Nomura Funds Japan Strategic Value

Fund Research Centre
Recommended

Why we recommend the fund

- The lead manager of this Recommended fund, Yoshihiro Miyazaki, has been involved in the strategy since 2005, becoming lead manager in 2021.
- The strategy was launched in 2000 and therefore has been tested through a wide variety of market conditions.
- The investment team is supported by one of the largest Tokyo-based Japan equity research teams. The working environment and internal information tools encourage good communication flow.
- Their disciplined process of breaking down the components of undervaluation is twinned with concern for a company's potential and future earnings power. This is their definition of 'strategic value'.

Key characteristics and expected outcome

- While the fund has a value bias, it is positioned as an 'all-weather' strategy as the approach is concerned not only upon current undervaluation, but also upon a company's potential. The aim is not only to capture a positive share price correction, but also to benefit from an increase in corporate value over time.
- The strategy is relatively unconstrained, and the managers are free to consider companies from across all sectors and market-cap size. Through time, they have tended to identify a greater number of value opportunities amongst mid-cap stocks. The team takes steps to ensure proper diversification and portfolio liquidity.
- The focus upon undervalued companies means that the performance of the strategy is likely to struggle during 'bubble' periods, when valuation factors are overtaken by sentiment, as well as during periods of extreme pessimism.
- The fund is suited to those who are seeking a relative value approach in Japanese equities. It could be used as a mainstay exposure to the asset class in a portfolio, provided there is some tolerance for performance variability. Within a blend, a growth-biased fund would be a suitable complement.

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%.

A score of 6 is in keeping with many sector peers. Its risk characteristics are similar to the index, which is to be expected for a fund that is positioned as an 'all weather' offering, notwithstanding its value tilt. Different share classes could have different SRRI scores.



Key Fund Facts

Inception Date:	26 August 2009
Manager(s) Since:	Yoshihiro Miyazak (Oct 21)
Fund Domicile:	Ireland
Base Currency:	Japanese Yen
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 well-established Japanese equity fund where the team seeks companies whose stock prices do not reflect the long-term potential. The assessment of value is disciplined, with the team stress-testing the reasons for undervaluation and the catalysts for a re-rating. Within its sector, the fund features in our 'Larger-Cap, Value Biased' category.

Investment Team

Based in Tokyo, Lead Portfolio Manager and Head of Japan Strategic Value, Yoshihiro Miyazaki, was appointed to the role in 2021 but has been involved in the management of this strategy since 2005. He works alongside Deputy Lead Portfolio Manager, Mitsunari Kawano, and Senior Portfolio Managers, Tomohiro Wada and Yuki Hirono. Mr Miyazaki has the final say on the stocks that enter or leave the portfolio and the other team members provide support in research and on-going portfolio management. The team has full access to the firm's extensive equity research team.

Investment Philosophy

The team believes that, given the inefficiencies in the market, value can be added through research-intensive, bottom-up stock selection. The aim is to identify companies whose stock prices do not reflect the long-term potential through a holistic assessment of a company's assets, earnings power and intangibles. Companies of particular interest are those with a competitive advantage in their industry, or those with restructuring potential.

Investment Process

The team uses a combination of quantitative and qualitative techniques in the search for stocks that are priced below their assessment of intrinsic value. The first stage is to reduce the Japanese stock universe to around 800 stocks based upon value and market-cap metrics. This number is reduced further to 500 stocks by drawing upon the work of in-house analysts. The team's qualitative effort is then concentrated on this smaller number of names in the value universe.

There is an emphasis upon original research derived from meetings held directly with companies. The focus of analysis is upon three components of a company's undervaluation and potential: its asset value, its earnings power value and its franchise value. The portfolio managers conduct their own research, as well as liaising with internal and external analysts. They hold regular meetings with the in-house research analysts, testing their conclusions to assess whether a company is a good fit for the strategy. Key areas of discussion include competitiveness within the industry, the change of management attitude towards shareholders, new business, restructuring potential and the sustainability of earnings / quality of assets. The approach is open-minded in terms of using all information sources at their disposal, with Mr Miyazaki making the final decisions for the portfolio. There is also a monthly Investment Environment and Assessment meeting where the global house view is formulated and this assists in forming the strategy for the fund.

Portfolio Construction and Risk Controls

The portfolio features 70-150 stocks and position sizes are a function of the team's degree of confidence in the stock's undervaluation and its potential. The aim is to be fully invested, although up to 10% in cash is permitted. There is no structural market-cap bias, nor are there any sector constraints. However, they have a process for monitoring any sector tilts that result from the bottom-up process and run correlation analysis to ensure proper portfolio diversification. The team has a 3 to 5-year investment horizon and so turnover is relatively low.

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