



# Japan Economy 2023 and the Investment Opportunities

April 2023

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**TOKIO MARINE**  
ASSET MGT

# Who We Are: 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)

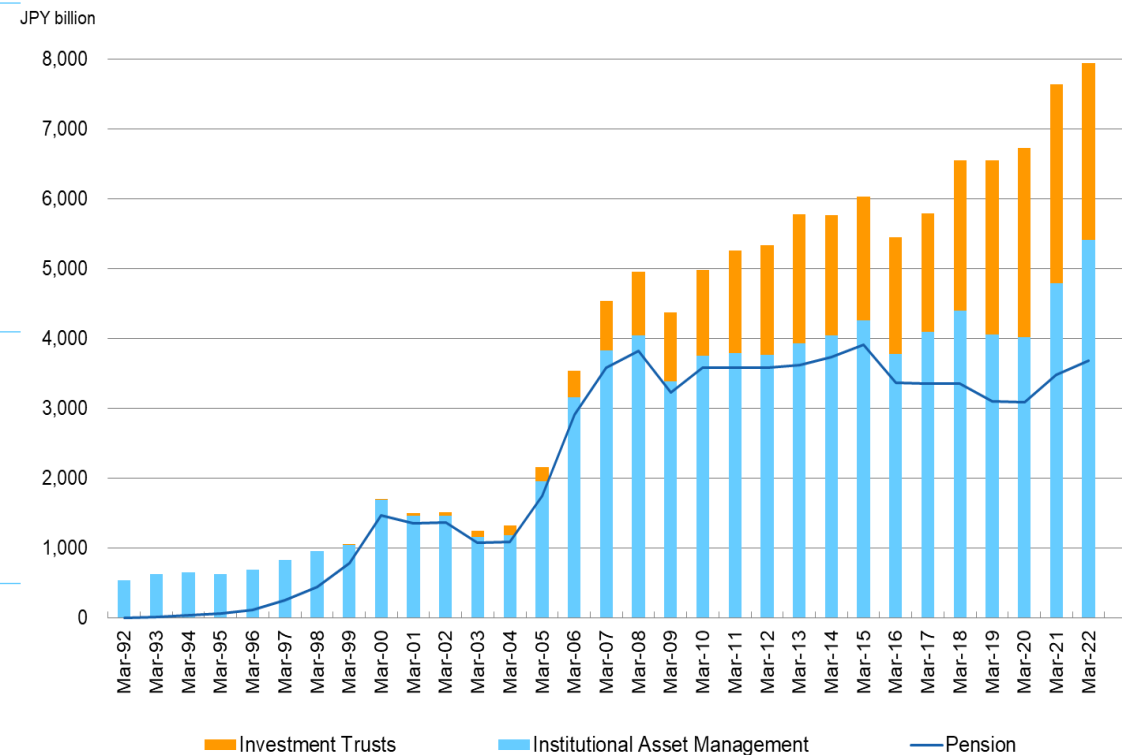
One of the largest investment managers in Japan

- 405 employees including 128 investment professionals
- USD 58.9 billion in AUM
- 388 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.



