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# Investing in Japan with investment trusts

Investment trusts can help investors benefit from Japan's corporate governance reforms.

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**Schroders**

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In the space of around four decades, we've gone from a world where Tokyo's Imperial Palace was worth more than all the real estate in California combined to one where the \$5.13trn NVIDIA, the largest listed company in America, was, as at 29/05/2026, worth almost as much as the 179 companies housed within the MSCI Japan Index combined, which have a total market capitalisation of c. \$5.19trn.

Japan's real estate and stock market bubble peaked in late 1989, with land values and share prices falling steeply during the 1990s. The Nineties represented a lost decade for Japan, with GDP growing just 1.14% annually – less than a third of the rate it grew by during the Eighties.

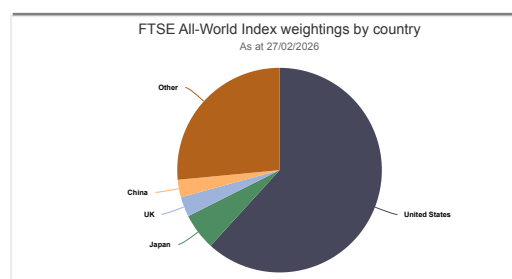
Today, however, things are looking up. The Nikkei 225, Japan's benchmark stock index, finally eclipsed its 1989 record high of c. 39,000 in February 2024. It flattened out over the next 12 months, but has soared since, peaking at just shy of 73,000 in June 2026.

## Why invest in Japan?

### Global importance

When Japan was really in its heyday more than three decades ago, its weighting within global stock markets peaked at c. 42%. Today, it's a fraction of that, at c. 5.8%, but that still makes it one of the key players in the world of investments, as you can see below.

Fig.1: Country Weightings In Global Markets

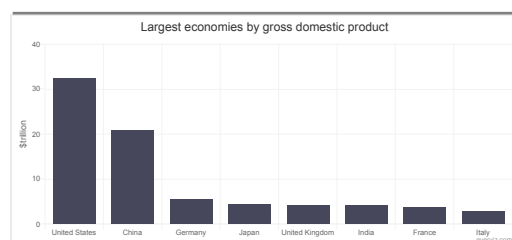


Source: FTSE Russell

The US continues to take up the bulk of the FTSE All-World Index, but Japan is the second-largest country represented in that index. Indeed, Japan accounts for about one-and-a-half times the size of the UK's weighting.

In addition, with nominal GDP of c. \$4.4trn, according to the International Monetary Fund, Japan is the fourth largest economy in the world, narrowly ahead of the UK.

Fig.2: Economic Powerhouses



Source: International Monetary Fund, as of April 2026

With all of this in mind, it makes sense that investors should not only invest in Japan, but that the country should form a key part of their portfolio, particularly if you consider that an all-equity index investor has just over 5% of their cash invested there.

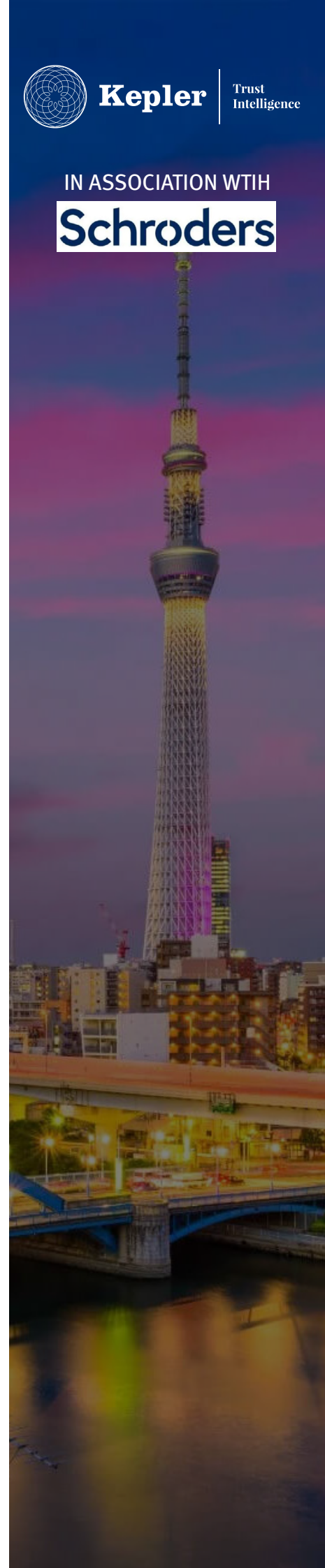
### Cheap valuations

With the Nikkei 225 currently trading around its record high levels, one might be tempted to think that Japanese stocks are overvalued. That is not the case, though.

