



## British Empire manager to launch Japan trust

By **Taha Lokhandwala**

The company that manages **British Empire Trust** (BTEM) plans to launch a Japan equity investment trust in September to take advantage of value investment opportunities. The new investment trust hopes to raise £100m to £200m in its initial public offering, and will be run by Joe Bauernfreund, chief executive officer of Asset Value Investors and lead manager of British Empire Trust.

The decision to launch a Japan equity trust follows an increase in British Empire Trust's allocation to Japan. This trust is a value-orientated global equity fund, and Mr Bauernfreund thinks Japan is a good hunting ground for value investments – businesses whose share price is materially undervalued.

British Empire Trust has a portfolio of Japanese special situations stocks which account for 13.6 per cent of its assets. It also has 6.1 per cent of its assets in Tokyo Broadcasting

System (9401:TYO), so that Japan was its fourth-largest regional exposure after Europe, North America and Asia at the end of June.

Asset Value Investors' new Japan trust will invest in the 20 Japan stocks British Empire Trust holds, and an additional 10 holdings. The new trust will invest larger amounts in smaller Japanese companies, and Mr Bauernfreund expects that the average market cap of its holdings will be around \$500m (£384m) to \$600m.

"There will be some overlap [between the two trusts' holdings] but the Japan trust will be able to buy some companies that are too small for British Empire," said Mr Bauernfreund.

His conviction in Japan as a value opportunity has increased since he upped British Empire Trust's exposure to the country from 5 per cent to over 20 per cent over the past 18 months. He said there are 500 to 600 companies in Japan that hold too much cash, some of which hold cash worth around 30 per cent of their market capitalisation. So active shareholders could try to pressure them into deploying the cash in more shareholder-friendly ways.

"These stocks have really low multiples when you strip out the cash, and with the changing attitudes towards shareholders [in Japan] there is a compelling investment case," added Mr Bauernfreund.

The Japanese stock market is on a price/earnings ratio of 11 times so is cheaper than other developed markets. Mr Bauernfreund said the appealing valuations, together with the country's new corporate code, make Japanese shares very attractive. The new corporate code states that companies must focus more on shareholder returns and has in general introduced better governance.

Despite this, Mr Bauernfreund argues that it is still important to be an activist when investing in this market to try to change attitudes to capital allocation. "We are willing to engage with companies and run campaigns in the media [to change businesses] when most others would shy away," he said. "We're very happy to be a large dominant shareholder. Japanese companies also like long-term shareholders so the new trust will help us expand our clout in Japan."

He added that engaging them in this way to try and increase shareholder value means they will view Asset Value Investors in a more positive light than if they

engaged in more aggressive forms of short-term activism.

With the new trust, Asset Value Investors will hold at least 1 per cent of the market capitalisation of each of the Japan stocks it owns so it will have the right to make shareholder resolutions at annual general meetings. Mr Bauernfreund said that resolutions and shareholder campaigns are becoming more common, with a record number this year.

The level of the new trust's management fee has not yet been decided but it will not have a performance fee. More details will be available in the trust's prospectus, which Asset Value Investors expects to publish by mid-August, ahead of a September launch.

<b>British Empire Trust's Japan special situations holdings</b>
Kato Sangyo
Toshiba Plant
Nishimatsuya Chain
Pasona Group
Tachi-S
Yamato Kogyo
Melco Holdings Inc.
Amuse Inc
SK Kaken Co
Daiwa Industries
Denyo Co
Kanaden Corp
Matsui Construction
Nakano

Nissan Shatai
Teikoku Sen-I
Chofu Seisakusho
Mitsuboshi Belting
Source: Asset Value Investors, as at 30.06.2018, accounts for 13.6 % of British Empire Trust

For more insight into Mr Bauernfreund's investment process listen in to our recent podcast interview.