

Conviction: Schroder Japan Investment Trust (Ticker: SJG LN)

Schroder Japan is a £460m investment company which has a mid-cap focus, with an underweight to holdings in banks and semiconductors. Despite this underweight, the manager has consistently outperformed the TOPIX over a 1, 3, 5 and 10-year period.

Where there is exposure to AI capex expenditure, we find this portfolio, which seeks to avoid customer concentration in favour of product agnostic players, a better proposition.

Corporate governance reform in Japan should also be supportive. From October this year, the Tokyo Stock Exchange will begin to cull the number of companies in the primary TOPIX index from 1,700 to 1,100 stocks. This is expected to improve liquidity, and alongside other reforms, put further pressure on companies to raise their price-to-book.

As the focus of reforms shifts to smaller companies, we believe the manager's mid-cap focus is well placed to benefit.

Monitor: RIT Capital Partners (Ticker: RCP LN)

RIT Cap is a ~£4.1bn portfolio of quoted equities (including ~5% in SpaceX), uncorrelated strategies and private investments. After a few difficult years, due to concerns around the valuation of its private assets, the discount touched ~30% earlier this year. In July, the board offered an exit via tender at 15% of NAV to clear a perceived overhang in the stock. 21% tendered their shares with 8% of the issued share capital ultimately being repurchased.

This has come at a time when their private assets are having a renaissance. Performance has been impressive and effective marketing around popular holdings such as SpaceX, OpenAI, Stripe and Anthropic, built through long-established relationships with venture capital funds, appears to have successfully turned the sentiment on their private assets. That said, we believe SpaceX's current valuation is unsupported by fundamentals, requiring a wider discount.

The board has also laid out two other strategic initiatives, namely an increase in the dividend in March 2027 and the continuation of the share buyback programme. The combination of these measures has seen the discount narrow to 19%.

If the board can follow through with a sustained buyback programme and provide some guidance on the future prospect of periodic tenders, this would establish a new framework for discount control and make the trust an attractive investment.

Caution: AI off balance sheet commitments

We are sceptical of the prospective returns from AI capital expenditure and the off-balance sheet liabilities being committed against it. We estimate Microsoft, Alphabet, Amazon, Meta, Oracle and Nvidia have ~\$2.9tn of leases yet to commence, purchase obligations and contractual commitments. These future liabilities are increasing rapidly, with Alphabet adding nearly \$0.5tn of contractual obligations in the last quarter. As AI related companies overtake US banks to make up 14%¹ of the US investment grade credit market, exposure to the AI bet is spreading across both equity and bond markets. Investors should reassess their risk and asset allocation accordingly.

¹ Cohort of AI related issuers in the JPMorgan US Liquid Index Oct 25