

United Japan Discovery Fund

As at 31 July 2022

Performance Update

For the month of July, the Fund registered a returned of 4.58%, which outperforming its benchmark of 3.34%. Last month, the top performers are Nihon M&A Center Holdings, Mani Inc, and SB Technology Corp.

By sectors, Marine Transportation, Services and Precision Instrument outperformed, while Insurance, Electric Power & Gas and Air Transportation underperformed.

As for size performance, large caps slightly outperformed. The return of TOPIX SMALL Index was 3.57% for last month while that of TOPIX Large 100 Index was 3.88%.

Looking at the MSCI Japan style indexes, large-cap growth stocks performed best, while small-cap growth stocks also started to outperform late in the month.

Our portfolio is well diversified with roughly 90 names. There have been no significant changes in sector allocation of the portfolio compared with the previous month. We have large exposure to Information & Technology sector such as software developers and system integrators, since we have been seeing the promising growth of the industry. This trend has accelerated triggered by COVID-19 pandemic and the demand for further DX (=Digital Transformation) in Japanese society. We also have a large position in staffing services companies in industrials sector, which could provide great solutions to Japanese companies. In the aging society like Japan, securing enough workforce is a big challenge for all the companies. Particularly, the demand for human resource with digital background is becoming stronger with DX expectation. Staffing service companies which are capable to meet such needs could benefit from the long-term social structural change in Japanese society.

Market Review on Japanese Equity Market

In short term, Japanese stock markets are likely to remain volatile for a while influenced by overseas factors such as economic indicators, inflation data and monetary policies in the US.

However, there are some differences in monetary/ fiscal policies and directions of economies between Japan and the US/ Europe. In addition to divergences in inflation levels and monetary policies, Japan has an advantage of the weak yen as well as a larger room for the economic recovery from the coronavirus pandemic. Once market participants acknowledge these strengths of Japan, Japanese stocks should start to turn upward.

Major Change in Allocation

In July, there were no new holdings.

Message from the Portfolio Management Team

One thing we noticed recently looking at manufacturing companies' business results, is that inventory has sharply increased among many of them. It suggests that the companies worried about shortage of raw materials and parts and were pressed to secure them for full production. Rise in inventory is negative from a cash flow perspective. Increase in inventory by companies can be a factor that have led to material shortages and price rise. Furthermore, they may possibly face losses from inventory revaluation if the supply shortage of components is resolved with economic slowdown. Nobody knows what will happen in the future, but it seems better to at least recognize it as a "risk".

Stock Commentary

Stocks	Sector	Remarks
Nihon M&A Center Holdings	Services	<ul style="list-style-type: none"> The company is an M&A advisory firm especially for SMEs. Japan has falling birthrate and depopulation. In this society, a lot of SMEs are facing lack of successor. The revenue of the company has increased amid this structural change. The company is one of the typical growth names in Japan, and we saw buy-the-dip demand from the late June and the whole July, backed by the receding concerns of a further hawkish stance in the U.S. that lead to the rebound of growth stock
Mani Inc	Precision Instruments	<ul style="list-style-type: none"> MANI is a Japanese manufacturer of dental instruments and medical devices including surgical needles and surgical knives for eye surgeries. The company announced its Q3 (Mar. 1st 2022 – May. 31th 2022) earnings results with cumulative operating income up 6.4% y-o-y, and an upward revision of its full-year earnings forecast up 15.0% y-o-y. The favorable earnings driven by a recovery in demand from overseas together with the weak yen, has boosted its share price. Also, the announcement of a dividend increase was also favored by the market.
SB Technology Corp	Information & Communication	<ul style="list-style-type: none"> The company provides various IT solutions such as cloud system, security, internet of things and big data. The name is expected to benefit from the future trend and growing demand for Digital transformation (DX). Its strong-than-expected quarterly earnings result (April-June), which recorded historical high quarterly figures, triggered the rally of the company's share price.

Fund Classes**Fund Classes**

MYR Hedged Class

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