Janus Henderson Japan Opportunities

Fund Research Centre
Recommended

Why we recommend the fund

- This Recommended fund is managed by a thoughtful manager with the support of two experienced colleagues, as well as the firm's broader resources, including the Central Research Team.
- In a sector that has its fair share of highly stylised funds, the manager is very intent on offering a high conviction fund that does not suffer the extremes of risk/return outcomes. He is highly risk-aware and considers the composition and overall shape of the portfolio carefully.
- The fund benefits from the flexibility of a small decision-making team that is backed by the resources of a global asset management firm.

Key characteristics and expected outcome

- The bottom-up process targets quality stocks and mis-priced opportunities from across the market-cap spectrum, although in aggregate, the fund has a larger-cap bias. There is no structural style bias, and the fund resides in the "core" space, albeit with a tilt to "quality growth".
- Whilst favouring a concentrated portfolio of best ideas, the manager is highly aware of the fund's risks compared to the index. With this in mind, tracking error is monitored closely, both at the individual stock level and the overall portfolio level.
- In addition, he takes care to ensure that individual themes and/or factors do not dominate the fund's risk/return outcome.
- Performance is most likely to struggle when good company fundamentals and attractive valuations are overlooked, and when growth or value style factors within the market are very dominant.
- The fund is suited to investors seeking a concentrated yet risk-controlled approach, where stock selection decisions drive the success of the strategy. It can play a core role within a Japanese equity allocation.

Risk commentary

The fund's KIID Synthetic Risk and Reward Indicator (SRRI) is 6. This is a regulatory measurement that is, where possible, calculated from the volatility of its weekly performance over a five-year period. A score of 6 means the fund's historic volatility is between 15% and 25%.

The fund's risk score of 6 is common within the sector. Over time, the fund's volatility is similar to the index, which is in keeping with the manager's risk-aware approach, and particularly his focus upon controlling the tracking error. Different share classes could have differing SRRI scores.



Key Fund Facts

Inception Date:	24 September 1973
Manager(s) Since:	Junichi Inoue (Mar 2016)
Fund Domicile:	United Kingdom
Base Currency:	£ Sterling
Fund Benchmark:	Topix
IA Sector:	Japan

Formal documentation, including the fund prospectus and the KIID, should be sought directly from the asset manager. A link to the asset manager's website can be found on the relevant fund page at fundresearchcentre.co.uk.

Fund Snapshot

A concentrated, stock-picking fund that is managed with a strong sense of risk. The portfolio is composed of quality stocks and mis-priced opportunities, with the team investing in companies creating shareholder value. Within its sector, the fund features in our 'Larger-Cap, Blend' category.

Investment Team

The fund is managed by Tokyo-based Portfolio Manager and Head of Japanese Equities, Junichi Inoue. He has covered the Japanese market since 1998 and has managed the fund since 2016. He is supported by Portfolio Manager, Yunyoung Lee, who is based in Singapore, and Associate Portfolio Manager, Yusuke Suzuki, who is based in Tokyo. In terms of stock coverage, Mr Inoue focuses primarily on large-cap companies, while the remainder of the investment universe is covered by the other team members. In addition, the team draws on the wider Janus Henderson Central Research Team, which provides research across all global sectors.

Investment Philosophy

The manager believes that strong cash flow returns from capital-efficient businesses will create shareholder value. The team identifies these businesses through an intensive bottom-up stock selection process, and they believe that this, combined with a concentrated portfolio approach, will deliver superior returns.

Investment Process

The bottom-up stock-picking approach aims to identify well-managed businesses that generate free cash flow returns above their cost of capital. The first step in the process is to screen more than 2,000 stocks for ESG and market-cap considerations. The screened stocks are then put through a HOLT process, with particular emphasis on cash flow return on investment (CFROI). The objective is to find companies that have a positive and/or improving CFROI. This produces about 125 stocks, on which the managers conduct intensive fundamental research.

The initial focus is on the company's business drivers and strategy. The management team is assessed on its use of capital, either to reinvest in the business or to return capital to shareholders through dividends or share buybacks. The team also analyses the management team's ability to deliver on its strategy by assessing the success of previous business plans, capital-allocation decisions and strategic acquisitions. This narrows the universe to approximately 100 stocks, upon which the team carries out its valuation work. Financial modelling aims to establish an intrinsic value for each business under review and helps them assess the upside opportunity and downside risk. At this point, businesses are considered through two lenses. For quality stocks, which make up at least two-thirds of the portfolio, the managers look for 50% upside over three years and 15% downside. For mispriced opportunities, which make up the balance of the portfolio, they look for a minimum upside of 20% over one year. This leaves around 50 stocks from which to construct a portfolio. The manager makes the final decision on investment cases, also considering other factors such as risk control and the market outlook.

Portfolio Construction and Risk Controls

The portfolio typically comprises around 30 stocks, as the manager believes that this level of concentration ensures that each position has a meaningful influence on the portfolio's outcome. He invests across the market-cap spectrum, although liquidity considerations preclude investments in very small-cap stocks. Large- and mid-cap stocks can be held in positions of between 3% and 6%, depending on conviction. Smaller companies are held in positions of up to 2%. With the support of the firm's risk team, care is taken to ensure that no single position, risk or macroeconomic factor dominates the fund's risk/return outcome. The team also focuses on controlling tracking error at both the underlying stock level and the overall portfolio level.

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