

# HORIZON JAPANESE SMALLER COMPANIES FUND

## At a glance

### Performance\*

The Fund returned -0.97%, the Index returned 1.88% and the Sector returned 1.41%.

### Contributors/detractors

Major positive contributors were Aiful, Nihon M&A Center Holdings and Harmonic Drive Systems. Major detractors were Taiyo Yuden, Demae-can and DKK.

### Outlook

As the index broke record highs, the underperformance of small-caps versus large-caps is approaching a historical inflection point.

## Portfolio management



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## Investment environment

- Japanese equities rose in February. This was thanks to good performance from semiconductor-related stocks, the larger weighted companies in the Nikkei225 Index announcing good results, the weaker yen and dovish comments from the Bank of Japan (BoJ) about monetary policy.
- The Nikkei225 Index finally broke through its 1989 all-time-high, a key psychological level. The current valuation of price-to-book (PBR) ratio of 2.0x for the Nikkei225 Index is a very long way from its 8.2x peak reached in December 1989.
- The first estimate of 2023 fourth quarter real GDP growth came in at -0.4% quarter-on-quarter (annualised), well below the market forecast of 1.1%. This marks a decline for the second quarter in a row. All major domestic demand categories were negative, underscoring a weak print. However, inventory cycles for manufacturing seem to be bottoming out, suggesting a recovery of Japanese manufacturing.
- Japanese small-caps underperformed large-caps in February (in addition to January) as foreign investors initially positioned into large-caps which they know well and like. We think the new NISA's strong start should see retail investors more proactive in investing in the

Japan small-cap market as retail investors have tended to invest in small-caps.

## Portfolio review

Major positive contributors were Aiful (consumer finance), Nihon M&A Center Holdings (M&A agent), Harmonic Drive Systems (factory automation), Asahi Intecc (medical devices) and Cyber Agent (internet advertising). Investors started to appreciate that Aiful's management was more focused on profit growth than top-line growth for the next fiscal year.

Shares in Nihon M&A Center rose thanks to higher-than-expected earnings results, which are now on track to break a record high. Shares in Harmonic Drive Systems rose as orders seemed to bottom-out, suggested by orders from other factory automation companies. Asahi Intecc saw its share price rise due to a rise in its market share in the US, while Cyber Agent reported higher-than-expected earnings driven by the internet ad business.

Major detractors were Taiyo Yuden (electrical parts), Demae-can (food delivery), DKK (antennas for base stations), Septeni Holdings (internet advertising) and Denka (chemicals). Shares in Taiyo Yuden fell due to a downward revision of company earnings guidance, driven by an inventory adjustment of its major product, MLCC. Shares in Demae-can and DKK declined due to weaker-than-expected quarterly results. Denka's share price also

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\*For benchmark and sector, if applicable, refer to Fund details on page 3. For relevant descriptions, risks and the Fund's investment policy statement, refer to Additional fund information on page 4.

fell due to a downward revision of company guidance, as its chemicals were negatively impacted by weak demand for electric devices such as smartphones.

We added positions in Welcia (drug stores), TRE Holdings (recycling services), Park 24 (parking lots) and Koa (electrical parts) while we initiated a position in DIP (human resources). We decreased the positions in Toyo Denki Seizo (electrical parts), Sawai Group Holdings (generic drugs) and DKK and closed the position in Noritake (electrical materials).

## Manager outlook

As the company earnings season finishes, we are now in

the middle of management interviews with all the companies we hold in the portfolio and adjusting holding sizes in line with any revised conviction levels.

We have added some new themes such as labour shortages, price hikes, improving shareholder returns and increasing institutional interest in Japanese smaller companies. As the index broke record highs, the underperformance of small-caps versus large-caps is approaching a historical inflection point.

## Performance (%)

Returns	Cumulative				Annualised			
	1 Month	3 Month	YTD	1 Year	3 Year	5 Year	10 Year	Since inception (30/08/85)
A2 USD (Net)	-0.97	1.05	-5.03	5.79	-2.25	5.33	6.87	7.02
Index	1.88	6.71	1.63	16.16	0.20	3.04	5.70	6.32
Sector	1.41	6.45	1.08	10.66	-3.03	2.68	5.61	7.06
A2 USD (Gross)	—	—	—	—	—	7.59	9.05	9.05
Target	—	—	—	—	—	5.62	8.34	8.98

## 12 month rolling

	Dec 2022- Dec 2023	Dec 2021- Dec 2022	Dec 2020- Dec 2021	Dec 2019- Dec 2020	Dec 2018- Dec 2019
A2 USD (Net)	12.85	-10.97	1.71	9.08	33.15
Index	15.39	-11.78	-2.81	4.97	18.34
Sector	10.83	-18.61	-1.24	13.59	20.35

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Performance/performance target related data will display only where relevant to the share class inception date and annualised target time period. **The value of an investment and the income from it can fall as well as rise and you may not get back the amount originally invested.** Source for target returns (where applicable) - Janus Henderson Investors.

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Note that any differences among portfolio securities currencies, share class currencies and costs to be paid or represented in currencies other than your home currency will expose you to currency risk. Costs and returns may increase or decrease as a result of currency and exchange rate fluctuations.

