

## Market Review of previous month

The Japanese stock market rose for the first time in three months.

The market turned upwards, as concerns over US-China trade friction and geopolitical risk, which had weighed on the market in the past few months, eased in April. Yen depreciation to the ¥109/\$ level also worked positive for the market. The Nikkei 225 closed the month at 22,467.87(+1,013.57 / +4.7% MoM), and TOPIX at 1,777.23(+60.93 / +3.6% MoM). Among the 33 TOPIX index industry groups, Electric Power and Gas, Insurance, Oil and Coal Products, Real Estate and Land Transportation rose, while Services and Pharmaceutical fell.

## Market Outlook of this month

We expect the market to lack direction in May.

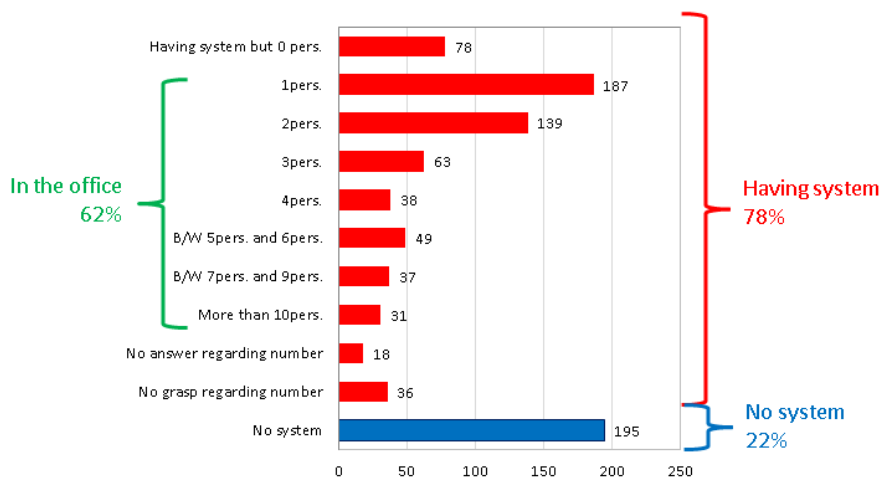
Concerns over the trade friction between the US and China, yen appreciation, and political turmoil in Japan, will limit the upside of the market, while growth in the world economy and strong corporate earnings, relatively low valuation, will support the downside. Even if the current exchange rate level is taken into account, profit growth is still expected for Japanese companies in FY2018, and once the volatility in the market declines, we expect investors to become more focused on the business trends of individual companies.

## Topics

“Sodanyaku” and “Komon” are the titles given to former president, chairman and other top executives at Japanese companies, both of which are usually translated as “Adviser” in English. According to the survey conducted by the Ministry of Economy, Trade and Industry (METI) in 2016, 78% of 874 respondents out of 2,502 companies listed on Tokyo Stock Exchange 1st & 2nd sections had “Sodanyaku” and “Komon” system and 62% actually had person(s) in office for such positions (see Chart). As a background of formulating such system, 36% answered that their business experiences as former senior executives were useful to the incumbent management team and 35% considered their connection to business communities extremely valuable. With c. half of “Sodanyaku” / “Komon” having their own rooms, secretaries and/or staffs, the system was regarded as unquestioned feature of Japanese corporate model marked by lifetime employment and a rigid seniority system which led to the Japanese post-war economic miracle.

But the time has changed. In March 2017, METI formulated the “Practical Guidelines for Corporate Governance Systems” which said “if a company retains its retired president/CEO as its Sodanyaku or Komon, it is meaningful to voluntarily disclose the number of the retired presidents/CEOs who act as its Sodanyaku or Komon, and their roles and other treatment plans externally.” The disclosure system has just started as from the beginning of 2018. Some companies like Shiseido, J. Front Retailing and Nisshinbo already announced in 2017 to abolish the “Sodanyaku” and “Komon” system.

Other large companies like Japan Tobacco, Kagome, Itochu and Fujitsu also followed recently, and some companies like Nomura, Japan Airlines and Bridgestone decided to disclose the role and remuneration of their “Sodanyaku” / “Komon”. The trend of strengthening Japanese corporate governance will increase the transparency and reliability of the Japanese stock market, bringing back investment money to Japan in the long run.



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

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

## <JPY base performance>

Ref.	Japanese Equity Strategies		Composite Performance (Gross Return)							
			2018 2Q				YTD	Last 1yr	Last 3yrs*	Last 5 yrs*
				Apr**						
1	Concentrated	Strategy Return	-0.21%	-0.21%			1.03%	23.90%	7.11%	13.48%
		Excess Return	-3.76%	-3.76%			2.31%	5.42%	1.17%	2.44%
2	Engagement	Strategy Return	-3.08%	-3.08%			0.24%	32.31%	15.56%	21.81%
		Excess Return	-6.64%	-6.64%			1.52%	13.84%	9.63%	10.76%
3	Research Value	Strategy Return	4.07%	4.07%			-2.47%	17.41%	5.77%	10.21%
		Excess Return	0.52%	0.52%			-1.19%	-1.07%	-0.16%	-0.84%
4	ESG	Strategy Return	2.16%	2.16%			0.52%	25.98%	-	-
		Excess Return	-1.40%	-1.40%			1.80%	7.50%	-	-
Benchmark: (TOPIX total return)			3.55%	3.55%			-1.28%	18.48%	5.94%	11.05%
5	Mid-Small Cap	Strategy Return	-0.17%	-0.17%			1.87%	37.87%	14.31%	16.42%
		Excess Return	-3.67%	-3.67%			3.15%	17.21%	5.95%	3.30%
Benchmark: (Russel/Nomura Mid-Small total return)			3.50%	3.50%			-1.28%	20.66%	8.36%	13.12%
6	JPX-Nikkei 400 Active	Strategy Return	0.88%	0.88%			-0.61%	24.67%	10.89%	-
		Excess Return	-2.63%	-2.63%			0.70%	7.42%	5.76%	-
Benchmark: (JPX-Nikkei 400 total return)			3.51%	3.51%			-1.32%	17.25%	5.12%	-
7	Concentrated Core		4.59%	4.59%			-2.48%	21.87%	12.62%	15.17%

## 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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