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Dan Carter, Fund Manager

Dan joined Jupiter in 2008 and is fund manager of the Jupiter Japan Select fund (SICAV).

Before joining Jupiter, Dan was a fund manager at Odey Asset Management on the Japanese equities team and before that was at Baillie Gifford & Co, where he was an investment analyst for both the Japanese equities and UK Large-Cap Equities teams.

Dan has a degree in Economics and Economic History from Warwick University and is a CFA® charterholder.

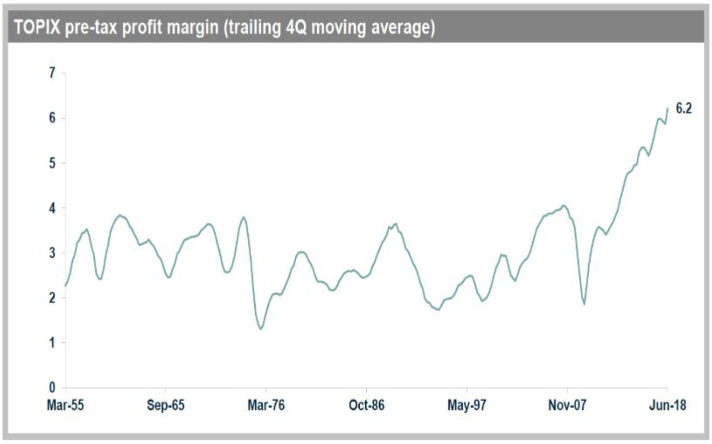
About Jupiter
The listed British investment manager with boutique-like investment approach, located in London and founded in 1985, employs more than 400 employees worldwide (thereof about 35 fund managers). Today Jupiter is one of the UK's most respected asset management groups.

„The Jupiter Global Fund SICAV" (a Luxembourg based UCITS structure) provides clients outside the UK access to the diverse investment capabilities through its 29 sub funds which are registered for distribution in several European countries. Jupiter's total AUMs are GBP 42.7 bn as of 31 December 2018.

Japan's counter-intuitive labour dynamics

The record level of profitability for Japanese companies has secured a larger slice of the economic pie for the corporate sector. This has come partly at the expense of the labour force, despite the steadily falling unemployment in recent years. What is behind this counter-intuitive dynamic in Japan's labour market and can organised labour close the gap?

There has been a dramatic structural improvement in Japanese corporate profitability which has seen pre-tax profit margins break out of their decades-long established range.



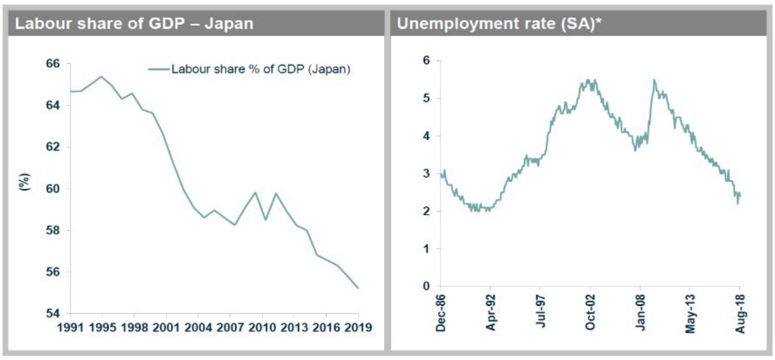
Japan has never been more profitable [1]

Corporate Japan's much-improved profit margins mean, by definition, that the slice of the economic pie attributable to the corporate sector has been growing. Furthermore, it has been growing at the expense of other groups with claims on that money – and labour has been losing out even at a time when unemployment has been falling sharply. This appears counter-intuitive. Surely lower unemployment boosts the bargaining power of labour and pushes up wages?

We have argued that the shifting mix of the labour force, with highly-paid older men being replaced by less highly remunerated workers, has helped offset this for companies. What is more, the bulk of the increase in employment in recent years has been among women, going some way to offsetting the structural tightness that is a function of an ageing (retiring) workforce.

Additionally, as companies have struggled to hire new workers, they have reallocated existing resources internally to only the most profitable projects. We have referred to this phenomenon as a "perverse demographic dividend" for the corporate sector. However, whilst these explanations hold water, they do not touch upon the third factor which is that base wages have indeed risen by less than most economists would have expected given the tightness of the labour market.

In February, organised labour had once again the opportunity to close the gap as Rengo (Japan's Trade Union Confederation) meet with the leaders of the Keidanren (big business lobby) to kick off the annual wage bargaining round.



Aging and shrinking population mean that labour is too precious to waste [2]

It is our view that with general inflationary pressures abating – countrywide CPI excluding fresh food and energy was just 0.3% in December – the corporate sector retains the whip hand in these negotiations. Also, the reallocation of labour within companies, mentioned above, can surely go much further. However, increasing female participation is becoming increasingly played-out and vote-hungry politicians are pushing for bigger pay rises for their

MARKET COMMENTARY

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constituents. Overall our base assumption is that corporate Japan continues to benefit rather than suffer from the tight labour market, but we accept that the pace of this structural improvement could wane and we will remain vigilant on a company level to the risk of potentially corrosive wage demands.

Source:
1. Ministry of Finance, compiled by Mizuho Securities, March 2018
2. CLSA, UN, 29.01.18,