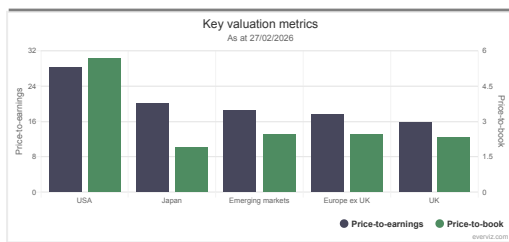
The price-to-earnings (PE) ratio of the MSCI Japan Index was c. 21x on 29/05/2026, and the price-to-book (PB) is a lowly c. 2x. By contrast, the MSCI USA Index is trading on much loftier valuations, with a PE of c. 28x and a PB of a whopping c. 5.9x.

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**Fig.3: Stock Market Valuations**



Source: MSCI

This all suggests that despite running close to all-time highs, Japan's equity market is fairly valued, if not cheap. The fund group Amundi Investment Solutions thinks that the ten-year expected return from Japanese equities in pound sterling terms is 9.8% per year – higher than any other asset class for which it made a forecast.



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## Corporate governance reforms

A key structural driver of Japanese equity markets looking forward is meaningful changes to corporate governance standards, which were instigated by the former prime minister Shinzo Abe shortly after he was elected in 2012, forming part of his economic policies known as Abenomics. While this has been an ongoing push over the past decade, meaningful progress has been made since the turn of the decade.

Historically, Japanese corporate governance standards meant that many firms would retain earnings but not reinvest or pay dividends. They also had cross-holdings designed to prevent corporate takeovers and reduce the influence of 'outsider' shareholders.

Ultimately, these old-guard mindsets needed to change, prompting the introduction of reforms aimed at enhancing the governance standards of listed Japanese companies. These rules emphasised improvements in corporate value, growth prospects and capital efficiency.

The reforms have been enforced indirectly through stock market listing rules, meaning that a company wanting to achieve a top-tier 'Prime' listing on the Tokyo Stock Exchange must adhere to new rules.

For example, companies must have independent board directors if they want 'Prime' status. The result has been that over 90% of companies listed on the Tokyo Stock Exchange now have independent directors, up from only 6.4% when reforms were introduced in 2014.

Similarly, companies must now declare cross-shareholdings and annually assess whether they are appropriate. Another significant rule change requires firms trading below book value to make reforms that will increase that amount and disclose what those reforms are publicly. Failure to do so means losing a prime rating or even delisting.

The goal here is to encourage firms that often sit on large cash piles to either reinvest that money or return it to shareholders via dividends and/or share buybacks.

