

United Japan Discovery Fund

As at 30 September 2022

Performance Update

For the month of September, the Fund registered a returned of -3.86%. Last month, the top performers are Gakujo Co Ltd, Computer Engineer & Consult and BIC Camera Inc.

The market started in a mixed mode. While the prospects rose for further rate increase by US and European central banks, concerns over excessive inflation receded with oil price fall. In the latter half of the month, relaxation of border control has given hopes for the Japanese economy. However, Japanese stock market turned into risk-off mode, as US stock markets tumbled responding to higher-than-expected US CPI figures. Then, it further declined along with global equity markets due to rapid rise in long-term rates in the US and Europe because of FOMC's judgment of continuous tightening and concerns over financial deterioration in the UK by its large scale tax cuts.

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

Kimura PM said they don't think it's a good idea to write something sensuous here, but they I sense a positive trend in Japanese small cap equities. First, as they wrote here last month, Japanese economic situation looks better than other major countries and now we see a rapid easing of Covid restrictions. They can expect a catch-up economic effect from the lag to other major countries. Secondly, global economy is currently worried to deteriorate. Compared to the stocks that benefit from overseas demands, domestic demand related stocks, that share a large portion of the Japanese small cap universe, are in an attractive position to enjoy the environment. Adding to that, when they check the price actions of recent IPO stocks, the retail investors who deals Japanese emerging stocks like TSE Growth shares, which have experienced a sharp fall since late last year, seem to have come back in the market. All that is left is the foreign investors' money to flow in, hopefully when they recognize the economic situation and stock market movement in Japan. Of course there are risks that inflation and monetary tightening could retract the risk money and might call off the "positive trend". However, they believe the "positive trend" is right in front of them.

Major Change in Allocation

In September, there were no new holdings.

Message from the Portfolio Management Team

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Stock Commentary

| Stocks | Sector | Remarks |
|----------------------------|-----------------------------|---|
| Gakujo Co Ltd | Services | <ul style="list-style-type: none"> The company provides employment information for new college graduates and for people seeking career changes. The share price of the stock rallied 7% in one single day and maintained its upward trend till month end. According to the earnings announcement, the company reported a 17.5% increase in sales and a 17.2% increase in operating income backed by the accelerated recovery of hiring from the companies that had suspended hiring due to COVID pandemic. The strong earnings and reopening trend were well favored by the market. |
| Computer Engineer | Information & Communication | <ul style="list-style-type: none"> Computer Engineer & Consulting is an independent computer software development company which installs and manages corporate IT systems as well as provides maintenance services for network. It also develops and sells packaged software. The company's 1H (February-July) earnings results, announced on September 9, showed a large increase in operating profit. In addition to that, the company also announced an increase in its dividend forecast for the current fiscal year (40 yen to 45 yen), which attracted favorable buying |
| Consult and BIC Camera Inc | Retail Trade | <ul style="list-style-type: none"> Bic Camera is the operator of a chain of consumer electronics retail stores offering a wide variety of products such as electronics, medicine, cosmetics, daily necessities, home appliances, and other products. The famous consumer chain, which is expected to take advantage of the current weak yen situation and the inbound tourism following the further easing border control announced by PM Kishida, saw a strong rebound of its share price. |

Fund Classes

Fund Classes

MYR Hedged Class

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