

JAPAN EQUITY MONTHLY

Japanese equities declined in October

The Japanese equity market dropped in October, with the TOPIX (w/dividends) falling 9.41% and the Nikkei 225 (w/dividends) declining 9.04% on-month. For the first half of the month, stocks moved upward as concerns over trade friction eased after the US, Mexico, and Canada reached a deal on the renegotiation of the North American Free Trade Agreement (NAFTA). However, Japanese equities subsequently fell after stocks in the US and around the world dropped sharply on concerns over a rapid increase in US long-term interest rates. The downward trend continued in the latter half of the month, as disappointing economic indicators in China spurred concerns over a slowdown in the country's economy. Stocks were further pressured by fears that relations between the West and Saudi Arabia would grow strained, following the suspicious death of a Saudi journalist, as well as on heightened concerns that Italy may abandon the euro due to fiscal problems.

All 33 TSE sectors dropped during the month, with Marine Transportation, Glass & Ceramic Products, and Chemicals posting the steepest declines.

Exhibit 1: Major Indices (Last Month and Historic Changes)

Index	Mth-end	1-mth	3-mth	6-mth
Nikkei 225	21,920.46	-9.1%	-2.8%	-2.4%
JGB Yield	0.127	-0.003	+0.065	+0.072
JPY/USD	113.13	-0.5%	1.4%	3.5%
JPY/EUR	128.27	-2.8%	-2.0%	-3.0%
MSCI World	2,021.98	-7.4%	-6.1%	-3.1%

Source: Bloomberg, as at 31 October 2018

Exhibit 2: Nikkei 225



Source: Bloomberg, as at 31 October 2018

Fundamental Perspective

From a fundamental perspective, the Nikkei's drop to the lowest level in seven months was quite different to the fall in tech-related equities in the US. The selloff in FANG stocks was due to strengthening privacy regulations and data leaks, along with a healthy dose of profit taking. While Japanese carmakers, factory-automation providers and machinery manufacturers are exposed to the US-China tariff fight in different ways, the trade tension should not be a macro issue for Japan as long as global consumption remains steady.

Trade tensions will continue for the next five to 10 years, as we have seen over the recent two decades between the US and China. The market has priced in this sort of cyclicity. We are in a late economic cycle, with no reason to think a big fall is coming. A slowdown in corporate earnings is likely, but that does not mean negative growth.

Outlook Firm

Our outlook for the Nikkei 225 remains at 24,000 by March and 25,000 by September, from around 22,000 at present, with stable FX and bond yields from both the US and Japan. In a late economic cycle, markets tend to fluctuate according to sentiment. Though we see no signs of overheated capex yet, fear of this leads higher interest rates.

The BoJ decided to keep its monetary policy unchanged, while it slightly lowered its CPI outlooks for FY2018-2020. The central bank will be keeping its current policy for longer, but won't be expanding unless there is an external shock event.

Abe Meets Xi

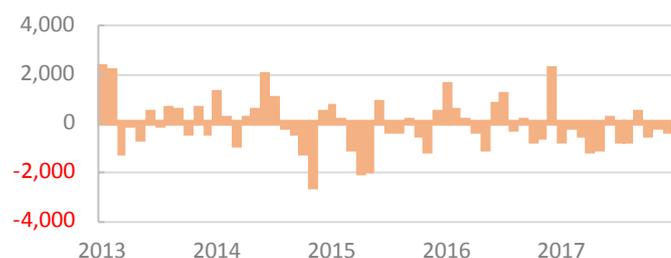
Although Abe's meeting with Xi came with a series of agreements on cooperating on infrastructure projects overseas, it will take quite some time before any of this will have an impact at a macro level.

Abe has again proven himself to be a skilled foreign statesman, and new cooperation with China could be useful if Trump's trade war turns its attention to Japan.

Exhibit 3: Major Market Indices



Japan Equity Net Purchase from Overseas (JPY bil.)



