Portfolio Manager Outlook

Can Japanese Equity catch up with the global markets?

TokioMarineAssetManagement (London) Limited

November 2010

Yoshihisa Nakagawa

Senior Portfolio Manager

Japanese Equity,

Tokio Marine Asset

Management Co. Ltd.

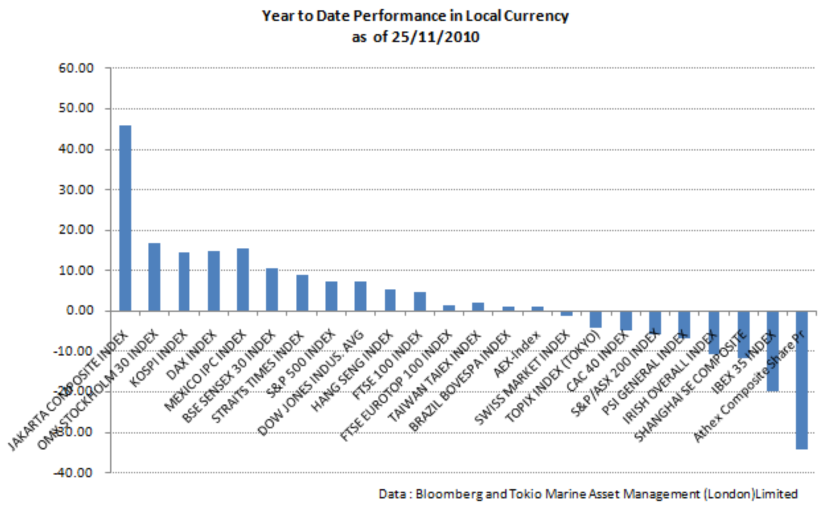
Mr. Yoshihisa Nakagawa, Senior Portfolio Manager of the GARP Japanese Equity Portfolio will talk us through his thoughts on the market, including his investment outlook for Japanese equity.

"Structural problems, but there's a silver lining in the economic cycle"

The Japanese equity market has shown lackluster performance against major global equity markets, and the only markets that have underperformed Japan are southern European countries such as Spain and Greece. This is quite detrimental for Japan, as it means that foreign investors, who exert considerable influence on the Japanese market, are now not finding Japan attractive for investment.

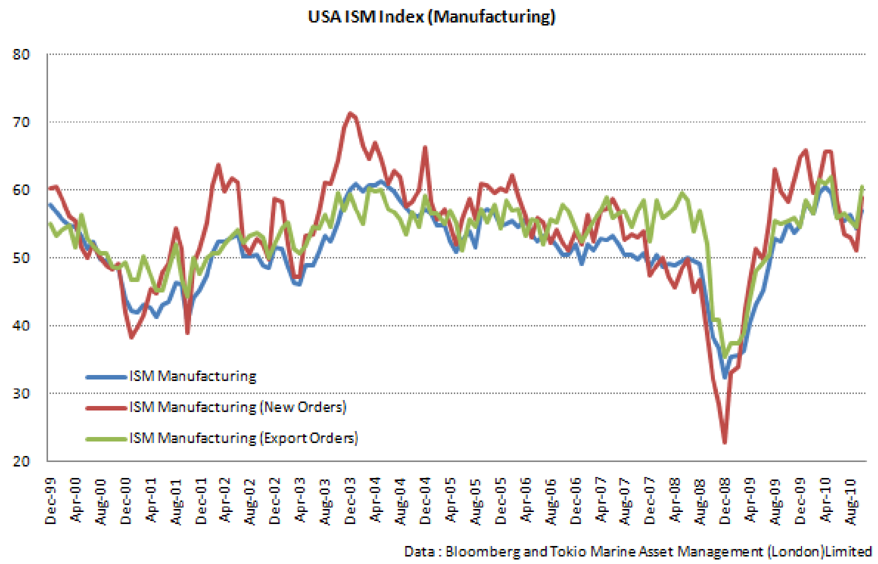
There are numerous reasons for this performance, such as the slow Japanese economy, European fiscal deficit, the strong yen, a declining and ageing population, a domestic budget deficit, unstable domestic politics, geopolitical risk, and earnings dilution due to capital increases. However, when discussing equity investment I believe we should separate cyclical issues from structural issues.

