

## Market Review of previous month

The Japanese stock market rose for two consecutive months.

The market surged in the first half of the month, Nikkei 225 almost touching the 20,000 level, on strong corporate earnings outlook for FY2017, retreating geopolitical risk in Europe following independent centrist Emmanuel Macron's victory in the French presidential election, and yen depreciation. The market once pulled back as Trump administration's alleged involvement with Russia caused anxiety over US policy maneuvers to spread, but the downside was limited, due to strength in the US stock market and higher crude oil prices. The Nikkei 225 closed the month at 19,650.57 (+453.83 / +2.4% MoM), and TOPIX at 1,568.37 (+36.57 / +2.4% MoM).

Among the 33 TOPIX index industry groups, Other Products, Foods, Information & Communication, Construction, and Electric Power and Gas rose, while Marine Transportation, Oil and Coal Products, Mining, Textiles and Apparels, and Iron and Steel fell.

## Market Outlook of this month

We expect the upside of the market to be limited in June.

Expectations for further yen depreciation is receding, due to concerns over President Trump's ability to carry out his policies, and uncertainty surrounding the pace of the Fed's interest rate hike.

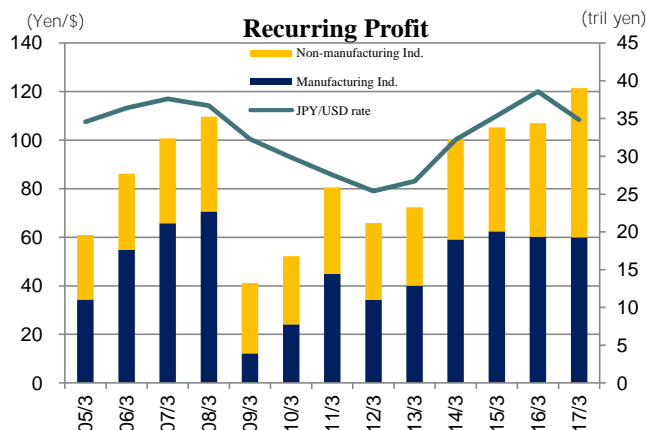
Although Japanese company's earnings are expected to grow near double-digit in FY2017, uncertainty over political and economic situations overseas will suppress the market in the near to midterm, and we expect market participants to become more focused on companies with clear competitive advantages, which can grow earnings whatever the business environment.

## Topics

Shoko Chukin Bank's monthly survey on small business confidence for March reported a reading of 50.5 mark, exceeding the 50 mark for the first time in three years. What is notable is improvement in profitability among SMEs amid slow sales. In the past 10 years, optimists outnumbered pessimists in 2006 and 2013, but the optimism stemmed from profitability improved through growth in sales. Given the difference in the context, it can be said that the rise this time is a sign of prevailing profit-oriented attitude among SMEs.

Late April to mid-May was a busy season for FY2016 announcements. According to Nihon Keizai Shimbun (Nikkei), current earnings of non-financial companies listed on TSE 1st section for the period ending on March 2017 exceeded the peak recorded in FY2007 ending on March 2008, the year right before Lehman Brothers' bankruptcy (see Chart). Among those companies, Sony is a good example. The firm changed its procurement to purchase many of mobile phone parts locally in USD, which enables the firm to save procurement cost when JPY firms against USD. Thanks to the changes in cost structure as such, Sony's business profit now increases JPY3.5bn per a 1-yen appreciation.

Given that, I would hold a view that managements' profitability-oriented attitude is now further clearer in both big and small businesses, and some are even gaining tolerability against strong Yen. To see 5-month changes of JPY and TOPIX as at the end of May 2017, Yen firmed by +5.3% from 116.97 as at year-end of 2016 to 110.80, while TOPIX rose by 3.3% during the same period. Japanese equity market may keep on pricing in revenue recovery unless there is an excessive rise in Yen, say over 100 vs USD.



Source: Nikkei NEEDS-BULK/FDS, AstraManager

Note: The figures are recurring profit of non-financial companies listed on the TSE 1st section as at the end of each fiscal year ending on March.

