LWM Consultants Ltd
Meeting the Fund Manager

Fund manager meeting – Schroder Tokyo Fund

We have reduced the holdings in Japan across all our portfolios, the Schroder Tokyo Fund is a new addition to the portfolios following GLG soft closing their Japan Core Alpha Fund. Andrew Rose has managed the fund since 2004.

He started his career with Schroders in 1981 as a Japanese equity analyst in London and Tokyo. In 1987 he became a Japanese equity fund manager and in 1996 became the senior investment officer in the Tokyo office. Andrew went on to become the joint head of Japanese equity in 1999 which saw him return to London, and in 2001 he went back to Tokyo as head of Japanese equity. To have the opportunity to speak to someone with so much knowledge provided an interesting insight to the fund.

Investment objective and profile

The fund's investment objective is to achieve capital appreciation through participation in the growth of the Japanese economy. Investment will be based primarily on Japan's economic strengths, such as its manufacturing industry (in particular on those parts of it that are demonstrating an ability to exploit newly emerging technology) and on sectors benefiting from structural change in the economy. Investment will be in directly held transferable securities. The fund may also invest in collective investment schemes, warrants and money market instruments.

Themes and investments

When we consider GDP Japan is worse than Greece. At some point it will blow-up. But Japan is a unique market. Bond yields are the lowest in the world and these tend to be internally purchased. There is also a large pool of internal savings.

The problem which many western countries fear is deflation, as Japan has shown once you get into it, it is very hard to get out of it. The crucial difference with Japan is that before deflation many Japanese were very rich, this led onto a discussion about the generation coming through now. The Japanese are a cautious country, jobs are hard to get but they tend to pay salaries which are much higher than the west.

Also a lot of the structural problems we are now facing have already been faced by the Japanese and they are potentially on an upward curve. They also have low exposure to Europe.

Unlike places like Greece and the UK to some extent there is stronger social cohesion which means you don’t have this creative destruction which is evident in the west. There are cheap stocks, and many companies are cash rich. More companies now have independent boards and there is a greater focus on shareholders.

Andrew did admit that patience is the key with Japan, he has held some stock for ten plus years. For example, Tachihi benefited from a management buyout and Sankei Building was taken over and the remaining shares fetched a premium.

The fund has performed well against its benchmark, Andrew displays excellent management skills and knows the market well. However, this will never be a large holding in the portfolios.

Conclusion

After doing the due diligence being able to meet the fund manager cemented our reasons for selecting the fund. Effectively when investing in Japan you are looking for a safe pair of hands and with Andrew you have those hands.