



JAPAN CASH-RICH COMPANY EQUITY

Investment philosophy

The Japan Cash-Rich Company Equity Strategy primarily invests in “cash-rich” companies, or firms which have a high level of liquid reserves. There is a particular focus on whether such reserves can be used effectively towards growth and the enhancement of shareholder returns. The strategy also emphasises 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. The strategy doesn’t limit its investments in terms of market cap segments or sectors, but instead looks at all Japanese domiciled companies that are likely to see earnings recovery or growth, or for which we have high expectations of a change in their capital management policy.

Capturing opportunities in the small-cap segment

The strategy has a small-cap bias. The Japanese equity market has a wealth of opportunities in this space, as demonstrated in the fact that a significant proportion 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. The strategy leverages on the robust proprietary bottom-up research capabilities of the Nikko AM equity investment platform, as well as the portfolio manager’s extensive knowledge and experience in the mid- and small-cap space.

Established expertise backed by robust research platform

Lead portfolio manager Yoshihide Itagaki has over 25 years’ 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 a team of experienced analysts, has strength across all sectors, market caps and styles and a strategist with over 30 years’ industry experience.

Key Characteristics

Primarily invests in “cash-rich” companies

Focus on the rate of change of ROE

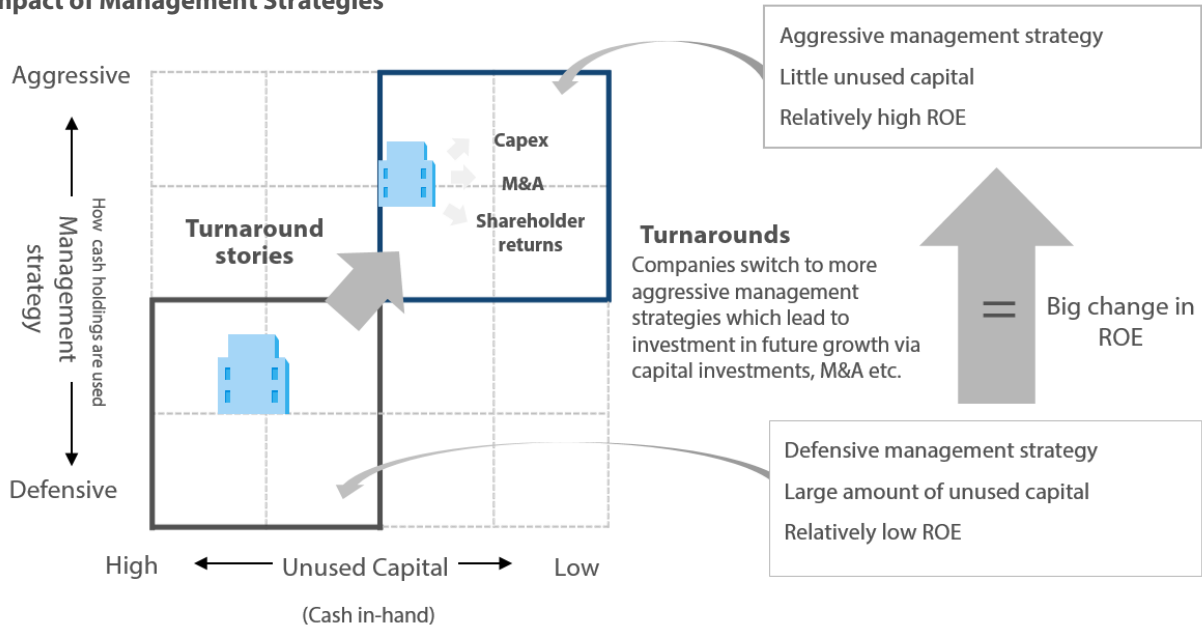
Capturing opportunities in small-cap segment

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 higher ROE company.

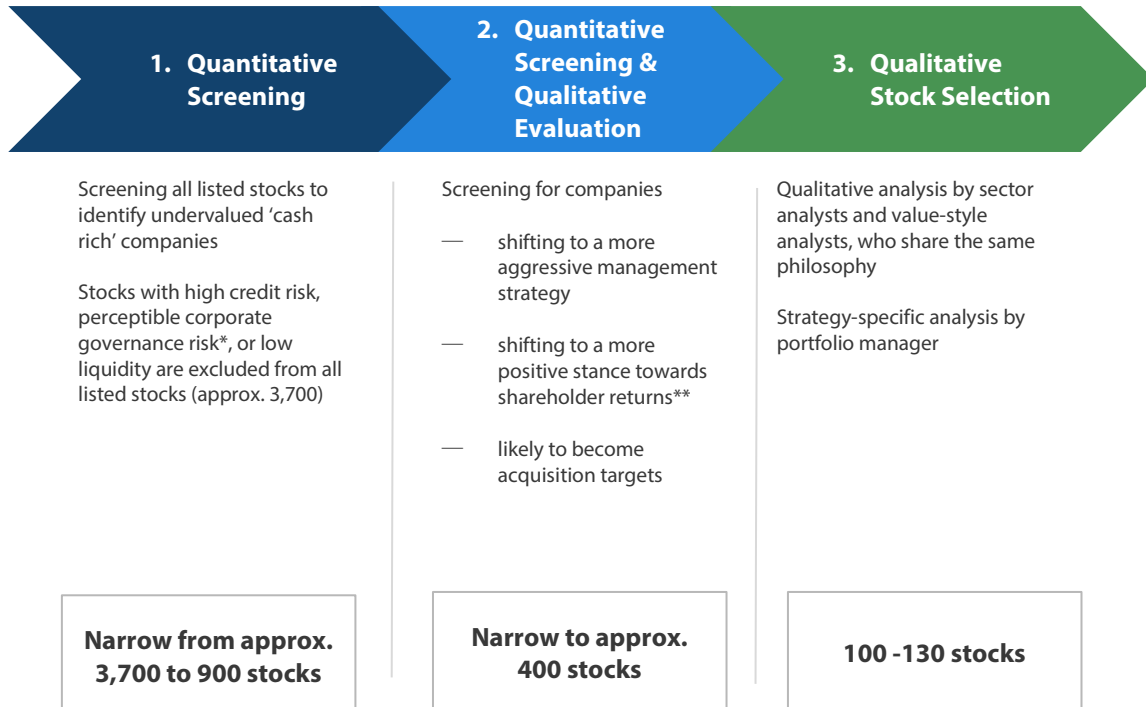
Impact of Management Strategies



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



*Stocks that Nikko AM has determined to eliminate from the investment universe due to perceptible corporate governance concerns.

**Includes dividends and share buybacks

The diagram above represents a conceptual image of the investment process, the use of which does not guarantee future investment performance.

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