

FSSA Japan Focus Fund (UK OEIC)

Investment objective and policy

The Fund aims to achieve capital growth over the medium to long term (at least three years). The Fund invests at least 80% in shares of large and mid-sized companies based in or where the majority of their activities take place in Japan and that are listed on exchanges worldwide. This includes companies that are listed on exchanges worldwide which provide to exposure to Japan. These companies generally have a total stock market value of at least US\$1 billion. The Fund may invest up to 10% in other funds. The Fund will only use derivatives to reduce risk or to manage the Fund more efficiently in limited cases.

Fund information

Fund launch date	26 October 2015
Fund size (£m)	153.3
UK's investment association sector	Japan
Benchmark	TOPIX Net Total Return Index*
Number of holdings	44
Fund manager(s)	Sophia Li/Martin Lau
Research rating ^	Morningstar@:Bronze RSM:Rated
Fund yield	0.1%

* The benchmark and IA sector for this Fund have been identified as a means by which investors can compare the performance of the Fund and have been chosen because their constituents most closely represent the scope of the investable assets. The benchmark and sector are not used to limit or constrain how the portfolio is constructed nor are they part of a target set for Fund performance. The benchmark of the Fund changed from MSCI Japan Net Index to TOPIX Net Total Return Index with effect from 9 December 2021. This change has been reflected in the calculation of the benchmark performance.

^ This does not constitute an investment recommendation and is not indicative of future results. Methodology available on rating provider's website.

Risk factors

This document is a financial promotion for the FSSA Japan Focus Fund in the UK and elsewhere where lawful. Investing involves certain risks including:

- **The value of investments and any income from them may go down as well as up and are not guaranteed. Investors may get back substantially less than the original amount invested.**
- **Single country / specific region risk:** investing in a single country or specific region may be riskier than investing in a number of different countries or regions. Investing in a larger number of countries or regions helps spread risk.
- **Currency risk:** The Fund invests in assets which are denominated in other currencies; changes in exchange rates will affect the value of the Fund and could create losses. Currency control decisions made by governments could affect the value of the Fund's investments and could cause the Fund to defer or suspend redemptions of its shares.

Reference to specific securities (if any) is included for the purpose of illustration only and should not be construed as a recommendation to buy or sell. Reference to the names of any company is merely to explain the investment strategy and should not be construed as investment advice or a recommendation to invest in any of those companies.

For a full description of the terms of investment and the risks please see the Prospectus and Key Investor Information Document.

If you are in any doubt as to the suitability of our funds for your investment needs, please seek investment advice. If you are unsure of the terminology used in this report, please seek independent financial advice.

Available share classes

Share class	Sedol	ISIN
FSSA Japan Focus Fund GBP Class B (Accumulation)	BWNGX43	GB00BWNGX432
FSSA Japan Focus Fund GBP Class B Hedged (Accumulation)	BY9D7B7	GB00BY9D7B75
FSSA Japan Focus Fund USD Class B (Accumulation)	BWNGX54	GB00BWNGX549
FSSA Japan Focus Fund GBP Class E (Accumulation)	BJVQNH7	GB00BJVQNH77
FSSA Japan Focus Fund USD Class E (Accumulation)	BJVQNJ9	GB00BJVQNJ91

About FSSA Investment Managers

FSSA Investment Managers is an autonomous investment management team within First Sentier Investors, with dedicated investment professionals based in Hong Kong and Singapore. We are specialists in Asia Pacific and Global Emerging Markets equity strategies, managing assets on behalf of clients globally.

We are bottom-up investors, using fundamental research and analysis to construct high-conviction portfolios. We conduct more than a thousand direct company meetings a year, seeking to identify high quality companies to invest in. We look for founders and management teams that act with integrity and risk awareness; and dominant franchises that have the ability to deliver sustainable and predictable returns over the long term. As responsible, long-term shareholders, we have integrated ESG analysis into our investment process and engage extensively on environmental, labour and governance issues.

