



**PM'S MONTHLY INSIGHT
FUNDAMENTAL ACTIVE GROUP**

Market Outlook and Investment Strategy

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We expect Japanese equities to remain steady in December. Japanese stocks are undervalued with the P/E ratio of the TOPIX index hovering at the lowest level since the aftermath of the Great East Japan Earthquake. Any positive news is likely to boost the market. The Japanese economy seems to have overcome the damage caused by natural disasters such as typhoons and earthquakes in September, making a smooth recovery in October with the industrial production index up +2.9%, the shipment index up +5.4% respectively from the previous month and retail sales up +3.5% YoY. Non-manufacturers, which were vulnerable to the slump in domestic economy, performed poorly in the July-September quarter, but we anticipate their recovery in the October-December quarter. Construction names, in particular, are supposed to show improved earnings thanks to reconstruction demands and acceleration in Olympic-related projects. Strong earnings across the board other than steel and chemicals, which suffered from a decline in product prices, will support the stock market.

With regard to external factors, the US and China could stave off an escalation of trade frictions. With this ceasefire at a top-level meeting after the G20 Summit, the US is expected to embark on full-swing trade negotiations with other nations such as Japan and Europe. Once necessary countermeasures for Japan become clear, the valuation of automobile sectors should increase from the current low level. Even if carmakers are forced to shift part of their production to the US, capital investments for the shift will boost stock prices in machinery and factory automation (FA) industries. We expect stock prices in related industries to rebound once trade negotiations start, after having been sold off on concerns over trade frictions.

With regards to monetary policy, the Fed will likely raise policy rates again in December, while the Bank of Japan (BoJ) maintains an accommodative monetary policy, which will support the domestic stock market. Given the above, we believe the Japanese stock market will rally toward the year-end.

Investment Strategy

Overweight Sectors	Underweight Sectors
Financials (Ex Banks)	Foods
Automobiles & Transportation	Transportation & Logistics
Pharmaceutical	Electric Appliances & Precision Instruments
Energy Resources	IT & Services, Others

We will overweight financials (ex-banks), automobiles, pharmaceutical and commercial trade, while taking an underweight position in foods, transportation & logistics, electric appliances & precision instruments and IT & services. We have raised our weights in some defensive sectors such as retail, pharmaceutical and electric power as well as toiletry stocks in chemicals, but refrained from increasing our weight in foods due to high valuations. We also increased our weight in tire stocks in expectation of an extension of driving distances due to a drop in petrol prices. Furthermore, we will add weight to companies with good earnings growth which are proactive about shareholder returns through increasing dividends and stock buybacks.

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

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Mr Taniuchi supports Mr Kamohara in managing the Fundamental Active product. He started his career with Yamaichi Securities in 1996. He moved to Nikko Asset Management the following year as a trader of equities, convertible bonds and FX. He became a senior portfolio manager of Japanese equity specialising in Growth stocks. He joined Daiwa SB Investments in June 2008 to support Mr Kamohara in managing the Fundamental Active product.

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