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investing ON THE go

TRANSCRIPT: EPISODE 2
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[INTRODUCTION]
Ryan Lightfoot-Brown (RLB): Hi, I'm Ryan Lightfoot-Brown from FundCalibre, we're joined today by Chisako Hardie manager of the AXA Framlington Japan fund. Welcome Chisako. Thank you for joining us.

Chisako Hardie (CH): Thank you.

[INTERVIEW]
[0:13]

RLB: How would you explain your job to someone outside of financial services?

CH: I would say, I look for businesses which are likely to grow for the long term and invest my clients money in them so the value of their money will increase over the time. As this is a mutual fund, which means so many clients money is gathered in the fund, we can invest in many companies and this reduces the risk in individual investment.

[0:44]

RLB: You've been quoted as saying after two lost decades, corporate Japan has completely reinvented itself and you're finding, contacting and connecting with these 21st century businesses. In what ways have these companies changed exactly?

CH: This is a very important point, however, surprisingly not many people are aware of it - even Japanese people - not many Japanese people are aware of this. Until the end of bubble economy of Japan which ended day 1 1990, the Japanese business model was the old Japanese model which was working really well. That was import material and mass produce consumer products and export them massively overseas. That was the old model, which was working really well.

That model was supported by the US and the Yuan remained quite low, weak, and so it worked really well and through 60s and 70s towards the end of 80s but it suddenly stopped working. Why? Because Japanese position in the world really changed.

[2:00]

Everyone remembers the wall in Berlin fell in November in 1989 and soon after this, Japanese market collapsed and the Japanese difficulty started. Was it coincidence? No, I don't think so.

That symbolised the end of the Cold War, that means Japanese significance to the United States declined quickly, I believe.

Therefore, Japan became less important because before this, keeping Japan strong was important for the US, but this situation pretty much changed quite drastically and around that time Japanese exports were causing frictions everywhere in the world. Japan was suddenly hated, rather than being admired. That was the case for many years.

[2:56]

It suddenly changed and the Japanese bubble popped.

After this corporate Japan had to repair its balance sheet by reducing excess debt, excess labour, excess production capacity. It took more than 10 years, 10 - 15 years, then everything was repaired. By this time, Korea had copied the Japanese old business model and they've been so successful, LG and Samsung became big replacing Sony and Panasonic.

[3:36]

What corporate Japan did was they shifted from B2C (business to consumer) to more B2B (business to business). That means, rather than producing the end products like TV sets, they started producing high tech materials or devices or production equipment, rather than those products. Rather than TV sets, LCD sets, because now you go to the electrical shops and you used to see Song, Panasonic, Sharp, all Japanese names but now you see Samsung and LG and those companies.

People think Japanese companies are gone but that's not true.

Their new business models are going inside, that means the TV set itself has Samsung name but inside there are lots of devices and materials made by Japanese companies. And the chances are lots of things are made by the production equipment, made by Japanese companies. So the business model drastically changed, so unless being aware of this, you think Japan is really losing but that's not the case.

RLB: On a business side, it's okay.

CH: Yes, and a lot of companies are doing really well. Many companies are now hitting their history goal high earnings.

[5:08]

RLB: One of the other initiatives the government has brought in is encouraging women into the workplace. Why has the government done this and have you noticed any significant changes as a result?

CH: Now it's important. It's been talked about for many years but this is particularly important now because from the point of view of business, the Japanese population is not growing, it's started declining so that means we really need to utilise national resources more efficiently.

[5:45]

What is their important national resource, which are pretty much wasted? Women.

Because Japanese women are well educated, about 58% of Japanese women go to University, but not many women have an important positions in businesses or anywhere. That's pretty much a waste. In Japan the working practice was pretty much, probably was suited in their high growth era like 60s, 70s, 80s, when the economy was growing so fast, men had to work like mad. All day, every day.

They needed their wife staying at home and looking after them. To support them. That was their full time job. But their world is changing, Japanese economy itself (micro) is not growing that fast so rather than spending more time in the office, we need to improve the productivity efficiency, so that's the focus.

[7:01]

The work-life balance for men should change and it is changing. Lots of companies just introduced a new system, you can't stay in the office until very late. It used to be that was the norm.

To be able to do this because people work much shorter time, therefore we need well educated people to come in, to add value to businesses, to society.

We need women. And there are well educated, good quality women in Japan.

