

# CHIKARA JAPAN INCOME & GROWTH FUND

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COMMENTARY

August 2023

The Net Asset Value of the Chikara Japan Income & Growth fund fell by 0.17% in August while Topix rose 0.4% for its eighth consecutive monthly increase.

The fiscal year first quarter reporting season is usually the quietest for news on shareholder returns and so it proved to be again this year for both portfolio holdings and the market in general. While the initiative of Tokyo Stock Exchange to encourage greater awareness of corporate value and cost of capital has been an important topic of conversation during recent company meetings, the immediate response has been relatively muted. Aggregate share buyback announcements for example during the fiscal year-to-date have been no greater than the previous year (although this was the highest in recent years). We believe that companies are set to take a more considered response to the TSE suggestions as it involves decisions not just on financial position but also operating performance and business structure. We have no doubt that the TSE initiative will be influential given the acknowledgement of its rationale expressed by the management we have met and remain confident that, as with many of the recent governance initiatives in Japan, the benefits to shareholders will become apparent over time.

The TSE's annual stock ownership survey was released in July and shows that despite the record share buybacks the aggregate ownership of business corporations continues to fall (from 23.6% to 23.0%) as the unwind of cross shareholdings accelerate. This ongoing decline is a good example of long established policies in Japan continuing to trend in the right direction. The survey also shows that retail investors increased their ownership in the Japanese stock market for the second consecutive year. In the medium term we consider Japanese investor's participation in the local stock market to be increasingly important, particularly with the upcoming expansion of the Nippon Individual Savings Account (NISA) program in January 2024.

At the beginning of the month, Toshiba, the well-known but recently troubled industrial and electrical conglomerate, announced that an investor group led by Japan Industrial Partners, will launch a takeover bid for the company. This will end its 74 year history as a publicly listed company. While it has been a difficult path to this conclusion for the company and investors, we see this a culmination of two important trends in Japan; 1) the role of more active shareholders in Japan seeking to improve corporate value; and 2) the impact of the recently enacted National Security Strategy which seeks to promote investment in Japan in critical technologies, infrastructure and supply chains. Both are positive for Japan's outlook.

BOOK EXPOSURES			FUND HIGHLIGHTS	INVESTMENT OBJECTIVE
	No. Stks	%	Chikara Japan Income & Growth Fund offers investors a concentrated, conviction exposure to the Japanese market, with a focus on investing in companies that are seen as undervalued with strong balance sheets and sound business franchises, but also can offer a return to shareholders through either dividend yields or share buybacks.	To provide investors with long term capital appreciation and an income through an actively managed portfolio of equities listed in Japan.
Dividend Growth	30	83.4		
Special Situations	6	11.0		
Stable Yield	2	6.0		
Cash & Other	0	0		

FUND STATISTICS		CUMULATIVE PERFORMANCE (%) <sup>(1)</sup>						
Fund Manager:	Richard Aston		1 month	YTD	1 year	3 years	5 years	Inception
Fund Size:	USD 235m	JPY S Ac <sup>(2)</sup>	-0.17	21.15	23.26	62.14	43.87	222.21
Strategy Size:	USD 534m	GBP S Ac <sup>(2)</sup>	0.40	24.47	27.31	66.89	46.66	219.54
Active Share <sup>(3)</sup> :	81.51%	USDS Ac <sup>(2)</sup>	0.47	25.01	29.01	70.60	56.24	250.24
Launch Date:	31.01.2013	Index	0.43	24.79	21.77	54.58	51.39	207.84
Dealing:	Daily	DISCRETE PERFORMANCE (%) FULL CALENDAR YEAR <sup>(1)</sup>						
Denomination:	Yen		2022	2021	2020	2019	2018	2017
Benchmark <sup>(4)</sup> :	TOPIX Net TR	JPY S Ac <sup>(2)</sup>	1.71	17.15	-3.57	19.04	-17.04	23.80
Structure:	Irish OEIC, UCITS V	GBP S Ac <sup>(2)</sup>	2.38	16.70	-4.78	19.15	-16.96	24.13
DIVIDEND YIELD		USD S Ac <sup>(2)</sup>	3.59	17.13	-3.06	21.59	-15.53	25.26
		Index	-2.45	12.74	7.39	18.12	-15.97	22.23
3.0%								0.31

<sup>(1)</sup>Forecast gross portfolio yield of the underlying portfolio holdings, the net yield paid will be lower.

