

# USONIAN JAPAN VALUE FUND

Quarter Ending March 31, 2021

## OVERVIEW

Usonian Japan Value Fund seeks long term capital appreciation over a full market cycle and measures its performance against the TOPIX Total Return Index. The Fund employs a fundamental, value-oriented approach to invest in Japanese equities with a focus on protecting capital in down markets and achieving lower total volatility compared to the index.

## PERFORMANCE (%)

Net of Fees, GBP	+2.60
Gross of Fees, GBP	+2.78
Tokyo Stock Price Index (TR, GBP) <sup>1</sup>	+0.55
<b>Value Added</b>	<b>+2.23</b>

## Major Performance Drivers

In the first quarter, global equity markets including Japan rallied as the spread of COVID-19 vaccines accelerated and vaccinations for healthcare workers started in Japan. Markets were also supported by the announcement of an additional economic stimulus package in the U.S. and Japan's proposed budget for fiscal 2021, which reached a record high of ¥106.6 trillion. Japanese equities rallied in the first quarter despite an absence of meaningful fund flows from foreign investors or Bank of Japan ETF purchases.

In mid-March, the BOJ conducted its first comprehensive review of its monetary framework since 2016, making a number of changes to its policies to minimize side effects of its extreme monetary easing. The BOJ:

1. Removed the “target” of ¥6 trillion/year ETF buying, while keeping the “ceiling” of ¥12 trillion to provide a backstop during times of market decline;
2. Abandoned Nikkei ETF purchases in favor of the broader TOPIX;
3. Indicated tolerance for greater variability (+/- 25 bps) around the 0% long-term rate target; and
4. Took steps to mitigate damage caused by Negative Interest Rate Policy (NIRP) to bank profitability.

Finally, in late March the International Olympic Committee (IOC) and Tokyo agreed not to invite foreign spectators to the Olympics. As a consequence, Japan's economy – particularly the hospitality sector – will see less economic benefit from hosting the Olympic Games than originally expected.

The GMO Usonian Japan Value Strategy outperformed the TOPIX TR which rose by 9.1% (in JPY), but underperformed the MSCI Japan Value Index, which rose by 16.0%. Small cap stocks had underperformed through February, but outperformed in March,

**Performance data quoted represents past performance and is not indicative of future results. The investment return and principal value of an investment will fluctuate so that an investors shares, when redeemed, may be worth more or less than their original cost. Current performance data may be lower or higher than the performance data provided herein. To obtain performance information to the most recent month end, visit [www.gmo.com](http://www.gmo.com).**

GMO UK Limited authorised and regulated by the Financial Conduct Authority Registered no 4658801 England. GMO Netherlands is a branch office of GMO UK Limited and is registered with the AFM.

reaching +9.0% in the first quarter, on par with TOPIX. Security selection in Industrials was the largest contributor to performance versus TOPIX, while security selection in Materials detracted from relative performance.

### Outlook

The state of emergency extended during the first quarter was lifted on March 21, and the performance of Japanese companies, especially in the manufacturing sector, concurrently began to recover. We believe the economy (and company fundamentals) will continue to grow steadily in 2021. Although the delay in vaccinations compared to the rest of the world is cause for concern, the number of infected people in Japan is still low. We saw some signs of recovery of future growth as industrial production improved to -2.1% year-over-year (from -4.2% in December), while the AU Jibun Bank Manufacturing PMI increased to 51.4 in February from 49.8 in January.

On March 31, the Ministry of Economy, Trade, and Industry (METI) held a "Follow-up Meeting on the Stewardship Code and Corporate Governance Code," and presented a draft revision of the Corporate Governance Code. The proposed revision provides guidelines for inclusion in the "Prime Market," including (1) the appointment of at least one-third independent outside directors, or a majority of independent directors in the case of special situations (such as listed subsidiaries); (2) the disclosure of the skills matrix of the board of directors; (3) the establishment of ESG policies, disclosures, and measurements; (4) a requirement for the majority of nomination and compensation committee members to be independent outside directors; (5) electronic proxy voting; (6) the disclosure of and targets for ensuring diversity and human resource development; and (7) an English language disclosure. With the change in the Tokyo Stock Exchange's listing classifications, companies listed on the Prime market should be required to have a more sophisticated governance system, and while this revision is not as bold as we had hoped, we do believe revision will enhance the Corporate Governance Code and continue to see progress on various fronts, including the elimination of policy-holding shares in preparation for the change in future listing classifications.

---

<sup>1</sup> TOPIX (Net of dividend withholding tax) is a free-float adjusted market capitalization-weighted index that is calculated based on all the domestic common stocks listed on the TSE First Section. TOPIX shows the measure of current market capitalization assuming that market capitalization as of the base date (January 4, 1968) is 100 points.