Lindsell Train

Japanese Equity Fund

ALL DATA AS OF 29 FEBRUARY 2024 MONTHLY REPORT | FACTSHEET

Fund Objective & Policy

To increase the value of Shareholders' capital over the longer term from a focused, actively managed portfolio of equities primarily quoted on stock markets in Japan. The Fund's investment performance is compared with the TOPIX (Tokyo Stock Exchange (First Section) Index) in Yen terms. The fund is not constrained by the benchmark (TOPIX) and will take positions in individual stocks that differ significantly from the Index with the aim of achieving a return in excess of the benchmark. There is no guarantee that a positive return will be delivered.

Calendar Year Total Return Performance (%) ¥

	2019	2020	2021	2022	2023
Japanese Equity Fund (A Yen)	+20.1	+2.5	-9.5	+2.7	+3.6
TOPIX Index	+18.1	+7.4	+12.7	-2.5	+28.3
Relative Return	**+2.0**	**-5.0**	**-22.2**	**+5.2**	**-24.7**

Total Return Performance to 29th February 2024 (%) ¥

					Annualised			
	1m	3m	YTD	1yr	3yr	5yr	10yr	Since Appt.*
Japanese Equity Fund (A Yen)	+0.6	+6.5	+5.2	+10.0	+1.8	+3.2	+8.2	+6.4
TOPIX Index	+4.9	+12.9	+13.1	+37.6	+15.6	+13.5	+10.7	+6.4
Relative Return	**-4.3**	**-6.4**	**-7.9**	**-27.6**	**-13.8**	**-10.3**	**-2.5**	**0.0**

Source: Morningstar Direct. Fund performance is based on total return of A Class shares and is net of fees. For periods greater than one year, returns are shown annualised. The TOPIX performance has been changed to total return with effect from 2/11/09 as disclosed in the Prospectus. Prior to that it was based on capital return. *Lindsell Train was appointed as portfolio manager to the fund in January 2004.

Past performance is not a guide to future performance.

Fund Information

Type of Scheme	Dublin OEIC (UCITS)
Launch Date	30 October 1998 (LT appointed January 2004)
Classes	A Yen / B Yen / B Yen Dist. / B £ Hedged – Dist. / B £ Quoted – Dist. / C US$
Base Currency	Yen (¥)
Benchmark	TOPIX
Dealing & Valuation	12 noon each UK/Irish/Japanese Business Day
Year End	31 December
Dividend XD Dates	1 January, 1 July
Pay Dates	31 January, 31 July

Fund Assets

¥20,341m / £107m

Share Price

A Yen	¥538.44
B Yen	¥242.03
B Yen Dist	¥186.98
B (£) Hedged – Dist	£3.01
B (£) Quoted – Dist	£2.15
C US$	$1.50

Source: Lindsell Train Limited and Link Fund Administrators (Ireland) Limited.

Fund Profile

The portfolio is concentrated, with the number of stocks ranging from 20-35, and has low turnover.

Portfolio Manager

Michael Lindsell

Investment Manager & Distributor

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Manager

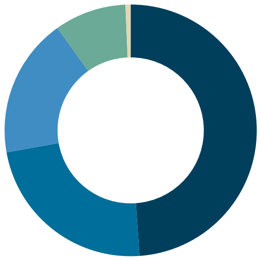
Waystone Management Company (IE) Limited

Regulated by the Central Bank of Ireland

Top 10 Holdings (% NAV)

Nintendo	9.57
Kao Corp	9.01
OBIC Business Consultants	7.69
Shiseido	6.86
Astellas Pharma	6.81
Japan Exchange Group	4.78
Yakult	4.75
Calbee	4.74
Pigeon	4.72
Takeda Pharmaceutical	4.70

Sector Allocation (% NAV)



Allocation and holdings subject to change.

Consumer Franchise/Brands	48.9
Media	23.3
Healthcare Incl. Pharmaceuticals	17.9
Financials	9.2
Cash	0.7
Total	**100.0**

Lindsell Train sector definitions.

