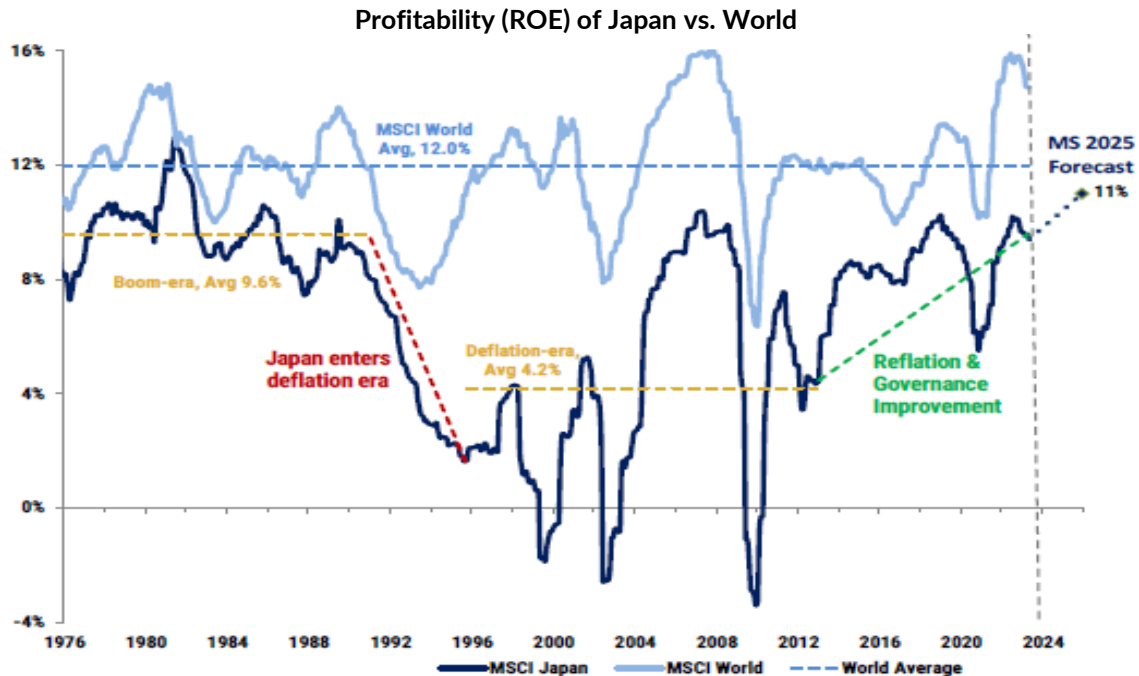


## Japan's ROE: Return of Enthusiasm



Source: IBES, Datastream, Rimes and Morgan Stanley Research as of 5/31/2023

- The chart above is a little busy, but the message is simple. **Japanese companies have dramatically improved their profitability profile over the past decade.** Various reforms have reoriented management teams to focus on efficiency, margins and shareholder returns, closing the gap with the rest of the world and driving the impressive stock market performance we've seen over that time frame.
- In our last Chart of Interest we highlighted that the Japanese economy is breaking out of a 30 year long stagnant, deflationary trend as a result of various reforms (Abenomics) that have been implemented over the past decade.
- Reforms at the corporate level are also having a major effect and Japanese companies are increasingly utilizing IT Service consulting arms (many of them in-house) to upgrade and digitize operations, migrate systems to the cloud and ultimately spur faster growth in higher margin areas of their businesses. These initiatives have more than doubled profitability levels (e.g. Return on Equity or ROE) and have allowed more excess profits to be returned to shareholders.
- Our International Intrinsic Value strategy is now overweight Japan for the first time in the product's 18 year history as a results of these structural reforms.

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