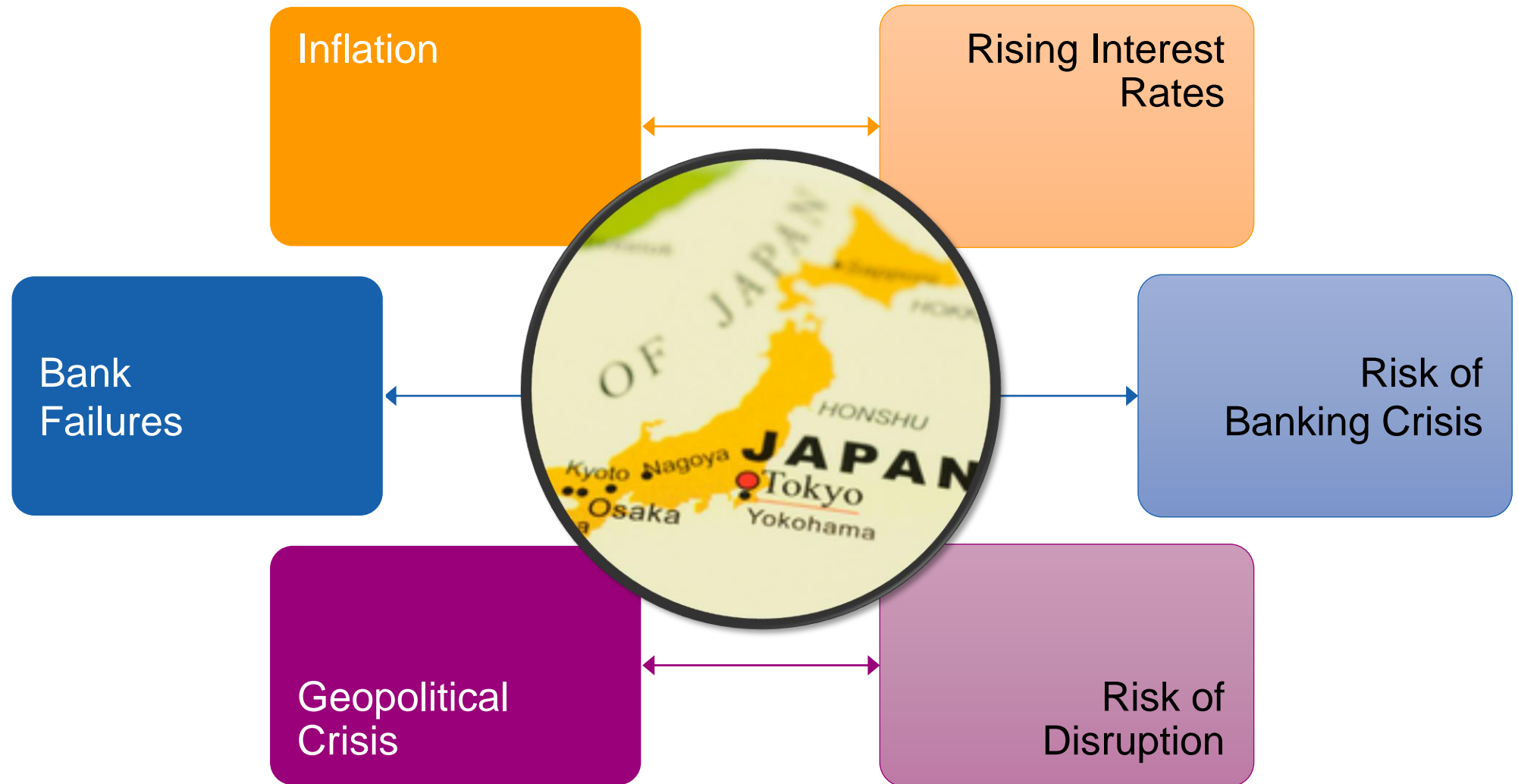
As at September 2022

# Macro Outlook



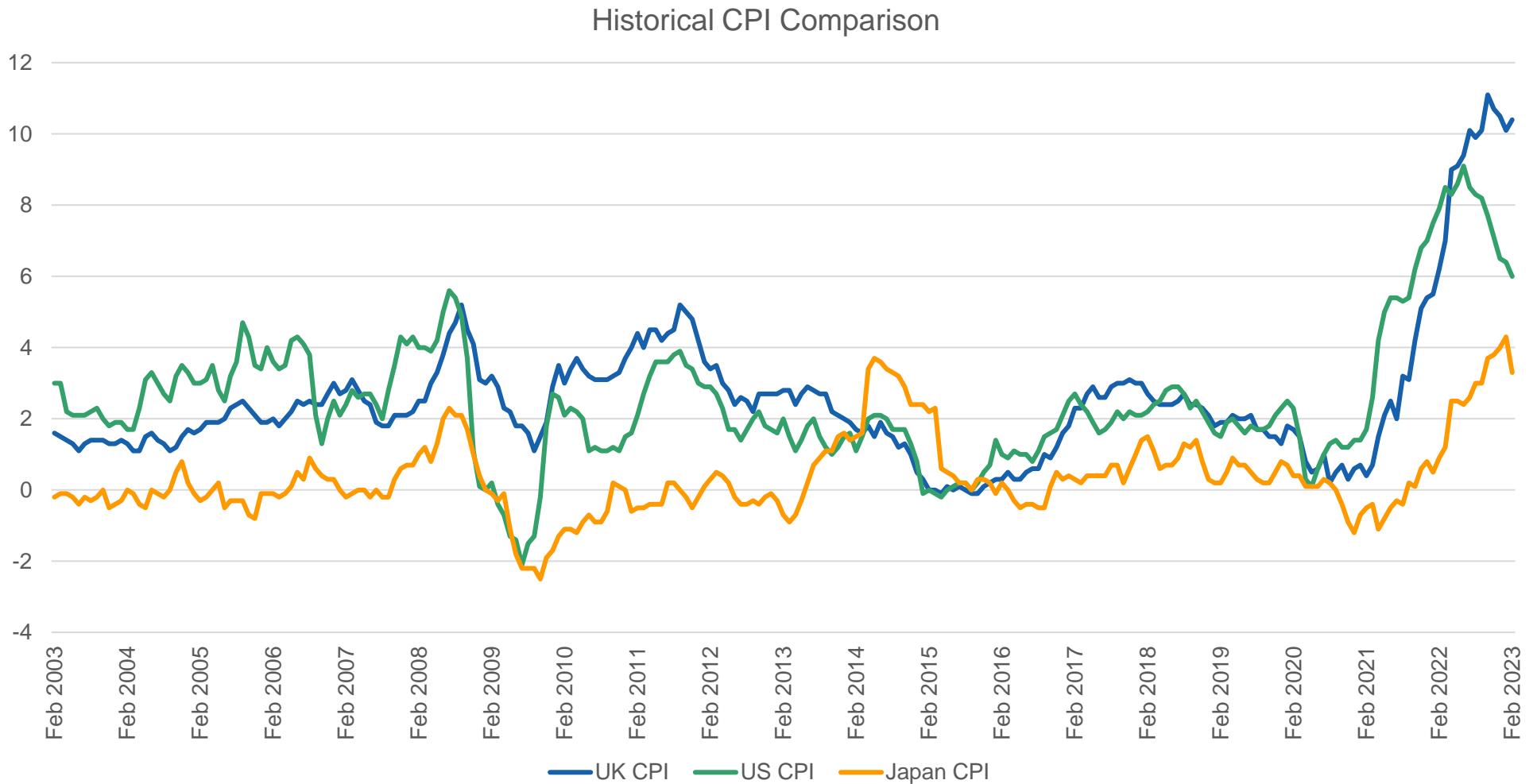
# What keeps us awake at night?

And how does Japan fit into the big picture?