Share Class Information

	Minimum Investment	Management Fees	Ongoing Charges Figure (OCF)*	ISIN	Sedol
A Yen	¥200,000	1.10% p.a.	1.30% p.a.	IE0004384180	438318
B Yen	¥10,000,000	0.60% p.a.	0.80% p.a.	IE00B11DWM09	B11DWM0
B Yen Dist	¥10,000,000	0.60% p.a.	0.80% p.a.	IE00B11DWS60	B11DWS6
B (£) Hedged – Dist	£100,000	0.60% p.a.	0.80% p.a.	IE00B3MSSB95	B3MSSB9
B (£) Quoted – Dist	£100,000	0.60% p.a.	0.80% p.a.	IE00B7FGDC41	B7FGDC4
C US$	$250,000	0.60% p.a.	0.80% p.a.	IE00BK4Z4T73	BK4Z4T7

*The OCF is a measure of the Fund's total operating expenses over 12 months, including management fee, as a percentage of the Fund's net assets. The OCF is based on expenses and average assets for 12 months to 29th December 2023. It is calculated by the Fund Administrator and published in the KIID dated 16th February 2024. It is an indication of the likely level of costs and will fluctuate as the Fund's expenses and net assets change. The OCF excludes any portfolio transaction costs. A copy of the latest prospectus and the Key Investor Information Document for each class is available from www.lindselltrain.com.

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Please refer to Lindsell Train's Glossary of Investment terms here.

Investment Team Commentary

Whilst the market is buoyed up by the combination of a weaker Yen and the aura around Generative Artificial Intelligence, consumer facing companies are battling to maintain relative competitive advantage. Even the highest quality consumer franchises are under pressure from the continued trend of declining real wages in Japan and the challenge of growing in China, where short-term pressures on consumer spending are arguably even more acute given the travails of falling property prices and youth unemployment. In addition, there are increasing reports of Chinese consumers boycotting Japanese products, due to concerns around the release of waste water into the sea from the defunct Fukushima nuclear power station. These challenges compound the disruptions caused by Covid and lockdowns, and the associated rise in raw material prices. Companies have responded with product price rises but the combination of headwinds has, for most companies, taken its toll on profitability. Longer-term, we retain confidence in our consumer franchises, and are hopeful that the easing of even some of these challenges will result in much improved performance. As Madeline Wright wrote in February's Global Equity Fund commentary: "Taken alone, each headwind would present a considerable challenge – but coming all at once as they have, it's no wonder that the share prices of many of these businesses are under pressure. But crucially, these headwinds are in our view well understood by management and will only temporarily interrupt the long-term growth trajectory."

Following the latest quarter's results, we thought it would be a good opportunity to provide an update on the Fund's larger consumer franchise holdings:

Kao, our biggest holding at c.9% of NAV, has, we hope, reported the nadir in operating profits in 2023 at ¥60bn, down from ¥212bn in 2019. The 2023 figure includes ¥55bn in one-off expenses, allowing the company to claim that underlying operating profits were up marginally in 2023 from the prior year. Almost all of the cost increases induced by rising raw material prices and yen weakness have now been reclaimed through price rises. We are now looking for reassurance and proof that recent declining volumes will be short-lived and don't signify declining brand power. We are also keen to learn more about the progress of Kao's longer-term strategy outlined in 2022, and particularly its plans to establish a platform with partners to offer products with better relevance to its customers. Uncertainties still persist around Chinese demand for cosmetics but the company expects a steady recovery in profitability from the core domestic business from here.

Milbon's almost uninterrupted growth in annual operating profits came to an abrupt halt in 2023, thanks primarily to the unsuccessful launch of a new hairdryer made by Panasonic, and weak sales of hair colouring products. The company's product range is primarily hair care, colouring products and some cosmetics exclusively sold in beauty parlours and salons. Selling hardware was a departure from the norm and took the company into a new but related space. The disappointing sales of the hairdryers resulted in impairment expenses. Having endured this hit, the company is expecting a recovery in profits in 2024. Crucial to the company's differentiation and success is its investment in 'Field Persons', a team of c.470 well-trained staff who engage with customers (salon owners) to promote Milbon's products and ensure that product innovations respond to and match customers' requirements. No other company in this line of business invests behind its products in this way. This has underpinned successive gains in market share in Japan, where Milbon is the largest company conducting this specialist business-to-business model. Now Milbon is building an overseas business based on the same model with the bulk of sales currently in Korea, followed by the USA and China. We will be watching their progress here with great interest.

