



Japan Economy 2023 and the Investment Opportunities

February 2023

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ASSET MGT

Tokio Marine Asset Management (TMAM)

Leading Japan specialist manager with over 30-years' history

TMAM is the investment management arm of Tokio Marine Holdings (Tokyo Stock Exchange: 8766)

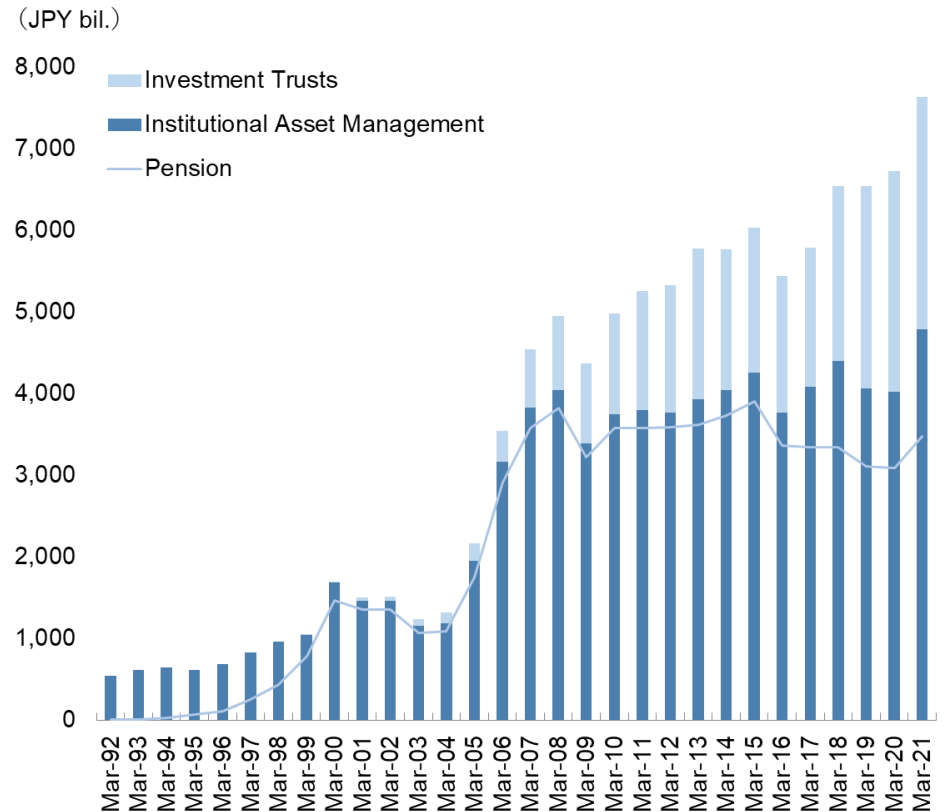
One of the largest investment managers in Japan

- 392 employees including 122 investment professionals
- USD 67.2 billion in AUM
- 373 institutional mandates

Strong local presence

- Investment teams based in Tokyo and Singapore
- Offices in London and New York

TMAM has an established history of 30+ years in providing award-winning fund management to pension funds, financial institutions and sovereign wealth funds around the world.



As at 28 February 2022, institutional mandate as at 31 January 2022

What keeps us awake at night?

And how does Japan fit into the big picture?

Inflation

Geopolitical
Crisis

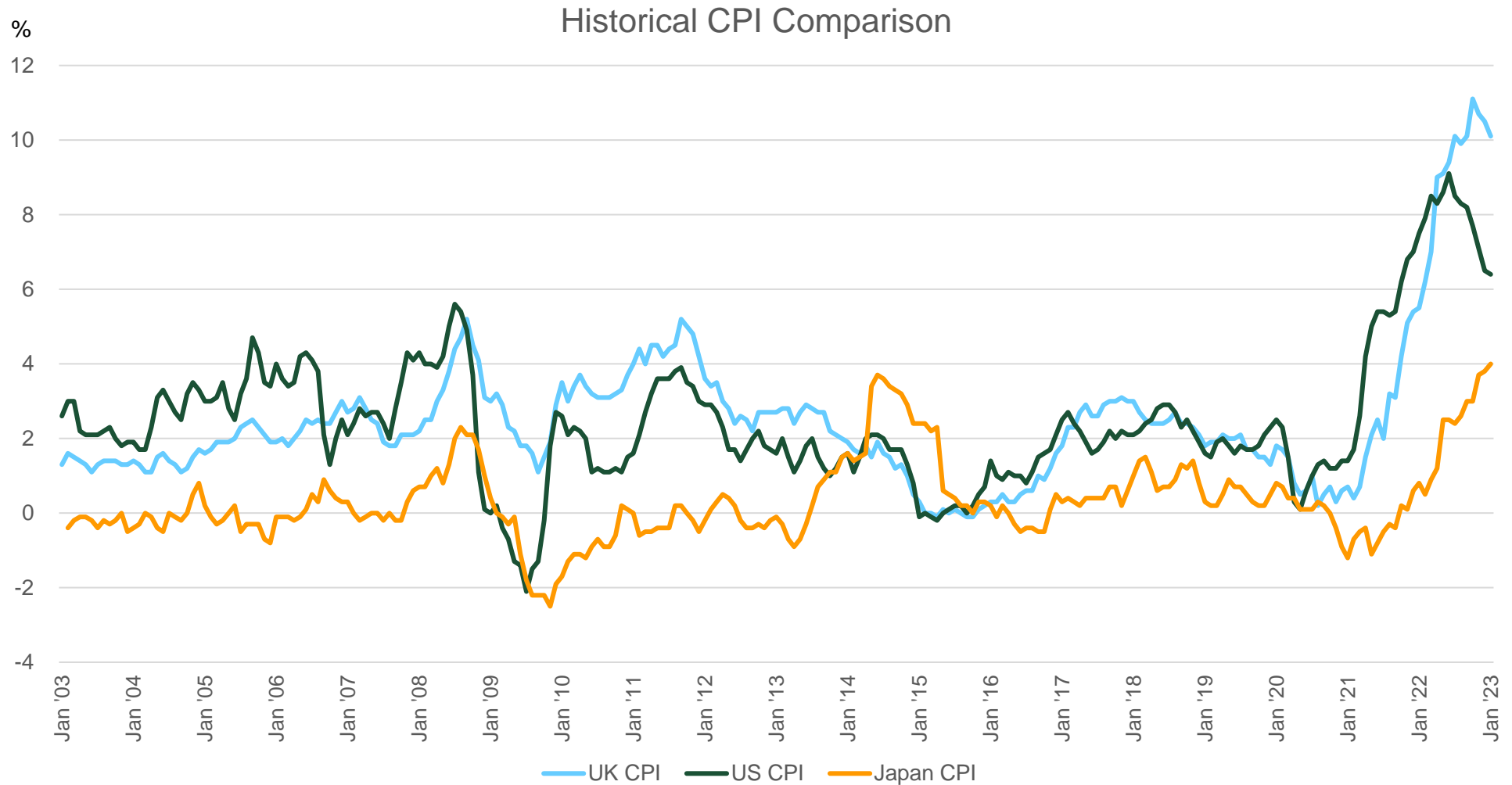


Rising Interest
Rates

Risk of
Disruption

Inflation

Where do we stand and where (does it look like) we are headed?



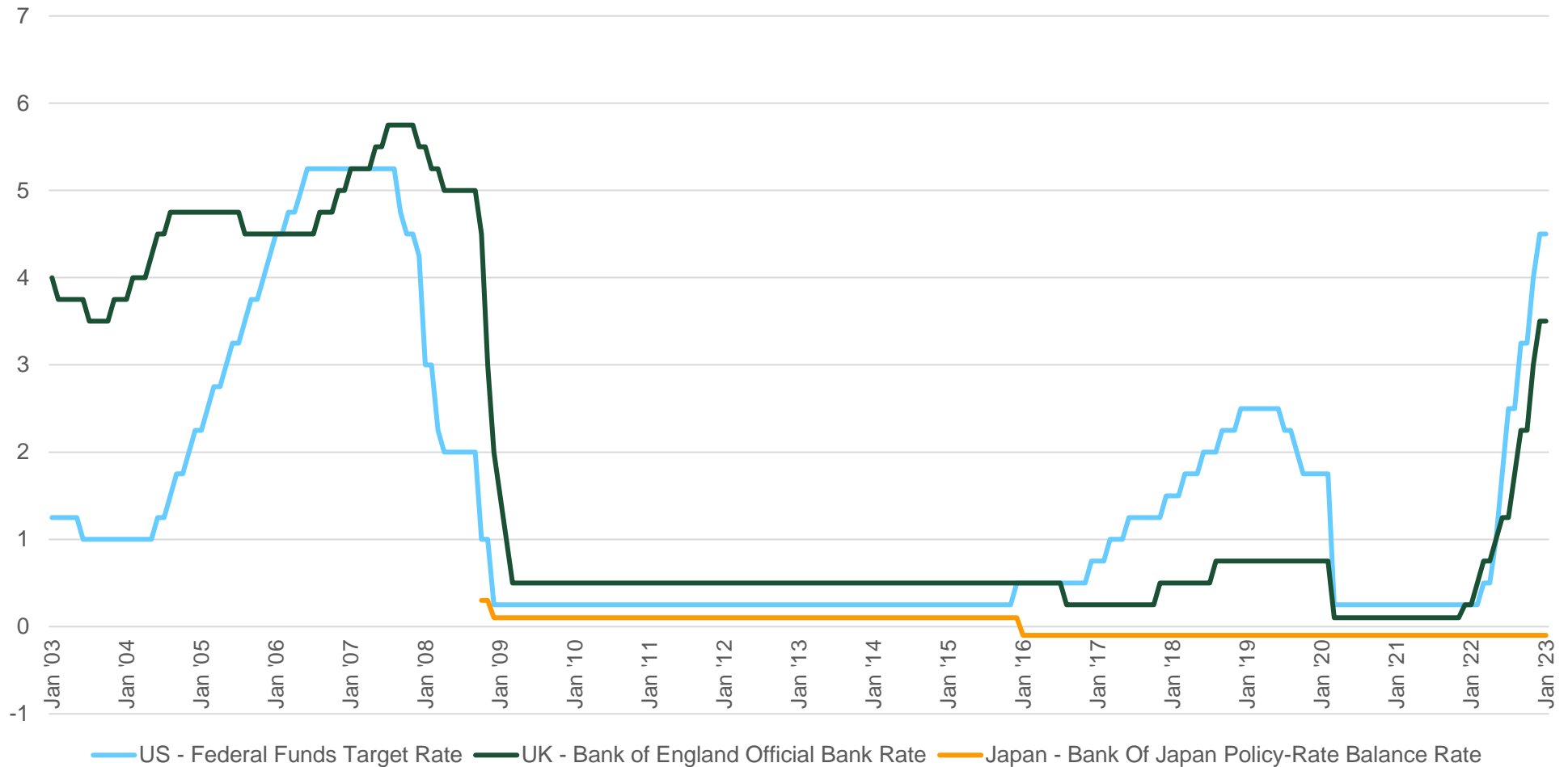
Source: Bloomberg

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Interest Rates

Where do we stand and where (does it look like) we are headed?

