

Market Review of previous month

The Nikkei 225 rose for four consecutive months.

The market fell in the beginning of the month on concerns over US trade policy and uncertainty surrounding the economy of emerging countries. Domestic natural disasters also pushed down the market. However, the market rebounded after the release of a strong US employment data, and continued to rise towards the end of the month as concerns over US-China trade war somewhat retreated and the yen fell to the Y113/\$ level for the first time in nine months. Nikkei 225 closed the month at 24,120.04 (+1,254.89 / +5.5% MoM), and TOPIX at 1,817.25 (+81.90 / +4.7% MoM).

Among the 33 TOPIX index industry groups, Mining, Fishery, Agriculture & Forestry, Warehousing and Harbor Transportation, Oil and Coal Products, and Pharmaceutical rose the most.

Market Outlook of this month

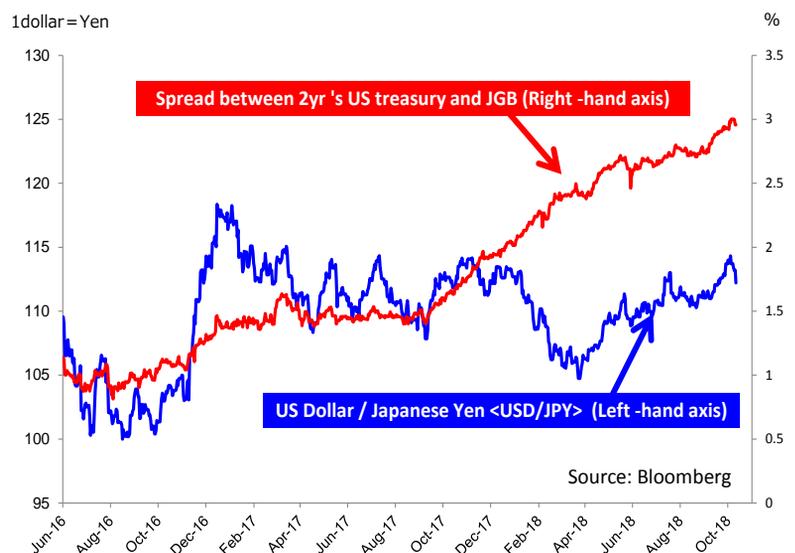
We expect the upside to be limited in October.

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.

As the market had a fast run-up in September, we expect investors to become more focused on the business trends of individual companies, rather than buying the market as a whole.

Topics

“Mrs. Watanabe” is the personification word of an archetypal Japanese housewife who has managed a family’s finances. Under the ultra-low yield environment in Japan since 1990’s, housewives struggled to find extra returns in the tough markets while they could gain just a little pennies from bank deposits which still accounted for more than 50% of the total financial assets held by households. In a reaction to this situation, Mrs. Watanabe has engaged in high-risk but high-return transactions, very notably leveraged international currency trades in the past, and bitcoins nowadays, sometimes being strong enough to affect international markets. Last month, Prime Minister Abe was re-elected as the President of the ruling Liberal Democratic Party, paving the way for up to three more years as the nation’s leader. This reassured the policy continuity around Japan including BOJ’s easing stance whereas FRB raised interest rate for the third time this year. Clear contrast between Japan and the US in monetary policy implies strong US dollar against Yen along with increasing differences in the balance sheet asset per Nominal GDP between the two central banks. In addition, widening yield spreads in 2 year government bond between Japan and the US (see the chart below), now offering attractive swap points for FX traders, also hints some favor on the US dollar. Given these circumstances, there is a good chance that Mrs. Watanabe would take a long position on the USD, which could accelerate USD appreciation against Yen, providing extra boosts on the earnings of Japanese export companies. According to the latest BOJ’s Tankan survey, Japanese large manufacturers, typically exporters, average USD/JPY rate used for the business projection stood at 107.40, which provided wide positive margins relative to the current market rates. This conservative estimation would be realized in the actual results in the second half of the fiscal year starting this month. Whether Mrs. Watanabe is back to FX trades, it would be worth watching from equity investors’ standpoint too.