Past performance may not be a reliable guide to future performance. The price of investments and the income from them may fall as well as rise and investors may not get back the full amount invested. Investments denominated in foreign currencies expose investors to the risk of loss from currency movements as well as movements in the value, price or income derived from the investments themselves. All figures quoted are in JPY. Source: Independent returns are calculated daily by Northern Trust International Fund Administration Services (Ireland) Limited. All performance details shown are net NAV to NAV percentage returns with gross income re-invested.

TOP 10 HOLDINGS	
Holding	(%)
Mitsubishi UFJ Financial	6.4
Sumitomo Mitsui Financial	6.1
Tokio Marine Holdings	4.7
Softbank Corp	4.5
Shin-Etsu Chemical	4.5
Hitachi	4.0
DIP	3.4
Socionext Inc	3.3
Nippon Telegraph and Telephone	3.3
Denso	3.2
<b>Total</b>	<b>43.40</b>

TOP 10 SECTORS	
Sector	(%)
Electrical Appliances	15.7
Chemicals	13.8
Info & Communications	12.6
Banks	12.5
Services	7.0
Insurance	6.6
Wholesale	5.9
Retail Trade	3.3
Real Estate	3.3
Other Products	3.2
<b>Total</b>	<b>83.9</b>

SHARE CLASS DETAIL			
SHARE CLASS	GBP ACCUMULATION	GBP INCOME	JPY ACCUMULATION
NAV	Not launched	19.495	1799.506
Currency	GBP	GBP	YEN
Launch Price	£10	£10	¥1000
Dealing Frequency	Daily	Daily	Daily
Management Fee	0.90%	0.90%	0.90%
Ongoing Charges Figure (incl. Mgmt Fee) <sup>(2)</sup>	1.15%	1.15%	1.15%
Performance Fee	N/A	N/A	N/A
Minimum Investment	£100,000	£100,000	¥10,000,000
Launch date	Not launched	19.8.2013	23.4.2013
Sedol	B827JW9	B8B2R10	B8J9SY3
ISIN	IE00B827JW93	IE00B8B2R107	IE00B8J9SY37
Bloomberg	CCJIGBA ID Equity	CCJIGBI ID Equity	CCJIGJA ID Equity
SHARE CLASS	JPY INCOME	USD ACCUMULATION	USD INCOME
NAV	1515.360	33.163	18.352
Currency	YEN	USD	USD
Launch Price	¥1000	\$10	\$10
Dealing Frequency	Daily	Daily	Daily
Management Fee	0.90%	0.90%	0.90%
Ongoing Charges Figure (incl. Mgmt Fee) <sup>(2)</sup>	1.16%	1.15%	1.16%
Performance Fee	N/A	N/A	N/A
Minimum Investment	¥10,000,000	\$100,000	\$100,000
Launch date	13.1.2015	7.2.2013	27.10.2014
Sedol	B886Z00	B8Y6JC4	B8L7SS9
ISIN	IE00B886Z009	IE00B8Y6JC44	IE00B8L7SS90
Bloomberg	CCJIGJI ID Equity	CCJIUSA ID Equity	CCJIUSI ID Equity

## KEY RISKS

Liquidity risk – The Fund may encounter difficulties in disposing of assets at their fair price due to adverse market conditions leading to limited liquidity.