Historical Interest Rates Comparison

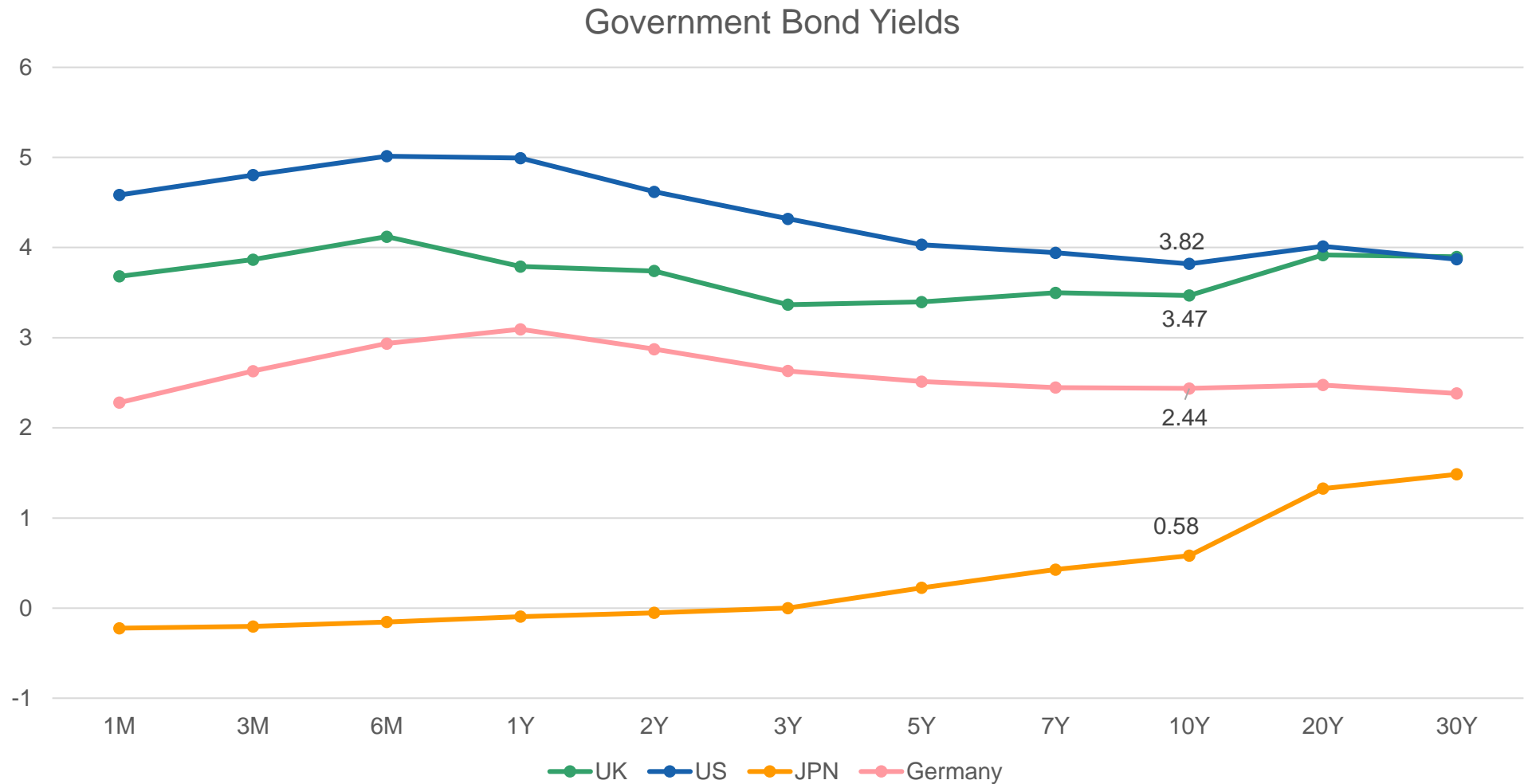


Source: Bloomberg

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JGB yields in global context

Short-to-medium term government bond yields remain comparatively low



Source: Bloomberg, as of 20 January 2023

Geopolitical Crisis

War in Ukraine caused disruptions globally. And brought Taiwan into sharp focus

Ukraine

- How much longer is the war to go on?
- What are the implications for inflation?
- How likely is a global escalation?

Taiwan

- How likely is China to take military action?
- What is the impact on the semiconductors supply?
- Further stress in the global supply chains?



Japan and its equity markets

Big and stable economy with deep stock markets

Japan's Economy

- Big
- Stable
- Low growth

- ⊕ 3rd biggest economy by GDP
- ⊕ Less volatile during crises
- ⊕ Not a high growth economy

Japan's Equity Markets

- Big & deep
- Diverse
- Both global & local

- ⊕ 2nd largest single-country market
- ⊕ About 4,000 names
- ⊕ Mix of all sized local and global players

Economy in a different phase from others

Japan is a different type of economy in a different stage of the cycle

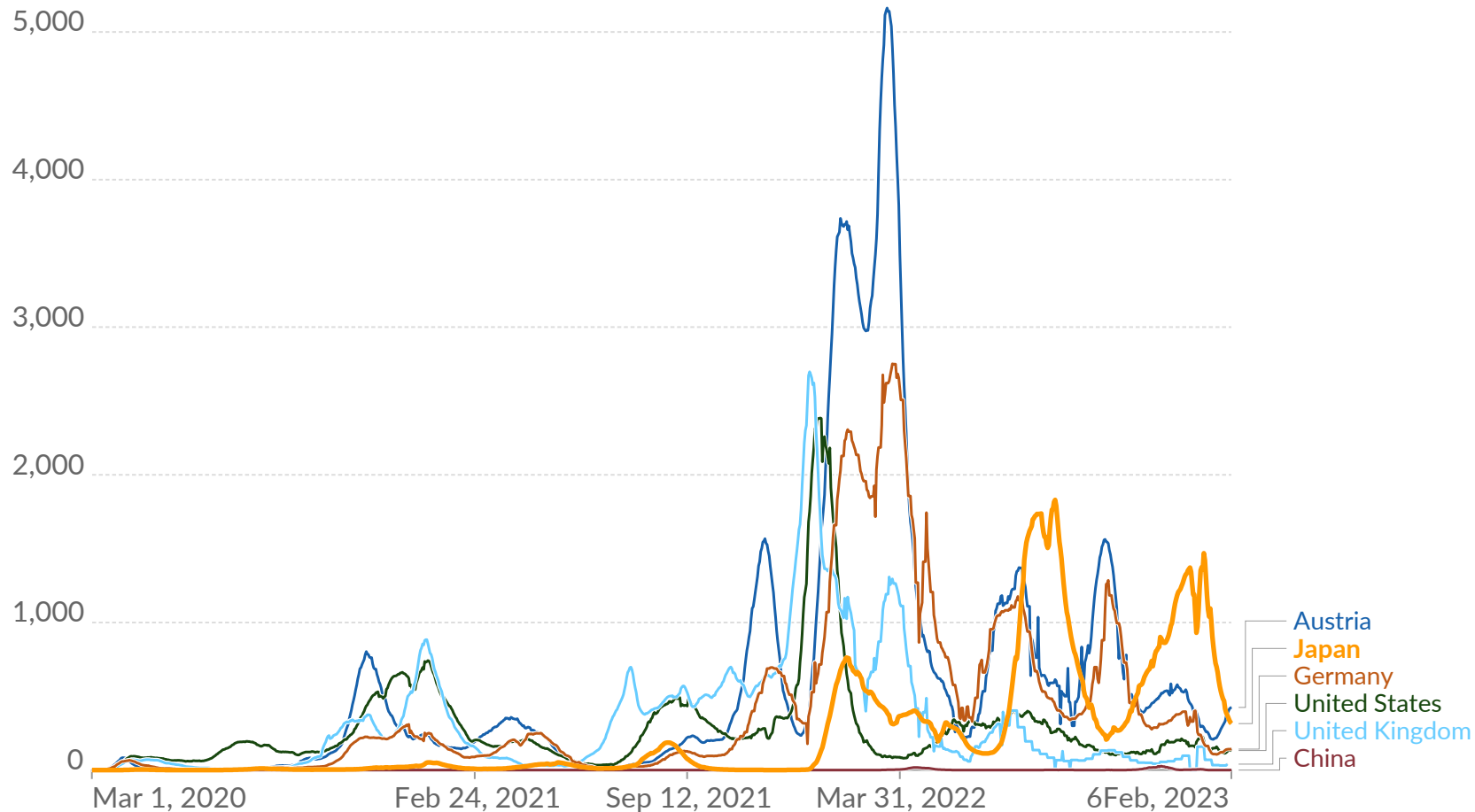
Steady	<ul style="list-style-type: none">• Slow, steady recovery due to conservative reopening policy, structural impact of sacrificing growth to minimise downside
Different	<ul style="list-style-type: none">• Different from other economies – so is BOJ's monetary policy
Facing risks	<ul style="list-style-type: none">• Inflation, global recession, Covid, are all tangible risks
Multi-pronged	<ul style="list-style-type: none">• Consumption, capital expenditure and exports to support economy

Covid situation in Japan

Upswing in infections following removal of restrictions is coming to an end

Daily new confirmed COVID-19 cases per million people

7-day rolling average. Due to limited testing, the number of confirmed cases is lower than the true number of infections.