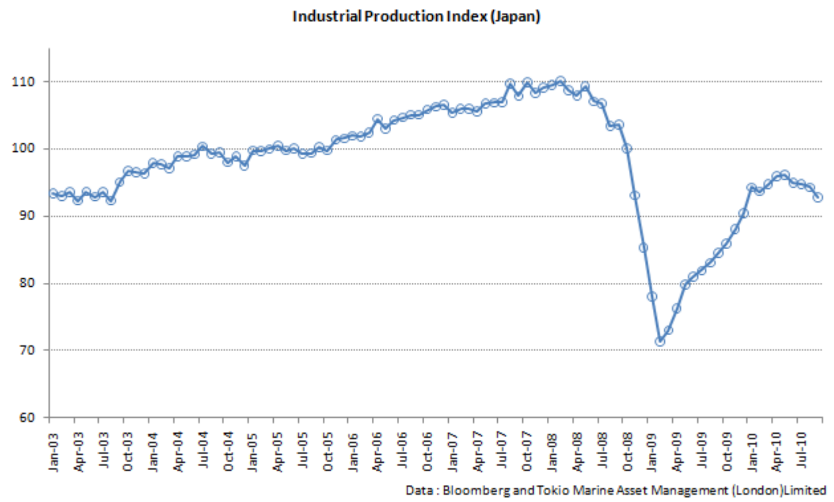
For structural issues such as an ageing population and fiscal deficit, it would be difficult to expect an effective solution in the short term. Due to the nature of these issues, we might initially see a further deterioration in the near future. This is in contrast to emerging countries, where we see few problems arising from these factors. This structural difference may prevent the Japanese equity market from outperforming the emerging markets in the long term.



Having said this, I think it is also integral to consider cyclical aspects of the market for short to medium term investments. Many investors remain pessimistic about the US and Japanese economies, and there are deep-rooted concerns over a double-dip recession as US employment data is still yet to recover and consumer spending is sluggish. However, I see a double-dip recession as an unlikely scenario given expanded monetary easing by the US FRB. Additionally, the US ISM Manufacturing Index, which is closely linked to US GDP, has shown a stable recovery cycle of 20 – 26 months between each economic trough. If we assume the cycle stays the same, the US economy is likely to bottom out in the near future as the previous trough was December 2008.

Turning to Japan, even though the Industrial Production Index for Q4 2010 is expected to decrease due partly to termination of government subsidies for ecologically friendly car purchases, I believe that the Japanese economy will be lifted by a US economic recovery in 2011 as well as expected growth in emerging countries, especially China. In light of these factors, I think we are currently seeing price momentum bottoming out.





"Strong Yen is the issue, but the earnings recovery is still in tact"

We expect year on year earnings growth for major Japanese companies in FY 2010 at around 50% (excluding financial stocks). Despite the sharp appreciation of yen, we still think this is achievable considering strong earnings for the first half of FY 2010. In the second half of FY 2010, Japanese companies have revised their expected exchange rate to JPY 80 per US dollar in response to recent rates. Despite this, however, approximately 40% of them revised full-year corporate earnings upward on a year-on-year basis, signaling a better than expected improvement in corporate earnings.

"Risk is how emerging market economies handle the interest rate."

One of the key risks I am conscious of is how emerging market countries would handle an overheated economic situation. I see potential for asset bubbles in some emerging markets, and in order to avoid this these countries may need to raise interest rates. Many countries are afraid to do this because it could lead to a stronger currency, slowing down export driven growth.

I think a move toward higher interest rates in these countries would be positive in the medium-term.

“The current situation is a good opportunity for us”

In summary, despite its long-term structural problems, we see potential opportunities in a cyclical recovery in Japan. Historically, the equity market has provided strong performance at the exit of a sluggish economy. Therefore, my message for investors is that they should not overly focus on structural issues. I believe economic policy coordination between Japan and the US might change sentiment in the equity market.