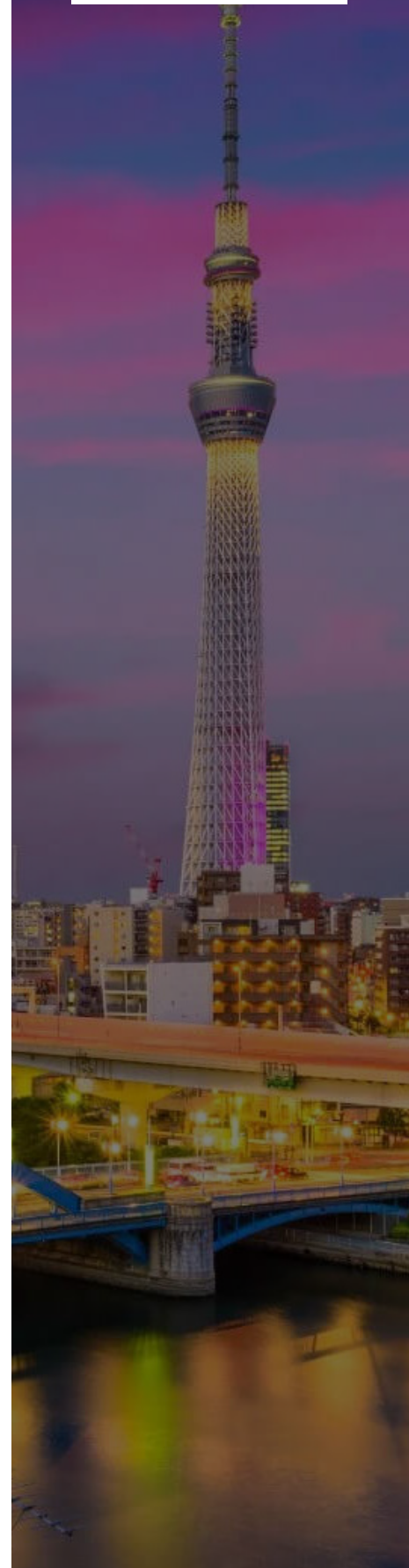
A real step-change in shareholder returns has been observed in Japan, with the combined amount of dividends and share buybacks made by Japanese companies almost tripling from c. 10.5 trillion yen (£54.9bn) in 2013 to c. 33 trillion yen (£154.5bn) in 2024.

## Technological innovation

Japan is a world leader in many industries, and even if its domestic economy has problems, that doesn't mean publicly traded companies can't deliver growth globally. For example, about half of the world's industrial robots are produced in the country. As you might expect, given that stat, the country is a global leader in robotics and automation systems.

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Hence, unlike the UK, where technology stocks account for just 2.4% of the FTSE All-Share Index, Japan has a thriving tech sector. Information technology accounts for 18% of the MSCI Japan Index; while that's around half its weighting in the MSCI USA Index, it's pretty high.

Japan's tech sector is also benefitting from the rising demand for semiconductors and growing enthusiasm around artificial intelligence. The country is home to a host of companies that are well-positioned in these areas and can take a hand in satisfying the growing appetite.

Moreover, manufacturers are seeking to diversify production away from the likes of China and Taiwan due to geopolitical tensions. This is creating new opportunities for Japan to strengthen its presence in the semiconductor space.

Other publicly traded companies share that role in their respective fields and have continued to deliver impressive growth over the last two decades.

Sony and Nintendo, for example, are both among the ten largest video game companies in the world by revenue. Similarly, Uniqlo's parent company, Fast Retailing, has delivered share price returns and earnings growth over the last decade that would not look out of place among the US tech giants.

## ***Why it's hard to invest directly in Japanese stocks***

When it comes to putting all of this into action and investing in Japanese companies, one might find it difficult. That's because accessing Japanese stocks is

much more difficult than some other foreign markets, such as Europe or the US.

A basic problem is that many investment platforms simply don't offer access to Japanese equities. Those that do often have large minimum order sizes and hefty dealing fees, as well as limiting their offering to large caps. With AJ Bell, for instance, you need to deal over the phone with a minimum purchase order size of £10,000.

Aside from these hurdles, individual investors must also contend with some of the idiosyncrasies of Japanese corporate life.

About half of small- and mid-cap Japanese stocks have one or no analyst covering them. Compounding this is the fact that many of these companies don't release financial reports or trading updates in English, although this is changing.

Along with a dearth of third-party English-language information, this makes it difficult to evaluate prospective investments. Active investors are thus left with something of an uphill battle if they want to invest in Japanese stocks directly.

## ***Why invest in Japan with investment trusts***

Japan-focused investment trusts provide a solution to these problems. As London-listed funds, they're easily accessible to individual

investors but still provide exposure to Japanese shares, without any outsized dealing fees or high minimum order sizes.