# Inflation

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

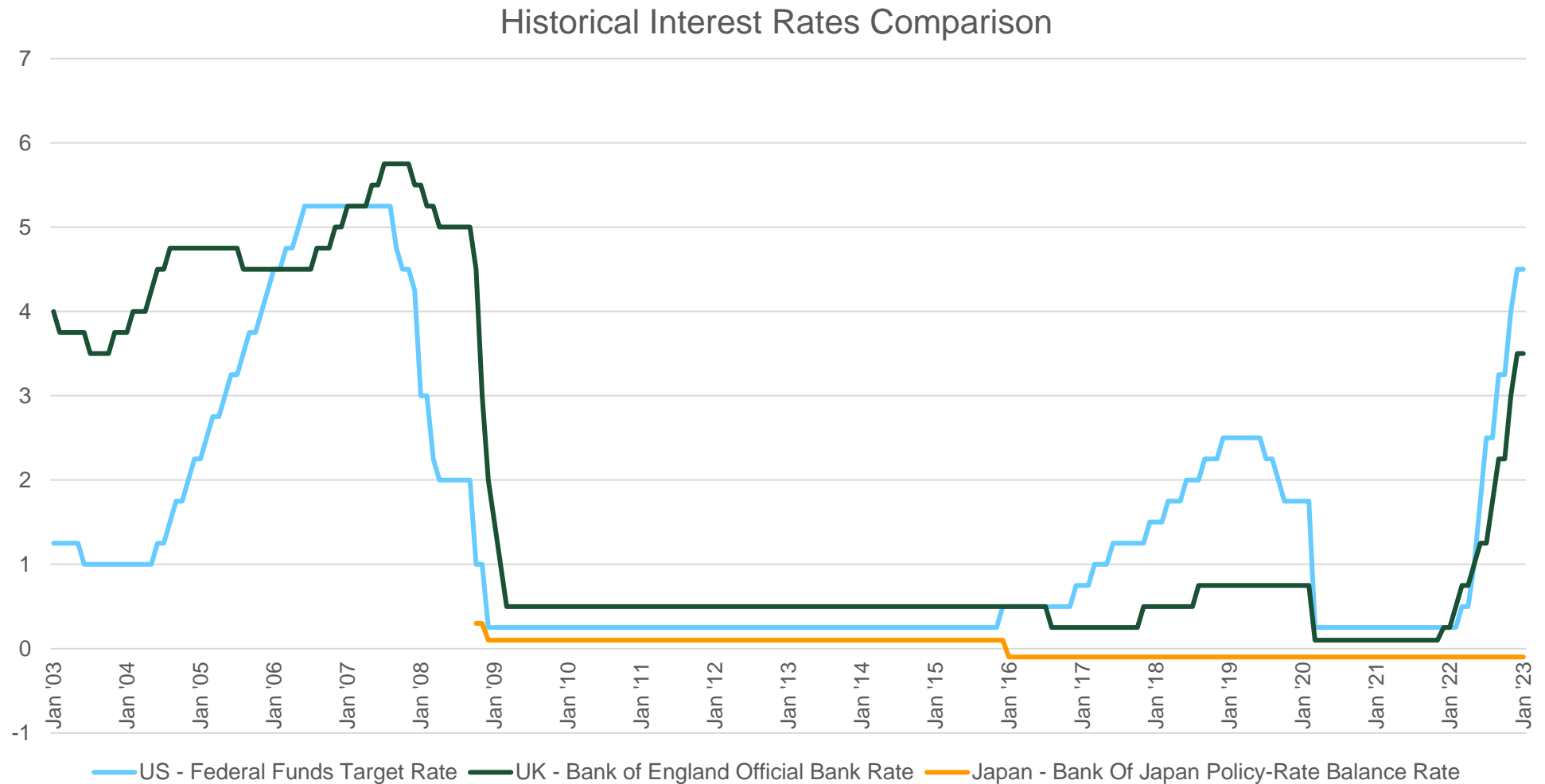


Source: Bloomberg

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# Interest rates

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

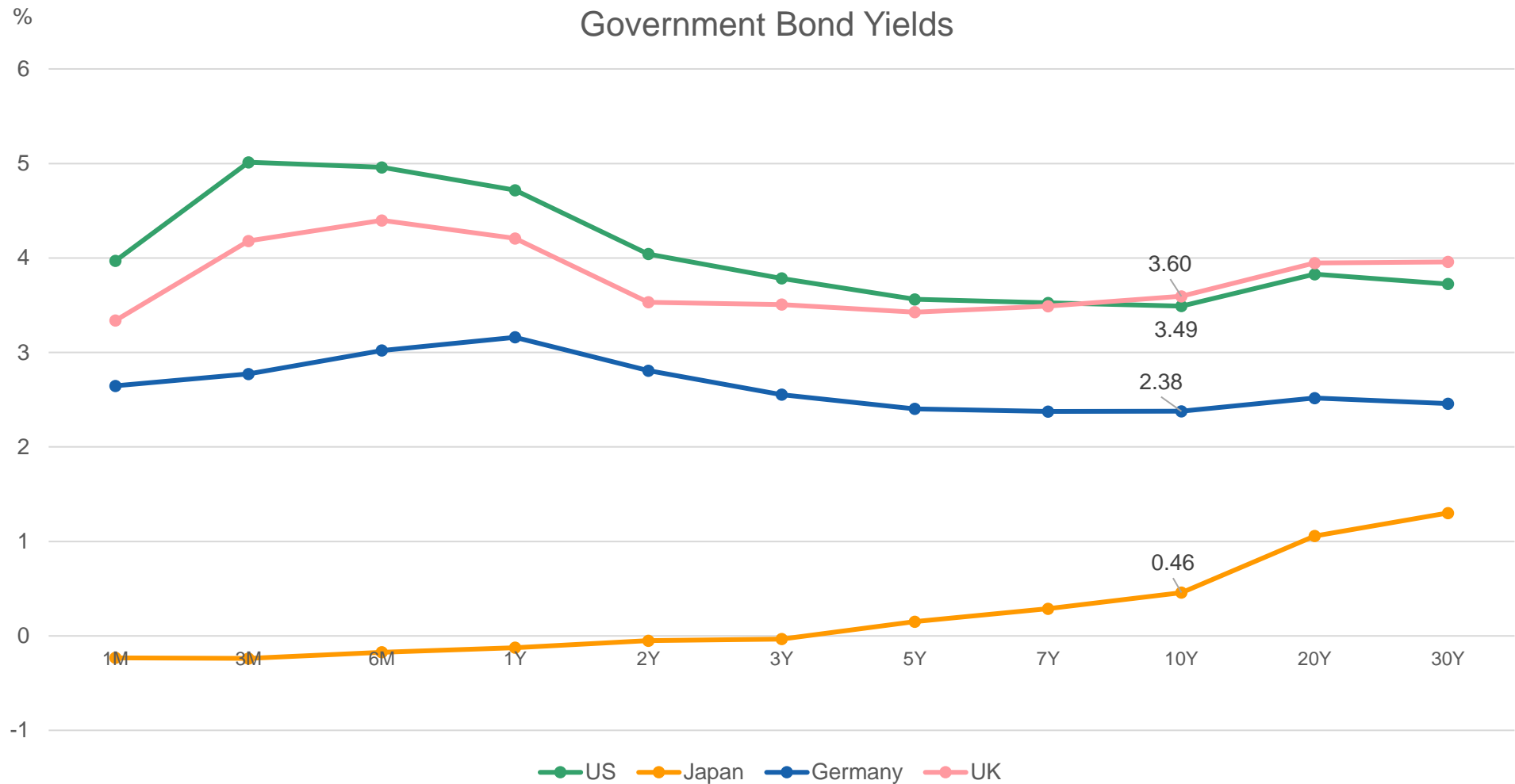


Source: Bloomberg

