

Results analysis: Schroder Japan

- Schroder Japan Trust (SJG) has released its annual results for the year ended 31/07/2026, delivering NAV and share price total returns of 41.2% and 49.0% respectively, well ahead of the TOPIX's 29.3%. This takes Masaki Taketsume's outperformance of the benchmark to 47.7% over his seven years managing the trust.
- Stock selection was the key driver of returns. Ibiden, the largest contributor, rallied as the market recognised its dominant position in the integrated circuits package substrates used in artificial intelligence data-centre chips. JX Advanced Metals and Fujikura also benefitted from their exposure to high-end semiconductor and optical materials, whilst gearing added to returns too.
- The backdrop was supportive, with corporate governance reform, a return to sustained wage growth and inflation, and greater political stability under Prime Minister Takaichi all lifting the market. Masaki's focus on undervalued, well-positioned businesses, particularly among small and mid-caps where valuation anomalies are more pronounced, allowed the trust to make the most of it.
- The discount narrowed markedly, from 12.9% to 8.3% over the year, with the average discount falling to 8.3% from 11.7% the year before. The board bought back 1,750,001 shares, c.1.5% of the share capital, at an average discount of 10.7%.
- Under the enhanced dividend policy, SJG paid out 4% of average NAV over the year, declared quarterly. Dividends for the year totalled 13.34p, up 16.7%, and the shares yielded 3.3% at the year end, which the board notes is significantly higher than any other Japanese investment trust.
- Under the conditional tender offer, the board will propose a tender for 25% of the share capital at NAV less costs if SJG fails to match the benchmark over the five years from 31/07/2024. Two years in, Masaki is 20.8% ahead, leaving a comfortable cushion.
- The board has negotiated a lower management fee from 01/08/2026. The fee is now 0.70% on the first £200m and 0.65% thereafter, charged on the lower of market cap and NAV, down from 0.75% on the first £200m of NAV. Linking the fee to market cap means the manager shares the impact of any discount widening. Ongoing charges also fell to 0.89% from 0.92%.
- Schroders' combination with Nuveen completed on 01/10/2026, creating a global firm with \$2.6 trillion in assets under management and capabilities spanning public and private markets.
- Chairman Philip Kay commented, "Although the strong rise in Japanese equities over the past year might suggest that valuations are no longer as compelling as they once were, we continue to believe that the structural case for investing in Japan remains robust... The current environment is particularly well suited to active stock pickers, and, given Masaki's disciplined and proven approach, we are confident in the opportunity that lies ahead for shareholders."

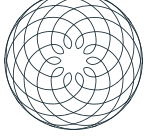
Kepler View

A 41.2% NAV return for [Schroder Japan \(SJG\)](#), well ahead of the TOPIX's 29.3% and the strongest year in the trust's ten-year record, is a result worth celebrating. The market certainly helped. Value and smaller companies were in favour, as rising bond yields supported financials and governance reform spread beyond the largest names. But most of the near 12 percentage-point margin over the index came from stock selection and we think that is what will matter most from here. After a year like this, investors could be forgiven for asking whether the easy money in Japan has been made. In our view, the better question is where the next leg of returns will come from, and the answer lies less in the market and more in picking the right companies within it.

Strong stock selection sees SJG deliver exceptional returns ahead of the benchmark. Josef Licsauer 07 October 2026 [View latest version](#)

That view is shared by the board, which believes the current environment is particularly well suited to active stock pickers. Both the board and Masaki also acknowledge that headline valuations are no longer the bargain they were, and that near-term gains are likely to rely more on earnings growth than on a market-wide re-rating. Masaki's record suggests he is well equipped for that shift, having outperformed the TOPIX by 47.7% over seven years, through weaker years as well as strong ones. We think several factors help his approach stand out.

The first is that the market's re-rating has been far from even. Aggregate valuations now sit towards the upper end of their historical range, but that average masks wide dispersion. The highest premiums are concentrated in the large-cap AI leaders, whilst many small and mid-sized businesses still trade at significant discounts despite the broader rally. Masaki has shown he can profit from AI without paying those premiums, through less obvious beneficiaries such as Ibiden and JX Advanced Metals. Around 70% of the portfolio sits in what he calls



market misperception and market oversight ideas: companies whose improvement, or quality, the market has yet to price in.

Second, corporate governance reform remains the backbone of the case, but it is now separating companies rather than lifting them all. The revised Corporate Governance Code introduced in July pushes companies beyond box-ticking towards better use of capital. The focus is shifting from headline buybacks to unwinding cross-shareholdings, consolidating listed subsidiaries and selling non-core assets. Not every company will deliver but Masaki is finding a number that do among smaller and mid-sized names, as chipmaker Rohm's recovery showed.

The domestic backdrop also helps, though not evenly. Wage growth and persistent labour shortages are squeezing companies that cannot pass on higher costs, whilst those with scarce capacity or genuine pricing power are raising prices and gaining share. General contractor Infroneer is a good example in the portfolio, using tight construction supply to push through better pricing on a strong order book.

AI, meanwhile, is creating winners but also threatening established software businesses. Recent portfolio activity shows Masaki responding to these dynamics, including the sale of software provider WingArc1st on concerns that its software could be replaced. He added video games developer Capcom after a disappointing launch stripped out its usual valuation premium, a classic example of a short-term overreaction, in his view, and also Asahi Kasei, which the market still prices as a generic chemicals company despite its higher-quality mix of healthcare and specialty materials.

Another new holding, plant engineering business Raiznext, combines several attractions: better price pass-through in an inflationary environment, a pipeline of refinery upgrading work and an attractive yield. Toyota Industries shows the other side of active management. Masaki and his team engaged on the take-private bid alongside other investors, and the offer price was subsequently raised. He then sold with the shares trading above the proposed takeover price.

There are risks worth considering too. Investors should note that his valuation discipline means SJG may lag during narrow, momentum-driven rallies, as it did at points this year. Moreover, fiscal credibility is under scrutiny, and this year's sharp rise in long-term yields showed how quickly confidence in Japanese bonds and the yen can wobble. Reliance on imported energy leaves Japan exposed to disruption in the Middle East, US tariffs remain a headwind for exporters, and the AI investment cycle could yet disappoint. In our view, these market risks argue for selectivity rather than avoiding the market, and volatility tends to create the very mispricings Masaki looks for.

Overall, we think SJG offers a differentiated, high-conviction route into a market where structural change is real and the gap between winners and losers is widening. For investors who believe Japan's next leg will be driven by stock selection rather than the index, SJG looks potentially well placed.

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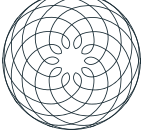
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