

# Janus Henderson Horizon Japanese Smaller Companies Fund

Q2 2019

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For professional investors only

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## Overview

Japanese small and large caps declined over the quarter. The markets were somewhat volatile as they reacted to Chinese economic indicators, developments in the US-China trade war and the US interest rate outlook.

Positive sector contributions in the small cap index were mixed. Some cyclical industries such as mining and marine transportation, along with those focused on domestic demand (communication and real estate) outperformed. Among the uncertainty in the market, share buybacks hit a record high in the period on the back of a revision to the corporate governance code, cash accumulation, and valuations being at low levels for many Japanese companies.

## Performance and activity

Positive contributors included Relia (call centres), Zuiko (diaper manufacturing machines), Fujitsu General (air conditioners), Nissin Electric (electrical equipment), and Kadokawa (internet). Relia reported strong earnings guidance reflecting an improvement in profit margins in its domestic call centre business. Zuiko surged from its low valuation level after it reported good earnings guidance which suggested a recovery from its earnings downturn. Fujitsu General benefited from the weak copper market, which is the main raw material for the company, and hot weather in India and Europe. Nissin Electric's share price surged from a low valuation level due to a better-than-expected earnings outlook supported by steady demand for electrical equipment and flat panel display (FPD) manufacturing equipment, while Kadokawa surged after its management announced a restructuring plan for its unprofitable businesses. We sold the entire positions in Nissin Electric and Kadokawa as valuations increased.

Major detractors included Aiful (consumer finance), Toppan Forms (business process outsourcing), Nichicon (electric parts), Futaba (electric parts), and Tokyo Steel Manufacturing (construction steel). Although Aiful's cash outflow due to the Kabarai payment (a repayment of excessive interest charges) has gradually decreased, the pace was below expectations. In addition, its consumer finance business in Thailand reported poor performance. However, Aiful is penetrating market share in Japan's consumer finance sector and we believe Aiful is underappreciated by the market. Toppan Forms declined after the announcement of weaker-than-expected earnings guidance, however the share price rebounded at the beginning of July.

We added positions in GMO Financial Holdings, Life, Shochiku, and Topy Industries. Life's share price jumped after it announced a business tie-up with Amazon for an online grocery delivery service in May. However, its share price declined due to negative outlook on the tie-up. We added the position as we believe the market underappreciates Life's growth potential and improving profitability, driven by higher sales of private brand and use of food processing centres.

## Outlook

The revision of the corporate governance code in 2018 should lead listed companies to focus more on improving their return-on-equity. As a result, investors are demanding more action on corporate governance and shareholder returns with a record number of companies receiving shareholder proposals ahead of annual meetings this year. The amount of buybacks have also hit a record so far in 2019. We have confidence in improving corporate governance and the rewards reaped by shareholders going forward.

Source: Janus Henderson Investors, as at 30 June 2019

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For further information on the Luxembourg-domiciled Janus Henderson fund range please contact your local sales office or visit our website: [www.janus Henderson.com](http://www.janus Henderson.com).

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