

United Japan Discovery Fund

As at 30 June 2022

Performance Update

For the month of June, the Fund registered a returned of -2.21%. Last month, the top performers are Sanwayuka Industry Corp, Totetsu Kogyo Co Ltd, and Monogatari Corp.

By sectors, low-beta, defensive sectors such as electric power & gas, fishery, agriculture & forestry, textiles & apparel, foods, and construction outperformed. On the other hand, economic-sensitive and foreign demand-oriented sectors, such as marine transportation, mining, iron & steel, electric appliances, and precision instruments, underperformed.

We will continue to overweight non-cyclical stocks, especially, Services & Information, and Communication sectors, because they can show steady earnings growth regardless of phases of economic cycles. Although the YTD market was not favorable for our strategy, our portfolio will not be changed following a short-term market trend. The most important factors are corporate fundamentals and valuations, and it is our strategy to take mid-to-long term investment approach to enjoy sustainable return. Sometimes market fluctuates, not reflecting the corporate fundamentals, but we believe the stock prices move in line with change in fundamentals from the mid-to-long term perspective.

Our portfolio is well diversified with roughly 90 names. There has 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 June, there were new holdings.

1. Toyo Gosei Co Ltd

The chemical manufacturer shows strength in synthesis and high-purification technology. It has 50% global market share and is a top level producer of photosensitive materials for semiconductors and LCD. The market share is expected to further expand on the backdrop of a stronger demand for speed and capacity of semiconductors.

2. Mec Co Ltd

The company manufactures and markets surface etching chemicals. It is a global leader of copper surface roughening agent for printed circuit boards. The technology is used for the state-of-the-art substrates for semiconductor package of PCs and smartphones. The stock valuation is cheap with massive selling.

3. Roland Dg Corp

A manufacturer with top global share of commercial use printers for sign & display industry. It also commits to 3D printers for small companies and dental use, which is expected to further expand. We also anticipate earnings increase in favor of JPY depreciation

Message from the Portfolio Management Team

Japan has restarted to accept foreign tourists since June. We think that the effects on economy and corporate earnings are still very limited because of the strict rules such as the limit on number of tourist acceptance. However, before the pandemic, 1% of Japan GDP was from the consumption by foreign tourists, so it has a large impact for Japanese economy and corporates' earnings if the rules become looser and easier.

We hope that the recovery of incoming foreign tourists is gradual, consumption per tourist may highly increase due to cheap JPY. Besides the tourists' spending, the depreciation of JPY would stimulate and activate "Every Investment" from abroad again, mostly in the undervalued Japanese stocks.

Stock Commentary

Stocks	Sector	Remarks
Sanwayuka Industry Corp	Chemicals	<ul style="list-style-type: none"> The company had been engaged in the manufacture and sale of oils and chemicals for the automobile industry, and entered the organic solvent recycling business in the 1990s. Currently, the company's main business is the recycling of used chemical products and the sale of reusable and recyclable products. Increasing environmental awareness among corporates is expected to contribute to improve the company's business performance. High growth rate of the company is expected in FY2022-23, partly due to new demand expansion for chemical products. Kimura PM newly purchased the name just in May, and accumulated the position at the beginning of June. Then, the stock skyrocketed by more than 50% from the middle of June. We believe it reflected his strong stock picking ability
Totetsu Kogyo Co Ltd	Construction	<ul style="list-style-type: none"> TOTETSU KOGYO is a general contractor specialized in railway related constructions. Main area of business is railway track maintenance/construction, civil engineering (tunnels, highways), architectural design/construction (residential/commercial buildings), and environment related business. Their main profit comes from railway track related business from JR East.

		<ul style="list-style-type: none"> • Financial result for the company sales decreased by 13.7% and the operating income decreased by 47.8% comparing with FY21/20, due to the reduction in the unit price of orders from JR East, and the restrained order volume under COVID-19. • However, in reality, JR East's investment for maintenance and renewal of transportation services in FY22 is over 576 billion yen (+ 23.0%). • Recent earthquake in Fukushima should affect such expenses to rise. • Considering the business environment, the company is expected to exceed its conservative earnings guidance in FY22. • Upgraded recommendation by sell-side analyst is also a headwind.
Monogatari Corp	Retail Trade	<ul style="list-style-type: none"> • Monogatari Corp is an operator of Japanese restaurant chain. • It operates approximately more than 570 restaurants in Japan and China, mainly suburban roadside restaurants, with more than 15 restaurant brands, including Yakiniku (Japanese BBQ), Ramen, Sushi and Shabu-shabu. • Preliminary data announcement of net sales result of May 2022 was a trigger for its rise in price. • They have exceeded the previous year's results for 6 consecutive months. • All business areas (Yakiniku, Ramen, Okonomiyaki etc.) showed positive sales growth. • Also, since they run typical Japanese food restaurants that could attract foreign tourists, bordering expectation is positive in the long-term

Fund Classes

Fund Classes

MYR Hedged Class

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