They are also actively managed, with a portfolio manager, perhaps backed by a team of equity analysts, with strong expert knowledge. This arguably means they're better

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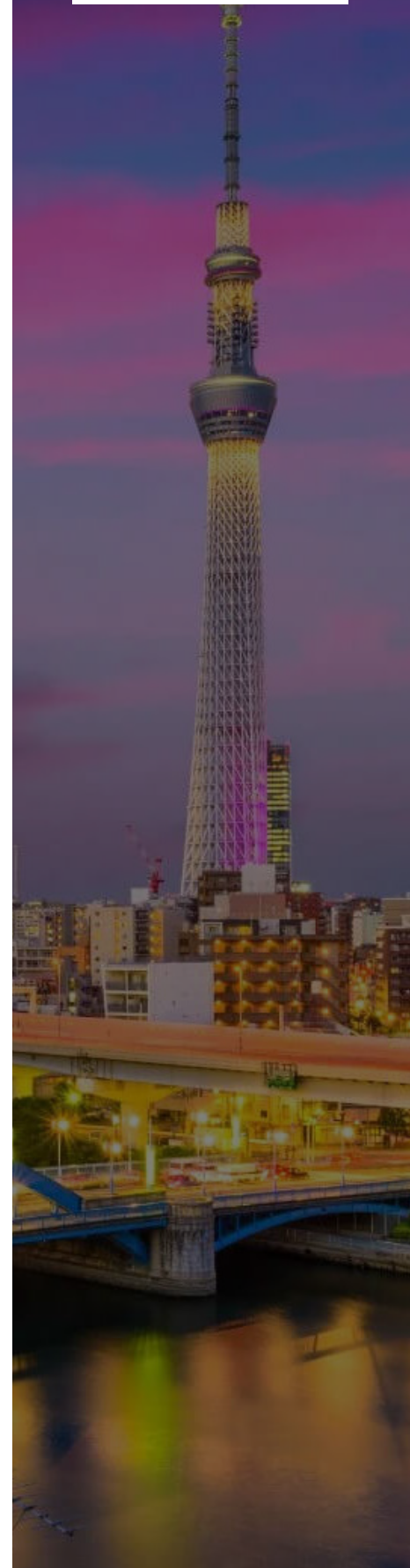


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able to capture the nuances of the local market and identify promising investment opportunities than an individual struggling to run a company's results through Google Translate.

In addition, investment trusts can be selective, which is important in a country like Japan, where the corporate governance improvements are constantly throwing up under-the-radar investment opportunities.

In addition, investment trusts' closed-ended nature, along with their local expertise, also means they can move down the market cap scale to get exposure to companies that large funds may be unable to touch.

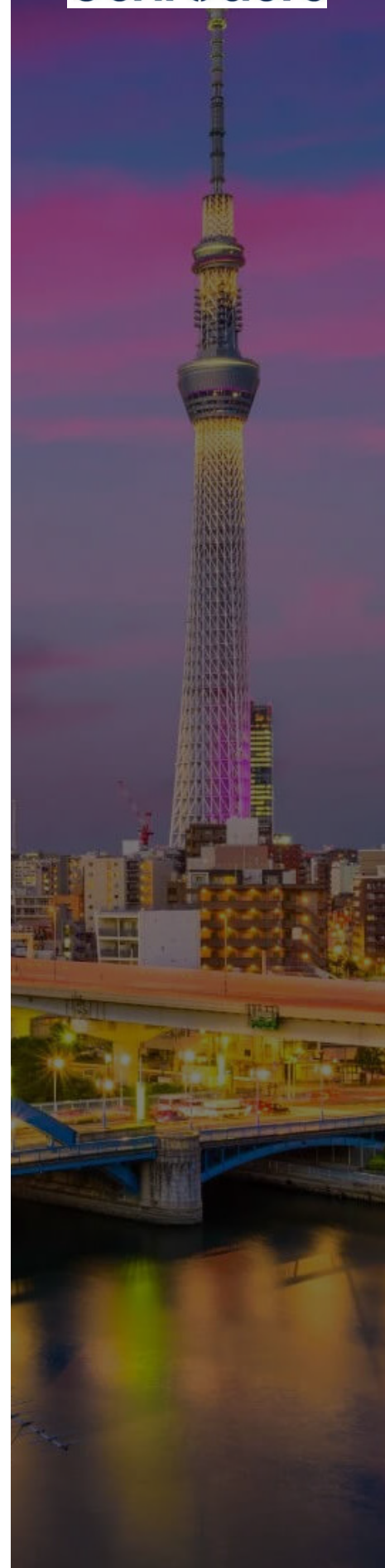


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# Case Study

## Schroder Japan

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**Launched:** 1994

**Manager:** Schroder Investment Management

**Ongoing charges:** 0.95%

**Investment policy:** The trust aims to achieve capital growth from an actively managed portfolio primarily comprising Japanese equities.

