Results analysis: Schroder Japan

A supportive backdrop and strong stock selection have driven SJG's outperformance...

Update
14 April 2025

- **Schroder Japan Trust (SJG) has released its half-year results for the six months to January 2025, reporting NAV total returns of 4.0% and a share price total return of 3.2%, surpassing the TOPIX's 1.4% return.**

- **Ongoing tailwinds from Japan's corporate governance reforms, rising wages and increased business investment supported strong earnings from SJG's underlying holdings. Combined with a favourable market towards value-oriented sectors, where SJG is well represented, Masaki Taketsume's effective stock selection and the impact from gearing contributed to outperformance over the period.**

- **However, Japanese smaller companies—another core area for SJG—generally lagged their larger counterparts, as inflows from overseas investors were concentrated in larger names, acting as a modest headwind for the trust.**

- **SJG's discount widened to 12.3% by period-end, wider than both its five-year average and the AIC Japan sector. In response, the board repurchased 1,617,260 shares—equivalent to 1.4% of shares in issue at the start of the period—at an average discount of 12.5%.**

- **SJG's enhanced dividend policy, unveiled in June 2024, sees it paying out 4% of the average NAV each financial year, broadening its appeal as an income-focussed option. The board has begun declaring quarterly dividends for FY2025, with the first two amounting to 2.82p and 2.89p per share, respectively.**

- **Chairman Philip Kay commented, "The Japanese equity market has performed well over the last couple of years, with the Nikkei 225 surpassing its bubble-era high from the late 1980s... supported by structural improvements in corporate governance and capital efficiency." He also noted: "Japan's economic backdrop remains supportive, with rising wages, increased business investment and positive inflation helping to sustain earnings momentum."**

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Kepler View

We think these are positive results for **Schroder Japan Trust (SJG)**. The Japanese stock market faced a notable setback in late 2024, triggered by an unexpected interest rate hike from the BOJ, which strengthened the yen and sparked the unwinding of yen carry trades. Market volatility has continued in 2025, with tariff-induced uncertainty taking centre stage following President Trump's recent announcement. Whilst developments remain fluid, global markets have been rattled—and Japan is no exception.

Despite market turbulence during the reporting period, manager Masaki Taketsume remained steadfast, maintaining a clear focus on stock selection as the main driver of returns rather than attempting to reposition the portfolio in response to macro or political noise. Over the half year, SJG outpaced its benchmark, delivering NAV total returns of 4.0% compared to 1.4% from the TOPIX Index.

Several portfolio holdings contributed strongly to performance. Notably, Fujikura and Hitachi rallied on growing enthusiasm for generative AI technologies, given their key roles in supporting AI infrastructure and improving power grid efficiency. Holdings like Sanki Engineering and Nittera also advanced, supported by improved capital discipline and significantly enhanced shareholder returns—factors that have helped drive their share prices higher.

However, not all positions added value. Some of SJG's smaller company holdings underperformed, with the domestic environment and volatility-driven flows into large-cap stocks acting as headwinds. Tazmo and Fukushima Galilei were among the detractors. A few larger holdings also faced challenges, particularly where weakening end markets led to reduced demand, inventory corrections, and earnings disappointments. Rohm and Mitsui Chemicals fell into this category, posting weaker-than-expected results.

Still, Masaki has used recent volatility to selectively add high-quality names at what he deems attractive valuations given the upside potential on offer. One example is Fanuc—a global leader in factory automation and industrial robotics—which was initiated during the period. Masaki notes that the company holds a dominant market position in the US industrial robotics market and stands to benefit from rising manufacturing capital expenditure, which could drive stronger earnings growth. Recent share price weakness, linked to concerns around the impact of US tariffs, provided a compelling entry point.

It's now been just over five years since Masaki took the reins as SJG's lead manager and, despite much volatility along the way, the trust has delivered NAV total returns of 45.7%, outperforming the TOPIX by 7.5 percentage points to 10/04/2025. We think this reflects his deep experience and understanding of the Japanese market. Moving forward, we think improvements from corporate governance reforms and the fact value continues to outperform growth, could remain supportive factors for SJG's performance, given Masaki's value-oriented and high-quality investment approach.

We also think it's worth highlighting that the enhanced dividend policy introduced in 2024 has broadened the trust's appeal as an income-focussed option within the Japan sector. Meanwhile, the revamped conditional tender offer mechanism unveiled at the same time provides additional investor protection—underscoring the board's focus on sustaining long-term performance.

Whilst risks persist, including yen volatility, shifting inflation dynamics, external trade pressures and tariff uncertainties under President Trump, we think the long-term case for Japan remains compelling. SJG offers investors differentiated access to this opportunity. With a seasoned manager at the helm, a strong performance track record and a refreshed income policy, the trust is well-positioned to capture the opportunities on offer. At its current 11.4% discount, we believe the trust presents an attractive entry point for long-term investors seeking exposure to high-quality, undervalued Japanese companies with strong recovery potential.

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