

United Japan Discovery Fund

As at 31 October 2022

Performance Update

For the month of October, the Fund registered a returned of 3.48%, which outperforming its benchmark of 3.34%. Last month, the top performers are Mani Inc, Toyo Gosei Co Ltd and Digital Information Technology.

This is the consecutively fourth month for the positive excess return. The contributors are mainly the sector selection in IT and Consumer Stable. While stocks selections were minus due to the size preference to large cap this 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

Japanese equity market rose in October. The market started with a firm tone as 1) the UK government has scrapped its income tax plan which led to widespread expectations that financial market turmoil would subside, and 2) the weaker-than-expected US ISM indices and RBA's slower interest rate hike eased monetary tightening concerns. After that, the US market continued to be weak time to time as US CPI was higher than estimated. However, it rose significantly as the economic magazine report led to prevailing expectations of slower pace of rate hikes. Japanese stock market rose following the US, and was also supported by a large-scale economic measure by the government. Sector wise, Rubber Products, Mining and Marine Transportation outperformed, while Pulp & Paper, Foods and Fishery, Agriculture & Forestry underperformed.

Major Change in Allocation

In October, there were new holdings.

1. TDC Soft Inc.

An independent system integrator strong in financial industry. They promote high value-added strategy such as agile software development, cloud and security services.

2. Fukoku Co., Ltd.

A manufacturer of rubber products specialized in automobile businesses. Their main products, wiper blade drivers, occupy 50% global market share. They have assigned a non-founder CEO in 2020 and have been implementing belt-tightening measures and improving profitability.

Message from the Portfolio Management Team

In October, we went on an overseas business trip for the first time in three years. We were able to talk to people via web during Covid, but people react differently when meeting face to face., Haneda airport is coming back to life with people travelling in-and-out of the country. Japan still remains very popular for tourism. The Japanese services seem quite impressive for people from other countries such as shoe store clerks get on their knees to measure your shoes, and conductors give you bows when they get on and off compartment of Shinkansen which are taken for granted for Japanese. Prices in Japan, including “Services”, are now cheaper by 20%, 30%, or even 40% depend on the country compared to those before Covid because of the rapid JPY depreciation. Although there are fears of a global downturn due to rising prices, we believe that the news of cheap prices in Japan will attract the overseas investors as the number of overseas tourists visiting Japan will sharply increase next year.

Stock Commentary

Stocks	Sector	Remarks
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's share price jumped as much as 19% on 12th October after its strong earnings announcement with a strong-than-expected 15.3% YoY increase on the operating profits as well as a dividend increase.
Toyo Gosei Co Ltd	Chemicals	<ul style="list-style-type: none"> 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 stock was overcorrected in 2022 with its share price fell by over 50% despite its solid earnings. In October, we saw its share price rallied supported by buy-the-dip demand. (We initiated the name in June, last month is was the top detractor)
Digital Information Technology	Information & Communication	<ul style="list-style-type: none"> The company is a system integrator. Their main business is to develop customized business software mainly for financial institutions. They also provide manufacturer clients with customized software embedded in various devices such as for in-vehicle and mobile. The company was favored by the market where investors look for names that can benefit from the increasing software demand under the re-opening situation of Japan

Fund Classes

Fund Classes

MYR Hedged Class

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