

## Schroder Japan Trust (SJG)

26/09/2024

### Results analysis from Kepler Trust Intelligence

Schroder Japan Trust (SJG) has released its financial results for the year ending 31/07/2024, reporting NAV total returns of 21.0% and a share price total return of 16.1%, outperforming the TOPIX's 16.4% return. A supportive backdrop for Masaki Taketsume's value-tilted strategy, alongside a strengthening domestic economy, improving corporate governance and strong stock selection, were key drivers of this outperformance.

In June 2024, the board unveiled a new enhanced dividend policy which sees it pay out 4% of the average NAV in each financial year. It also announced a conditional tender offer, citing that if the trust fails to deliver performance at least in line with the benchmark over a five-year period from 31/07/2024, it will put to shareholders a proposal for a tender offer of 25% of the issued share capital at NAV, less costs.

#### Kepler View

The past 12 months have been very positive for Schroder Japan Trust (SJG), as reflected in the strength of its latest financial results. Masaki attributes the outperformance not only to stock selection but also to a market backdrop that's been more conducive to his value-tilted strategy. Additionally, the Bank of Japan raised rates for the first time in 17 years, meaning a now somewhat normalised monetary policy has benefitted a number of sectors, notably financials, an area in which the trust is well-represented. Growing demand for semiconductors and increasing enthusiasm around artificial intelligence has also significantly boosted the trust's tech-related holdings.

Whilst the trust had seen its dividend grow by 12.7% annually on average over the last decade, the board decided to unveil an enhanced dividend policy. SJG has therefore become an attractive way for income seekers to diversify their portfolio and get access to the exciting reform story in Japan, in our view, although we note this approach means the dividend might not be as progressive moving forward because if the NAV falls, the dividend will be lower. This also makes SJG the highest yielding trust in the AIC Japan sector. The board also announced a new conditional tender offer, following on from the previous one introduced in August 2020. It affords shareholders some version of protection if the trust underperforms, allowing them to exit a portion of their investment at NAV, whilst also acting as a performance incentive for the manager to continue delivering outperformance.

Over the past 12-18 months, there have been a confluence of macro-economic factors supporting its stock markets record-high ascension earlier this year, including a significant shift in the Japan's corporate governance, positive inflation, rising wages and an alternative haven for investors given geopolitical issues with countries like China, who are still looking for Asia exposure. We think the outlook continues to look positive and SJG is well-positioned to capture the potential growth Japan has to offer. It stands out in the AIC Japan sector, offering investors a differentiated exposure to Japanese equities through a portfolio of undervalued businesses with strong growth prospects, which have significant latent recovery potential, as well as exposure to under-researched opportunities further down the market cap scale.

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