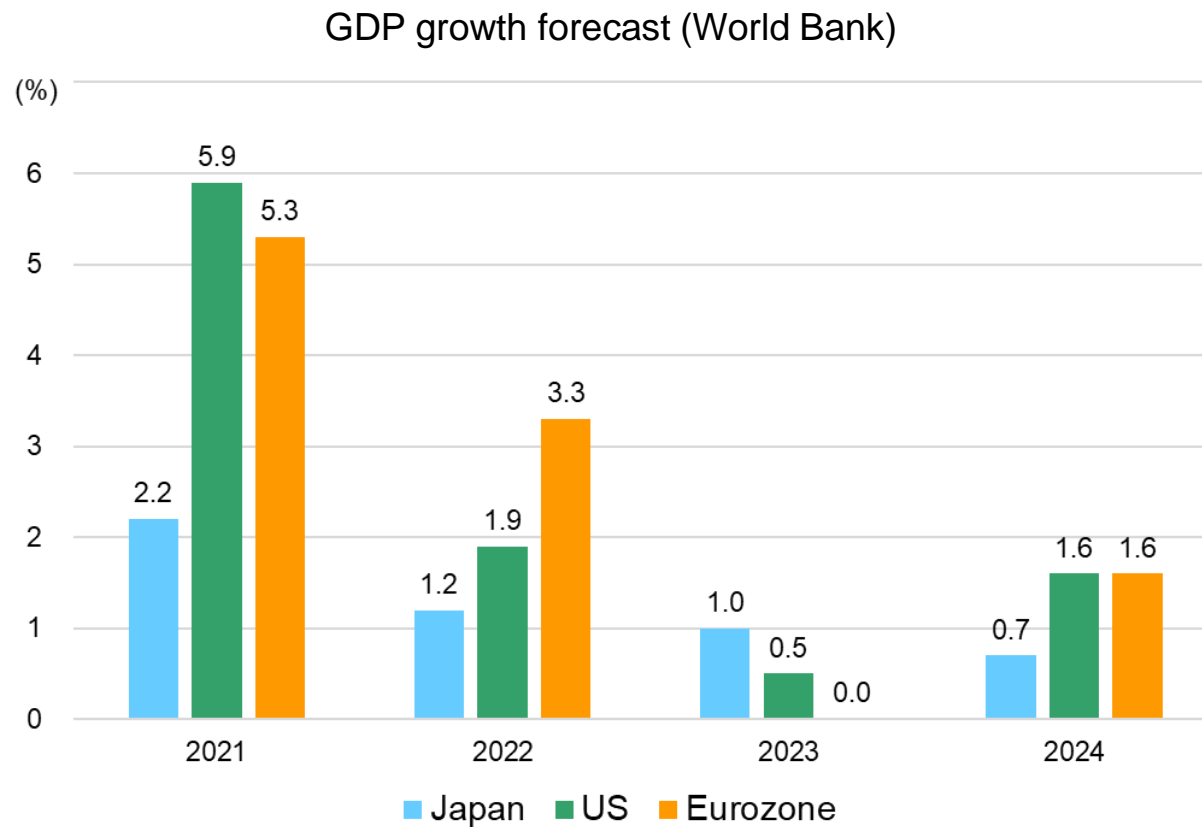


Source: Johns Hopkins University CSSE COVID-19 Data

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Economy in a different phase from others

Perhaps less upside, but much less downside as well

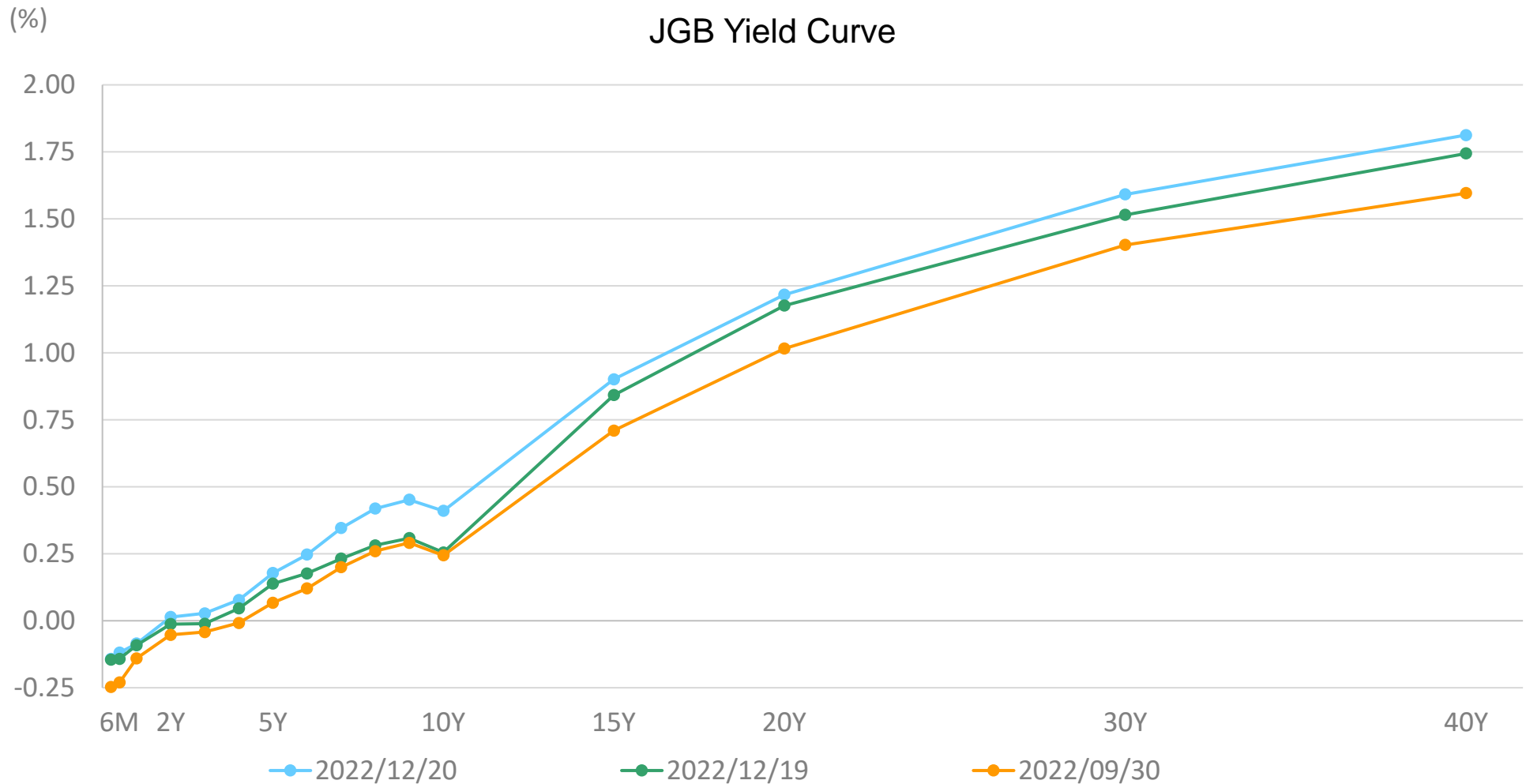


Source: OECD

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Changes in monetary policy

BoJ eased yield curve control, which were already increasing; pressure on yen eased