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# JGB yields in global context

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



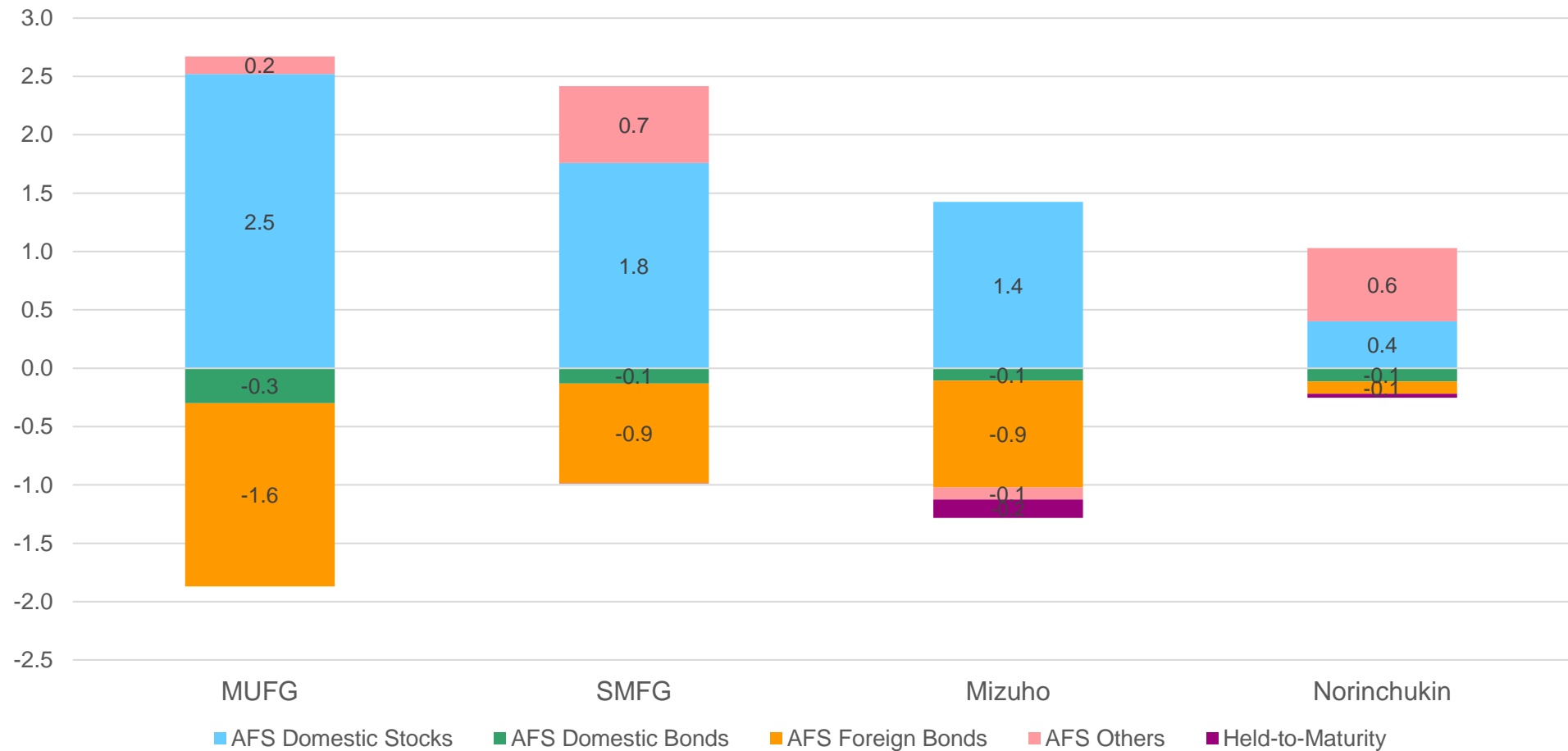
Source: Bloomberg, as of 14 April 2023

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# Japan's major banks

Major banks have had paper gains on their portfolios, most securities are available-for-sale (AFS)

