TOKIO MARINE ASSET MGT

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Sail East

Discover GROWTH

Our mission is to discover winners and keep a strong price discipline

“Tokio Marine Japanese Equity Focus Fund” is designed to be a concentrated portfolio of “winning stocks” discovered by on the ground, ‘hands-on’ fundamental research with strong price discipline and mitigation of external risks.

OEIC (UCITS): JPY share class	
ISN	IE00B4K73651
Bloomberg ticker	TOKMJPD
1 Year return (relative to TOPIX)	37.39%, 1st Quartile* (5.05%)
3 Year return (pa) (relative to TOPIX)	14.28%, 1st Quartile* (1.53%)

*Source: Lipper Global - Japan

As at 31 January 2014

Find out more

Visit us at www.tokiomarineam.co.uk

Business Development: tmal@tokiomarine.co.uk

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Q&A

ANSWERS
HIROYASU SATO, SENIOR FUND MANAGER, TOKIO MARINE ASSET MANAGEMENT

AFTER SUCH A POWERFUL RALLY FROM JAPANESE EQUITIES IN 2013, WHAT ARE YOUR EXPECTATIONS FOR 2014?

For Japanese equities, it is crucial Japan breaks out from its prolonged deflationary spiral and we expect steady performance to continue beyond 2014. This is consistent with the goals of Abenomics. In the interim, economic trends in Japan after the consumption tax hike will be a key factor.

We believe corporate Japan has entered a new era with improving economic fundamentals. There are three catalysts: strong corporate fundamentals, the emergence of growth stocks and favourable supply-demand conditions:

- **Corporate fundamentals:** The days of excessive debt and surplus labour are gone. Despite Japan's traditionally inflexible labour market, labour costs have fallen to break-even points not seen since the 1970s. Return on equity (ROE) is back in the game with restored profitability and likely to reach 10% in 2015. Around 30% of all public companies are forecast to release historically high earnings.
- **Significance of growth stocks:** Fundamentals and bottom-up research are more important to the market than ever before. If we look at the beta between price-to-book ratios and ROE, and the simple distribution between the two, it tells us earnings revisions are the key driver to the market and that growth will finally become a leading theme again.
- **Favourable supply-demand conditions** The introduction of NISAs (Japanese ISAs) and the potential asset allocation shift by the GPIF (Government Pension Investment Fund, the world's biggest pension fund with assets of more than $1 trillion), are a significant factor for supply-demand conditions in 2014.

Hence, we firmly believe Abenomics can break Japan out of its deflationary spiral and corporates are entering a new inflationary phase, from shrinkage to expansion.

2014 HAS SEEN A NEW INDEX FOCUSED ON CORPORATE GOVERNANCE IN JAPAN, THE JPX-NIKKEI INDEX 400. WHAT EFFECT WILL THIS HAVE?

In the interim, we do not anticipate a major impact. We are encouraged however that higher ROEs, which it feels have been neglected over the past years, are gaining increasing recognition. Also, awareness of the stewardship code and corporate governance has been increasing.

WHERE DO YOU SEE THE BEST OPPORTUNITIES AND DOES THE CONSUMPTION TAX HIKE RAISE CONCERNS?

We see investment opportunities in companies whose profit drivers are shifting from domestic to overseas. The consumer staples sector is one example where we anticipate the emergence of newly structured exporting businesses towards Asia.

The consumption tax hike will have less impact on these companies whose main profit drivers are from overseas. We believe these 'already reformed' companies are attractive investment opportunities.

WHAT IS YOUR CURRENT OUTLOOK FOR CHINA, AND HOW IMPORTANT TO JAPAN IS ITS CONTINUED HEALTH?

China is facing deep-seated problems structural problems, such as investment driven growth and a growing shadow banking system. It will take time to solve these problems and there may be no short-term solution. For Japanese companies, while the importance of China as a manufacturing base is decreasing, it remains a crucial market due to its geographical location and status as a close cultural relative. In principle, we welcome China's structural shift towards consumer-driven economic growth. However, we are not too optimistic because if the change is too drastic for the Chinese, it will create confusion and could negatively impact Japanese companies.

CONSENSUS IS NEGATIVE ON MAJOR NAMES SUCH AS SONY AND CANON. WHERE DO YOU STAND ON SUCH BUSINESSES?

A low valuation by itself does not give us enough of a reason to invest, unless we can see secular mid to long-term earnings growth. We do not prioritise investment in companies with low growth expectations, especially while the Japanese economy is rebounding and the market focuses more on growth stocks than value stocks.

If we believe these companies are likely to drastically restructure, we will revisit our view. In order to not miss any attractive investment opportunities, we will closely watch these companies.

WHAT DO YOU SEE AS THE KEY RISKS FOR JAPAN AND ASIA?

In the short term, for corporate Japan, the April tax hike and the following second hike will remain a big issue. There is still a lot of uncertainty around how the Bank of Japan and the government will react and support it. Looking at the Asian market, the agenda will be more dominated by US financial policy changes than concerns about the real economy itself.

In the medium term, we will monitor the potentially sensitive relationships and foreign affairs with Asian countries. The relationship between the US and China has many implications for Japan and Asia. It is also too early to predict how corporate Japan will react to international developments. We will keep a close eye on these issues and will focus on capturing the subsequent investment opportunities.