

Janus Henderson Horizon Japanese Smaller Companies Fund

October 2019

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For professional investors only

Fund manager names: Yunyoung Lee

Overview

The Japanese equity market was strong in October. Like in September, it was fuelled by the announcement of a temporary truce in the US-China trade war. Risk appetite also improved for Japanese smaller companies and the market preferred shares which were at relatively low valuation levels such as electric components, auto parts and chemicals.

It seems likely that downward revisions of earnings guidance for the manufacturing industry were already priced into the market by August. The share prices of three smaller auto parts companies, Keihin, Nissin Kogyo and Showa jumped during the month as a result of an announcement of integration. We may start to see merger and acquisition (M&A) activity among those Japanese small caps struggling with the severe market environment across some industries, especially given the accumulated cash positions of many firms.

Performance and activity

Positive contributors include Nippon Soda (chemicals), Central Glass (chemicals), Nichicon (electric parts), Toa (marine civil engineering), and Life (supermarkets). Nippon Soda's quarterly results reported in August suggested bottoming out in earnings and its share price continued to soar in October as the market expected favourable growth in the chemicals segment fuelled by photoresist materials for semiconductors and materials for lithium-ion battery. Central Glass continued to surge from the low valuation levels as the market appreciated its effort to improve profitability of the glass business. Nichicon, which in our view was undervalued by investors, also increased due to a quarterly results announcement in August which suggested strong sales of household energy storage. Finally, Toa rose on the back of expectations for demand for recovery from typhoons while Life climbed due to steady monthly sales numbers.

Major negative contributors were Isetan Mitsukoshi Holdings (department stores), GMO Financial Holdings (foreign exchange trading), Aiful (consumer finance), Tsukui (nursing homes), and OPT Holdings (internet advertisements). A huge typhoon in October weighed on the sales of Isetan Mitsukoshi's stores while GMO Financial Holdings' monthly numbers were poor.

In terms of activity, we reduced positions in Fujitsu General (air conditioners) and Shochiku (movies) after their share prices jumped following strong earnings results. We also cut positions in Relia (call centers) and Nippon Soda, where we have large positions, as their valuations rose. Elsewhere, we increased positions in GMO Financial Holdings, Life, and Koa (electric parts) as we believe these companies are underappreciated by the market.

Source: Janus Henderson Investors, as at 31 October 2019

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For further information on the Luxembourg-domiciled Janus Henderson fund range please contact your local sales office or visit our website: www.janushenderson.com.

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