Major Japan Banks Securities Portfolio Gains/Losses



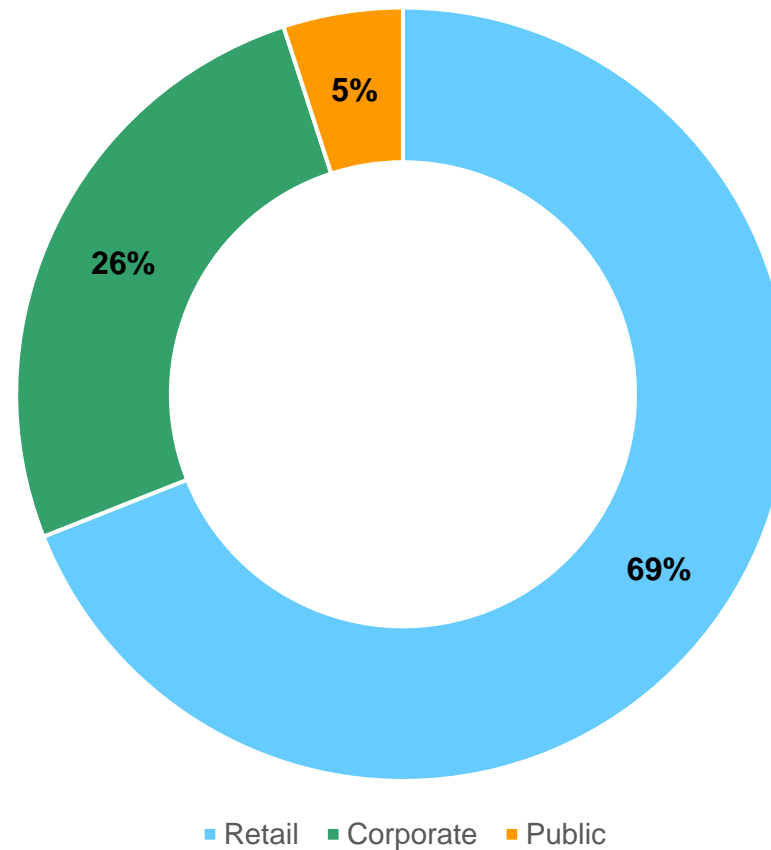
Source: Bloomberg; originally Norinchukin's data is as of March 31, 2022. MUFG, SMFG & Mizuho's data are as of December 31, 2022. This is not a recommendation to buy or sell individual stocks.



# Japan's regional banks

SVB type collapse is almost unthinkable due to the diverse and loyal customer base

Japan local lenders' source of deposits by client category



Source: Bloomberg

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# 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

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

## Japan's Equity Markets

- Big & deep
- Diverse
- Both global & local

- ⊕ 2<sup>nd</sup> 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

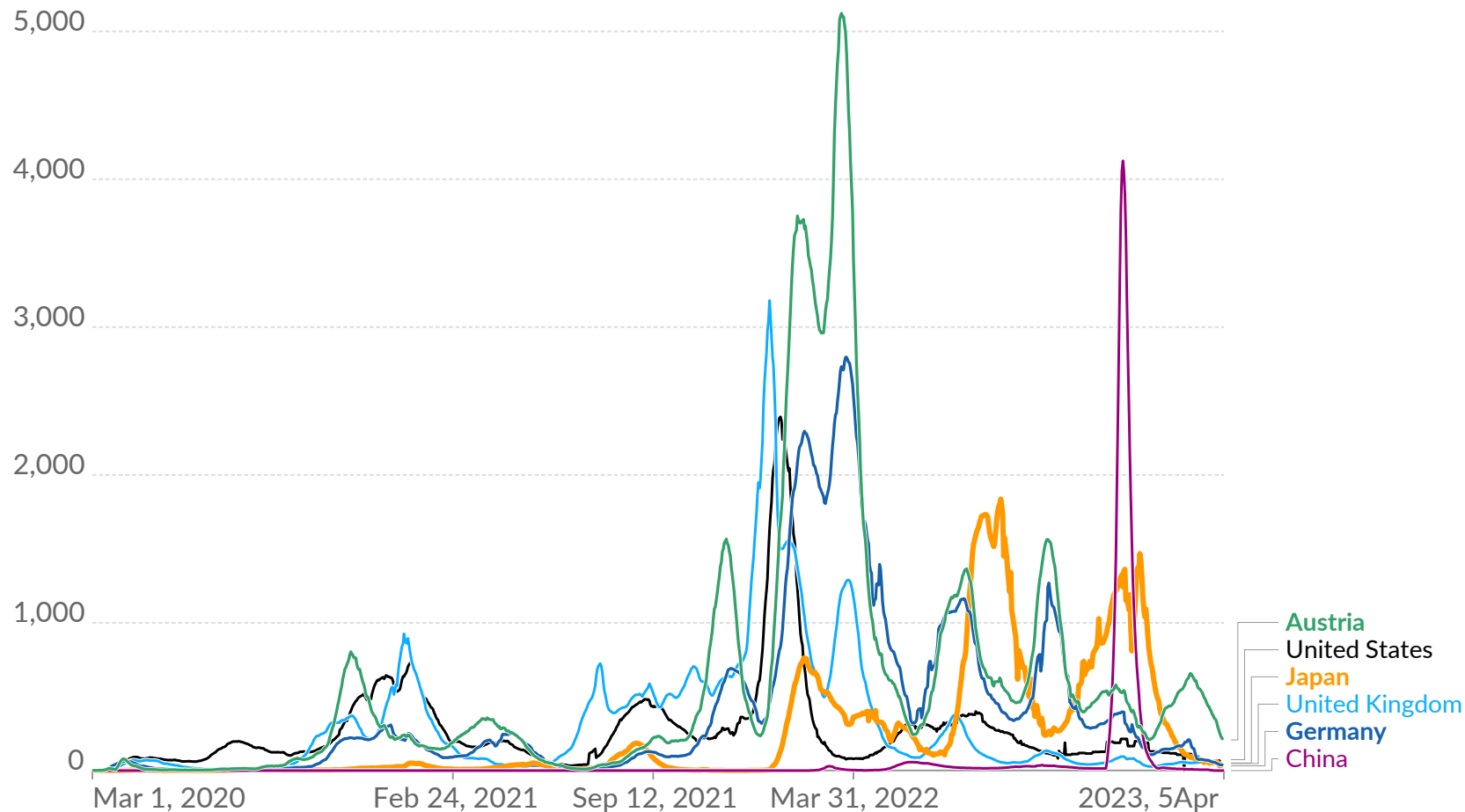
Steady	<ul style="list-style-type: none"><li>• Slow, steady recovery due to conservative reopening policy, structural impact of sacrificing growth to minimise downside</li></ul>
Different	<ul style="list-style-type: none"><li>• Different from other economies – so is BOJ's monetary policy</li></ul>
Facing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

