



# JAPAN VALUE EQUITY

## Investment Philosophy

We seek to generate high returns through a long-term, contrarian approach that identifies undervalued companies likely to undergo transformation.

The mature nature of the Japanese economy makes its stock market highly cyclical, allowing seasoned investors to take advantage of repeated patterns. In this type of market, a consistent application of contrarian value-oriented investment is the most effective way to generate excess returns. We aim to benefit from opportunities in which stocks are revalued by the market.

Examples of undervalued companies that are expected to undergo transformation include:

- Those in “crisis mode” where poor standing in the market compels management/employees to make fundamental changes
- Those whose mindset is changing toward enhancing corporate value
- Those with attractive potential that may be priced into the stock price in the future

Companies that offer goods and services needed by society will generally have business continuity, offer downside protection, and are likely to possess a turnaround catalyst, even if they are temporarily undervalued. Our research seeks to identify such companies that demonstrate these three attributes.

## Experienced Team with Long Track Record

Shigeru Aoyagi is the Team Leader of the Value Strategy Fund Management Team. He started his career with Nikko Securities in 1986, then joined Nikko International Capital Management (now Nikko Asset Management) in 1995. He has been the lead portfolio manager of the Japan Value Equity Strategy and its primary decision maker since its inception in 1996.

The Value Strategy Fund Management Team has extensive experience in Japanese equities and includes four portfolio managers and three value analysts (one of whom concurrently works as a portfolio manager). The Value Team is also supported by Nikko AM's robust equity research platform, consisting of a team of experienced sector analysts.

### Key characteristics

Decades-long  
track record

Turn-around  
catalyst driven  
investment

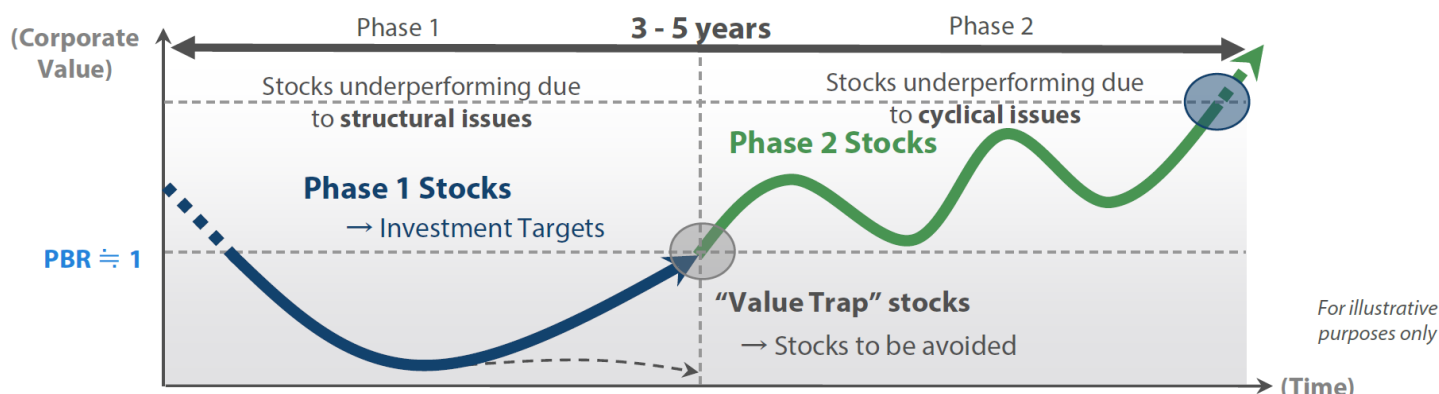
Dedicated value  
analyst team

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 main focus of the strategy and comprise around 60–70% of the portfolio\*.

"Phase 2" stocks are companies that resolve their structural issues in Phase 1 and start to generate positive cash flow in Phase 2. They comprise approximately 30–40% of the portfolio\*.



### Phase 1 Stocks:

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

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

- A) Structural change due to the company's own efforts (supply side catalyst)
- B) 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:

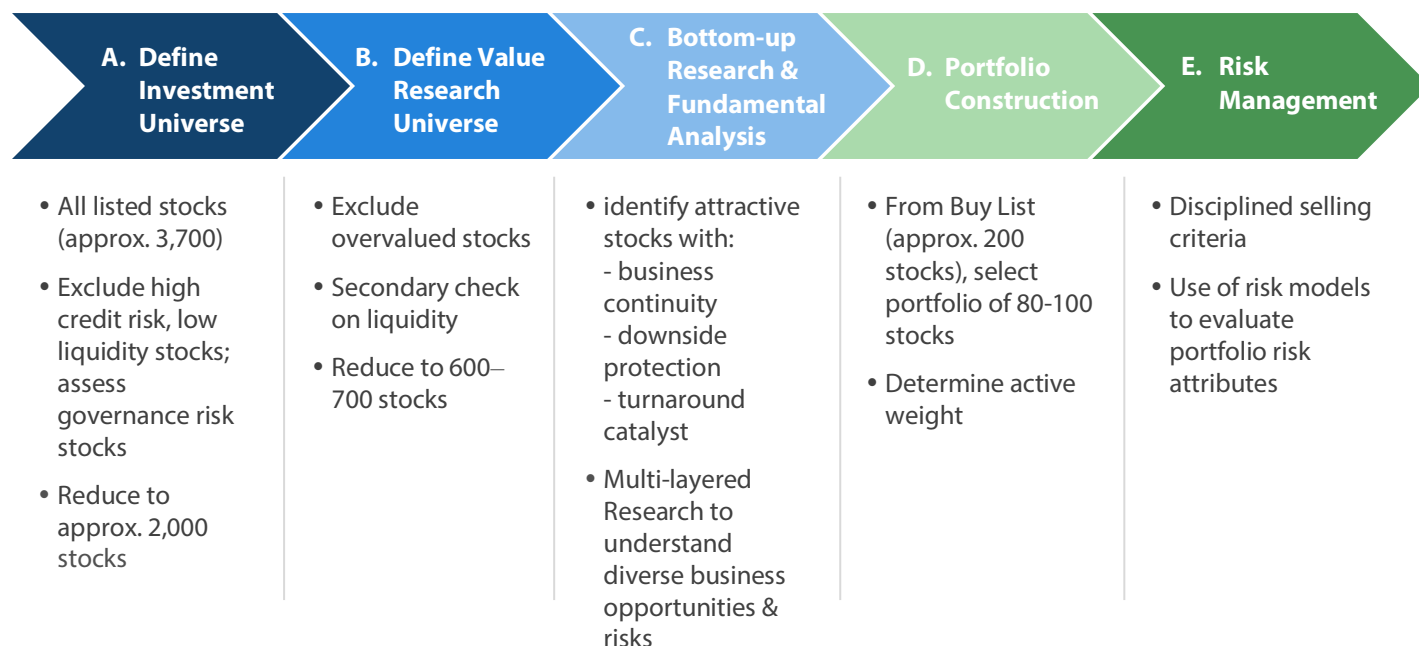
Stocks underperforming due to **cyclical issues**

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

- A) Cyclical factor due to economic cycle
- B) Cyclical factor due to product life cycle
- C) Cyclical factor due to time lag between upfront investment and recovery
- D) 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



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