**Comparative Index:** TOPIX Total Return Index (GBP)

**Schroder Japan (SJG)** aims to achieve long-term capital growth for shareholders by investing in an actively managed portfolio of companies listed on Japanese stock markets.

Manager Masaki Taketsume takes a high-conviction, bottom-up approach, identifying mispriced and undervalued companies across the market-cap spectrum. He has managed the trust since 2019 and holds a coveted Citywire AA rating. Schroders' extensive on-the-ground resources, including a team of Tokyo-based equity analysts, are a key source of alpha generation across a large universe of nearly 4,000 listed stocks.

In the ten-year period to 24/06/2026, SJG has delivered total share price returns of 264%, putting it well ahead of its AIC peer group average of 195% and the 172% return from the benchmark index.

SJG also features on the AIC's list of ISA Millionaire investment companies: investors contributing the maximum ISA allowance every year since 1999 would have a portfolio worth £1.1 million as at 31/01/2026.

### 1) What is the investment trust's goal?

SJG's goal is to achieve capital growth from an actively managed portfolio of securities listed on Japanese stock markets, with the aim of outperforming the TOPIX Total Return Index in sterling over the longer term.

### 2) What kind of stocks does the manager like?

Masaki is predominantly a bottom-up stock picker, seeking high-quality companies he believes are mispriced by the market. He looks for businesses where management-driven improvements have yet to be recognised, undervalued companies with strong franchises in niche markets and companies whose

valuations have been temporarily depressed by short-term events.

The portfolio spans the full market-cap range, though the manager maintains a notably higher allocation to smaller companies than the benchmark, due to attractive relative valuations and superior earnings-growth prospects to large caps.

The portfolio is also tilted towards domestically focused businesses, reducing exposure to trade and currency volatility, as well as providing access to the world's third-largest consumer economy.

### 3) Are investment decisions driven by a particular investment style?

Masaki leans towards a contrarian value style, seeking companies whose share prices fail to reflect their potential. He favours businesses driven by company-specific factors, such as restructuring, M&A, corporate reform and improved capital allocation, rather than the broader macroeconomic outlook. This focus on avoiding overvalued growth sectors in favour of value-oriented and high-quality stocks has been a key performance differentiator.

### 4) How many stocks does the investment trust typically hold?

The trust holds around 60-70 stocks, running a relatively concentrated portfolio that reflects Masaki's high-conviction 'best ideas' approach.

### 5) What is the investment trust's dividend policy?

SJG aims to pay a dividend equal to 4% of its net asset value (NAV) annually, distributed on a quarterly basis. It should be noted that this policy means the dividend will rise and fall with changes to NAV. The current dividend yield is approximately 3.3%.

### 6) What are the investment trust's ongoing charges?

The investment trust's ongoing charges are 0.95%.

### 7) Does the investment trust have performance fees?

There is no performance fee.

## 8) How much attention does the manager pay to the index, and to what extent are absolute returns important?

While the manager's goal is to outperform the benchmark index in sterling over the longer term, the portfolio is not constrained by it. A high active share reflects the meaningful overweight in small and mid caps, where Masaki sees the greatest valuation upside, and a deliberate underweight in growth stocks, which distinguishes the trust from many of its peers.

## 9) Does the investment trust use gearing and, if so, is it structural or opportunity-led?

The trust can use gearing up to 25% of NAV. In practice, gearing typically runs at around 10-18%, reflecting the manager's long-term confidence in Japanese equities. Gearing is deployed tactically, with Masaki increasing or reducing exposure depending on the opportunity set, particularly in smaller companies.

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