# Covid situation in Japan

Upswing in infections following removal of restrictions is over

## 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.



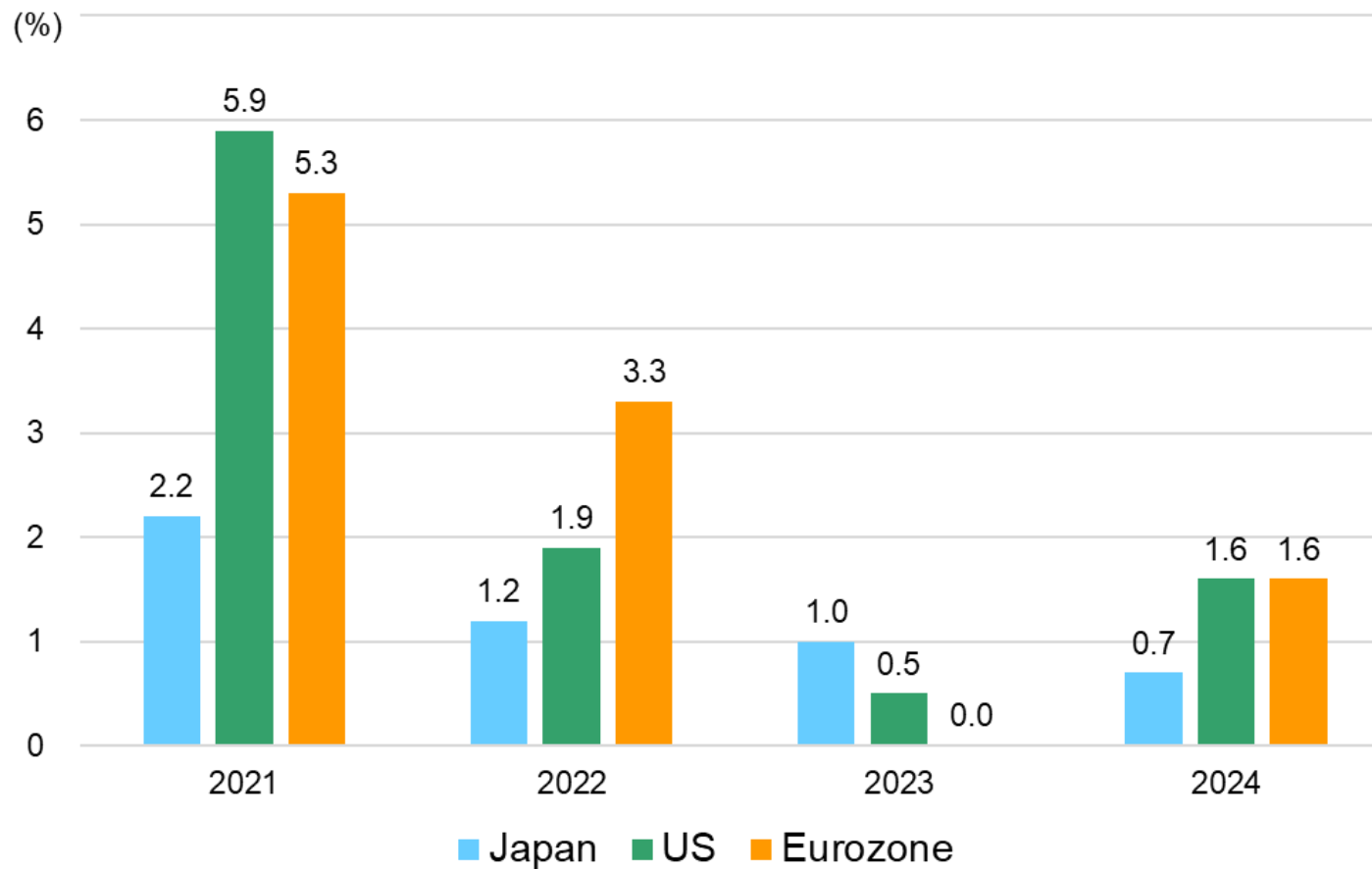
Source: WHO COVID-19 Dashboard

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# Economy in a different phase from others

Perhaps less upside, but much less downside as well

GDP growth forecast (World Bank)