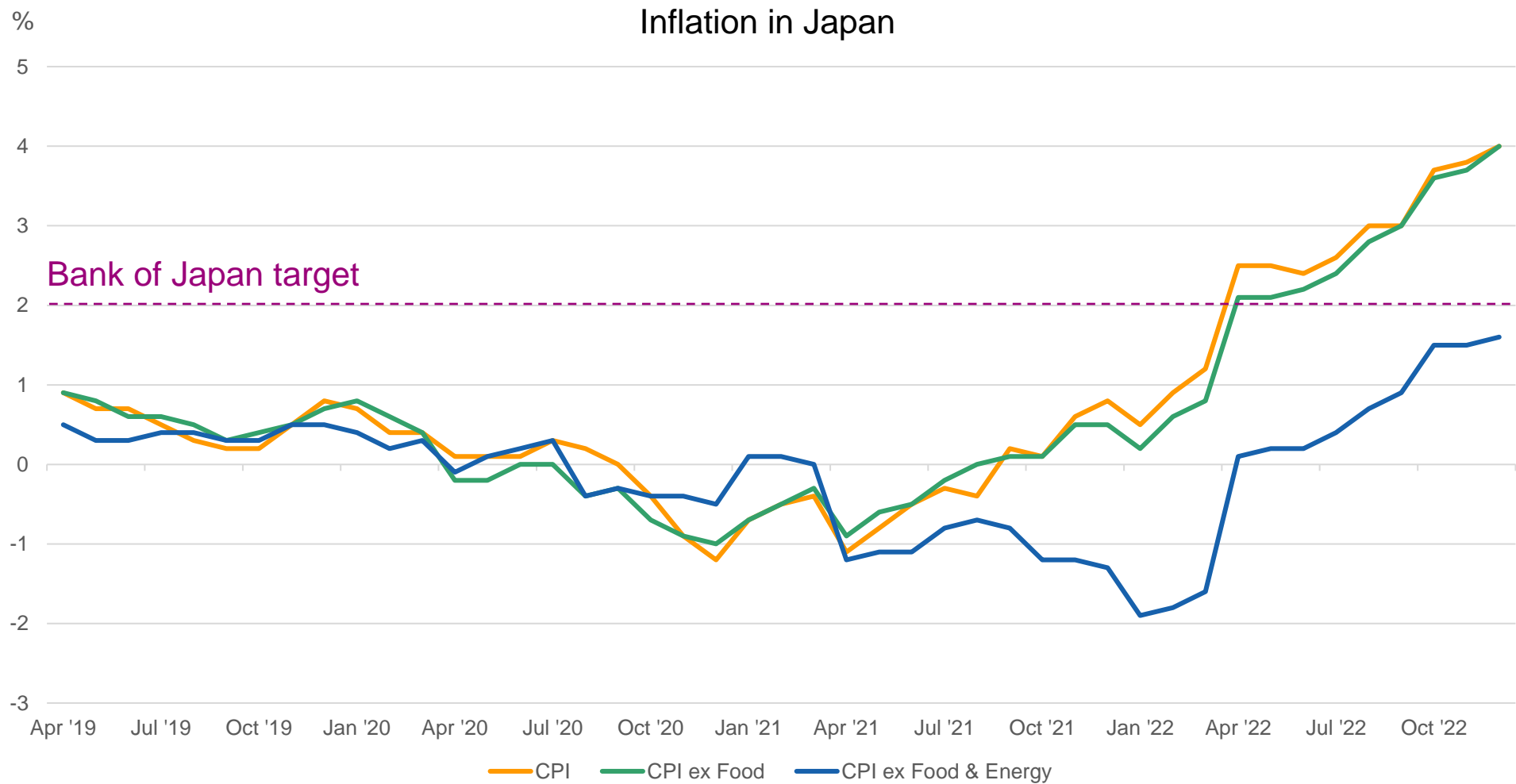


Source: Bloomberg

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Inflation

Japan is not immune from inflationary pressures, but core CPI is still below 2%



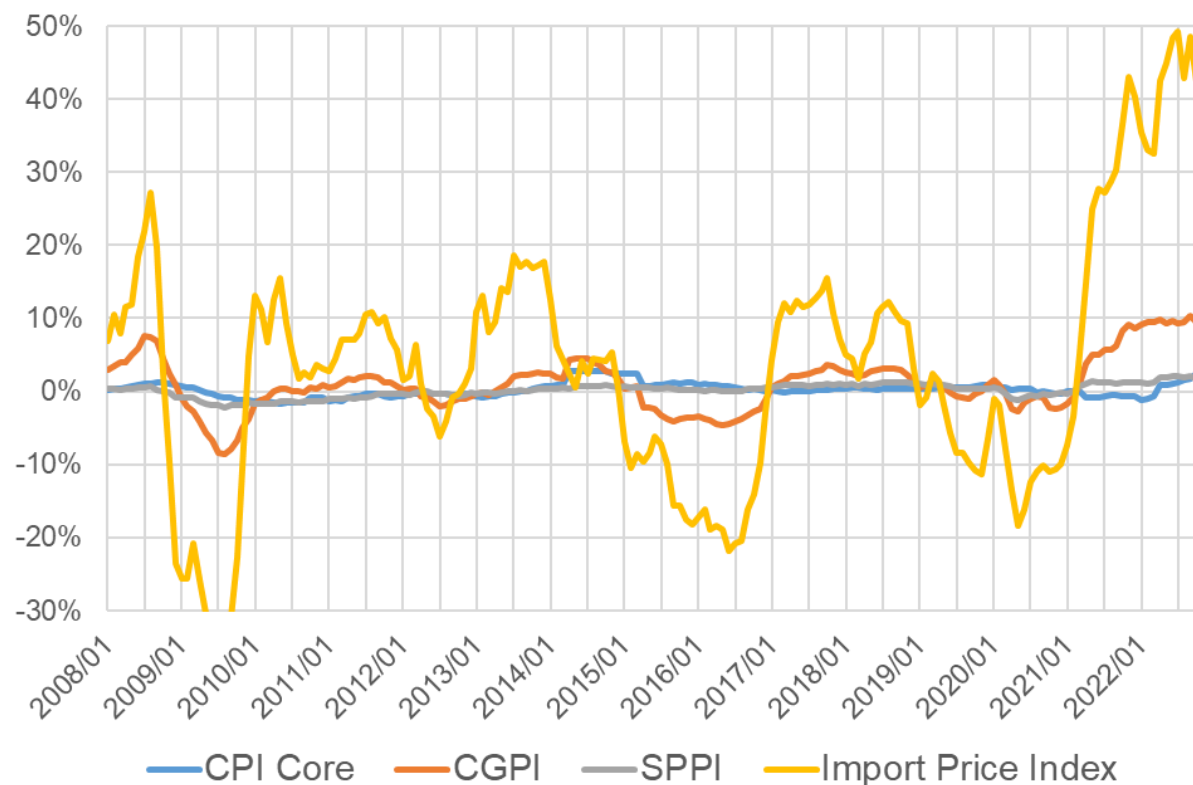
Source: Bloomberg

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Input price hikes tell a complex story

- Import prices and CGPI* skyrocketing since the beginning of 2022 but peak has passed
- CPI growth diluted by labour costs and profits
- SPPI** growth also modest given major labour component

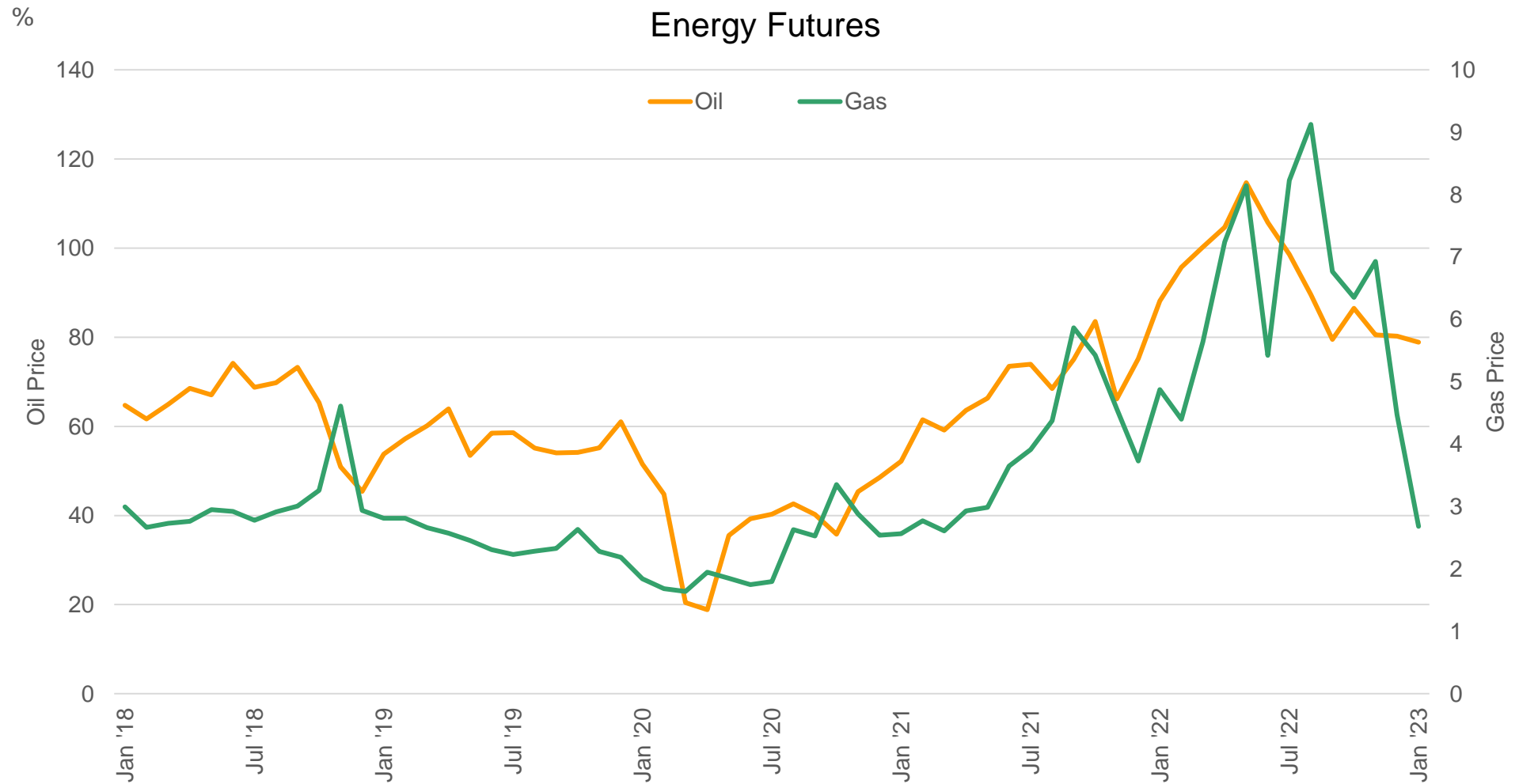
Import Price, CGPI, SPPI, and CPI



Source: Bank of Japan, FactSet. *CGPI: Corporate Goods Price Index. **SPPI: Service Producer Price Index.