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

<JPY base performance>

(*annualized)
(**preliminary)

Ref.	Japanese Equity Strategies		Composite Performance (Gross Return)							
			2018 3Q	2018 3Q			YTD	Last 1yr	Last 3yrs*	Last 5 yrs*
				Jul	Aug	Sep**				
1	Concentrated	Strategy Return	7.74%	3.10%	-0.18%	4.69%	9.05%	21.41%	13.74%	13.90%
		Excess Return	1.88%	1.79%	0.81%	-0.85%	7.07%	10.57%	2.59%	2.87%
2	Engagement	Strategy Return	7.42%	0.30%	0.10%	6.99%	12.77%	28.26%	19.98%	21.98%
		Excess Return	1.56%	-1.00%	1.10%	1.44%	10.79%	17.42%	8.83%	10.95%
3	Research Value	Strategy Return	7.00%	1.72%	-0.62%	5.85%	0.94%	9.87%	10.61%	10.08%
		Excess Return	1.15%	0.42%	0.38%	0.30%	-1.04%	-0.97%	-0.54%	-0.95%
4	ESG	Strategy Return	3.77%	-0.17%	-1.03%	5.02%	4.97%	16.54%	-	-
		Excess Return	-2.09%	-1.47%	-0.03%	-0.53%	2.99%	5.70%	-	-
Benchmark: (TOPIX total return)			5.86%	1.30%	-1.00%	5.55%	1.98%	10.84%	11.15%	11.03%
5	Mid-Small Cap	Strategy Return	0.31%	-0.22%	-2.25%	2.84%	5.99%	20.41%	17.71%	15.51%
		Excess Return	-3.69%	-0.50%	-0.82%	-2.37%	5.64%	10.53%	6.05%	2.83%
Benchmark: (Russel/Nomura Mid-Small total return)			3.99%	0.28%	-1.43%	5.21%	0.35%	9.88%	11.66%	12.68%
6	JPX-Nikkei 400 Active	Strategy Return	5.64%	1.21%	-1.20%	5.64%	3.59%	13.02%	13.85%	-
		Excess Return	-0.37%	-0.02%	-0.15%	-0.19%	1.43%	1.77%	3.04%	-
Benchmark: (JPX-Nikkei 400 total return)			6.01%	1.23%	-1.05%	5.83%	2.17%	11.25%	10.81%	-
7	Concentrated Core		9.21%	1.55%	-0.14%	7.69%	0.22%	7.77%	18.78%	13.97%

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.

Disclaimer

This document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Nissay Asset Management Corporation ("NAM") to any registration or licensing requirement within such jurisdiction. This is not for distribution to retail or individual investors.

The information, tools and material presented in this document are for informational purposes only and should not be construed as a solicitation to buy or an offer to sell nor as investment advice or recommendations for any specific products and services.

All material presented in this document, unless specifically indicated otherwise, is under copyright to NAM. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of NAM.

Information, opinions and estimates presented in this document have been compiled, or derived from, based on information obtained from sources believed to be reliable as of the date of publication of this document, but no guarantee will be made by NAM on their accuracy or completeness. This document may contain views and opinions that are not of NAM as a whole, but the personal views and opinions of the contributor/s, and such views and opinions will be subject to change without notice.

NAM may have issued, and may in the future issue, other documents that are inconsistent with, and reach different conclusions from, the information presented in this document. Such other documents reflect the different views and assumptions of the contributor/s to those documents, and NAM is under no obligation to ensure that such other documents are brought to the attention of any recipient of this document.

Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance.

This document does not replace portfolio and fund-specific materials. Nothing in this document should be relied upon as the basis for investment decisions. Before purchasing any investment fund or product, recipients of this document should read prospectus and fund documentation to form their own judgment and assessment.

Potential for profit is accompanied by possibility of loss. The value of investments and the income from them may go down as well as up, and investors may not get back the original amount invested.

Products and services mentioned in this document may incur commissions, management fees and/or other fees and/or costs. As those fees and/or costs vary depending on status of specific agreements and investments, it is not possible to specify the details of the fees and/or costs in this document.

The JPX Nikkei Index 400 is a copyright protected work computed pursuant to a method developed independently by Japan Exchange Group, Inc., and Tokyo Stock Exchange, Inc. (collectively, "JPX Group") and Nikkei Inc. ("Nikkei"). The copyrights and all other intellectual property rights for the JPX Nikkei Index 400 and for the method of computation of the JPX Nikkei Index 400 are owned by JPX Group and Nikkei. JPX Group and Nikkei have no duty to publish the JPX Nikkei Index 400 free of interruption and accept no liability for error, delay, or suspension with regard to the publication. This strategy is managed at the liability of Nissay Asset Management Corporation. JPX Group and Nikkei accept no liability in connection with such management and the transactions concerning this strategy.

Copyright © 2016 Nissay Asset Management Corporation. All rights reserved.

Trade name : Nissay Asset Management Corporation. Registered number : Director of Kanto Local Finance Bureau (Financial instruments firms) No.369.

Membership : The Investment Trust Association, Japan/ Japan Investment Advisers Association.