It is also equally important to remember that an investment in Japanese equity is an investment in companies, not the economy. Particularly in export-related companies, there are some excellent investment opportunities which are capturing business growth opportunities from emerging markets. Through previous cycles these exporters lessened their sensitivity to the strong yen by shifting manufacturing facilities outside Japan.

Tokio Marine Asset Management is a bottom up oriented investment manager. For us, current weak sentiment in the Japanese equity market resulting largely from structural concerns offers excellent investment opportunities from a stock selection perspective.

Disclaimer
Swiss Residents
The funds promoted on this document (the "Funds") have not been authorised by the Federal Banking Commission as foreign collective investment schemes pursuant to article 120 of the Swiss Federal Act on Collective Investment Schemes ("CISA") of June 23, 2006. Accordingly, interests in the Funds may not be offered to the public in or from Switzerland, and neither the information contained on this document nor any other offering material relating to the Funds may be distributed in connection with any such public offering. Interests in the Funds may only be offered and the information contained on this document may only be distributed in or from Switzerland to qualified investors pursuant to article 10 CISA and without any public offering in accordance with the relevant practice of the Swiss Federal Banking Commission.
Any promotions of asset management services accessible through this document may be restricted under Swiss law and therefore Swiss residents into whose possession this information comes should inform themselves about and observe any such restrictions. Any such promotions could otherwise result in a violation of the law of Switzerland.

UK Residents
Funds Promotions
The funds promoted on this document (the "Funds") are unregulated collective investment schemes within the meaning of Section 235 of the Financial Services & Markets Act 2000 ("Act"). As such they are not regulated by the Financial Services Authority or any other regulatory authority. Tokio Marine Asset Management (London) Limited, authorised and regulated in the UK by the Financial Services Authority, is restricted by Section 21 and by Section 238 of the Act respectively and can only promote the Funds to certain categories of person. Tokio Marine Asset Management Co. Ltd (the Tokyo and Singapore entities) are not authorised and regulated in the UK by the Financial Services Authority.
As such, the promotion of interests in the Funds and communication of Fund related documents accessible through this document are restricted to 'investment professionals' and 'high net worth companies'. Recipients must fall within one of the following categories:
(a) You must fall within the "high net worth companies" exemption set out in both Article 22 of the Financial Services and Markets Act 2000 (Promotion of Collective Investment Schemes) (Exemptions) Order 2001. The information regarding the Funds is thus only provided on the basis the recipient is a company, trust or partnership with capital or assets exceeding the relevant minimum value set out in Article 22 or Article 49 (or is a person who normally represents such an entity in respect of its unregulated fund investments). Participation in the Funds may be available to such high net worth companies. Persons of any other description should not act or rely on the information provided. Any investment into the Funds must be understood to be high risk and to include the possibility of losing all of the committed investment and should therefore be carefully considered; or
(b) You must fall within the "investment professional" exemption set out in both Article 14 of the Financial Services and Markets Act 2000 (Promotion of Collective Investment Schemes) (Exemptions) Order 2001. The information regarding the Funds is thus only provided on the basis the recipient is an investment professional on the basis that you have professional experience of participating in unregulated schemes. Participation in the Funds will only be available to you if you are such a person. Should you not have the professional experience of participating in unregulated schemes, you should not rely on the information provided. Any investment into the Funds must be understood to be high risk and to include the possibility of losing all of your committed investment and should therefore be carefully considered.

This document is therefore being communicated on the basis that it is exempt from the restriction on the promotion of unregulated schemes and its contents have therefore not been approved by an authorised person within the meaning of the Financial Services and Markets Act 2000. This is on the grounds that this document is being made to ‘investment professionals’ and ‘HNWC’ only as specified below and that these persons being persons having professional experience in matters relating to investments or persons to whom it may lawfully be promoted.