Energy Prices

Both oil and gas prices have peaked, this should reduce cost-push inflation

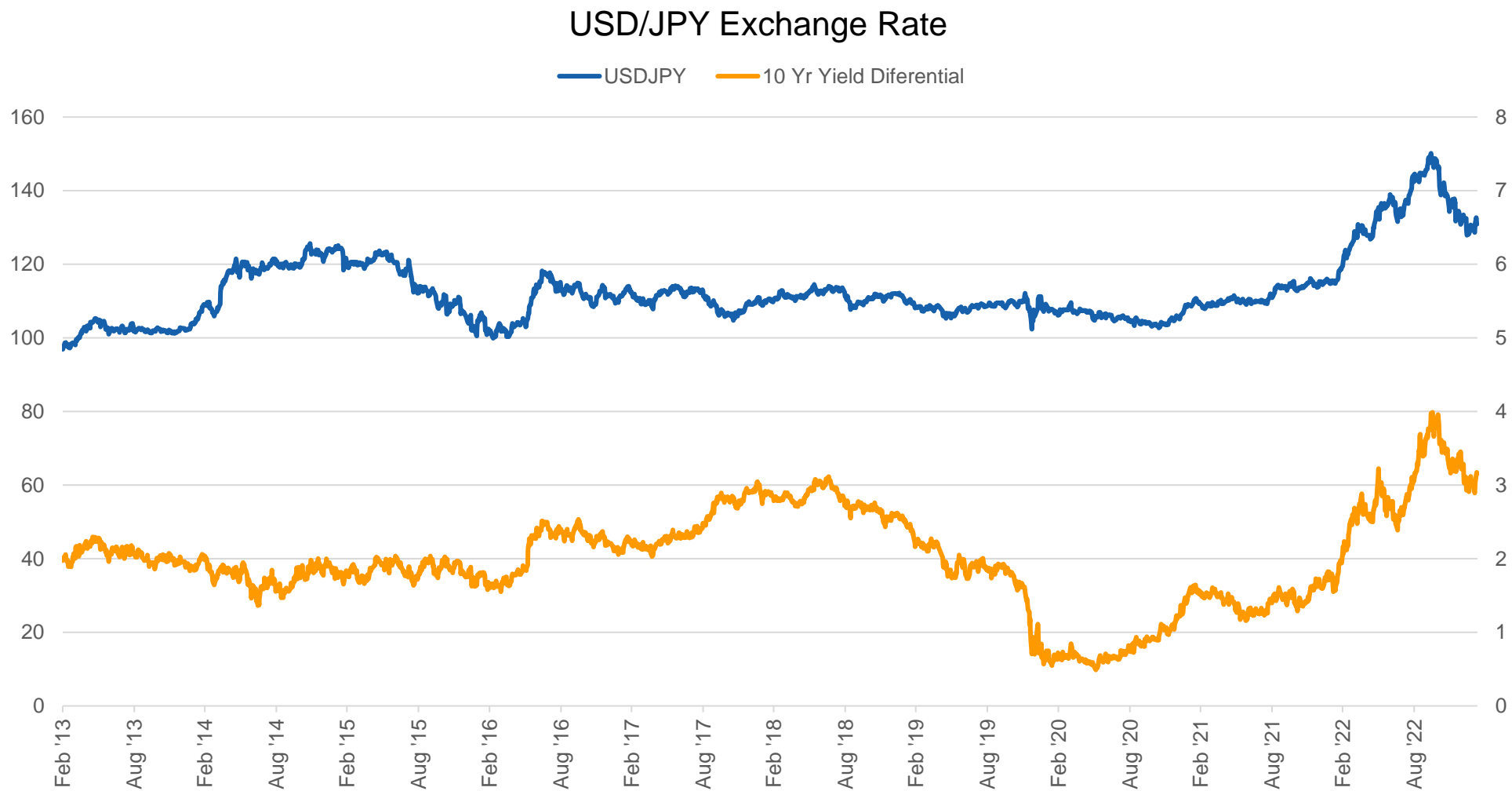


Source: Bloomberg

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Japanese yen weakness

Interest rates/yield differential is a primary driver of USDJPY rate



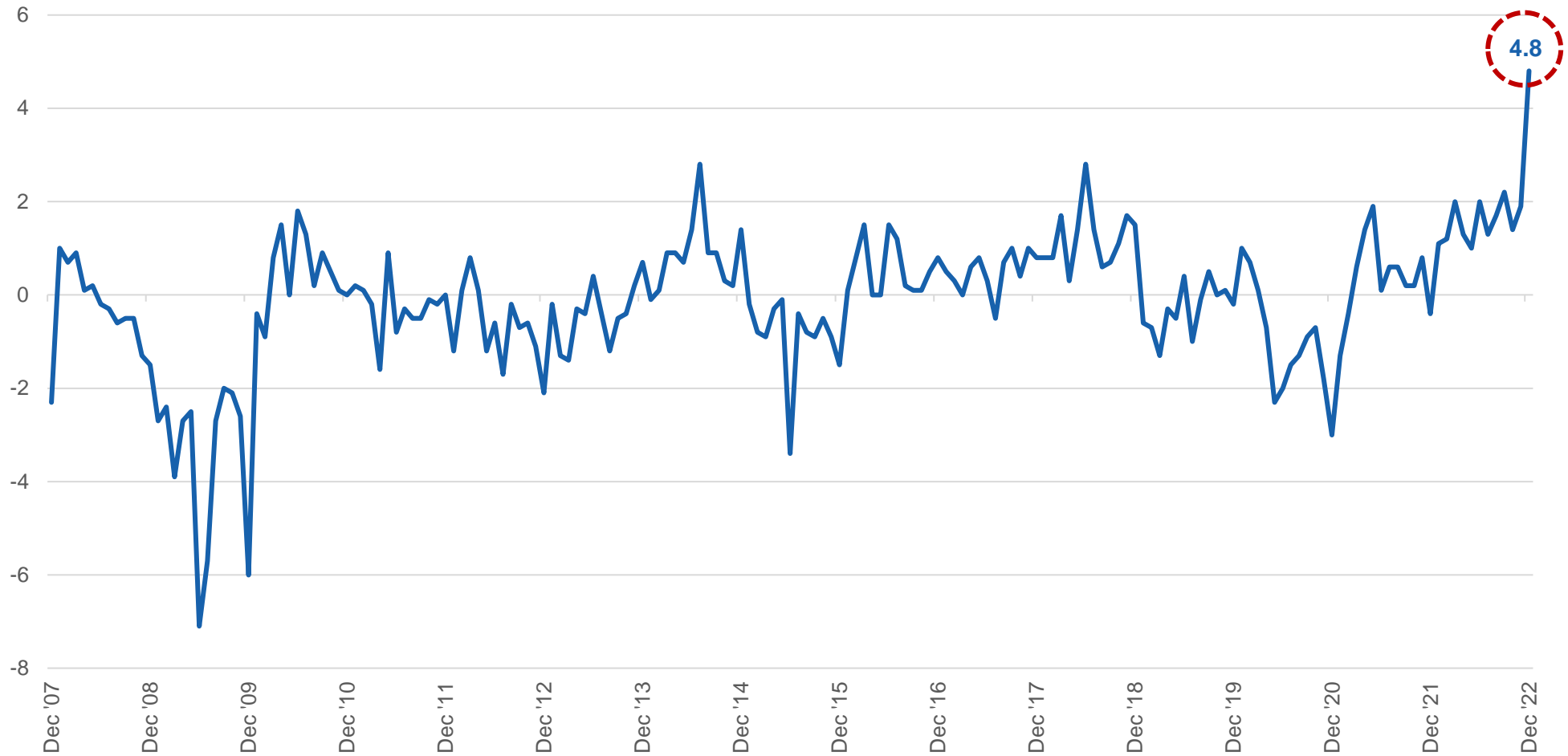
Source: Bloomberg

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Wages – finally increasing

The big shift everyone was hoping for might already be here

Average Cash Earnings YoY



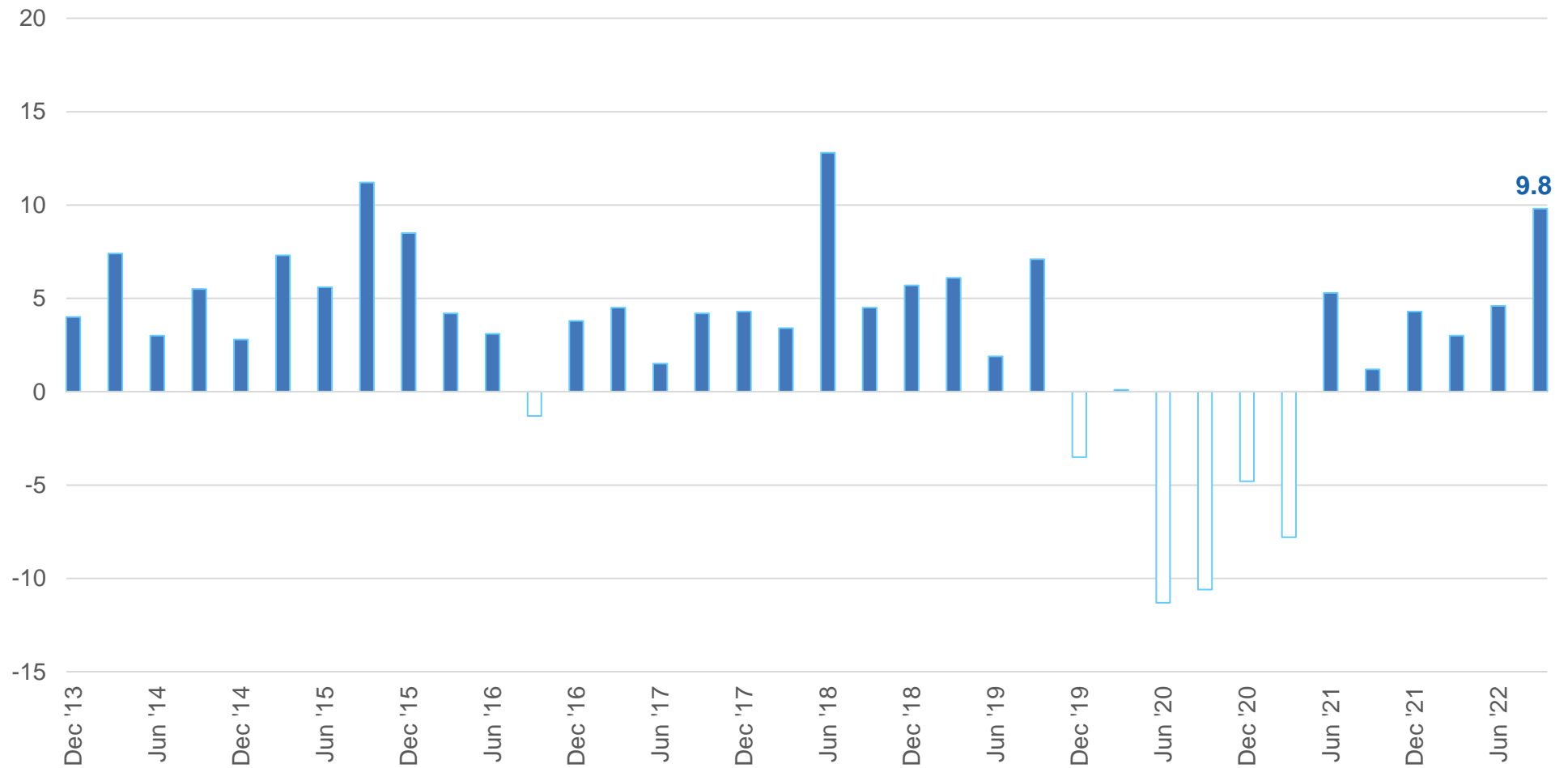
Source: Bloomberg

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Capital Investment

A rebound is under way

Japan Capital Investment YoY



Source: Bloomberg

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Japan Equity Markets



Opportunity Set

Short-term: mixed with some potential left in the re-opening story

Long-term: fundamental shift to a more inflationary environment

SHORT TERM

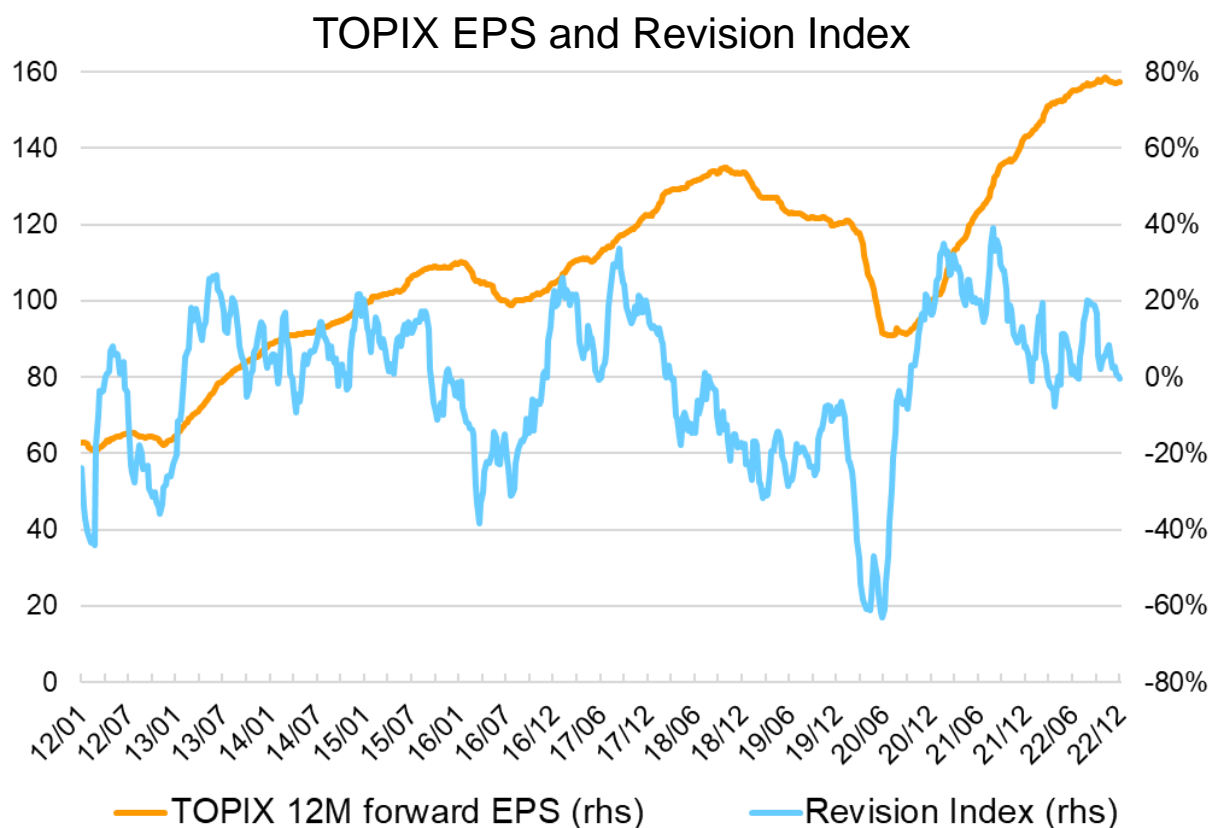
- Some upside left from the post-Covid reopening in domestic travel and retail sales.
- China's transition from zero-Covid towards a significant upside for tourism-related sectors.
- Increased input costs will continue to put pressure on margins but are expected to ease.
- Value is a significant factor behind market performance pattern, but unlikely to persist.