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Annual performance in GBP (%) to 31 December 2023

	12 mths to 31/12/23	12 mths to 31/12/22	12 mths to 31/12/21	12 mths to 31/12/20	12 mths to 31/12/19
FSSA Japan Focus Fund	-0.8	-26.0	2.4	35.9	32.0
TOPIX Net Total Return Index	12.8	-4.5	2.5	11.0	15.0
Sector return	10.2	-8.3	1.6	14.3	17.3

Cumulative performance in GBP (%) to 31 December 2023

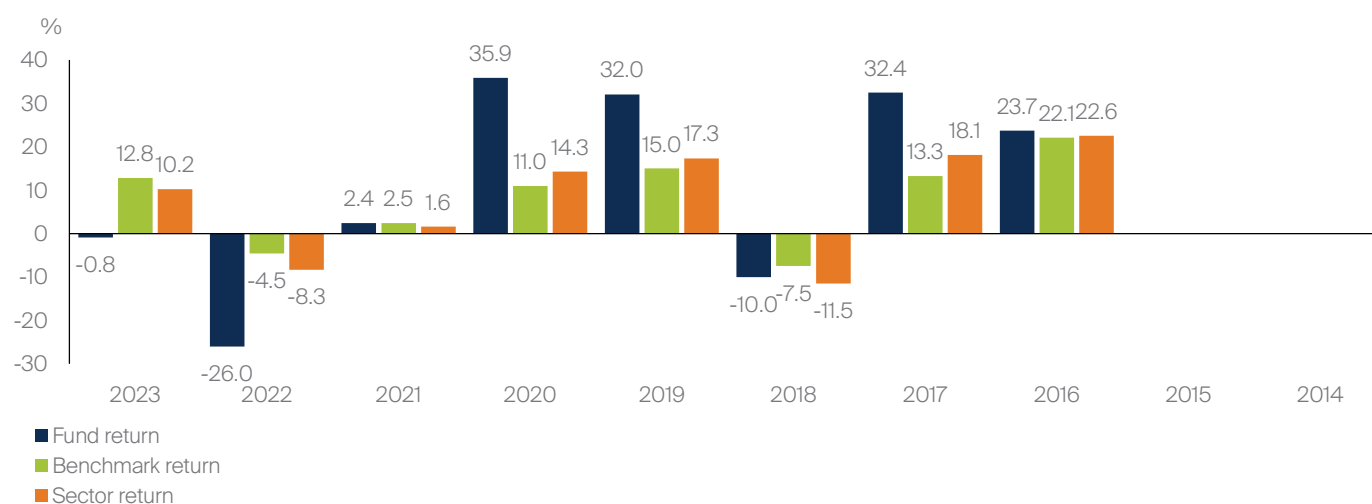
	Since Inception	10 yrs	5 yrs	3 yrs	1 yr	YTD	6 mths	3 mths
FSSA Japan Focus Fund	116.6	-	34.9	-24.8	-0.8	-0.8	3.5	11.8
TOPIX Net Total Return Index	86.8	-	40.8	10.4	12.8	12.8	6.7	3.4
Sector return	85.6	-	37.7	4.8	10.2	10.2	4.7	3.7

Performance review

Over the past 12 months, key contributors to performance included Lasertec, which rose on expectations of a pick-up in customer orders for its next-generation ACTIS systems and improved profit margins, after having booked and completed sales of its lower-margin systems in the recent quarter. Currency should also be a tailwind as the price is mainly denominated in USD and around 90% of revenue is from overseas. Rakus reported strong sales growth and positive forward guidance, driven by the high-margin cloud segment. Management also highlighted improvements in productivity and cost controls.

On the negative side, Olympus was weak due to lower-than-expected earnings results, with rising costs around quality assurance and regulatory affairs being a key headwind. The company faces a number of FDA-related issues related to product safety, which, although serious is also a common trend within the medical devices industry. We believe Olympus should manage to resolve these issues within the next 2-3 years. Nihon M&A declined after reporting slower-than-expected revenue growth. The company is in the middle of internal reforms to improve its corporate culture and labour productivity.

Calendar year performance (% in GBP) to 31 December 2023



These figures refer to the past. Past performance is not a reliable indicator of future results. For investors based in countries with currencies other than GBP, the return may increase or decrease as a result of currency fluctuations. Since inception performance figures have been calculated from 26 October 2015. All performance data for the FSSA Japan Focus Fund Class B (Accumulation) GBP as at 31 December 2023. Source for fund - Lipper IM / First Sentier Investors (UK) Funds Limited. Performance data is calculated on a net basis by deducting fees incurred at fund level (e.g. the management fee and other fund expenses), save that it does not take account of initial charges or switching fees (if any). Income reinvested is included on a net of tax basis. Source for benchmark - TSE, income reinvested net of tax.