Yakult's domestic business has been thriving thanks to the success of the premium offerings of its probiotic drink, Yakult 1000, which is sold door to door, and Y1000, which is sold through the retail channel. Recent supply constraints in the retail channel are now easing as new production comes on stream, just as the demand for Yakult 1000 seems to have peaked. As a result the contribution of domestic sales and profits looks as though it will flatten out from here. Yakult's overseas business has been struggling, especially in China and more recently in Indonesia. Boycotts haven't helped and the promotional campaigns that were curtailed during lockdowns are only just being reinvigorated. There are tentative signs of a bottoming in demand in China, but we'd expect overall company profitability to stagnate until Asian sales decisively recover.

Third quarter results showed that **Calbee's** domestic business is recovering. The company achieved record sales and profits in the first nine months of the fiscal year, as consumers absorbed successive price hikes leading to a rise in sales volumes. This has allowed Calbee to claw back profit margins lost from raw material price rises during lockdowns. Sales have also been helped by increased domestic tourism which has bolstered demand for higher-margin gifted snacks. This demonstration of domestic brand strength is encouraging and, if sustained throughout 2024 when further price hikes are planned, should underpin a recovery in profitability to above pre-Covid levels. Success will also be dependent on growth in the overseas business focused particularly on China and the USA. China has proven to be a challenge so far this year with boycotts and declining imports from Japan due to stricter customs regulations both taking their toll.

Continued…

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Investment Team Commentary

There is as yet little to show for the encouraging strategic steps taken by **Shiseido** over the last two years. These include selling off its personal care division and underperforming overseas brands, rationalising its product range to ensure a greater focus on its core competence of premium skin care, significant investment in new production facilities to reduce reliance on outsourcing, and increasing its appeal and footprint in the rest of Asia, particularly China. The company is currently focused on tackling its business in Japan where profitability is lacking due to the disruptions of lockdowns, and the need to further modernise and digitalise distribution. Despite these challenges and the continued headwinds in China, there is a growing sense that the business has turned a corner. Although profitability is expected to remain sub-par with c.6% projected operating margins this year, improved investment returns should follow in 2025 and beyond.

Pigeon, the baby care and mother care specialist, has the most exposure to China of any company that we own, with 35% of its sales and c.80% of its operating profits coming from the region. The boycott of Japanese products and particularly those in the skin care sector in late 2023 hit the company hard as Chinese sales in Q4 fell 43%. Margins in its Chinese business, where Pigeon vies for a leading market share, are highest thanks to 72% of sales routed through e-commerce. In Japan, where Pigeon is also the leading player, gross profit margins are 20% lower on account of a less focused product range and a traditional, less efficient distribution model. Whilst the company expects the impact of Chinese boycotts to decrease in 2024, it is still likely to put pressure on the business in the first half of the year. Beyond that the company sees continued growth potential in China and the rest of Asia, particularly Indonesia, where, despite maturing populations, annual births are multiple times those in Japan.

The above companies have been impacted by rising input costs, the falling Yen, lower tourist revenues, China boycotts and patchy consumer demand, and all have responded in their own way to these travails with the aim of maintaining their leading market positions and capturing real growth over time. And where share prices have derated to reflect these concerns, there is potential for recovery as investors acknowledge and prioritise the durable characteristics of these market-leading branded franchises.

Michael Lindsell, 13th March 2024

The top three absolute contributors to the Fund's performance in February were Japan Exchange Group, Taisho Pharmaceutical and Square Enix, and the top three absolute detractors were Milbon Co, Astellas Pharma and Pigeon.

Source: Lindsell Train, Morningstar & Bloomberg. All data as of 29th February 2024.

Note: All stock returns are total returns in JPY unless otherwise specified.

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