So far the government is trying to do lots of things and also companies have been trying; more diversity, gender equality, it's becoming serious these issues, but progressing very slowly. But at least they're going in the right direction.

[7:57]

RLB: Going back to your fund, you can invest in companies of any size but you find some of your best ideas in smaller companies, why do you think that is?

CH: The reason is there are so many smaller companies in Japan. A total 4,000 companies are listed in Japan and in terms of the number of stocks, 90% are smaller caps.

In Japan there aren't that many small cap specialists, therefore the majority of those small caps are quite significantly under researched. However, there are lots of interesting businesses out there happening now and great opportunities.

We have the expertise to discover those smaller companies. Therefore, we are very keen on smaller companies because the chances are we are able to invest in the really interesting growth businesses at a low price.

[9:05]

RLB: Some of the themes within your fund include the globalisation of Japanese food, ageing population, automation and increase use of electronics in cars. Can you explain why you've picked these themes and give us a company example of a couple of those?

CH: These themes are all longer term themes. It's not fashion trends, it's not just short term trends these are all long term structural growth themes, therefore we are very keen because these themes are sustainable, we believe.

[9:42]

Food. Until recently, Japanese food companies were regarded as typical domestic businesses. But because Japanese population won't grow the market won't become bigger. Several years ago many of them, the strong ones, started looking at foreign markets and some have been quite successful.

We have a small investment in Kameda Seika* - they make rice crackers. Rice crackers, I believe are much healthier than potato crisps. There's no fat, less salt, less calories and everything. I believe big potential in rice crackers, I quite like this theme.

[10:33]

Ageing population. This is often regarded as a negative factor about Japan, however this is also creating lots of new interesting businesses. All the developed economies will experience this soon, so Japan is ahead of the trend.

This means those companies, I think they interesting businesses, but for the longer term they will have opportunities abroad as well.

One of the investments on this theme is a company called Tsukui*.

This company's main business is a day care centres, old people go there twice or three times a week to do some activities. I actually visited one of those places and it was so impressive. It was totally difficult from what I had expected. I was imagining some old folks just sitting watching the tv, but it wasn't like this at all.

There was some handy craft club was happening with the old ladies and one of them was teaching the others how to do things, that was interesting. And there was a karaoke party happening in one end. The all had fitness program, which was designed for each person, and they use the equipment so there mobility and health level improves when they start coming to this place.

They're happy, their families are happy and also the company itself is happy because they will keep their customers for a long time. So win, win, win. I think it's a great business.

[12:30]

Another thing is automation. This is going to be a long term thing. The Japanese population is limited and it won't grow and also there's a lot of companies doing really well, therefore labour shortage and more automation is desperately needed in many companies.

This is treated as a more serious matter these days. The president of one company told me a few months ago, he said they used to consider replacing a person by a robot when it's cheaper. Now they changed their mindset and he said we replace a person by robots if the robot can do the job, even if the initial cost is quite high.

People always talk about then lots of people will lose jobs but I don't really think in that way. Those people who are replaced by a robot, that means those people are doing something that a machinery was able to do. That means they will move to a job that which only human beings can do. As a whole business, it will create more value.

I think this is a very positive trend longer term.

[14:02]

Electronification of automobiles, this is really Japans strength.

One of the examples, not that obvious was Nidec* - this company used to be known as the producer of micro motors which were used in HDD but this market stopped falling at some point. HDD, hard-disk drive, and the PC market started falling and investors became negative about the future of this company.

However, they really reinvented themselves, they became general motor producer of any size of the motors and they started doing various areas and they are now the largest manufacturer of motors - large or small.

As a latecomer they went into the car industry and their strength is because they didn't used to have any business in the auto industry, that is really good because existing auto component companies are growing in this electronification of automobiles but they have also existing business which are falling because of the electronification. Some parts are redundant. So they are losing and gaining.

But in this Nidec* case, it's all winning, they're just exposed to the growing part of the auto industry so that's an interesting thing.

RLB: That very neatly brings us back to the beginning the Japanese companies doing business to business rather than consumers.

CH: Yes, exactly.

RLB: Well Chisako, thank you very much it's been really really very interesting. And thank you very much for listening, I've been Ryan Lightfoot-Brown, if you'd like to listen to more of our podcast please subscribe to FundCalibre.

*as at 17 April 2019