# Composites Performance of Selected Japanese Equity Strategies

(As of the end of May 2017)

## <JPY base performance>

(\*annualized)  
 (\*\*preliminary)

Ref.	Japanese Equity Strategies		Composite Performance (Gross Return)						
			2017 2Q			YTD	Last lyr	Last 3yrs*	Last 5 yrs*
				Apr	May**				
1	Concentrated	Strategy Return	3.20%	-0.47%	3.69%	6.82%	14.73%	12.26%	21.78%
		Excess Return	-0.49%	-1.74%	1.29%	2.54%	-1.38%	0.72%	2.48%
2	Engagement	Strategy Return	9.98%	2.42%	7.38%	12.18%	4.11%	21.25%	29.10%
		Excess Return	6.29%	1.15%	4.99%	7.90%	-12.00%	9.71%	9.80%
3	Research Value	Strategy Return	4.02%	1.16%	2.82%	5.20%	16.77%	10.76%	18.64%
		Excess Return	0.32%	-0.11%	0.43%	0.92%	0.66%	-0.78%	-0.65%
4	ESG	Strategy Return	6.72%	0.99%	5.67%	10.24%	16.39%	-	-
		Excess Return	3.02%	-0.28%	3.28%	5.96%	0.28%	-	-
Benchmark: (TOPIX total return)			3.69%	1.27%	2.39%	4.28%	16.11%	11.54%	19.30%
5	Mid-Small Cap	Strategy Return	7.58%	0.22%	7.35%	11.03%	13.50%	13.57%	22.91%
		Excess Return	3.08%	-1.19%	4.30%	5.32%	-2.77%	-0.18%	2.13%
Benchmark: (Russel/Nomura Mid-Small total return)			4.51%	1.41%	3.05%	5.72%	16.27%	13.76%	20.78%
6	JPX-Nikkei 400 Active	Strategy Return	5.48%	1.12%	4.31%	10.39%	12.84%	15.95%	-
		Excess Return	2.11%	-0.13%	2.22%	6.75%	-1.85%	5.22%	-
Benchmark: (JPX-Nikkei 400 total return)			3.37%	1.25%	2.09%	3.64%	14.69%	10.73%	-
7	Concentrated Core		3.84%	0.12%	3.72%	8.30%	27.88%	16.60%	24.88%

## Selected Japanese Equity Strategies

Ref.	Japanese Equity Strategies	Description	Target Excess Return*	Estimated Tracking Error
1	Concentrated	Construct concentrated portfolio selecting best 30 stocks with attractive investment theme.	6.0%	5.0~15.0%
2	Engagement	Select 15 to 25 companies that we can increase corporate value through engagement.	5.0%	6.0~12.0%
3	Research Value	Value-tilted strategy, focusing on undervalued stocks with large potential for increase in corporate value, based on calculations by SVS (Shareholder's Value System)	3.0%	1.0~5.0%
4	ESG	Top pick 50-70 names with high and stable growth potential, out of the highest-rated by our unique ESG scoring.	3.0%	Approx. 5.0%
5	Mid-Small Cap	Select small to mid cap stocks with large upside potential and efficient risk/return characteristics.	5.0%	5.0~15.0%
6	JPX-Nikkei 400 Active	Select 30 to 50 companies with high appeal for investors such as efficient use of capital and investor-focused management perspectives.	3.0%	Approx. 5.0%
7	Concentrated Core	Concentrate on approximately 20 companies which can increase corporate value in the mid-long term.	Absolute (6~8%)	-

Footnote: #4 ESG

#5 Mid-Small Cap

#6 JPX-Nikkei 400 Active

: Data from April 2016 to May 2016 are performance of a representative fund and all the data that follow are composite return.

: Data from February 2007 to April 2007, and from February 2015 to March 2015 are performance of a representative fund. Other Data are composite return.

: Data of March 2014 are performance of a representative fund and all the data that follow are composite return.

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