SHINING A LIGHT ON THE……
Legg Mason IF Japan Equity Fund

AT A GLANCE

Investment Objective
The Fund seeks to achieve its capital growth objective by investing principally in the securities of Japanese companies, which have above average growth prospects relative to the shares of Japanese companies as a whole. The Fund may also invest in other investments, to the extent permitted by the FCA Rules, as applicable from time to time and as explained in the Prospectus.

Inception Date	28/10/1996
Fund Factsheet Link	http://www.morningstar.co.uk/uk/funds/snapshot/snapshot.aspx?id=F0GBR04D85

Management	
Manager Name	**Start Date**
Hideo Shiozumi	22 October 1996

Investment Style Details	
Equity Style	
Market Capitalisation	**% of Equity**
Giant	4.78%
Large	21.54%
Medium	61.29%
Small	10.64%
Micro	1.76%

Top 10 Holdings		
Total number of holdings	42	
Assets in Top 10 Holdings	53.50%	
Name	**Sector**	**% of Assets**
Nihon M&A Center Inc	Financial Services	9.63%
PeptiDream Inc	Healthcare	7.12%
M3 Inc	Technology	6.36%
Start Today Co Ltd	Consumer Cyclical	6.07%
OUTSOURCING Inc	Industrials	4.95%
Nintendo Co Ltd	Technology	4.72%
SMS Co Ltd	Technology	4.41%
Welcia Holdings Co Ltd	Consumer Defensive	3.68%
GMO Payment Gateway Inc	Industrials	3.32%
Persol Holdings Co Ltd	Industrials	3.32%

Volatility Measurements	
3-Yr Std Dev (volatility)	20.68%
3-Yr Mean Return (average)	33.81%

FUND PERFORMANCE

Performance from 1 January 2012 to 31 October 2017:

	2012	2013	2014	2015	2016	2017
Legg Mason IF Japan Equity Fund	8.63%	63.65%	-1.35%	49.35%	28.69%	25.22%
DBXT MSCI Japan ETF	3.73%	24.61%	0.07%	14.20%	23.48%	11.54%

Performance over 12 months, 3 years, 5 years and since launch:

	1 year	3 years	5 years	Since launch
Legg Mason IF Japan Equity Fund	10.18%	139.61%	276.28%	526.27%
DBXT MSCI Japan ETF	8.67%	52.94%	110.23%	-

You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well as rise. The total return reflects performance without sales charges or the effects of taxation, but is adjusted to reflect all on-going fund expenses and assumes reinvestment of dividends and capital gains. If adjusted for sales charges and the effects of taxation, the performance quoted would be reduced.

UPDATE….

The fund was established in 1996 by Hideo Shiozumi, who continues to manage the fund today. He has over 47 years investment experience within Japan. The fund has a great track record so meeting Hideo was a chance to understand his process and what he invests in. Hideo also indicated that he wants to continue running the fund for at least another 3 years which would be 50 years' experience and beyond that he cannot say. With that in mind, it would be necessary to understand the succession planning for the fund which wasn't something we covered.

Hideo started by explaining that this is a high conviction growth fund focusing on new Japan. The fund is not driven by large exporters which are sensitive to currency, and tend to be more about 'old Japan'. He likes to find companies that are in early stages of development and then hold them. Many holdings have been kept for 7 or 8 years, and some for much longer. His view is that patience will deliver the long-term returns. The top ten represents just over 50% of the fund.

The fund itself invests around three main themes; healthcare (38%), internet related (31%) and other (outsourcing businesses, HR businesses etc) (20%). This is where he sees growth in Japan moving forward. He feels Japan is moving into a third bull phase which could run for 2 to 3 years, and these stocks will benefit from this market.

Abe winning the recent election has accelerated reforms, especially in the workplace. There is an expectation that both regular and non-regular workers will receive the same pay, there will be a cap on hours worked and more female participation meaning childcare for children. With pay reviews being encouraged, this should get people to spend. Inflation has risen for nine straight months and is now at 0.5%. This is still below the target inflation of 2% but is heading in the right direction.

As wages increase, and more people participate in the work force then people will spend, and this pushes up inflation.

Challenges for the fund will come from the stock market, which needs to be more domestic focused. Currently it is export focused so is sensitive to the global markets and the movement in the yen. With the reforms coming in this should happen over time which will help the Japanese economy.

We discussed whether the market was overheating, and Hideo explained that much of the growth in 2012 was on the back on expectations around Abe. The growth today is based on real growth. The market itself is still half its previous level in the 1980's, so even going up another 10,000 points would make it cheap especially compared to other markets like the UK, Germany and the US. In terms of the companies they hold, these have been in the portfolio for many years, so they have achieved year on year growth.

When selling a company within the fund, it depends on factors like whether it has reached its fair value, or perhaps fundamentals have changed such that it is no longer a good proposition.

We talked about the Japanese mind set and that remains a challenge. 50% of all money is still held in banks which will take time to change. But there are gradual changes, and this should accelerate over time.

One other positive for the fund is tourism which is up 20% this year; with visitors from China and Vietnam coming to buy cosmetics etc.

In summary, this fund is different to many Japanese Funds with a focus on new Japan. Their view is that they will benefit more from Abe's leadership. Japan has challenges; debt, an aging population and declining workforce to name just a few. But with the recent victory by Abe there is more optimism, and this seems to be backed by solid growth in companies, which continues to present opportunities. They expect to cap the fund at around £1 billion; currently it is around £700 million. With new inflows they would expect to increase existing holdings first, before looking to add new stocks. The currency hedging doesn't seem to be a challenge with this fund so this could act as a blend or standalone investment.

The source of information in this note has been provided by Legg Mason and is correct as at November 2017. These are notes from meeting the fund manager or representative and should not be seen as a recommendation to purchase any fund mentioned. Any reference to shares is not a recommendation to buy or sell. Should you wish to make a decision based on these notes we cannot take responsibility for this and you should carry out your own research before making a decision. We would also recommend that you receive advice before following up on any decision.