



JAPAN ACTIVE VALUE EQUITY STRATEGY

Investment philosophy

The Japan Active Value Equity Strategy employs a fundamental, bottom up approach with a value style bias. The strategy invests in Japanese listed companies across all sectors and market capitalizations. The strategy's investment philosophy is based on the belief that higher returns can be achieved by identifying undervalued companies with the potential to drastically turn their current situation around. Research is focused on companies that are likely to exhibit a recovery in earnings, sustainable growth, or undergo a drastic change in financial policy in the future. These companies are likely to witness substantial changes in return on equity (ROE).

Focus on catalysts

The strategy places emphasis on the identification of catalysts. When investing in undervalued stocks, the investment team avoids falling into value traps by looking for companies with catalysts that could move their stock higher.

Capturing opportunities in the mid to small-cap segment

While the strategy is all-cap, the portfolio managers have an additional focus to capture opportunities in the mid to small cap segment overlooked by the market. The Japanese equity market has a wealth of opportunities in this space, as demonstrated in the fact that about 42% of TOPIX companies have no sell-side analyst coverage. Many stocks in Japan remain cheap because they are under-researched and not enough information is available for investors.

Established expertise backed by robust research platform

The lead Portfolio Manager, Yoshihide Itagaki, has over 25 years' of industry experience with extensive background in value and small cap investing. He not only looks at individual stocks but also is mindful of the dominant investment style, sector and market cap segments, striving to outperform in different market environments. He is supported by Nikko AM's robust equity research platform. The centralised research effort, consisting of 14 experienced analysts, has strength across all sectors, market caps and styles and a strategist with over 30 years' industry experience.

Key characteristics

Identification of
catalysts in
undervalued
companies

Focus on the
rate of change of
ROE

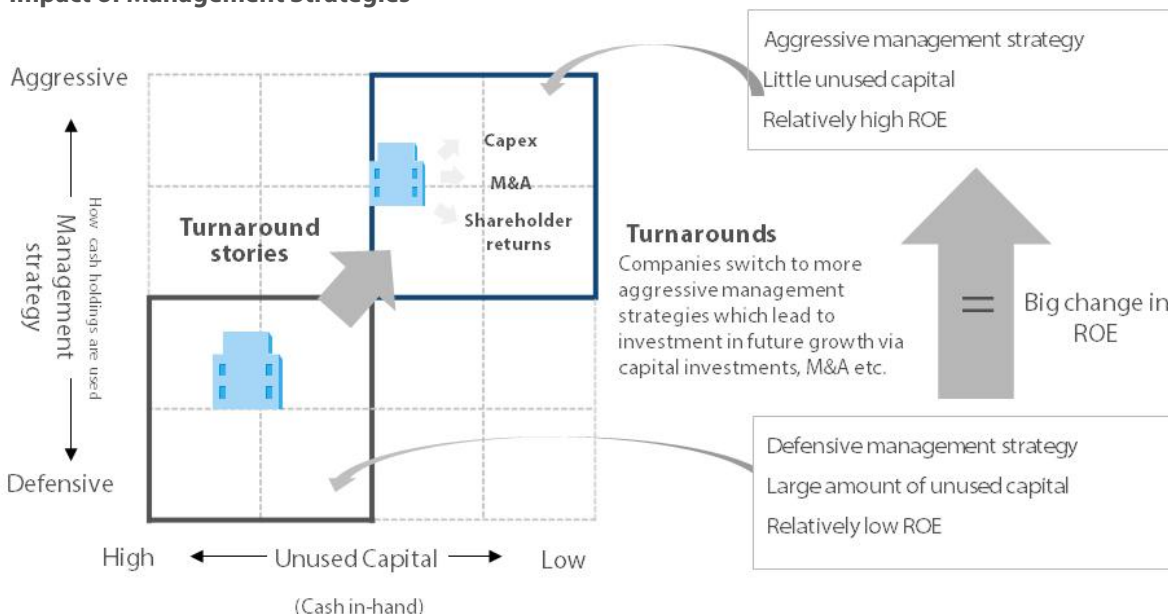
Capturing
opportunities in
mid to small-cap
segment

Established
expertise in
Japanese
market

Focus on the rate of change of ROE

Illustrated below is an example of a turnaround situation in which a conservative company with large cash holdings and low ROE is transformed into a high ROE company.

Impact of Management Strategies



Corporate analysis and stock selection

Broadly speaking, the investment team seeks mispriced stocks from two different perspectives: structural and cyclical. Through this process, they seek stocks that are mispriced due to excessive pessimism, misconception or simply being neglected by the market.

Investment Process



Defining the Research Universe

- From 3,500 listed stocks, eliminate those with high credit risk, perceptible corporate governance risk and low liquidity
- Top 1,000 stocks by market cap covered by Sector Analysts
- Small & Mid Cap Analysts and Value style Analysts research universe
- Portfolio Manager conducts research based on own ideas

Narrow from approx. 3,500 to 1000+ stocks

Narrowing the Investment Universe

- Stocks rated by Sector Analysts
- Stocks with recommendations by Small & Mid Cap Analyst and Value Style Analysts
- Portfolio Manager's own investment ideas

Narrow to 400 – 500 stocks

Combining Valuation and Fundamental Analysis

- Companies shifting to a more aggressive management strategy
- Companies shifting towards a more positive stance on shareholder returns
- Companies likely to become acquisition targets

Narrow to approx. 200 stocks

Construction of "Best Ideas" Portfolio

- Best investment ideas selected while controlling the balance of the overall portfolio risk characteristics

Portfolio of 80 – 120 stocks

Fundamental and Valuation Analysis Review

- Continuous Research, Portfolio Review and Risk Management

Contact Us

Japan—Nikko Asset Management Co., Ltd.

Tel: +81(0)3-6447-6000

Email: InternationalSalesPlanningDept@nikkoam.com

Website: <https://en.nikkoam.com/>

Singapore—Nikko Asset Management Asia Limited

Tel: +65-6500-5700, 1-800-535-8025

Email (Intermediaries): SGContactUs@nikkoam.com

(Institutions): SGinstitbusinessdev@nikkoam.com

Website: <https://www.nikkoam.com.sg/>

Australia—Nikko AM Limited

Tel: +61-2-8072-6300

Email: enquiries.au@nikkoam.com

Website: <https://www.nikkoam.com.au/>

New Zealand—Nikko Asset Management New Zealand Limited

Tel: +64-9-307-6363

Email: NZenquiries@nikkoam.com

Website: <https://www.nikkoam.co.nz/>

EMEA—Nikko Asset Management Europe Ltd

Tel: +44 (0)20 7796 9866

Email: Emarketing@nikkoam.com

Website: <https://emea.nikkoam.com/>

Americas—Nikko Asset Management Americas, Inc.

Tel: +1-212-610-6100

Email: USsalesinquiries@nikkoam.com

Hong Kong—Nikko Asset Management Hong Kong Limited

Tel: +852-3940-3900

Email: HKinstitbiz@nikkoam.com

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