheet with no debt. FANUC robots are used widely in auto factories, food production and even in Amazon's fulfilment centres. The company has recently developed new AI functions utilising machine learning to enable thorough equipment inspections. With high operating margins and exposure to Asian countries such as China, Korea and Taiwan, which are likely to emerge from the current crisis sooner than the rest of the world. FANUC is looking to provide contactless solutions for COVID-19 such as testing and

collecting samples on behalf of medical workers. In practice, this would reduce the risk of infection and the workload on medical personnel in medical facilities.

Investment Activity in April 2020

We took advantage of temporary share price weakness to increase our positions in NIDEC, as our conviction in the company has not changed. On the other hand, we trimmed the positions in Unicharm, M3, Systemex and others taking advantage of their recent stock price rallies. None of the above positions have been sold off and we continue to invest in these companies.

About the fund

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.



Attractive 1st quartile returns since inception	With a 5-star Morningstar Rating™, the fund has delivered consistent 1 st quartile returns across all time periods and delivered 3.78% p.a. annualised excess returns since inception*
High conviction approach of 25-40 stocks	A high conviction portfolio of quality stocks where company selection is paramount
Experienced investment team managing \$4.5bn AuM	The team manages approximately \$4.5bn in growth strategies including \$410m in the Japan High Conviction strategy and \$130m in our dedicated UCITS fund
Citywire award winning fund manager	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
Large dedicated research resource	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 30/04/2020, net of fees for the Nomura Funds Ireland Plc Japan High Conviction Fund I JPY share class vs. TOPIX TR JPY, calculated in JPY. Since inception: 7th August 2013. Past performance is no guarantee of future results. AUM as at 31/03/2020.

Performance

Dublin domiciled UCITS Funds as at 30/04/2020 In JPY, net of fees	1 Mth	3 Mth	6 Mth	YTD	1 Yr	2 Yrs	3 Yrs	5 Yrs
Nomura Japan High Conviction (JPY)	11.35	-5.22	-5.92	-8.32	-2.10	-0.55	7.27	5.20
TOPIX TR JPY	4.35	-11.98	-10.92	-13.86	-7.10	-6.94	0.86	0.59
Excess	7.00	6.76	5.00	5.54	5.00	6.39	6.41	4.62
Peer Group Rank	3	12	27	18	27	8	10	5
Quartile	1	1	1	1	1	1	1	1
Number of Funds Ranked	224	222	221	222	214	204	186	169

Source: Morningstar Direct as at 30-04-2020. 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 30-04-2020. 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.

NOMURA

This document is prepared by Nomura Asset Management Co. Ltd. and distributed by Nomura Asset Management U.K. Ltd from sources it reasonably believes to be accurate and is not intended for distribution to or use by any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation.

The opinions expressed in this document are those of the featured speaker as of the date of publication and are subject to change at any time without notice. Comments may be forward-looking statements, which are based on opinions, expectations and projections as of the date of publication. These statements are only predictions, opinions or estimates made on a general basis. Actual results could differ materially from those anticipated in the forward-looking statements and here is no guarantee that any projection, forecast or opinion in this material will be realised. Past performance does not guarantee future results.

NAM UK is authorised and regulated by the Financial Conduct Authority (FCA) in the UK (registration no. 122703). NAM UK's registered office is at 1 Angel Lane, London EC4R 3AB.

Nomura Funds Ireland plc is authorised by the Central Bank of Ireland as an open-ended umbrella investment company with variable capital and segregated liability between its sub-funds, established as an undertaking for Collective Investment in Transferable Securities under the European Communities (Undertakings for Collective Investment in Transferable Securities) Regulations 2011.

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

Further, this brochure is not to be construed as investment advice, or as an offer to buy or sell any security, or the solicitation of an offer to buy or sell any security or financial product.