Source: Bloomberg, as at 31 October 2018

Exhibit 4: Major Index Performance, Indicators, and Valuation

Index	1-mth	3-mth	6-mth	1-yr	5-yr
Nikkei 225	-9.1%	-2.8%	-2.4%	-0.4%	40%
JGB Yield (%pt)	-0.003	+0.065	+0.072	+0.127	-0.478
JPY/USD	-0.5%	1.4%	3.5%	-0.2%	10%
JPY/EUR	-2.8%	-2.0%	-3.0%	-2.7%	-8%
MSCI World	-7.4%	-6.1%	-3.1%	-0.7%	24%
TOPIX	-9.4%	-6.1%	-7.4%	-6.8%	31%
TPX-100 (Large)	-8.6%	-4.5%	-5.2%	-5.2%	25%
TPX-400 (Mid)	-10.4%	-7.9%	-10.0%	-8.9%	37%
TPX-Small	-10.6%	-9.4%	-11.0%	-9.0%	49%

Sector (TPX-17)	1-mth	3-mth	6-mth	1-yr	5-yr
Elc Appl&Prec	-10.5%	-9.1%	-10.2%	-11.3%	49%
IT & Service	-12.3%	-5.4%	-3.8%	-4.2%	55%
Auto&Trns Eqp	-9.0%	-8.2%	-10.8%	-11.7%	2%
RawMatl & Chm	-14.0%	-10.5%	-9.6%	-8.7%	71%
Banks	-5.0%	-3.7%	-7.7%	-10.6%	-6%
Machinery	-12.5%	-8.3%	-13.3%	-15.6%	24%
Transprt&Logi	-7.5%	-4.7%	-4.1%	-1.9%	38%
Const & Matl	-9.5%	-14.7%	-16.8%	-19.2%	35%
Fincl ex Bank	-5.2%	0.8%	-3.5%	-1.1%	12%
Foods	-5.3%	-6.5%	-8.3%	-10.0%	47%
Retail Trade	-5.7%	-0.3%	-3.9%	7.0%	60%
Pharmceutical	-10.1%	-0.4%	5.3%	7.7%	62%
Commr & WhTrd	-7.1%	-0.5%	-3.3%	6.2%	50%
Real Estate	-6.6%	-7.2%	-12.2%	-6.1%	-23%
Steel&Nonfer	-12.6%	-9.5%	-14.5%	-21.7%	-13%
Elc Pwr & Gas	-3.1%	0.6%	0.8%	5.8%	11%
Enrgy Resourc	-10.4%	-0.3%	5.5%	26.8%	41%

Valuation	Mth-end	3-mth	6-mth	1-yr	5-yr
TOPIX					
Div. Yield (e)	2.3%	2.2%	2.1%	1.9%	1.7%
Price/Earn (e)	12.9	13.7	14.1	15.7	15.5
Price/Book	1.2	1.3	1.3	1.4	1.3
MSCI World					
Div. Yield (e)	2.6%	2.4%	2.5%	2.4%	2.5%
Price/Earn (e)	15.3	16.3	15.9	18.1	15.9
Price/Book	2.2	2.3	2.2	2.4	2.0

Market Indicator	Mth-end	3-mth	6-mth	1-yr	5-yr
Daily Turnover	63	54	53	54	48
Market Cap.	620	653	657	671	445
Net Purchase Overseas	-257	-895	-1,889	-5,089	-2,161

Source: Bloomberg, as at 31 October 2018

(e) stands for consensus estimates by Bloomberg.

Turnover and market cap in JPY tril.

Net Purchase (JPY bil.) from Overseas is cumulative monthly.

Important Information

This document is prepared by Nikko Asset Management Co., Ltd. and/or its affiliates (**Nikko AM**) and is for distribution only under such circumstances as may be permitted by applicable laws. This document does not constitute investment advice or a personal recommendation and it does not consider in any way the suitability or appropriateness of the subject matter for the individual circumstances of any recipient.

This document is for information purposes only and is not intended to be an offer, or a solicitation of an offer, to buy or sell any investments or participate in any trading strategy. Moreover, the information in this material will not affect Nikko AM's investment strategy in any way. The information and opinions in this document have been derived from or reached from sources believed in good faith to be reliable but have not been independently verified. Nikko AM makes no guarantee, representation or warranty, express or implied, and accepts no responsibility or liability for the accuracy or completeness of this document. No reliance should be placed on any assumptions, forecasts, projections, estimates or prospects contained within this document. This document should not be regarded by recipients as a substitute for the exercise of their own judgment. Opinions stated in this document may change without notice.