This document must not be distributed or passed on, directly or indirectly, to any person who does not fall within the categories of person listed above. This material is being supplied to you exclusively for your information and may not be reproduced, forwarded to any other person or published, in whole or in part, for any purpose. If you are in any doubt about the investment to which this document relates you should consult a person authorised under the Financial Services and Markets Act 2000 who specialises in advising on investments of the kind described in this document.

Asset Management Promotions
Tokio Marine Asset Management (London) Limited, authorised and regulated in the UK by the Financial Services Authority, is restricted by Section 21 of the Financial Services & Markets Act 2000 (“Act”) and can only promote its asset management services in the UK to certain categories of person. Tokio Marine Asset Management Co. Ltd (the Tokyo and Singapore entities) are not authorised and regulated in the UK by the Financial Services Authority.
As such, the promotion of the services and communication of related documents through this material is restricted to 'investment professionals' and 'high net worth companies'. Recipients must fall within one of the following categories:
(a) You must fall within the "high net worth companies" exemption set out in Article 49 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005. The information regarding the asset management service is thus only provided on the basis the recipient is a company, trust or partnership with capital or assets exceeding the relevant minimum value set out Article 49 (or is a person who normally represents such an entity in respect of its unregulated fund investments). Participation in the service may be available to such high net worth companies. Persons of any other description should not act or rely on the information provided. Any investment must be understood to be high risk and to include the possibility of losing all of the committed investment and should therefore be carefully considered; or

(b) You must fall within the "investment professional" exemption set out in Article 19 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005. The information regarding the asset management service is thus only provided on the basis the recipient is an investment professional on the basis that you have professional experience of participating in these activities. Participation in the service will only be available to you if you are such a person. Should you not have the professional experience of participating in these activities, you should not rely on the information provided. Any investment must be understood to be high risk and to include the possibility of losing all of your committed investment and should therefore be carefully considered.
Should you not fall within the relevant categories for the Funds or asset management service you should not proceed. If you can not so proceed it is possible that you may fall within other exemptions. Please contact Tokio Marine Asset Management (London) Limited to discuss further. Potential investors who are uncertain of their status should refer to the relevant articles of the Financial Promotion Order.

Persons from EEA member states and elsewhere
The promotion of the asset management services, interests in the Funds and communication of related documents accessible through this document may in certain jurisdictions be restricted by law and therefore persons into whose possession this document comes should inform themselves about and observe any such restrictions. Any such distribution could result in a violation of the law of such jurisdictions.

US Residents
This document is reserved exclusively for non-US persons and should not be accessed by any person in the United States. This document does not include any offer of investment products or services to any US persons.

All persons
You must also ensure you comply with the disclaimers and promotional restrictions in the document. The distribution of this document in certain jurisdictions may be restricted by law and therefore persons into whose possession this document comes should inform themselves about and observe any such restrictions. Any such distribution could result in a violation of the law of such jurisdictions.
Each person in receipt of this document undertakes that they shall not at any time disclose to any person or entity any information set out in, or relating to, this document except as expressly authorised by the Funds.
The information contained on this document is not intended to be distributed or passed on, directly or indirectly, to any other class of persons and no other person should rely or act upon it. The information contained on this document does not constitute an offer to sell or a solicitation of an offer to buy any security, investment or financial advice.

Past performance is not a guide to future returns.
The value of investments can go down as well as up and you may not get back what you invested.
Returns may increase or decrease as a result of currency fluctuations.

Contact Information

For further information regarding the Tokio Marine Japanese Equity products, please contact Tokio Marine Asset Management (London) Limited.

General Enquiries: +44 (0)20 7398 2976, tmal@tokiomarine.co.uk

Financial Institutions: David O'Keeffe; +44 (0)20 7398 3175, dokeeffe@tokiomarine.co.uk

Pension Funds & Consultants: Jonathan Taylor; +44 (0)20 7398 3190, jtaylor@tokiomarine.co.uk

Marketing & PR: Anji Stewart; +44 (0)20 7398 2991, astewart@tokiomarine.co.uk