



PM'S MONTHLY INSIGHT FUNDAMENTAL ACTIVE GROUP

Market Outlook and Investment Strategy

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We believe that expectations for the April-to-June quarterly results would gradually be heightened in the coming weeks and expect the Japanese equity market to resume its upward trajectory in July. The consensus estimates of sell-side analysts had been revised downwards by conservative FY2018 guidance announced along with the FY2017 results. However, the majority of analysts are currently revising their forecasts more favourably following their company visits after the fiscal year earnings reports.

The approval rating of Prime Minister Abe's administration is now showing signs of recovery. While his support rate continued to decline due to the land-deal scandal, no clear evidence was found to prove his direct involvement in the deal. The focus has now shifted towards the upcoming Liberal Democratic Party (LDP) leadership election in September. Former Defence Minister Shigeru Ishiba is expected to stand for election as a candidate for the next LDP president. Ishiba is attracting attention as he garnered more votes from LDP members than PM Abe in the first round of the 2012 general election. However, unlike the previous election, PM Abe is now credited with Japan's economic recovery during the past several years. We therefore believe that he is likely to be re-elected in September with the largest number of votes obtained from LDP members across the country. Furthermore, since PM Abe is in an overwhelmingly strong position to capture the majority of seats in parliament, we expect that he will win the leadership at the parliamentary level and that the recent plunge in approval rating should no longer weigh on share prices.

On the macroeconomic front, protectionist trade policy in the US remains a cause for concern, however, we recognise that the number of state and local primaries for the Republican's mid-term election in July is only low. This may reduce Trump's comments on trade issues. In turn, this could ease off the downward pressure on share prices which has prevailed in the market due to concerns over policies by the Trump administration.

The quarterly earnings season for retailers is just getting underway as many companies in the sector finish their fiscal year at the end of February, and thus announce their results earlier than others. The companies that had achieved healthy YoY growth in sales on the back of a strong economy, such as home furnishings retailers, department stores and sporting goods retailers, are trying to secure revenue growth by covering rising personnel costs. On the other hand, however, some companies in apparel and consumer staples sectors are less likely to achieve strong growth in sales and are reporting a YoY decline in revenue as they had been unable to absorb the hike in wages. Nevertheless, most companies are following on a steady path to achieve growth in sales and we believe that economic fundamentals continue to remain solid. The April-to-June 2018 quarterly results season will be in full swing by late July. Judging by monthly order volumes, various industry statistics, and our bottom-up research findings, many companies are likely to report solid earnings results versus their targets which will act as a catalyst for heightened investor confidence and fuel a rally in the Japanese equity market after the results season.

Investment Strategy

Overweight Sectors (largest shown first):	Underweight Sectors (largest shown first):
Construction & Materials	Automobiles & Transportation
Electric Appliances & Precision Instruments	Foods
Commercial & Wholesale Trade	Banks
Raw Materials & Chemicals	Retail Trade
Pharmaceutical	

With regard to our sector selection, we continue to overweight construction & materials, raw materials & chemicals, wholesale trade and pharmaceutical sectors. Meanwhile we underweight automobiles & transportation, foods, banks and transportation & logistics sectors. Overall, we continued to increase our weight in pharmaceuticals as the sector is less exposed to the risk of trade conflicts and political turmoil in Europe. In the construction & materials sector, we have overweight positions in semiconductor material companies, parts makers which can measure automobile emissions. In the raw materials and chemicals sector, we have overweight positions in semiconductor material makers, cosmetics and toiletry makers. Conversely, we have trimmed our exposure in automobile names such as **Yamaha Motor** due to its large exposure to emerging markets. We continue to underweight foods, banks, and transportation sectors as there are relatively fewer names with strong earnings forecasts.

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Mr Kamohara is the Lead Portfolio Manager of the Fundamental Active product. He started his career with Daiwa Securities in 1987 and transferred to Daiwa Institute of Research the following year to become a Japanese equity analyst. He was seconded to their Frankfurt office (between November 1992 and February 1995) and Hong Kong office (between February 1995 and March 1997) as an analyst for European and Asia equities respectively. He transferred to Daiwa International Capital Management, the former entity of Daiwa SB Investments, in 1998 to become a fund manager of international equities.

He became a Japanese equity portfolio manager in October 2000 and has managed the Fundamental Active product since its inception in October 2003. Mr Kamohara is lead manager on 11 accounts with USD6.2 billion under management.

Mr Kamohara graduated from Kyoto University with a BA degree in Educational Administration (1987).

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