In any investment, past performance is neither an indication nor guarantee of future performance and a loss of capital may occur. Estimates of future performance are based on assumptions that may not be realised. Investors should be able to withstand the loss of any principal investment. The mention of individual stocks, sectors, regions or countries within this document does not imply a recommendation to buy or sell.

Nikko AM accepts no liability whatsoever for any loss or damage of any kind arising out of the use of all or any part of this document, provided that nothing herein excludes or restricts any liability of Nikko AM under applicable regulatory rules or requirements.

All information contained in this document is solely for the attention and use of the intended recipients. Any use beyond that intended by Nikko AM is strictly prohibited.

Japan: The information contained in this document pertaining specifically to the investment products is not directed at persons in Japan nor is it intended for distribution to persons in Japan. Registration Number: Director of the Kanto Local Finance Bureau (Financial Instruments firms) No. 368 Member Associations: The Investment Trusts Association, Japan/Japan Investment Advisers Association/Japan Securities Dealers Association.

United Kingdom and rest of Europe: This document constitutes a financial promotion for the purposes of the Financial Services and Markets Act 2000 (as amended) (FSMA) and the rules of the Financial Conduct Authority (the FCA) in the United Kingdom (the FCA Rules).

This document is communicated by Nikko Asset Management Europe Ltd, which is authorised and regulated in the United Kingdom by the FCA (122084). It is directed only at (a) investment professionals falling within article 19 of the Financial Services and Markets Act 2000 (Financial Promotions) Order 2005, (as amended) (the Order) (b) certain high net worth entities within the meaning of article 49 of the Order and (c) persons to whom this document may otherwise lawfully be communicated (all such persons being referred to as relevant persons) and is only available to such persons and any investment activity to which it relates will only be engaged in with such persons.

United States: This document is for information purposes only and is not intended to be an offer, or a solicitation of an offer, to buy or sell any investments. This document should not be regarded as investment advice. This document may not be duplicated, quoted, discussed or otherwise shared without prior consent. Any offering or

distribution of a Fund in the United States may only be conducted via a licensed and registered broker-dealer or a duly qualified entity. Nikko Asset Management Americas, Inc. is a United States Registered Investment Adviser.

Singapore: This document is for information only with no consideration given to the specific investment objective, financial situation and particular needs of any specific person. You should seek advice from a financial adviser before making any investment. In the event that you choose not to do so, you should consider whether the investment selected is suitable for you. Nikko Asset Management Asia Limited is a regulated entity in Singapore.

Hong Kong: This document is for information only with no consideration given to the specific investment objective, financial situation and particular needs of any specific person. You should seek advice from a financial adviser before making any investment. In the event that you choose not to do so, you should consider whether the investment selected is suitable for you. The contents of this document have not been reviewed by the Securities and Futures Commission or any regulatory authority in Hong Kong. Nikko Asset Management Hong Kong Limited is a licensed corporation in Hong Kong.

Australia: Nikko AM Limited ABN 99 003 376 252 (**Nikko AM Australia**) is responsible for the distribution of this information in Australia. **Nikko AM Australia** holds Australian Financial Services Licence No. 237563 and is part of the Nikko AM Group. This material and any offer to provide financial services are for information purposes only. This material does not take into account the objectives, financial situation or needs of any individual and is not intended to constitute personal advice, nor can it be relied upon as such. This material is intended for, and can only be provided and made available to, persons who are regarded as Wholesale Clients for the purposes of section 761G of the Corporations Act 2001 (Cth) and must not be made available or passed on to persons who are regarded as Retail Clients for the purposes of this Act. If you are in any doubt about any of the contents, you should obtain independent professional advice.

New Zealand: Nikko Asset Management New Zealand Limited (Company No. 606057, FSP22562) is the licensed Investment Manager of Nikko AM NZ Investment Scheme and the Nikko AM NZ Wholesale Investment Scheme.

This material is for the use of researchers, financial advisers and wholesale investors (in accordance with Schedule 1, Clause 3 of the Financial Markets Conduct Act 2013 in New Zealand). This material has been prepared without taking into account a potential investor's objectives, financial situation or needs and is not intended to constitute personal financial advice, and must not be relied on as such. Recipients of this material, who are not wholesale investors, or the named client, or their duly appointed agent, should consult an Authorised Financial Adviser and the relevant Product Disclosure Statement or Fund Fact Sheet (available on our website www.nikkoam.co.nz).

