



Results analysis: Schroder Japan

SJG continues to outperform the TOPIX under Masaki Taketsume.

Update
17 April 2026

- Schroder Japan Trust (SJG) has released its half-year results for the six months to January 2026, reporting NAV and share price total returns of 18.9% and 27.4%, respectively, outpacing the TOPIX's 15.3% return.
- Outperformance was driven largely by two factors. Firstly, strong stock selection for generative AI related holdings, including JX Advanced Metals, which benefitted from exposure to high-end semiconductor materials. Secondly, improving domestic inflation supported pricing power, driving the share prices of Infroneer and Sanki Engineering higher.
- Set against this, some holdings faced valuation pressure amid rising concerns over potential disruption from generative AI, including IT services company Nomura Research.
- Two interim dividends were declared over the six months to 31/01/2026, both higher than in the same period last year. However, revenue return per share was lower. At the time of writing, SJG offers a dividend yield of 3.4%, the highest in the AIC Japan sector.
- SJG's discount narrowed to 6.7% by period-end, reflecting strong performance and growing traction in its enhanced dividend policy. Over the six-month period, the board repurchased 991,813 shares, equivalent to 0.9% of shares in issue at the start of the period, at an average discount of 9.7%.
- The board has announced a future change to the fee structure, effective 01/08/2026, with management fees to be charged on the lower of NAV or market capitalisation. This is beneficial when the trust trades at a discount, reducing fees for shareholders. The headline rate will fall from 0.75% to 0.70% on the first £200m, with 0.65% above this level.
- Chairman Philip Kay commented, "Investor sentiment is likely to remain sensitive in the near term given ongoing geopolitical tensions and continued debate around the durability of the AI investment cycle." He added: "Despite this, the Board continues to view the outlook for Japanese equities positively, supported by corporate governance reforms, improving capital discipline and the gradual shift away from deflation."

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Kepler View

Schroder Japan's (SJG) latest results come against an increasingly constructive backdrop for Japanese equities, albeit one that is becoming more nuanced. Whilst performance has remained strong, the drivers are evolving, with returns now less reliant on broad market re-rating and increasingly dependent on structural themes, earnings delivery and stock selection. In this context, we think the trust's positioning is well aligned with the broader evolution of Japan's investment case, where active management can make a real difference.

Whilst value and smaller companies provided a supportive tailwind, outperformance was ultimately driven by stock selection within key evolving themes. Corporate governance reforms are increasingly translating into improved capital allocation and shareholder returns, whilst the shift away from deflation is supporting a more durable earnings backdrop. At the same time, structural themes such as AI, automation and defence are broadening beyond headline beneficiaries, creating opportunities further down the value chain where



valuations remain more attractive. Importantly, the portfolio has benefitted from these dynamics without relying on the most obvious or crowded areas of the market.

For example, within AI, Masaki has focussed on underappreciated enablers such as JX Advanced Metals. This reflects his broader, valuation-aware approach, favouring second-order beneficiaries over more crowded ‘proxy’ trades, which we think allows the portfolio to access structural growth via differentiated avenues, often without paying the premium attached to widely owned names.

There are, however, some near-term considerations. Valuations across the Japanese market have moved higher, and global uncertainties, including geopolitical tensions and questions around the sustainability of AI-related investment, may drive periods of volatility. SJG’s positioning, particularly its exposure to smaller companies, could see performance fluctuate in such an environment, especially if market leadership shifts back towards more growth-oriented areas.

That said, we think the underlying case remains compelling, particularly in light of the current discount. Having narrowed to c. 2.8% at the start of the year on the back of strong performance and growing income appeal, SJG’s discount is now c. 11.7% which, in our view, looks overly wide. The portfolio offers differentiated exposure to a market undergoing structural change, supported by its focus on underappreciated, second-order beneficiaries and a meaningful allocation to small- and mid-cap companies, where stock selection can be particularly rewarding. Alongside this, SJG offers the highest yield in the sector, broadening its appeal beyond traditional income markets such as the UK and Europe. The recent fee changes and increased marketing budget are also notable and may help support demand over time. Taken together, we think SJG represents a differentiated and potentially mispriced way to access Japan’s evolving equity story.

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