LONG TERM

- Fundamental shift from deflationary to (low) inflationary environment.
- Wages are finally starting to pick up, both on the back of inflation and higher labour mobility.
- Investment into IT and human capital likely to pay off in the long run.

Steady corporate profits

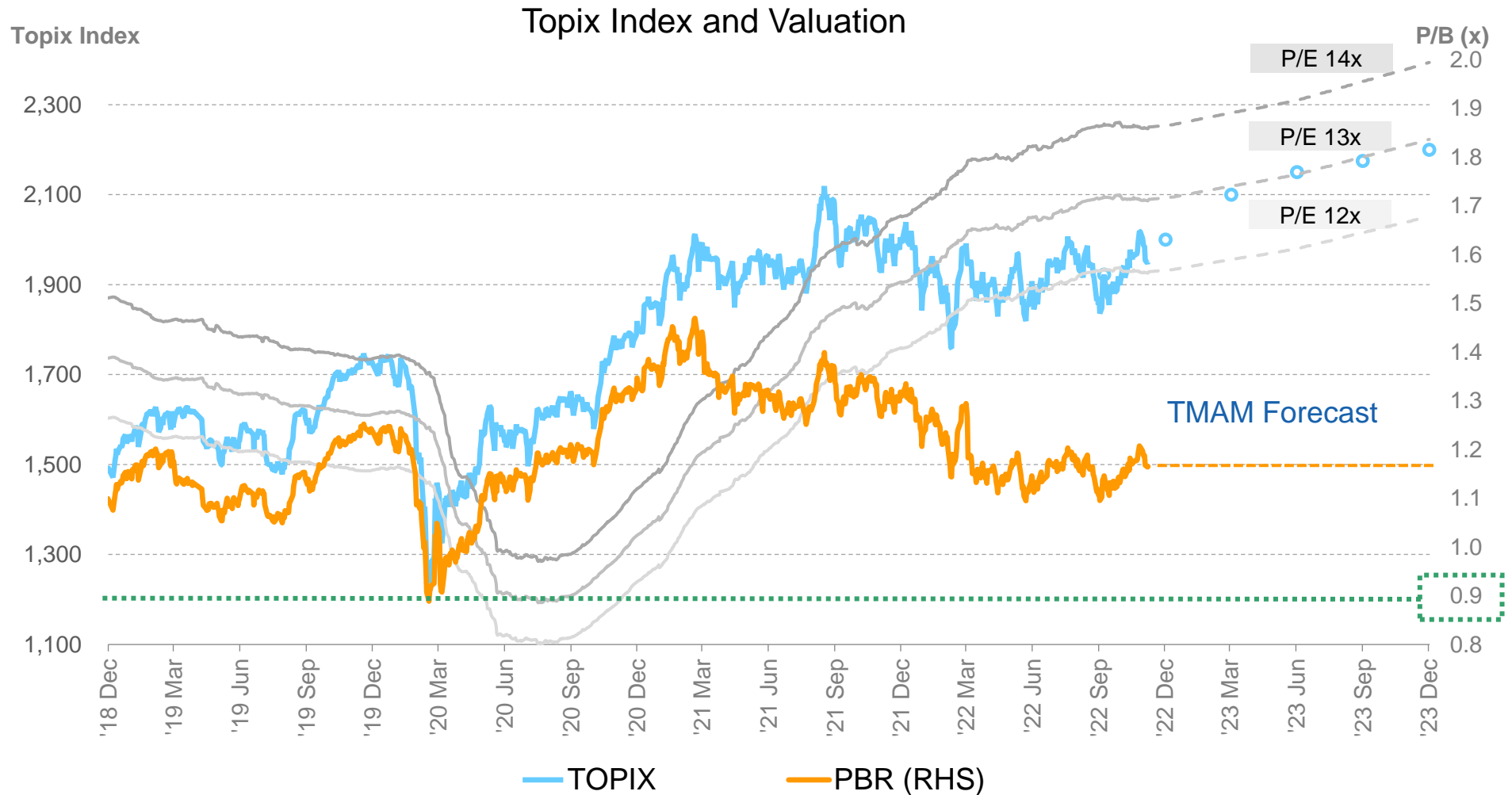
- Revenues up but profits slower as firms absorb rising input costs
- Terms of trade push corporate profits down with one year lag, but will improve in 2023
- FY2022: Steady earnings growth underpinned by weak yen and domestic demand recovery as the economy reopens
- FY2023: Single digit growth starting with conservative company estimates in Q2



Source: FactSet. Past performance is not a guide to future returns. The value of investments can go down as well as up and you may not get back what you invested.

Equity markets outlook

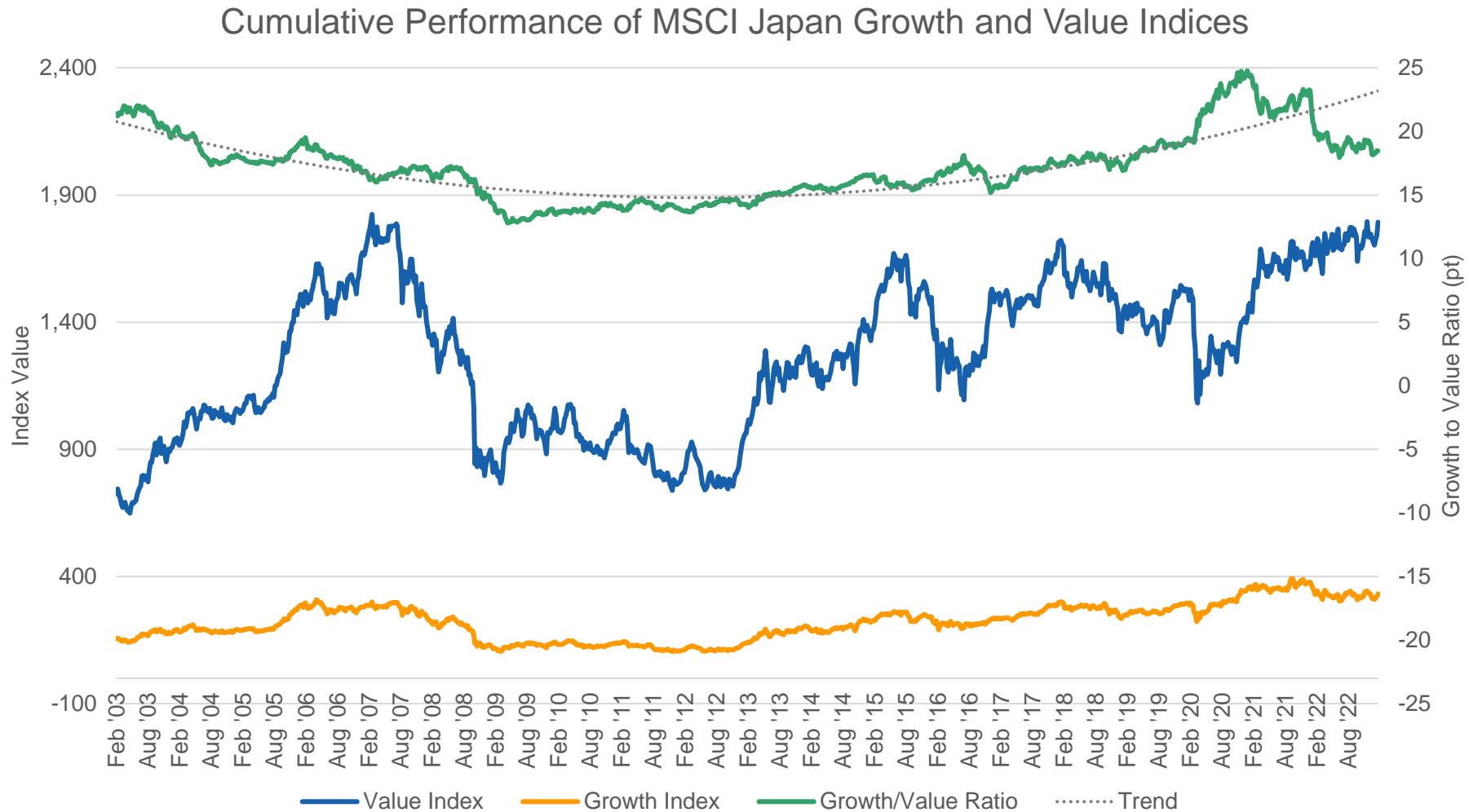
We expect a gradual recovery



Source: TMAM. Past performance is not a guide to future returns. The value of investments can go down as well as up and you may not get back what you invested.