Performance fees may be charged before the Fund's outperformance target is reached.

Performance fees are charged separately as a way of rewarding the investment manager for superior returns or for outperforming specified targets. A Performance Fee is accrued where the NAV outperforms the relevant Hurdle NAV (subject to a High Water Mark). For further explanation of the performance fee calculation methodology please see the relevant prospectus, available at [www.janushenderson.com](http://www.janushenderson.com).

## Investment objective

The Fund aims to provide capital growth over the long term. Performance target: To outperform the Russell/Nomura Small Cap Index by 2.5% per annum, before the deduction of charges, over any 5 year period.

For the fund's investment policy, refer to the Additional fund information on page 4.

**Past performance does not predict future returns.**

## Fund details

<b>Inception date</b>	01 August 1985
<b>Total net assets</b>	44.84bn
<b>Asset class</b>	Equities
<b>Domicile</b>	Luxembourg
<b>Structure</b>	SICAV
<b>Base currency</b>	JPY
<b>Index</b>	Russell/Nomura Small Cap Index
<b>Morningstar sector</b>	Japan Small/Mid-Cap Equity

## Additional fund information

Tax assumptions and reliefs depend upon an investor's particular circumstances and may be subject to change. Please note the performance target is to be achieved over a specific annualised time period. Refer to the performance target wording within the objective. Availability of share classes shown may be limited by law in certain jurisdictions. Performance records/scenarios are detailed within the fund's specific KIID/KID; fees and charges, and the respective risk rating may vary. Further information can be found in the fund's prospectus and KIID/KID, which must be reviewed before investing. Please consult your local sales representative and/or financial adviser if you have any queries. From 17 November 2014, the base currency of the fund changed from USD to JPY. From 1 November 2015, the Fund changed its benchmark from Tokyo SE Second Section Index to the Russell/Nomura Small Cap Index. The benchmark shown is a composite of the two. Past performance shown before 17 November 2015 was achieved under circumstances that no longer apply. This is a Luxembourg SICAV Fund, regulated by the Commission de Surveillance du Secteur Financier (CSSF). These are the views of the author at the time of publication and may differ from the views of other individuals/teams at Janus Henderson Investors. Any securities, funds, sectors or indices mentioned within this article do not constitute or form part of any offer or solicitation to buy or sell them. The information in this commentary does not qualify as an investment recommendation. Investment into the fund will acquire units/shares of the fund itself and not the underlying assets owned by the fund. Cash balances and exposures are based on settled and unsettled trades as at the reporting date.

### Investment policy

The Fund invests at least two-thirds of its assets in a portfolio of shares (equities) and equity-related securities of smaller companies, in any industry, in Japan. The Fund may also invest in other assets including companies of any size, cash and money market instruments. The Investment Manager may use derivatives (complex financial instruments) to reduce risk or to manage the Fund more efficiently. The Fund is actively managed with reference to the Russell/Nomura Small Cap Index, which is broadly representative of the companies in which it may invest, as this forms the basis of the Fund's performance target and the level above which performance fees may be charged (if applicable). The Investment Manager has discretion to choose investments for the Fund with weightings different to the index or not in the index, but at times the Fund may hold investments similar to the index.

### Investment strategy

The Investment Manager believes in-depth stock analysis, coupled with superior stock picking are the main drivers of superior long-term performance in Japanese smaller companies. The Fund is designed to capture the undervalued growth potential of Japanese smaller companies by typically investing in the smallest 25% of listed Japanese companies by market capitalisation using a disciplined, pragmatic and risk-aware investment process. The investment approach focuses on stock valuation, investment catalysts and long-term structural growth to drive earnings and returns.

### Fund specific risks

When the Fund, or a share/unit class, seeks to mitigate exchange rate movements of a currency relative to the base currency (hedge), the hedging strategy itself may positively or negatively impact the value of the Fund due to differences in short-term interest rates between the currencies. The Fund could lose money if a counterparty with which the Fund trades becomes unwilling or unable to meet its obligations, or as a result of failure or delay in operational processes or the failure of a third party provider. Shares/Units can lose value rapidly, and typically involve higher risks than bonds or money market instruments. The value of your investment may fall as a result. Shares of small and mid-size companies can be more volatile than shares of larger companies, and at times it may be difficult to value or to sell shares at desired times and prices, increasing the risk of losses. If a Fund has a high exposure to a particular country or geographical region it carries a higher level of risk than a Fund which is more broadly diversified. The Fund may use derivatives with the aim of reducing risk or managing the portfolio more efficiently. However this introduces other risks, in particular, that a derivative counterparty may not meet its contractual obligations. If the Fund holds assets in currencies other than the base currency of the Fund, or you invest in a share/unit class of a different currency to the Fund (unless hedged, i.e. mitigated by taking an offsetting position in a related security), the value of your investment may be impacted by changes in exchange rates. Securities within the Fund could become hard to value or to sell at a desired time and price, especially in extreme market conditions when asset prices may be falling, increasing the risk of investment losses.

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Source: Janus Henderson Investors, as at 29 February 2024, unless otherwise noted.

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