*Sector returns calculated by Lipper and denote the arithmetic mean performance of funds in the relevant UK's Investment Association Sector. On 22 September 2020, First State Japan Focus Fund was rebranded as FSSA Japan Focus Fund.

Portfolio review

New purchases over the quarter included JEOL, a global leader in electron beam technology which is used in scientific and measurement instruments, semiconductor equipment and medical devices. It makes key components for multi-beam mask writers (MBMWs – a device that writes complex circuit patterns on EUV photomasks) and has an exclusive partnership to supply IMS Nanofabrication, who manufactures MBMWs and sells them to semiconductor companies like Taiwan Semiconductor (TSMC) and Intel. We believe JEOL should benefit from the long-term structural growth in demand for EUV technology, although in the near term it may fluctuate based on the order outlook and utilisation rates.

We also bought Koito Manufacturing, the largest maker of automotive headlamps in the world. The company has a strong franchise, robust balance sheet and R&D focus. The price-to-book ratio had fallen to attractive levels, while the new management is increasing dividend payouts and buying back shares. With no large capital expenditures expected in the next few years, we expect more cash to be returned to shareholders.

We divested Nidec Corporation and Murata Manufacturing to consolidate the portfolio into higher-conviction opportunities.

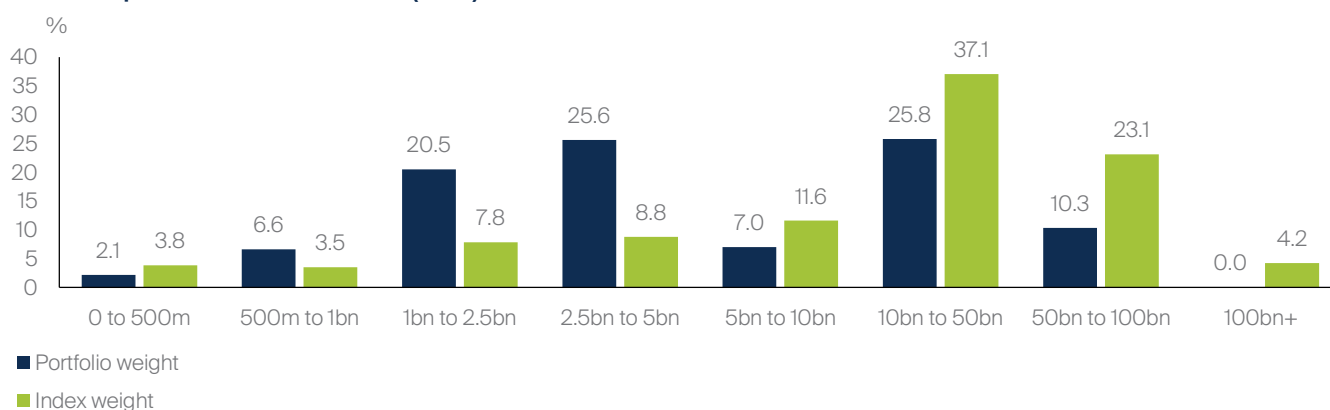
Stock spotlight

GMO Payment Gateway is the largest online payment processing company in Japan with 25-30% market share. We believe it has a long runway of growth ahead, given the low penetration of e-commerce and offline cashless payments in Japan. With more offline retailers and consumer brand companies launching e-commerce portals, GMO Payment is well positioned to capture the market, due to its extensive experience and track record in the payments industry. The company's strong growth is supported by its continuous efforts to enter new areas like digital content and utility payment services.

Besides e-commerce, the emergence of cashless payment transactions could be another growth driver. Recent policies, such as merchant subsidies and consumer rewards programs (which have been primary catalysts in other nations), are expected to accelerate the pace of transition. The company has also been entering new verticals, such as health care and education, driven by the digital transformation (DX) trend. Another new business pillar is the buy now, pay later (BNPL) business, which should accelerate as the sales capability improves.

The pace of growth in gross merchandise value (GMV) slowed after the pandemic as shoppers moved from online to offline, but profits continued to grow by 25-30%. Meanwhile, valuations have derated to a 10-year low, so we used the opportunity to add to our position.

