

# Goldman Sachs Japan Equity Partners Portfolio

Japan

## Introduction

(Offshore)

The fund is an actively managed, bottom-up, research driven, focused portfolio of 25-40 stocks looking to achieve long-term capital growth over 3-5 years. The fund combines a fundamental approach with local expertise focusing on sustainable and growing businesses which are not dependent on the economic cycle in Japan and the investment style is large cap growth. It is managed by a Tokyo based team comprising analysts and the lead portfolio manager.



[Click here to read the Goldman Sachs Asset Management approach to ESG investing.](#)

## Why RSMR Rate this Fund

- Strong local presence allows excellent access to company management
- Focus on secular growth companies not dependent on path of economy
- Strong and consistent returns driven by stock selection
- ESG used to reinforce investment case and flag potential concerns/liabilities
- Managed by a specialist team looking for market outliers driving own destiny not dependent on economic growth

## Fund Process

The fund has a focus on companies which provide a good combination of strong fundamentals, robust balance sheets and attractive secular earnings growth prospects. Companies experiencing slower earnings growth are excluded from the fund. There is a high emphasis on companies with excellent management teams which have a good record of making shareholder friendly decisions. Ongoing corporate governance reforms are now unlocking value for shareholders and as active managers with direct access to management, the team believe they are in a strong position to assess these changes before the market prices them in.

By focusing on companies with lower exposure to cyclical growth and higher exposure to long-term secular growth trends, stocks should demonstrate resilient earnings over a complete market cycle compared to the broader market. The fund is looking to take meaningful positions in growing companies where fundamental changes are yet to be recognised by the market and looks to have an active share of above 70%.

There is also consideration of non-financial factors including environmental, social, and corporate governance factors to identify key risk and return drivers. Adherence to best ESG practices can help minimise costs and liabilities together with enhancing profitability and competitive positioning. There is a pro-active focus on sustainability which can be an indication of a strong corporate strategy and business model. ESG is used to reinforce conviction around the quality and robustness of a company's business model and identify potential risks. Governance in Japan can lag global peers so is an area of enhanced focus.

Proprietary bottom-up research is the key driver of the investment process and all research analysts within the team are Japanese investors that can fluently read, write, and converse in Japanese which allows a cultural understanding of the local equity market, the corporate environment, and the available investment opportunities. The majority of quarterly results and research reports from companies and brokers are published in Japanese. There are also different accounting standards within the country and Goldman believe that the Japanese team, through understanding the nuances of local accounting standards, can identify opportunities in a timely manner. The investment team for the fund is based in Tokyo, conducting first-hand research, identifying growth, and profitability drivers through meetings with companies' management, suppliers, competitors, customers and industry experts. A local presence allows the team to cover a large number of companies and they conduct over 2,000 meetings on an annual basis.

Stocks included will operate in a favourable market environment which is growing or have the potential for market share gain with stocks looking to deliver a minimum of 5-10% earnings growth.

## Evaluation

The fund will perform at its best when growth stocks are in favour, but over longer time periods stock selection and earnings growth will be the most important performance drivers. If deep value or highly leveraged businesses perform well the fund is likely to struggle in the short term and also if the market is in a recovery phase.

## Application

This is a high alpha specialist approach which takes a focused, concentrated approach to investing in Japan. As such it is best used as a satellite holding in the region, although for investors who can live through short term volatility or blend the fund with a value offering it can be used as a core holding.

## Our Opinion

The investment team are looking to capitalise on their proximity to the market and ready access to corporate management, aiming to understand corporate culture in Japan through their on-the-ground presence. The fund exclusively focuses on selective companies with unique growth drivers and can tolerate a relatively high tracking error. The team seek companies which can deliver a return of 50% over three years which requires combining businesses with strong fundamentals and an attractive valuation. The fund has built up a strong performance record, when looked at cumulatively or on a discrete year basis, and whilst its growth bias has aided performance over the majority of time periods, it stacks up in a highly credible manner with a sub-universe of growth orientated funds. Stock selection has been strong across a broad range of sectors and the consistent results demonstrated over many years indicate the research and portfolio construction processes are robust. The fund has avoided parts of the economy, both at the sector and stock level, adversely affected by the country's sluggish growth profile and negative demographics. It has also identified a number of niche manufacturing industries benefitting from the growth of new economy sectors. The strong and consistent results delivered by this locally based team fully justify an RSMR rating on the fund.



### Important Notice

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