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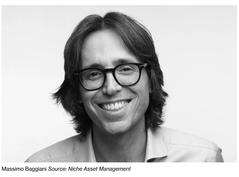
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Japan Small-Cap Fund Tops Rivals With Stocks Few Analysts Cover

- Japan fund has beaten 99% of its peers so far this year
- Small-cap companies gain traction amid tariff concerns



Massimo Baggiani Source: Niche Asset Management

By Aya Wagatsuma

3 March 2025 at 23:37 CET

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Japan's ongoing boom in mergers and acquisitions is helping to generate superior returns this year for a small-cap fund that focuses on companies that few equity analysts cover.

Managed by Massimo Baggiani and Andrea Andreis in London, the NicheJungle Japanese Orphan Companies SDG Fund has exited positions in 20 companies at a profit, with half of these firms taken over since the fund was launched in 2022. The supply of targets is likely to increase as takeover bids stay on track to reach a record this year amid growing pressure on companies to boost shareholder returns.

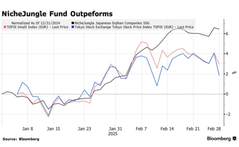
"Every company in the portfolio can be a takeover target," Baggiani told Bloomberg in an interview. "The quality of the small Japanese companies is incredible."

The fund has gained more than 6% this year as of the end of February, beating 99% of its peers, according to data compiled by Bloomberg. The Topix Small Index and the broader Topix have risen no more than 3% in euro terms during that period.

Focused on companies with scarce analyst coverage, the fund relies on the research of equity analyst Salina Legg, who has conducted interviews with more than 70% of the approximately 150 firms held in its portfolio. The shares must have been listed for at least 10 years and have a minimum free float of ¥2 billion ($13 million).



Chuoh Pack Industry Co., one of the fund's biggest holdings as of Feb. 14, saw its shares more than double in value since Nikkon Holdings Co. launched a tender offer for the manufacturer of cardboard containers at the end of January. The shares could climb higher given the company's net financial position, Andreis said.



Faith Inc., which the fund held before the shares were delisted on Jan. 30, also soared more than 200% in November after Genesis Co. acquired the owner of Japan's first record label Nippon Columbia Co.

But smaller companies tend to face greater liquidity risks. For example, the fund holds shares of golf club maker Endo Manufacturing Co., which has had an average daily trading volume of around 22,000 for the past year, while Toyota Motor Corp.'s volume was around 29 million.



Andrea Andreis Source: Niche Asset Management

To mitigate liquidity risks, the fund makes sure that a certain percentage of a company's shares can be sold quickly. Cash makes up 5%-12% of the portfolio, of which half is hedged against the euro.

Meanwhile, Japan's smaller firms may be less exposed to the yen's recent rebound given that they tend to rely on domestic sales. Companies in the Topix Small Index get almost 80% of their revenues domestically, compared with just 44% for firms on the Topix 100, according to data compiled by Goldman Sachs.

To read more about M&A activity in Japan:

- Stock Investors in Japan Hunt for Takeover Targets With New Fund
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- M&A Is Adding Fuel to Japan's Governance Trade: Taking Stock

Perhaps the main reason to hold these shares is because many of them are neglected by the broad market, according to Baggiani. Once global funds take an interest in these shares, prices could take off, he said.



There is still "room to grow" for the Japanese small cap companies and when the money starts to flow in and interest grows, "that's where you will see the gap closing," Baggiani said.

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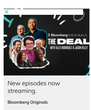
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