Growth/Value Dynamics

Significant dislocation from the long-term historical trend

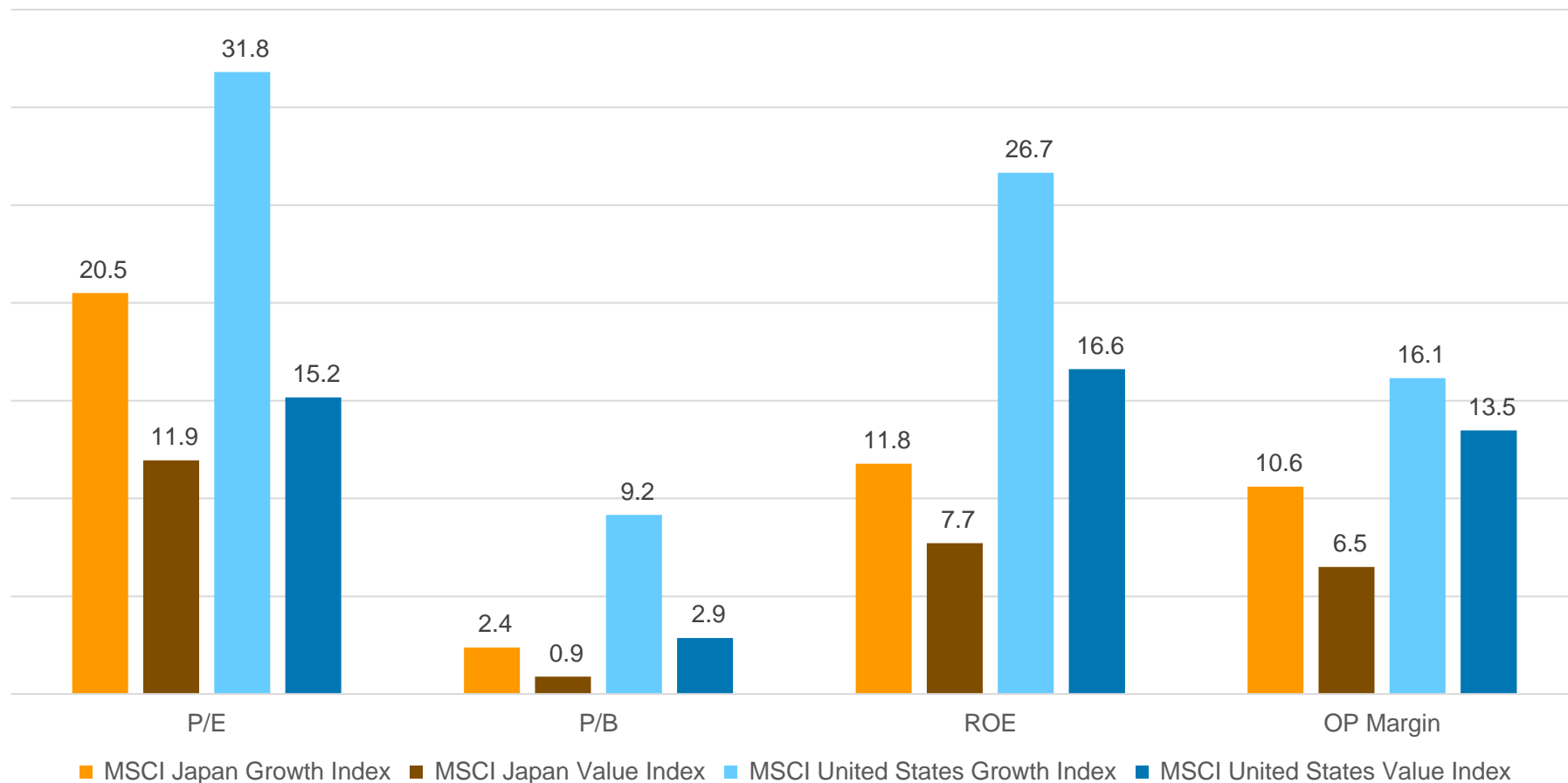


Source: Bloomberg. Past performance is not a guide to future returns. The value of investments can go down as well as up and you may not get back what you invested.

Comparative Valuations

Japan's growth stocks look resemble US value stocks, labels are misleading

Valuation Multiples and Profitability - Growth & Value in US & Japan

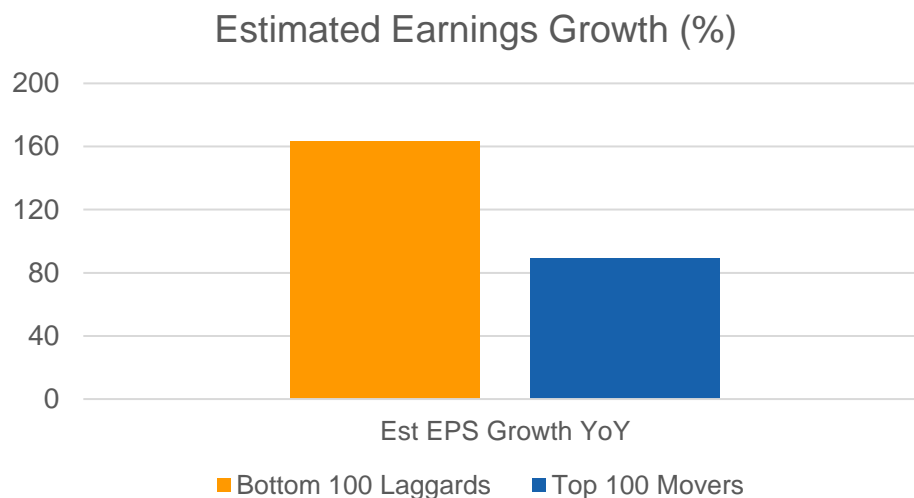
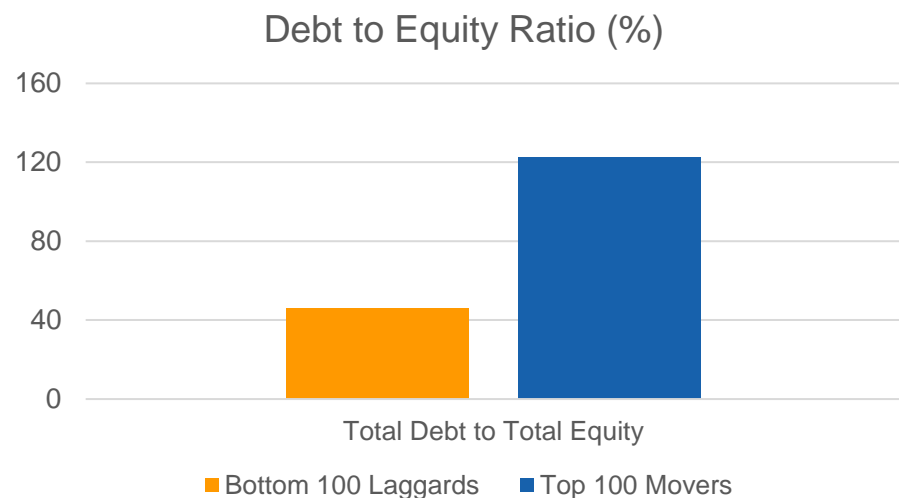
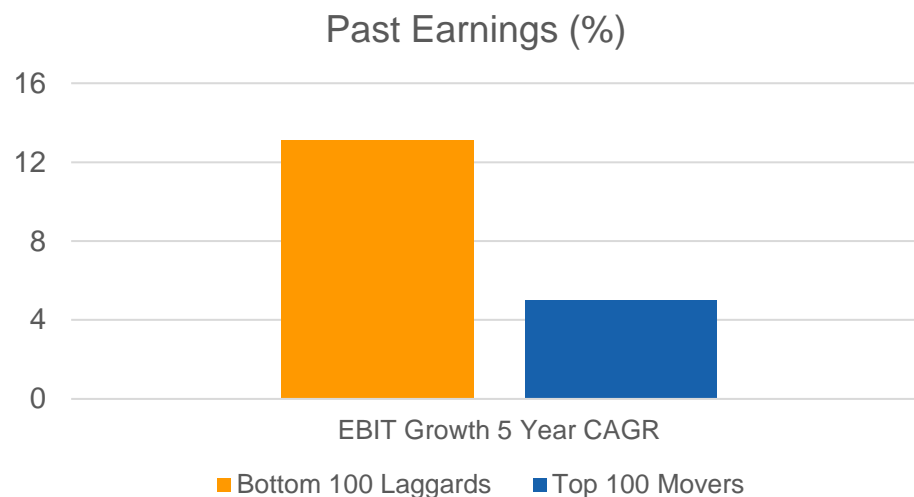
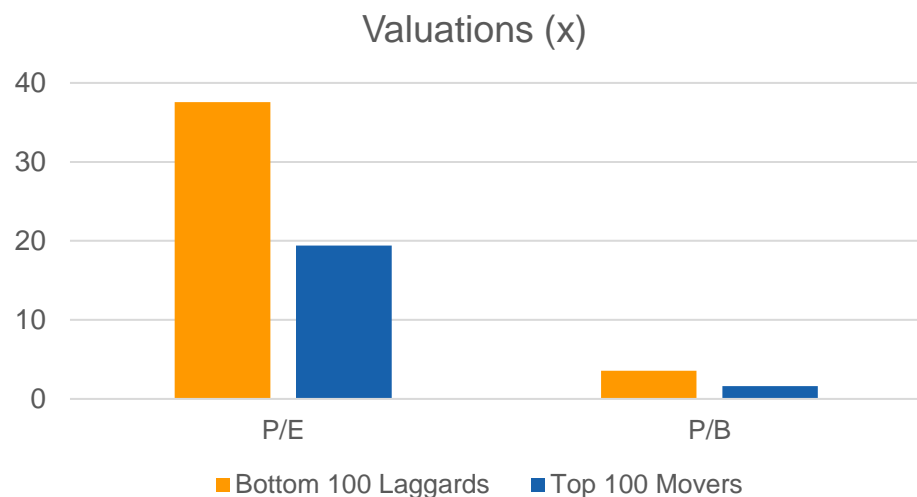


Source: Bloomberg

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Anatomy of a value factor driven market

Japan's stock market was mainly driven by poor quality names in 2022



Source: Bloomberg

Investment Opportunities



Japan equity product offering

Different concentration/market cap focus, but same active growth philosophy

	Style	Approach	Market Cap	Concentration
Focus	active growth at reasonable price	bottom-up stock picking	all cap	high (30-40 names)*
Small Cap	active growth at reasonable price	bottom-up stock picking	small cap	medium (50-60 names)*

* typical range

Japanese Equity Team Structure – 1 October 2022

Chief Investment Officer: Nobuki Goto, CMA (30/32)							
Head of Equity: Yoshihisa Nakagawa, CMA, CIAA (32/32)							
Portfolio Management Team (24/16)		Investment Research Team			(13/9)		
7 Portfolio Managers		14 Analysts		Basic Industry	IT	Financial & Services	Social Infrastructure
GARP Strategy	Yoshihisa Nakagawa, CMA, CIAA (32/32) Chief Portfolio Manager	Yoshimasa Ikazaki, CMA (23/9) Head of Investment Research Financial & Services Team Leader				Retail	
	Koji Hashizume, CMA (31/14) Deputy Portfolio Manager	Akio Otani, CMA (22/22) IT Team Leader		Technology, Media and Telecoms			
	Tetsushi Wakayama, CMA (16/16) Deputy Portfolio Manager	Hiroyuki Natsume, CMA (21/21) Basic Industry Team Leader	Autos				
		Shunsuke Bando, CFA, CMA (9/5) Social Infrastructure Team Leader			Services	Construction/real estate	
Focus Strategy	Shinji Watanabe, CMA (12/3) Chief Portfolio Manager	You Mizuno, CFA, CMA (28/11)				Healthcare	
		Takeru Asano, CMA (23/21)	Machinery				Utilities
		Tetsushi Wakayama, CMA (16/16)			Banking		
Small Cap Strategy	Taku Yoshida, CMA (23/6) Chief Portfolio Manager	Shun Nemoto, CFA, CMA (8/1)		Consumer electronics			
		Daisuke Kosugi (7/1)				Foods	
		Nozomi Kokubun, CFA, CMA (14/4)				Financials	
		Masanori Yagura, CMA (5/5)		Industrial electronics, Components			
Kenichi Hiramatsu, CFA, CMA (29/21) Portfolio Manager		Naoki Mushiake (3/5)	Materials				
Takuya Yamanaka, CMA (30/18) Portfolio Manager		Justin Cho (2/3)					Transport
		Sayuri Ishii, CMA (1/8)				Household	
2 Economists		4 Quantitative Analysts		4 Traders			

- As at 1 October 2022. (##) = (Years of investment experience/ Years with TMAM). Figures rounded to the nearest year; <6 months shown as 1 year. CMA: Chartered Member of the Securities Analysts Association of Japan. CIAA: Certified International Investment Analyst.

