

SEPTEMBER 2017



# JAPAN FUNDAMENTAL VALUE STRATEGY

## Investment Philosophy

We believe superior performance can be achieved by making long term investments in stocks that are underperforming due to structural issues, but possess a turn-around catalyst. Through fundamental, bottom-up stock selection, the investment team looks for changes that act as catalysts for improving the utilisation of assets, capital efficiency and increasing future earnings, which will lead to a revaluation of the stock price.

Our core belief is that outperformance can be achieved by investing in undervalued companies, possessing the potential for positive revaluation. These companies are characterised by having products, services and/or technologies that would benefit from newly created demand caused by social or structural changes.

## Contrarian Value-Oriented Investment Approach

Japanese stock markets are underpinned by the country's mature economic foundation. It is highly cyclical and tends to exhibit repeating patterns. This is why we believe consistent and thorough application of a contrarian value-oriented investment approach is more effective in delivering stable excess returns than a momentum-driven approach.

## Experienced Team with Long Track Record

Shigeru Aoyagi is the Team Leader and a portfolio manager on the Value Strategy Fund Management Team. He started his career with Nikko Securities in April 1986, then joined Nikko International Capital Management (now Nikko Asset Management) in March 1995. He has specialized in managing the Japan Value Equity strategy for institutional investors since February 1997 and was appointed the Team Leader in April 2010.

The Value Strategy Fund Management Team has extensive experience in Japanese equities and includes three portfolio managers with an average of 24 years' industry experience, and three value analysts with an average of 10 years' industry experience. The Value team is also supported by Nikko AM's robust equity research platform, which includes 10 sector analysts with an average of 18 years' industry experience.

## Key Characteristics

Decades-long  
track record

Turn-around  
catalyst driven  
investment

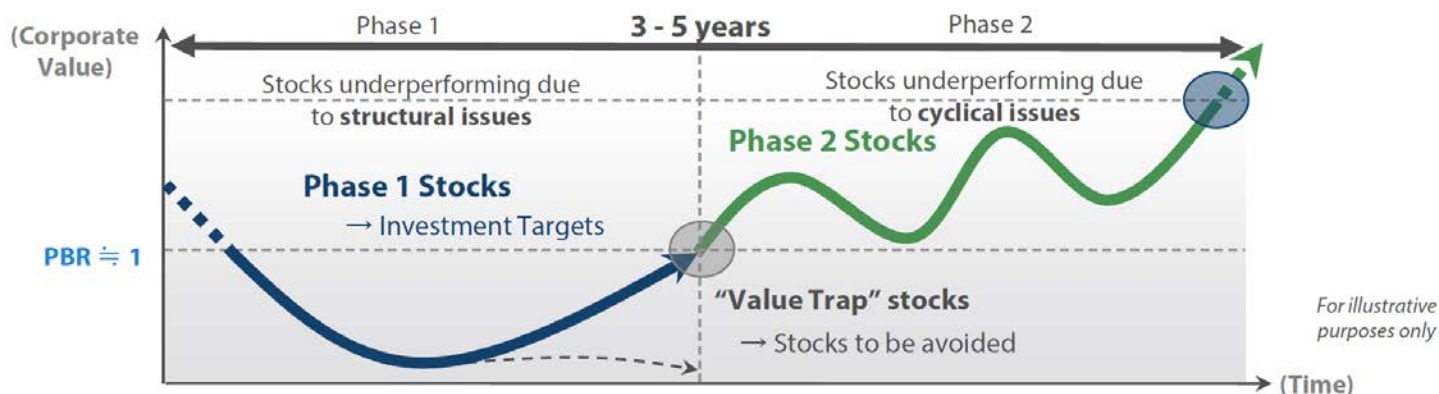
Dedicated  
value analyst  
team

3-5 year  
investment  
horizon

## Focus on Turn-Around Catalysts

We seek to understand whether poor stock performance is due to a structural or cyclical issue, and invest in companies that we believe are underperforming due to structural issues, but possess a turn-around catalyst — what we call "Phase 1" stocks which are the focus of this strategy, and comprise around 60 – 70% of the portfolio\*.

"Phase 2" stocks are those where structural issues have been resolved and the companies have begun to see positive cash flow.



### Phase 1 Stocks:

Stocks underperforming due to **structural issues**, but have a **turn-around catalyst**

#### Focus on the catalyst to turn stock price around

- Structural change due to the company's own efforts (supply side catalyst)
- Structural / environmental change in the market (demand side catalyst)

Does the company have products / services / human resources that are needed by the market to capture new demand?

### Phase 2 Stocks:

Stocks underperforming due to **cyclical issues**

#### Assessment of type of cycle and position within cycle

- Cyclical factor due to economic cycle
- Cyclical factor due to product life cycle
- Cyclical factor due to time lag between upfront investment and recovery
- Cyclical factor due to business cycles unique to the company

\* Weightings of Phase 1 and Phase 2 stocks are subject to change, depending on market conditions.

## Investment Process



### Investment Universe

- All listed stocks, approx. 3,500
- Excludes high credit risk, low liquidity, governance risk
- Reduce to 1,700

### Value Research Universe

- Exclude overvalued stocks
- Secondary check on liquidity
- Reduce to 600 - 700 stocks

### Bottom-Up Research and Fundamental Analysis

- Analysis of stock performance
- Research supply and demand perspectives
- Company visits

### Portfolio Construction

- Final screening
- 80 - 100 stocks
- 3 - 5 year investment horizon

### Risk Management

- Disciplined selling criteria
- Sophisticated risk management through dual model daily evaluation

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## Contact Us

### UK—Nikko Asset Management Europe Ltd

Tel: +44 (0)20 7796 9866

Email: [Emarketing@nikkoam.com](mailto:Emarketing@nikkoam.com)

### Singapore —Nikko Asset Management Asia Limited

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

Email (Intermediary Sales): [SGContactUs@nikkoam.com](mailto:SGContactUs@nikkoam.com)

Email (Institutional Sales): [sginstitbusinessdev@nikkoam.com](mailto:sginstitbusinessdev@nikkoam.com)

### Australia —Nikko AM Limited

Tel: +61-2-8072-6300

Email: [enquiries.au@nikkoam.com](mailto:enquiries.au@nikkoam.com)

### USA—Nikko Asset Management Americas, Inc.

Tel: +1-212-610-6100

Email: [USSalesinquiries@nikkoam.com](mailto:USSalesinquiries@nikkoam.com)

### Japan—Nikko Asset Management Co., Ltd.

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

Email: [InternationalSalesPlanningDept@nikkoam.com](mailto:InternationalSalesPlanningDept@nikkoam.com)

### Hong Kong —Nikko Asset Management Hong Kong Limited

Tel: +852-3940-3900

Email: [HKinsttibiz@nikkoam.com](mailto:HKinsttibiz@nikkoam.com)

### New Zealand —Nikko Asset Management New Zealand Limited

Tel: +64-9-307-6363

Email: [NZENquiries@nikkoam.com](mailto:NZENquiries@nikkoam.com)