



Results analysis: Schroder Japan

Buoyed by a supportive market backdrop and stock selection, SJG outperformed the TOPIX and has followed through on its enhanced dividend policy.

Update
10 October 2025

- Schroder Japan Trust (SJG) has released its annual results for the year ending 31/07/2025, reporting NAV total returns of 6.8% and a share price total return of 5.6%, outperforming the TOPIX's 4.8% return.
- Performance was driven by Masaki Taketsume's emphasis on undervalued companies benefitting from structural change, above-market exposure to small- and mid-caps where governance reforms are taking hold, and positions linked to the AI infrastructure supply chain which are being boosted from growing interest in generative AI.
- Masaki's focus on these high-quality, undervalued companies across the market-cap spectrum, with meaningful participation in Japan's corporate governance reforms, has been central to SJG's long-term success. Under his six-year tenure, the trust has outperformed the TOPIX by 17.9 percentage points (to 07/10/2025).
- Following the introduction of an enhanced dividend policy, SJG distributed 4% of its average NAV over the past year. At the period end, the trust offered a dividend yield of 4.4%, the highest among Japanese equity peers.
- The trust traded at an average discount of 11.7% over the year, ending the period at 12.9%, slightly wider than its five-year average of 11.2%. Over the reported period, the board bought back 1,905,024 shares, representing 1.7% of shares in issue, at an average discount of 12.3%.
- Chairman Philip Kay commented, "We continue to believe that Japan offers one of the most compelling long-term investment opportunities globally. Several developments – including the deepening of corporate governance reforms, rising wages and increased business investment – are combining to support a more resilient and self-sustaining domestic economy. These positive changes are helping companies grow profits, improve returns and become more valuable over time, even as financial markets grapple with heightened global uncertainty."

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Kepler View

The latest results from **Schroder Japan (SJG)** reflect another year of solid progress, with both market and manager delivering in a period shaped by volatility and reform. Lead portfolio manager Masaki Taketsume continues to focus on high-quality, undervalued companies across the market-cap spectrum, targeting those with attractive growth characteristics and meaningful exposure to Japan's ongoing corporate governance transformation. This disciplined approach has supported outperformance of the TOPIX over the past 12 months, despite periods of turbulence following the tariff announcements in April. It has also underpinned SJG's longer-term success under Masaki's now six-year tenure, during which the trust has outpaced the TOPIX by 17.9 percentage points (to 07/10/2025).



Beyond governance reform, Masaki believes Japan's equity market continues to gather momentum, underpinned by broad-based wage growth, steady inflation and rising business investment, clear signs the economy is finally emerging from its deflationary era. Whilst trade tensions and political uncertainty have introduced occasional volatility, we believe the domestic backdrop remains constructive, creating fertile ground for active stock pickers like Masaki.

The trust's portfolio has evolved in line with these structural shifts, particularly the surge in global interest around generative AI and Japan's position as a credible alternative to the US tech sector. We think this has renewed investor attention on Japan's strengths in automation, semiconductors, and industrial software, areas where SJG is well positioned. A new holding in Fanuc, a leader in robotics and factory automation, reflects Masaki's conviction in Japan's technological edge and growing relevance within the AI value chain. Meanwhile, existing positions such as Fujikura and Hitachi performed strongly, benefitting from rising investment in data infrastructure and industrial digitalisation.

Performance was also supported by progress in corporate governance reform, which continues to broaden beyond large caps. Companies are increasingly returning capital to shareholders through buybacks and dividend hikes, including smaller businesses that had historically lagged. Holdings such as Sanki Engineering and Nippon Densetsu Kogyo performed well as improving return policies and tighter capital discipline drove re-ratings. Not all names contributed positively, however, with certain chemical holdings pressured by cyclical slowdowns, and the absence of mega-cap growth names such as Sony and Nintendo modestly detracting.

In our view, Japan's reform story remains a durable and self-reinforcing driver of value. Buybacks and dividends have reached record levels, whilst companies already compliant with the Tokyo Stock Exchange valuation and return on equity thresholds continue to invest in growth and efficiency. Alongside this, domestic demand is strengthening as higher wages and tax-efficient savings schemes encourage household participation, whilst global investors are reappraising Japan as a source of value and diversification.

We also think the trust's enhanced dividend policy adds further appeal, aligning with Japan's growing income opportunity. By committing to distribute 4% of its average NAV each year, SJG not only provides investors with a higher income stream, but also mirrors the positive changes taking hold across corporate Japan. As dividend growth and shareholder returns become more central to the Japanese equity story, SJG's combination of

active stock selection, above market small- and mid-cap exposure and income focus positions it well, particularly for investors seeking diversified sources of income beyond traditional UK or European equity strategies.

Whilst periods of slower progress or external pressures, such as trade or tariff developments, are inevitable, the compounding effect of reform, investment and earnings growth continues to build momentum. Additionally, new political leadership is now underway and whilst it's far too early to call the impact of potential fiscal stimulus, this could be something that supports or stalls progress. That said, we think the long-term structural shifts underpinning SJG's strategy remain firmly in place and the trust is well placed to capture potential of Japan's market evolution, offering investors a differentiated, high-conviction route into a market where structural change and improving fundamentals are driving long-term opportunity.

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