Focus Fund Overview

Fund Name	Tokio Marine Japanese Equity Focus Fund
Benchmark	TOPIX Total Return Index
Tracking Error	4 – 10% (ex-ante)
Stock Holdings	20 – 40
Inception Date	30 January 2018
AUM	approx. USD 202mn as at Dec-end 2022

Chief Portfolio Manager



Shinji Watanabe, CMA

Shinji joined the firm in November 2019. Prior to being appointed Chief Portfolio Manager of the Japanese Equity Focus Strategy on 1 June 2021, he served as Chief Portfolio Manager of the GARP Target Alpha Strategy in conjunction with his role as Deputy Portfolio Manager of the Japanese Equity Owners Strategy.

His prior experience includes positions at a number of SBI Holdings Group companies, spending three years as a small cap growth equity analyst at SBI Asset Management before leaving to start a financial information website company. He subsequently joined T&D Asset Management in 2014 as an equity analyst covering a wide range of sectors, becoming a portfolio manager in April 2018.

Shinji obtained a BA in Business Administration from Kobe University and is a CMA charterholder.

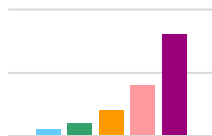
- CMA: Chartered Member of the Securities Analysts Association of Japan.

What makes up the Focus portfolio?

We separate 'growth' stocks into two categories

Core Growth: Higher quality companies on a sustainable earnings growth trend

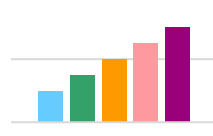
Secular Growth



Earnings
Growth Trend

Companies benefitting from structural trends, where we can expect significant earnings upside over the mid-to-long term

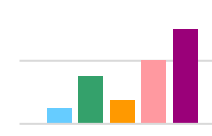
Steady Growth



Earnings
Growth Trend

Companies where we can expect stable earnings growth owing to a competitive advantage in terms of business model, service or products

Cyclical Growth



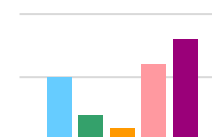
Earnings
Growth Trend

Companies that exhibit fluctuations in earnings growth due to varying economic conditions but achieve higher earnings over time



Transformational Growth: Companies undergoing a transformation that lifts earnings growth prospects

- Change in management or business strategy
- Restructuring of business, e.g. spin offs
- Consolidation or expansion strategy through M&A, etc.

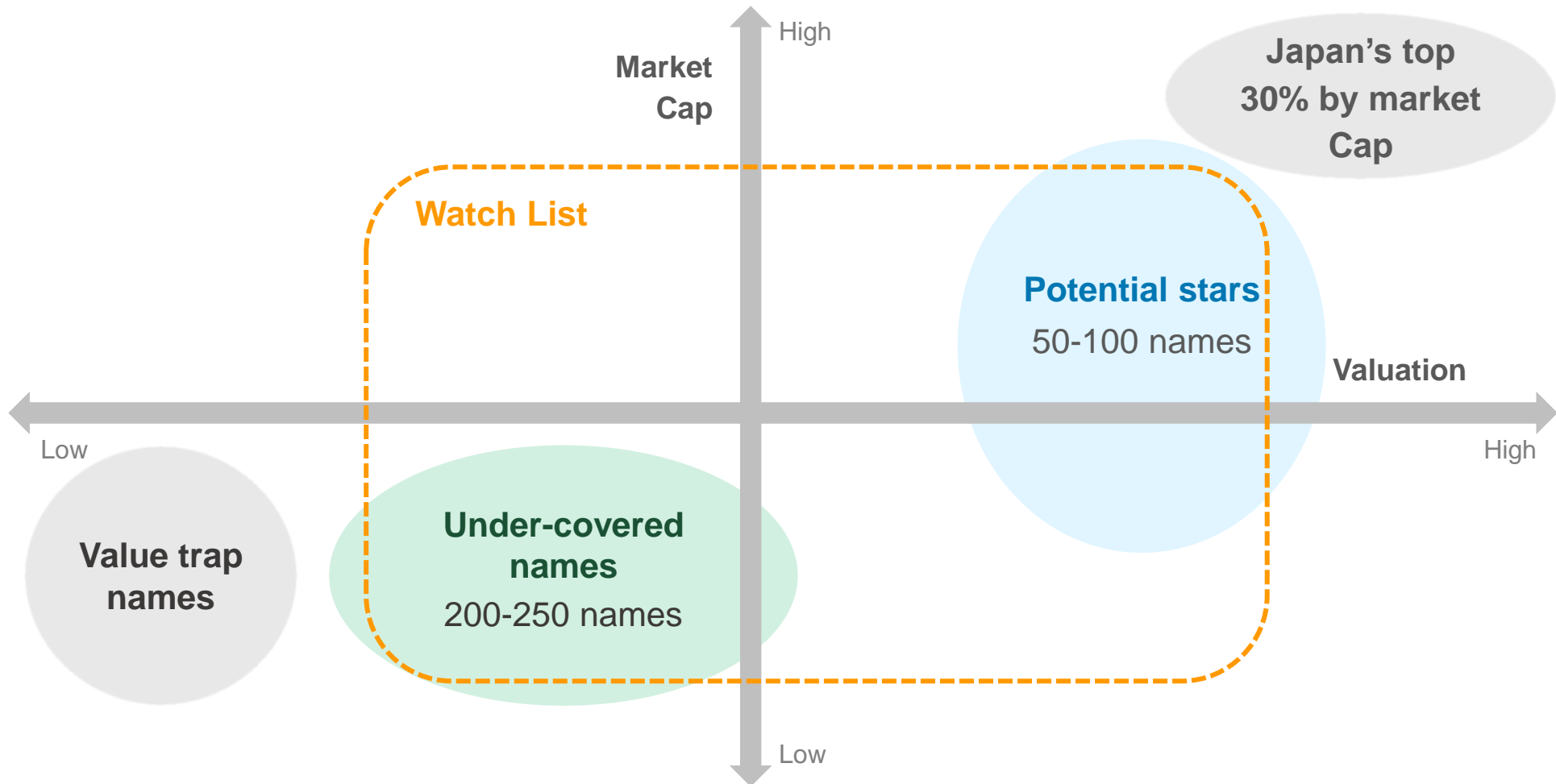


Earnings
Growth Trend

Investable universe

Under-covered: Search for hidden innovators with low coverage

Potential stars: Identify entry timing



Fund Overview

Fund Name	Tokio Marine Japanese Equity Small Cap Fund
Benchmark	Russell/Nomura Small Cap Total Return Index
Tracking Error	4 – 10% ex-ante
Stock Holdings	40 – 80
Inception Date	30 January 2018
Fund AUM	USD24 million (as at September-end 2022)

Chief Portfolio Manager



Taku Yoshida, CMA*/CIIA**
Tokio Marine Asset Management Co., Ltd. (TMAM)

Mr Yoshida has been Portfolio Manager of the Japanese Equity Small Cap Strategy since its inception in January 2018. He joined Tokio Marine Asset Management Co., Ltd. in 2016 as Senior Research Analyst and Senior Portfolio Manager.

Mr Yoshida started his career in 1998 at Toyo Trust Bank. In 2001, he joined T&D Asset Management (formerly T&D Taiyo Daido Asset Management) as mid-small cap research analyst. Then utilising his analytical skills and knowledge of companies in equity research, he had worked as fund manager at T&D Asset Management for 6 years since 2010.

Mr Yoshida obtained a BA in Commerce from Otaru University of Commerce and is a CMA charterholder.

- * Chartered Member of the Securities Analysts Association of Japan
- ** Certified International Investment Analyst

Contact Information

Contact Information for non-EEA Investors.
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In addition, a summary of investor rights is available from [https://bridgeconsulting.ie/wp-content/uploads/2021/07/Shareholder-Rights-for-UCITS -Clean Bridge-Website.pdf](https://bridgeconsulting.ie/wp-content/uploads/2021/07/Shareholder-Rights-for-UCITS-Clean-Bridge-Website.pdf). The summary is available in English.

Additional information for investors in the UK:

The Fund is recognised for sale in the UK based under the temporary marketing permissions regime established by the UK government. Some share classes may not be available for public sale, and additional restrictions may apply. The TMF may decide to terminate the arrangement made for marketing in the UK in accordance with the relevant regulations.

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In other markets where the Fund’s shares are not currently registered for public sale, this document does not constitute and should not be construed as a public offering, and the Fund’s shares may not be distributed by way of public offering in these jurisdictions. The Fund’s shares may only be offered, and the Legal Offering Documents and marketing materials of the Fund may only be distributed in these jurisdictions without public solicitation and in compliance with the private placement rules set forth in the laws, rules and regulations of the jurisdiction concerned.

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Zeidler Legal Process Outsourcing Ltd with address at Suite 103, South Point, Herbert House, Harmony Row, Grand Canal Dock Dublin 2, Ireland (“Zeidler”) has been engaged by TMF to provide facilities as per Article 92 (1) b) - f) of Directive 2009/65/EC (as amended by Article 1 of Directive (EU) 2019/1160).

The basic documents of the Fund, including the prospectus (in English) and the KIIDs (in German), may be obtained free of charge electronically via email from facilities_agent@zeidlerlegalservices.com.

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This is an advertising document. In Switzerland, the representative is ACOLIN Fund Services AG, Leutschenbachstrasse 50, CH-8050 Zurich, whilst the paying agent is NPB Neue Privat Bank AG, located at Limmatquai 1 / am Bellevue, P.O.Box, CH-8024 Zurich. The prospectus, the Key Investor Information Documents, the memorandum and articles of association as well as the annual and semi-annual reports may be obtained free of charge from the representative. The performance data do not take account of the commissions and costs incurred on the issue and redemption of shares.

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