Credit and counterparty risks – the Fund may be exposed to credit and counterparty risks in relation to the securities and counterparties it invests in and with whom it transacts.

Concentration risk – This Fund holds a limited number of investments. If one of these falls in value, it can have a greater impact on the Fund's value than if the Fund held a larger number of investments.

Currency risk – Investing in assets in a currency other than your own exposes the value of your investment to exchange rate fluctuations.

Sustainability Risk - Environmental, social and governance events or conditions could occur that have an adverse impact on the value of the Fund's investments, either directly, or by contributing to the impact or materiality of other risks.

The Fund prospectus gives you further details about all the risks for this fund – see under "Important Information" for how to obtain a copy.

## IMPORTANT INFORMATION

- (1) Reference to the benchmark is made for comparison purposes only. The fund is not managed by reference to the benchmark, nor does the fund otherwise use the benchmark for the purposes of the Benchmark Regulation (Regulation (EU) 2016/1011). The benchmark performance shown is that of TOPIX TR Index in Yen. All share class performance since 04.02.2013 being inception date. NB Month end returns for March 2018 and August 2015 were calculated by Chikara.
- (2) Share class name change on 10th May 2016 from founder to S.
- (3) Ongoing Charges Figure: as at 31.12.2022.
- (4) The management fee was reduced from 1% to 0.9% from 14 August 2019.
- (5) Active Share Source: Eikon

All data as at 31.08.2023 unless stated otherwise. All information is sourced from Chikara unless stated otherwise.

This document does not purport to provide investment advice and should not be relied on for the purposes of any investment decision. It is not an offer to sell or the solicitation of an offer to purchase shares in Chikara Japan Income & Growth Fund (a sub-fund of Chikara Funds plc, an open-ended investment company with variable capital incorporated in Ireland and authorised by the Central Bank of Ireland as a UCITS pursuant to the UCITS Regulations). Any such offer or solicitation can only be made by means of the formal subscription documentation and the related Prospectus dated 26th July 2023 together with the Chikara Japan Income & Growth Fund Supplement dated 26th July 2023 (together the Prospectus) and only in those jurisdictions where it is permitted by law. Chikara, as investment manager, has discretion in managing the investments of the Chikara Japan Income & Growth Fund (the "Fund") and selects equities through research using fundamental, bottom-up stock selection techniques. The Fund is actively managed, which means that Chikara has discretion over the composition of the Fund's portfolio, subject to the Fund's stated investment objective and policy. Chikara will select the Fund's investments based entirely on its stock selection techniques, irrespective of whether such stocks are components of the Benchmark.

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PROSPECTIVE INVESTORS SHOULD REVIEW THE PROSPECTUS, INCLUDING THE RISK FACTORS THEREIN, BEFORE MAKING A DECISION TO INVEST.

The representative in Switzerland is 1741 Fund Solutions Ltd, Burggraben 16, CH-9000 St. Gallen. The Swiss Paying Agent in Switzerland is Tellco Ltd, Bahnhofstrasse 4, CH-6430 Schwyz. The prospectus, the articles of association, the Key Investor Information Documents, as well as the annual and semi-annual reports may be obtained free of charge from the representative. In respect of the units distributed in and from Switzerland, the place of performance and jurisdiction is the registered office of the representative.

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Copies of the Prospectus in English, UCITS KIIDs in English and PRIIPS KIDs in English, German and Swedish may be found at [www.fundinfo.com](http://www.fundinfo.com) and copies of the Prospectus and the latest annual report and any subsequent half-yearly report of the Company in English free of charge from Administrator, Northern Trust International Fund Administration Services (Ireland) Limited, George's Court, 54 – 62 Townsend Street, Dublin 2 or the Investment Manager, Chikara Asset Management LLP, 31-32 St James's Street, London SW1A 1HD. Tel : 0207 321 3470. A summary of investor rights is available in English at <https://www.chikarainvestments.com/summary-of-investor-rights>.

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