

Market Insight: Japanese Equities

Tokio Marine Asset Management (London) Limited
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Riding the Winds of Change

Japanese corporates sail through structural shifts

Not Just Abenomics



A report¹ published by the IMF last year concluded that Abenomics has been a success: unemployment is at a multi-decade low, Japan's corporate profitability has dramatically improved and the economy has shown its strongest performance for several years. There are also

signs to suggest that the country is finally escaping its deflationary trap following the bubble collapse in the early 1990s.

While there is little doubt that Abenomics has helped push Japan's economy towards stronger growth, there are also other factors at play. One example is the growing sophistication of Japan's major trading partner China. As demand shifted from materials like textiles and steel to end products like autos and electronics, new opportunities opened up for many Japanese firms.

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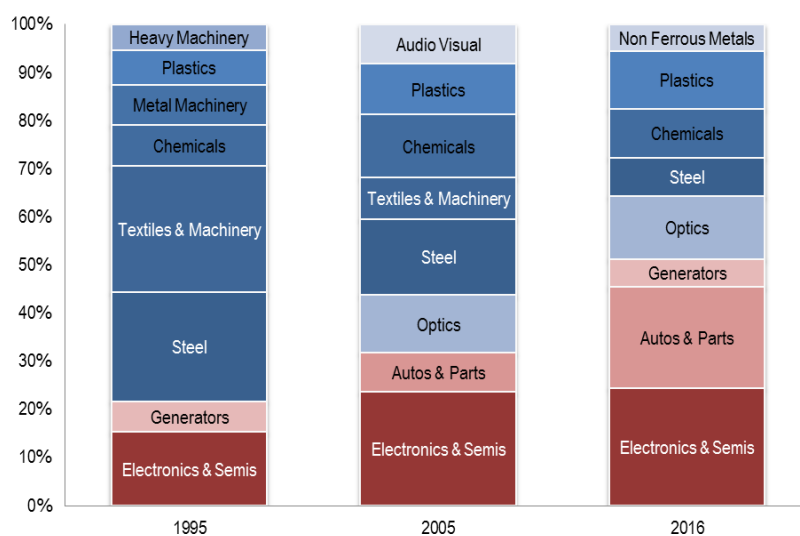
<http://www.imf.org/en/News/Articles/2017/06/19/MS061917-Japan-Staff-Concluding-Statement-of-2017-Article-IV-Mission>

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Chart 1 Change in Composition of Japan's Exports to China
– greater proportion of higher value-added goods is being exported



Source: National Tax Agency of Japan

In previous decades, many Japanese exporters came under sustained pricing pressure from Asian competitors and were forced to specialise and move up the value chain in order to survive. It is now these companies that are benefitting from surging demand for higher-end goods.

Change Is Opportunity

While many pharmaceutical firms globally are struggling under the price pressure from generic drugs, Japanese firms specialising in research-intensive areas such as innovative cancer treatment and gastroenterology, find themselves in a stronger position.

A good case in point is Takeda Pharmaceuticals (4502). While the company has mostly been in the news because of the Shire acquisition megadeal, it has a strong oncology and gastroenterology drugs offering and a robust pipeline of products under development. For instance, sales of Entyvio, a drug used for inflammatory bowel diseases treatment, grew by 33.6%² recently, and as much as 50%³ in emerging markets including China. Another example is Eisai (4523), which saw its stock price jump as much as 16% after clinical trials results of their BAN2401 Alzheimer's drug were announced in July. Highly specialised areas like these have high barriers to entry, and create steady multi-year revenue streams for the successful products.

No One Size Fits All

These examples illustrate how mid-to-long term structural shifts may present attractive investment opportunities. These shifts are long-term, but the opportunities tend to be shorter in duration, often

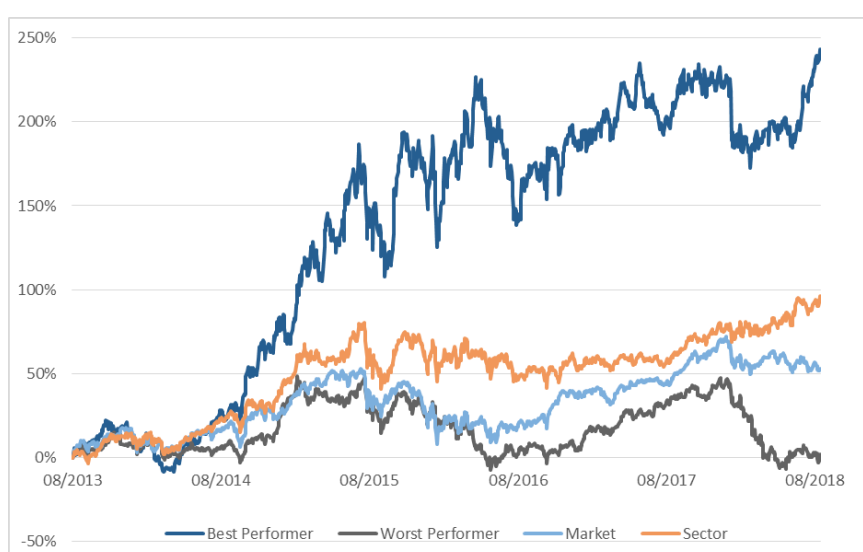
² FY2018 1st Quarter Data Book, Takeda Pharmaceuticals

³ Same as above

cyclical, and only outperform the market for a limited period of time. To take full advantage of them, investors need to stay abreast of both industry-wide trends and developments in individual companies.

Particularly in the Japanese market, which is relatively under-researched for its size, we strongly believe that it takes a dedicated and experienced local team to laboriously track and carefully analyse every relevant trend, and enter promising names early in the cycle, where their growth rate is at its highest.

Chart 2 Cumulative 5 Year Performance of Healthcare Sector
– name selection matters even in outperforming sectors



Source: Compiled by TMAM based on Bloomberg data

Our investment approach on the Japanese Equity GARP strategy – focusing on Growth at a Reasonable Price or ‘GARP’ – has consistently been effective in identifying such growth names, while also paying attention to valuations. This philosophy has paid off over the past two decades that we have managed the strategy, and with plenty of opportunities like those mentioned above, we feel confident about continuing to select interesting ideas for our clients.

Contact

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