Market capitalisation breakdown (GBP)



Data source: For illustration purposes only. Portfolio weights may not add up to 100% as cash holdings are excluded and full coverage of stocks is not always available. This information is calculated by First Sentier Investors. Past performance is not indicative of future performance. Reference to specific securities (if any) is included for the purpose of illustration only and should not be construed as a recommendation to buy or sell the same. All securities mentioned herein may or may not form part of the holdings of First Sentier Investors' portfolios at a certain point in time, and the holdings may change over time. These figures refer to the past. Past performance is not a reliable indicator of future results. For investors based in countries with currencies other than GBP, the return may increase or decrease as a result of currency fluctuations.

Outlook

Amid rising concerns about the global economy, the FSSA Japan portfolio has maintained a balanced approach by investing in global franchises with dominant market share in niche industries with secular growth drivers; and domestic leaders in industries that are underpenetrated but well-proven in other developed markets.

The companies we like to own are managed by strong management teams and can generate sustainable earnings growth and return on equity without relying on leverage or the macro environment. We also own regional consumer companies, global industrials and medical equipment/services companies with dominant franchises, strong balance sheets and steady cash flow. These businesses should remain relatively defensive in the event of a recession.

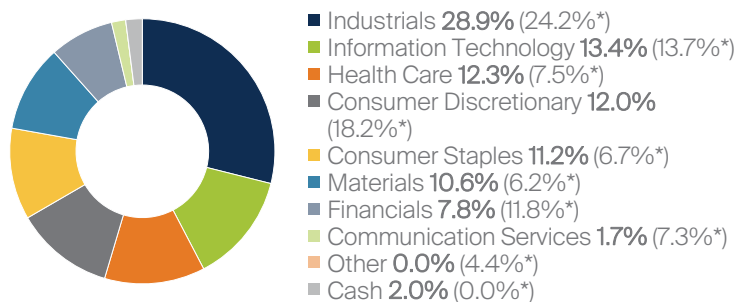
Our long-term investment themes:

- Global factory automation and robotics leaders.
- Best-in-class consumer franchises that are dominant in the Asia Pacific region.
- Manufacturers in niche industries which have a leading edge globally.
- Solutions providers for Japan's structural labour shortage.
- Leading internet verticals that disrupt old-school industries.

Ten largest company holdings as at 31 December 2023

Stock name	Country	Sector	Portfolio weight (%)
GMO Payment Gateway, Inc.	Japan	Financials	7.2
BayCurrent Consulting, Inc.	Japan	Industrials	5.0
Ajinomoto Co., Inc.	Japan	Consumer Staples	4.9
Recruit Holdings Co., Ltd.	Japan	Industrials	4.5
RAKUS Co., Ltd.	Japan	Information Technology	4.2
Sony Group Corporation	Japan	Consumer Discretionary	3.6
Lasertec Corp.	Japan	Information Technology	3.6
SMS Co., Ltd.	Japan	Industrials	3.0
Olympus Corp.	Japan	Health Care	2.9
Seven & I Holdings Co., Ltd.	Japan	Consumer Staples	2.9

Sector breakdown



*Index weight

Sector and Country classifications provided by Factset and First Sentier Investors. The Fund may hold multiple equity securities in the same company, which have been combined to provide the Fund's total position in that company. Index weights, if any, typically include only the main domestic-listed security. The above Fund weightings may or may not include reference to multiple securities. Allocation percentage is rounded to the nearest one decimal place and the total allocation percentage may not add up to 100%.

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Top 5 contributors to absolute performance

3 months to 31 December 2023

Stock name	Country	Sector	Value added (bps*)
Lasertec Corp.	Japan	Information Technology	212
GMO Payment Gateway, Inc.	Japan	Financials	162
Recruit Holdings Co., Ltd.	Japan	Industrials	127
RAKUS Co., Ltd.	Japan	Information Technology	123
Benefit One Inc.	Japan	Industrials	95

12 months to 31 December 2023

Stock name	Country	Sector	Value added (bps*)
Lasertec Corp.	Japan	Information Technology	190
RAKUS Co., Ltd.	Japan	Information Technology	137
Recruit Holdings Co., Ltd.	Japan	Industrials	120
Sony Group Corporation	Japan	Consumer Discretionary	77
SHIFT, Inc.	Japan	Information Technology	73

