

# Henderson Horizon Japan Opportunities Fund

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December 2015

**Fund manager name: Henderson Japanese Equity Team**

## Overview

Following a couple of strong months equities slipped back in December with the TOPIX losing a little over 2% over the month. This still leaves equities up by close to 10% over the quarter following the sell-off in late summer, and up by 12% over the calendar year on a local currency, total return basis.

The month was peppered with events. In a well telegraphed move the US Federal Reserve (Fed) raised interest rates for the first time in several years. The oil price plummeted to ever lower depths and the Bank of Japan's quarterly Tankan Survey suggested that companies were better placed than previously expected. Equity markets were nonetheless quite volatile in thin trading ahead of year end book closing. Over the period, defensive sectors outperformed cyclical areas.

## Performance and activity

It was a strange month with the fund starting out comfortably ahead of its peer group before slipping to end the period behind the market. This is probably more to do with the thinness of trading within the market than anything more significant.

Negative contributors included Nintendo (gaming), following some profit taking as the stock had risen over 30% to the end of the calendar year. Tokyo Electron (semiconductor equipment), Murata Manufacturing (components) and Rakuten (e-commerce) all fell back, although it is difficult to pinpoint specific reasons for such falls. Positive contributors included Sekisui Chemical which rose 8% following the announcement of new product technology, Tokio Marine Holdings (insurance) which was up 4%, and Credit Saison (credit card operator) as the company announced an unexpected share buy-back.

The period was a relatively quiet in terms of trading activity. We sold out of Seven & I (retailer) as the stock had performed well, valuations had become challenging and, despite the attractive long-term outlook for the company's US operations, we felt that much of this was already reflected in the share price. The proceeds of these sales were used to raise our commitment to Fujitsu (technology conglomerate) where management are getting on top of problematic peripheral businesses while demand within the software industry also remains firm.

## Outlook

After a fourth consecutive annual gain in share prices it is surely tempting to call time on the upward progression in the Japanese equity market. As tempting as it may be to cut and run, however, there remains much which the Japanese corporate sector can do to help itself in the eye of the investor. The introduction of both stewardship and corporate governance codes has yet to fully benefit investors, while the authorities are likely to maintain policies that will drive economic activity. The stock market has enjoyed a tremendous rise over the past few years and gains from here might be increasingly dependent on a stock picking rather than index-driven approach to investment. This is by no means an unattractive environment for the equity investor.

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