

## Market Review of previous month

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The Nikkei 225 rose slightly in June.

The market started out strong in the beginning of the month on yen weakness and a Wall Street rally backed by strong US jobs figures. The US-North Korea summit and the rate hike by the Fed had no material impact on the market, and the Nikkei 225 continued to rise towards the 23,000 mark. However, the market, mainly foreign demand-oriented stocks, were sold in the latter half of the month on concerns over intensifying US-China trade friction, and the Nikkei 225 closed the month at 22,304.51(+102.69 / +0.5% MoM), and TOPIX at 1,730.89(− 16.56 / −0.9% MoM).

Among the 33 TOPIX index industry groups, Oil and Coal Products, Fishery, Agriculture & Forestry, Pharmaceutical, Services, and Foods rose, while Other Products, Air Transportation, Metal Products, Mining, and Marine Transportation fell.

## Market Outlook of this month

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We expect the market to lack direction in July.

Uncertainty over the situation overseas, such as the trade friction between the US and China, possible economic slowdown in China, and outflows from emerging markets caused by the rate hike in the US, may all work to limit the upside of the market, while growth in the world economy, strong corporate earnings, and relatively low valuation will support the downside.

We expect companies with unique strengths, which can grow mid-to long-term without being influenced by the external business environment, to be bought in a market condition as it is now.

## Topics

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On June 15, the Abe Cabinet approved "Basic Policy on Economic and Fiscal Management and Reform 2018 " and "Investments for the Future Strategy 2018 ", setting forth the Cabinet's determination to raise consumption tax rate from 8% to 10% in October 2019, which some market participants had expected to be delayed. In addition, the target for achieving a primary balance surplus was pushed back from FY2020 to FY2025 officially.

In "Investments for the Future Strategy 2018", the government has set goals of doubling the percentage of Venture Capital investment relative to GDP by 2022, and of creating 20 unicorn start-ups by 2023. There are more than 100 unicorns in the US and about 60 in China, whereas Japan's pipeline of unicorns is now quite limited, such as Mercari, a platform of flea market via mobile apps and MTG, a creator of products related to beauty and wellness technologies. Both of them, listed on the Tokyo Stock Exchange's Mothers market for startups recently, have unique investment themes and are expected to grow in line with the government's growth strategy.

In this Future Strategy, the government also refers to the promotion policy of cashless society. Japan lags in cashless settlement, with only 20% of purchases settled electronically compared to 60% in China, 96% in South Korea and 46% in the US (source: METI in 2016). We think there is still a big gap even considering cultural differences. Japan aims to double the cashless settlement ratio by 2027 to around 40%, though we think this goal needs to be brought forward further.

Like the above, we continuously keep our eyes on dynamic structural changes in Japan.

## Composites Performance of Selected Japanese Equity Strategies (As of the end of June 2018)

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

### <JPY base performance>

Ref.	Japanese Equity Strategies		Composite Performance (Gross Return)							
			2018 2Q	2018 2Q			YTD	Last 1yr	Last 3yrs*	Last 5 yrs*
				Apr	May	Jun**				
1	Concentrated	Strategy Return	-0.02%	-0.21%	0.73%	-0.54%	1.22%	16.26%	5.29%	14.16%
		Excess Return	-1.07%	-3.76%	2.40%	0.22%	4.88%	6.59%	1.08%	3.08%
2	Engagement	Strategy Return	1.35%	-3.05%	3.55%	0.96%	4.83%	30.02%	15.01%	23.16%
		Excess Return	0.30%	-6.61%	5.22%	1.72%	8.49%	20.35%	10.80%	12.09%
3	Research Value	Strategy Return	0.67%	4.07%	-2.65%	-0.64%	-5.67%	7.47%	3.43%	10.17%
		Excess Return	-0.38%	0.52%	-0.98%	0.12%	-2.00%	-2.20%	-0.78%	-0.90%
4	ESG	Strategy Return	2.81%	2.16%	0.84%	-0.20%	1.16%	17.84%	-	-
		Excess Return	1.76%	-1.40%	2.51%	0.56%	4.82%	8.17%	-	-
Benchmark: (TOPIX total return)			1.05%	3.55%	-1.67%	-0.76%	-3.67%	9.67%	4.20%	11.07%
5	Mid-Small Cap	Strategy Return	3.56%	-0.17%	3.07%	0.65%	5.67%	31.29%	14.32%	17.71%
		Excess Return	2.38%	-3.67%	4.31%	1.66%	9.17%	20.41%	8.02%	4.42%
Benchmark: (Russel/Nomura Mid-Small total return)			1.17%	3.50%	-1.25%	-1.02%	-3.50%	10.88%	6.30%	13.29%
6	JPX-Nikkei 400 Active	Strategy Return	-0.47%	0.88%	0.53%	-1.85%	-1.93%	15.96%	7.71%	-
		Excess Return	-1.56%	-2.63%	2.20%	-1.17%	1.69%	6.96%	4.17%	-
Benchmark: (JPX-Nikkei 400 total return)			1.09%	3.51%	-1.67%	-0.68%	-3.62%	9.01%	3.54%	-
7	Concentrated Core		-1.58%	4.59%	-5.03%	-0.92%	-8.23%	6.89%	9.51%	14.50%

### 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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