Bottom 5 contributors to absolute performance

3 months to 31 December 2023

Stock name	Country	Sector	Value added (bps*)
Shoei Co. Ltd. (7839)	Japan	Consumer Discretionary	-56
Ajinomoto Co., Inc.	Japan	Consumer Staples	-29
Nidec Corporation	Japan	Industrials	-28
Shiseido Company,Limited	Japan	Consumer Staples	-16
M3, Inc.	Japan	Health Care	-15

12 months to 31 December 2023

Stock name	Country	Sector	Value added (bps*)
Olympus Corp.	Japan	Health Care	-130
Nihon M&A Center Holdings Inc.	Japan	Industrials	-119
Shoei Co. Ltd. (7839)	Japan	Consumer Discretionary	-108
MonotaRO Co., Ltd.	Japan	Industrials	-90
Raksul Inc.	Japan	Industrials	-75

Stock contributions show the impact of the individual stock's performance to the total fund performance. These stock contributions show the top 5 and bottom 5 contributors to the fund and are not representative of the performance of the fund as a whole.

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This stock information does not constitute any offer or inducement to enter into investment activity.

Contributions are calculated at the investee company level before the deduction of any fees incurred at fund level (e.g. the management fee and other fund expenses) but after deduction of transactional costs. Stocks held/listed in non-index countries have economic activity > 50% from developing economies.

* A basis point is a unit of measure used in finance to describe the percentage change in value or rate of a financial instrument. One basis point is equivalent to 0.01% (1/100th of a percent) or 0.0001 in decimal form.

Data source: This information is calculated by First Sentier Investors.

Portfolio risk analysis - ex-post 3 years annualised to 31 December 2023

Risk measure	Value	Risk description
Beta	1.58	Beta is a measure of volatility relative to the market. A beta of 1 would indicate that the fund tended to move in line with the market; a beta greater than 1 would indicate that the fund has been more volatile than the market; whereas a beta less than 1 would indicate that the fund has been less volatile than the market.
Information Ratio	-0.88	The fund's excess return divided by its tracking error. It is designed to assess a portfolio's performance relative to its level of benchmark risk. The higher the fund's information ratio, the more excess return it generates for each unit of tracking error.
Portfolio Standard Deviation	19.75%	A measure of how much the returns of the fund vary relative to the arithmetical average. The higher the fund's standard deviation, the more its returns tend to deviate from the mean.
Benchmark Standard Deviation	10.24%	A measure of how much the returns of the index vary relative to the arithmetical average. The higher the index's standard deviation, the more its returns tend to deviate from the mean.
Tracking Error	12.88%	The standard deviation of the difference between the fund's returns and those of the index. The higher the fund's tracking error, the more its performance relative to the benchmark may vary.

Portfolio risk analysis - ex-ante at 31 December 2023

Risk measure	Value	Risk description
Dividend Yield (Fund)	1.21%	The annual dividend yield paid per share divided by the share price. This factor measures the value of company shares according to the stream of dividend income resulting from share ownership.
Dividend Yield (Index)	2.31%	The annual dividend yield paid per share divided by the share price. This factor measures the value of company shares according to the stream of dividend income resulting from share ownership.
Price to Book (Fund)	3.51	The ratio of the company's book value (the sum of shareholders' equity plus accumulated retained earnings from the P & L account) to its share price. This factor has been one of the most successful measures of the intrinsic value of company shares.
Price to Book (Index)	1.25	The ratio of the company's book value (the sum of shareholders' equity plus accumulated retained earnings from the P & L account) to its share price. This factor has been one of the most successful measures of the intrinsic value of company shares.
Price to Earnings (Fund)	27.59	Annual earnings (adjusted for amortizations of intangibles, extraordinary charges and credits) per share divided by the share price. This factor measures the worth of a company's ability to support each share with after tax earnings.
Price to Earnings (Index)	13.95	Annual earnings (adjusted for amortizations of intangibles, extraordinary charges and credits) per share divided by the share price. This factor measures the worth of a company's ability to support each share with after tax earnings.

Data source: Ex-post information is calculated by First Sentier Investors, ex-ante information is provided by FactSet.

Important information

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