Kingdom of Bahrain: The document has not been approved by the Central Bank of Bahrain which takes no responsibility for its contents. No offer to the public to purchase the Strategy will be made in the Kingdom of Bahrain and this document is intended to be read by the addressee only and must not be passed to, issued to, or shown to the public generally.

Kuwait: This document is not for general circulation to the public in Kuwait. The Strategy has not been licensed for offering in Kuwait by the Kuwaiti Capital Markets Authority or any other relevant Kuwaiti government agency. The offering of the Strategy in Kuwait on the basis a private placement or public offering is, therefore, restricted in accordance with Decree Law No. 7 of 2010 and the bylaws thereto (as amended). No private or public offering of the Strategy is being made in Kuwait, and no agreement relating to the sale of the Strategy will

be concluded in Kuwait. No marketing or solicitation or inducement activities are being used to offer or market the Strategy in Kuwait.

Kingdom of Saudi Arabia: This document is communicated by Nikko Asset Management Europe Ltd (Nikko AME), which is authorised and regulated by the Financial Services and Markets Act 2000 (as amended) (FSMA) and the rules of the Financial Conduct Authority (the FCA) in the United Kingdom (the FCA Rules). This document should not be reproduced, redistributed, or sent directly or indirectly to any other party or published in full or in part for any purpose whatsoever without a prior written permission from Nikko AME.

This document does not constitute investment advice or a personal recommendation and does not consider in any way the suitability or appropriateness of the subject matter for the individual circumstances of any recipient. In providing a person with this document, Nikko AME is not treating that person as a client for the purposes of the FCA Rules other than those relating to financial promotion and that person will not therefore benefit from any protections that would be available to such clients.

Nikko AME and its associates and/or its or their officers, directors or employees may have or have had positions or material interests, may at any time make purchases and/or sales as principal or agent, may provide or have provided corporate finance services to issuers or may provide or have provided significant advice or investment services in any investments referred to in this document or in related investments. Relevant confidential information, if any, known within any company in the Nikko AM group or Sumitomo Mitsui Trust Bank group and not available to Nikko AME because of regulations or internal procedure is not reflected in this document. The investments mentioned in this document may not be eligible for sale in some states or countries, and they may not be suitable for all types of investors.

Oman: The information contained in this document neither constitutes a public offer of securities in the Sultanate of Oman as contemplated by the Commercial companies law of Oman (Royal decree 4/74) or the Capital Markets Law of Oman (Royal Decree 80/98), nor does it constitute an offer to sell, or the solicitation of any offer to buy non-Omani securities in the Sultanate of Oman as contemplated by Article 139 of the Executive Regulations to the Capital Market law (issued by Decision No. 1/2009). This document is not intended to lead to the conclusion of any contract of whatsoever nature within the territory of the Sultanate of Oman.

Qatar (excluding QFC): The Strategies are only being offered to a limited number of investors who are willing and able to conduct an independent investigation of the risks involved in an investment in such Strategies. The document does not constitute an offer to the public and should not be reproduced, redistributed, or sent directly or indirectly to any other party or published in full or in part for any purpose whatsoever without a prior written permission from Nikko Asset Management Europe Ltd (Nikko AME). No transaction will be concluded in your jurisdiction and any inquiries regarding the Strategies should be made to Nikko AME.

United Arab Emirates (excluding DIFC): This document and the information contained herein, do not constitute, and is not intended to constitute, a public offer of securities in the United Arab Emirates and accordingly should not be construed as such. The Strategy is only being offered to a limited number of investors in the UAE who are (a) willing and able to conduct an independent investigation of the risks involved in an investment in such Strategy, and (b) upon their specific request.

The Strategy has not been approved by or licensed or registered with the UAE Central Bank, the Securities and Commodities Authority or any other relevant licensing authorities or governmental agencies in the UAE. This document is for the use of the named addressee only and should not be given or shown to any other person (other than

employees, agents or consultants in connection with the addressee's consideration thereof).

No transaction will be concluded in the UAE and any inquiries regarding the Strategy should be made to Nikko Asset Management Europe Ltd.