

United Japan Discovery Fund

As at 31 May 2022

Performance Update

For the month of May, the Fund registered a returned of 0.10%. Last month, the top performers are F&M Co Ltd, Piolax Inc and Digital Information Technology.

By sectors, cyclical and energy sectors such as marine transportation, mining, oil & coal products have been outperforming since the beginning of 2022. On the other hand, Pulp & paper, Fishery, Agriculture & Forestry which were the sectors vulnerable to a weak yen and souring oil price; and Services sectors which includes high valuation growth stocks, have underperformed.

Market Review on Japanese Equity Market

Japanese equity market rose in May. In the first half of the month, the market remained weak as 1) the employment statistics and CPI (Consumer Price Index) reconfirmed inflationary pressures and 2) the U.S. FOMC's (Federal Open Market Committee) 0.5% rate hike and asset sales raised global concern about monetary tightening. The prolonged situation in Ukraine also weighed on the market. Since then, however, with the end of Japanese major company results announcement, the market turned upward in increasing expectations for the effects of resuming economic activities due to 1) China's announcement to lift the lockdown in Shanghai and to reduce the base lending rate on housing loans and 2) the resumption of foreign tourist arrivals in Japan.

Sector wise, Marine Transportation, Mining & Oil and Coal Products outperformed the market, while Pulp & Paper, Fishery, Agriculture & Forestry and Services underperformed.

Major Change in Allocation

In May, there were new holdings.

1. Sanwa Yuka Industry

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.

2. E-Guardian Inc.

A comprehensive Internet security company that protects the safety and security of the network. Its main focus is on monitoring online posts (inappropriate videos, fake news, slander, etc.) and on user support (in games, e-commerce, free market, auction sites, etc.). Stable growth of business performance is expected as demand increases.

Message from the Portfolio Management Team

The financial result announcements for the fiscal year ending in March are already over, but since late April, we participated in a lot of financial results briefing sessions every day, and we have conducted company interviews. The main reason for the profit decline of company is due to increase in raw material and energy prices. As the prices of raw materials and energy rose further in the wake of the Russian invasion of Ukraine and the impact of the lockdown in Shanghai, many companies forecast a scenario that they will see a sharp decline of profit especially in April-June, and recover after that as the price pass-through proceeds. Therefore, in the next announcements of

companies' forecast around in August, it may be reported that the performance will not be good. However, we think the companies made a conservative forecast due to uncertainties for the future.

Stock Commentary

Stocks	Sector	Remarks
F&M Co Ltd	Services	<ul style="list-style-type: none"> F&M is an information technology company. The company provides accounting software designed for Small and Mid-Size Enterprises (SMEs) and self-employed laborers. Also, they provide consulting service for SMEs to improve their back office operation. The share price soared as the market favored its stronger-than-expected earnings result for FY2022 where 82.4% YoY increase in consolidated ordinary profit was confirmed. The announcement of its dividend increase also supported its share price. PM Kimura trimmed the position for profit-taking after the share price had risen.
Piolax Inc	Metal Products	<ul style="list-style-type: none"> The company is a manufacturer of metal products. Its main products are springs, and it also manufactures automotive parts as well as lifestyle equipment, medical equipment, and security products. The share price skyrocketed by around 30% in one day after surprising announcement of large dividend increase from 25 yen to 60 yen which attracted the dividend hunting investments.
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 stock price rose on the back of its strong-than-expected earnings results and the announcement of a dividend increase.

Fund Classes

Fund Classes

MYR Hedged Class

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