

Seizing the opportunity

JAPAN SPECIAL SITUATIONS BASKET

14% of your Company's assets are invested in a basket of cash-rich Japanese companies, which has been an area of focus over the past year. We have continued to grow this basket of undervalued, asset-backed quality companies and are engaging with management to initiate discussions about improving shareholder value.

Corporate governance reform has firmly taken hold in Japan – pushed as one of the “Three Arrows” of Prime Minister Shinzo Abe's economic reform plan – and the culture of change is now ingrained in the mind-set of the regulators and institutions alike. Several key institutions have supported the reforms, including the Ministry of Economy, Trade & Industry; the Financial Services Agency; the Panasonic Pension Scheme; and foreign activist investors (including AVI).

The government has given shareholders a mandate to engage with companies and, from what we have witnessed so far, this has been well received. To name but a few changes: dividends and share buybacks at TOPIX 500 companies have increased significantly; 34% of companies now have one-third or more independent directors (compared to 6% four years ago); and more shareholders are proposing resolutions at Japanese AGMs.

With the backdrop of a changing corporate attitude to shareholders, coupled with severe under-valuations, we are optimistic about the prospects for attractive returns in Japan.

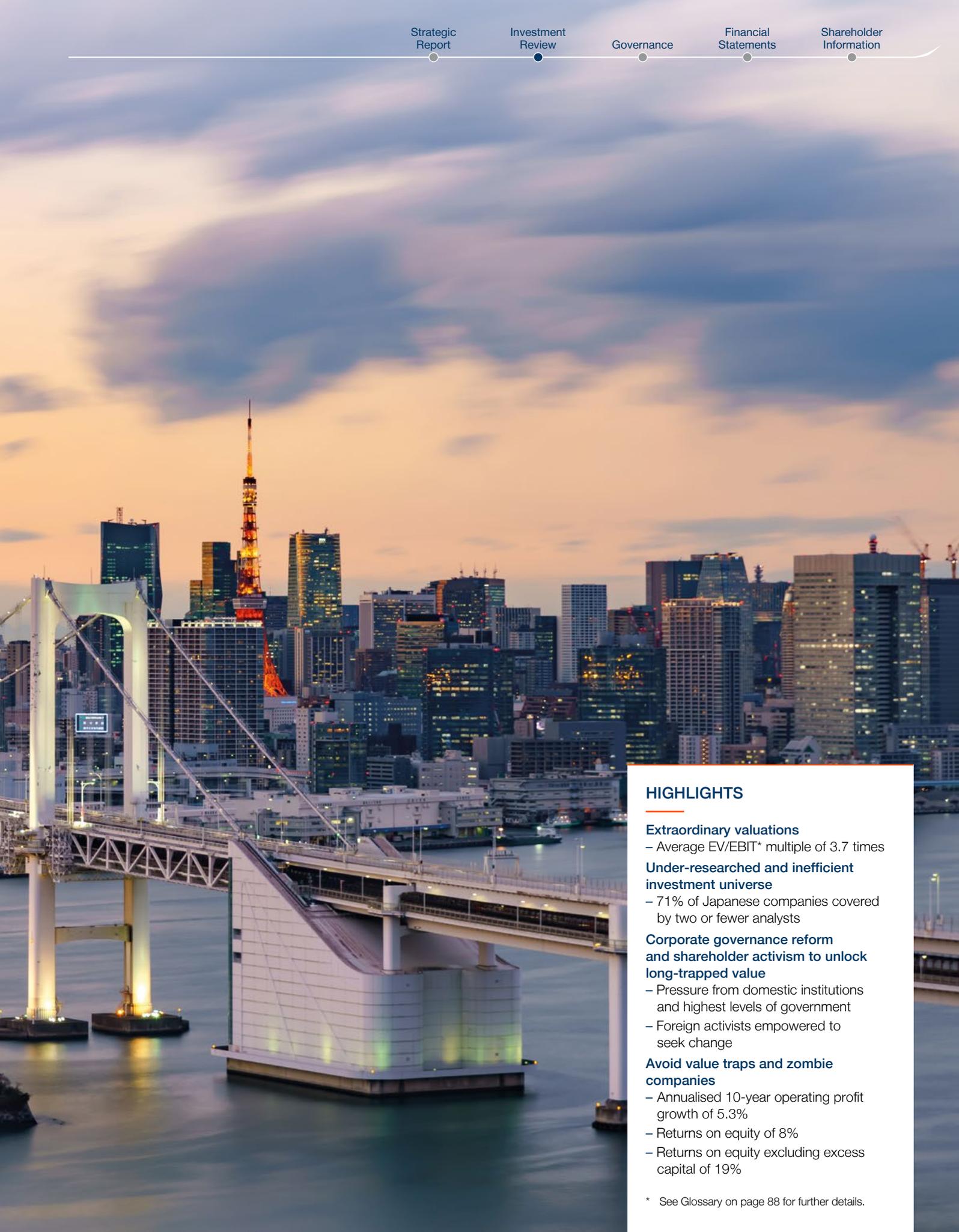
13.6%

% of total assets less current liabilities

75%

Average percentage of market capitalisation covered by net cash and listed securities

Source / Getty Images



HIGHLIGHTS

Extraordinary valuations

- Average EV/EBIT* multiple of 3.7 times

Under-researched and inefficient investment universe

- 71% of Japanese companies covered by two or fewer analysts

Corporate governance reform and shareholder activism to unlock long-trapped value

- Pressure from domestic institutions and highest levels of government
- Foreign activists empowered to seek change

Avoid value traps and zombie companies

- Annualised 10-year operating profit growth of 5.3%
- Returns on equity of 8%
- Returns on equity excluding excess capital of 19%

* See Glossary on page 88 for further details.