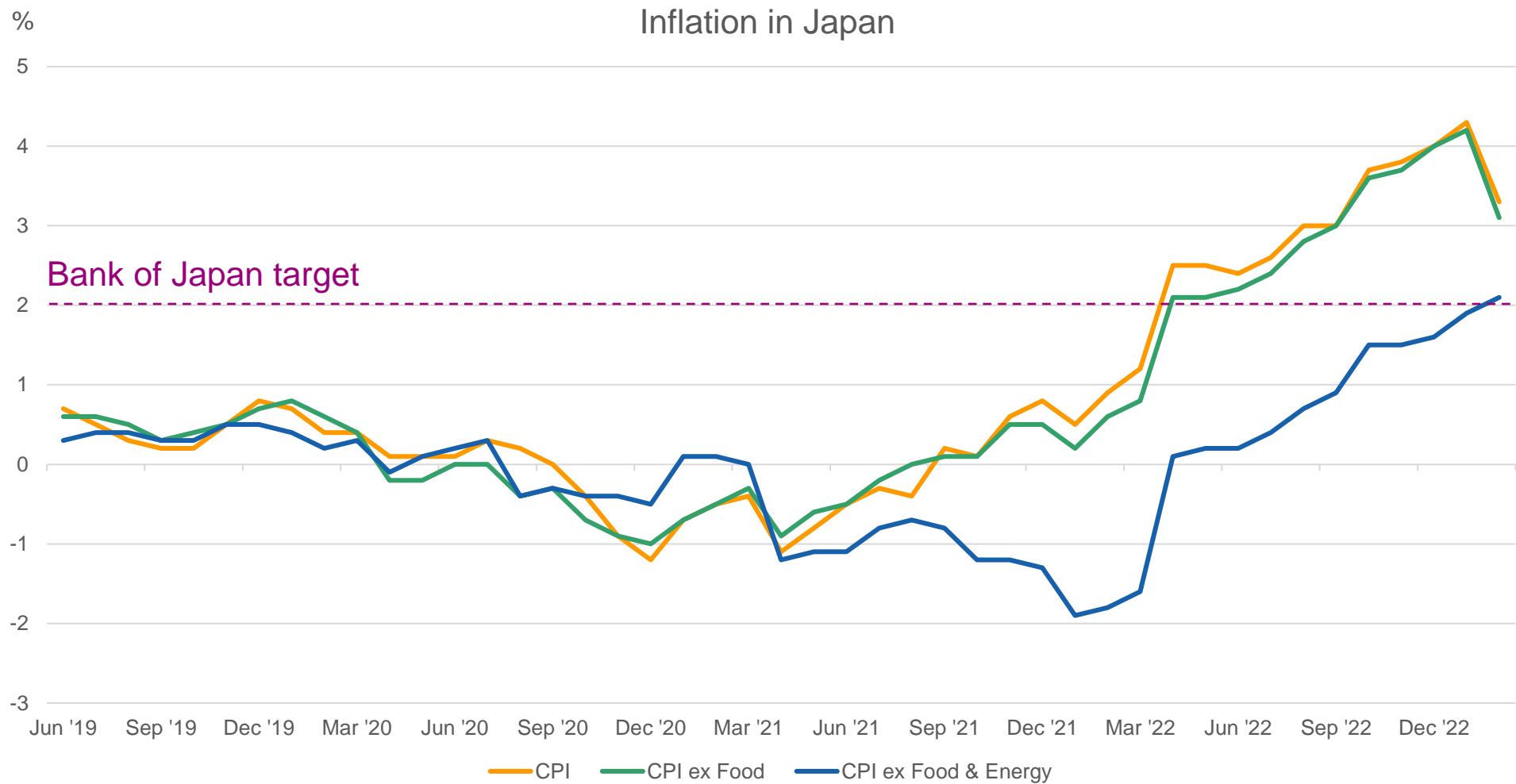


Source: OECD

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# Inflation

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



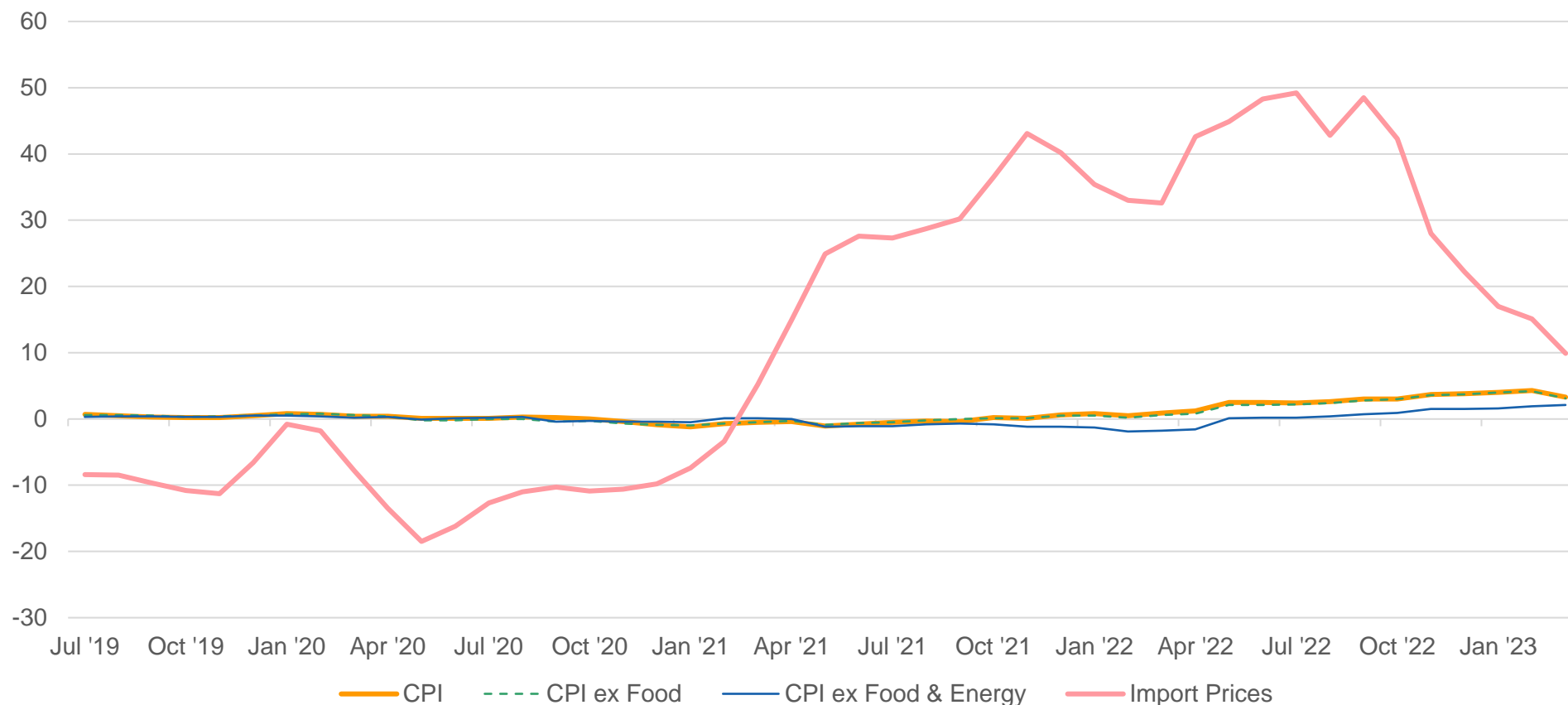
Source: Bloomberg

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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

Inflation and Import Prices Japan

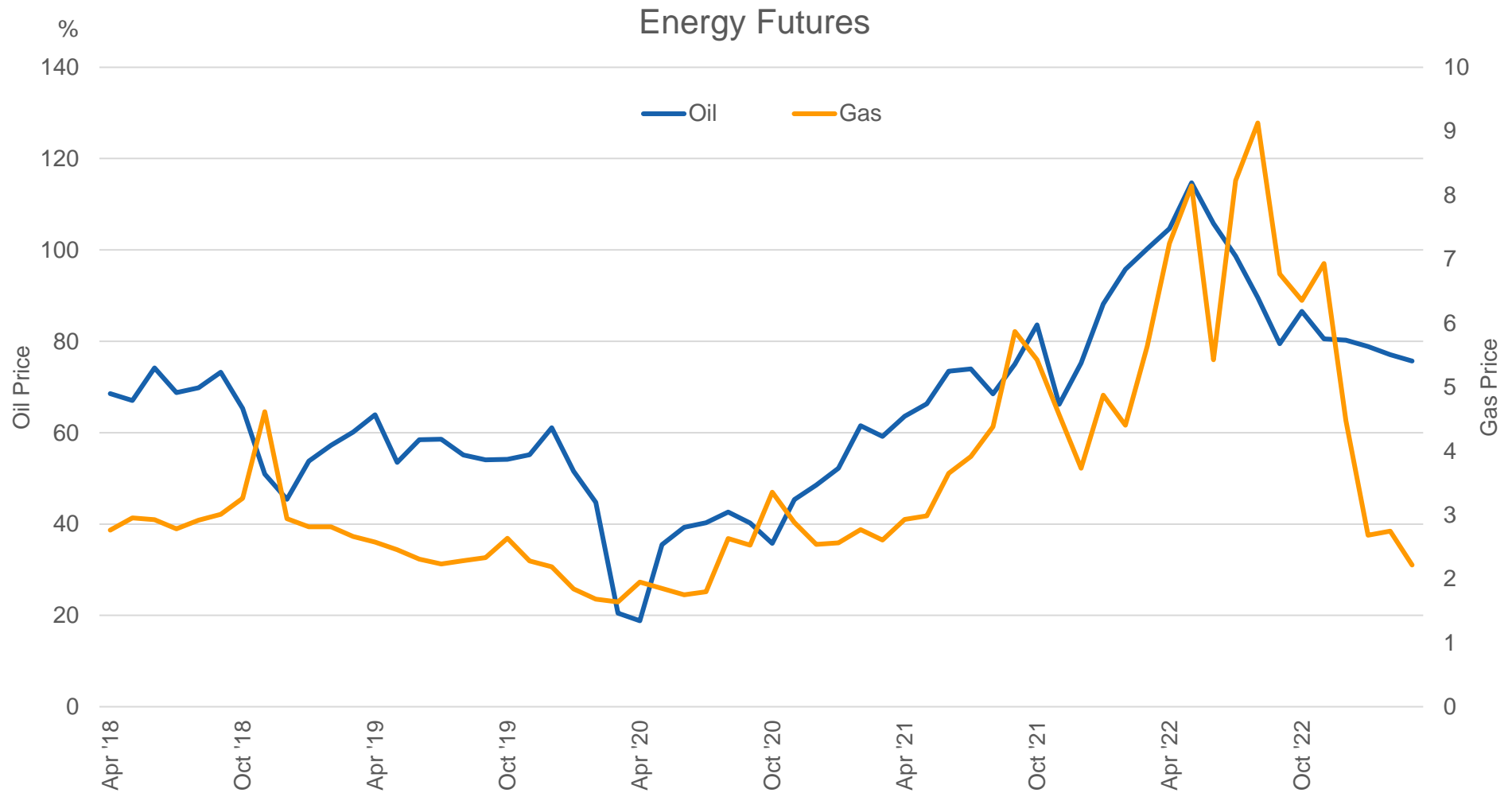


Source: Bank of Japan, Bloomberg. \*CGPI: Corporate Goods Price Index. \*\*SPPI: Service Producer Price Index.



# Energy Prices

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

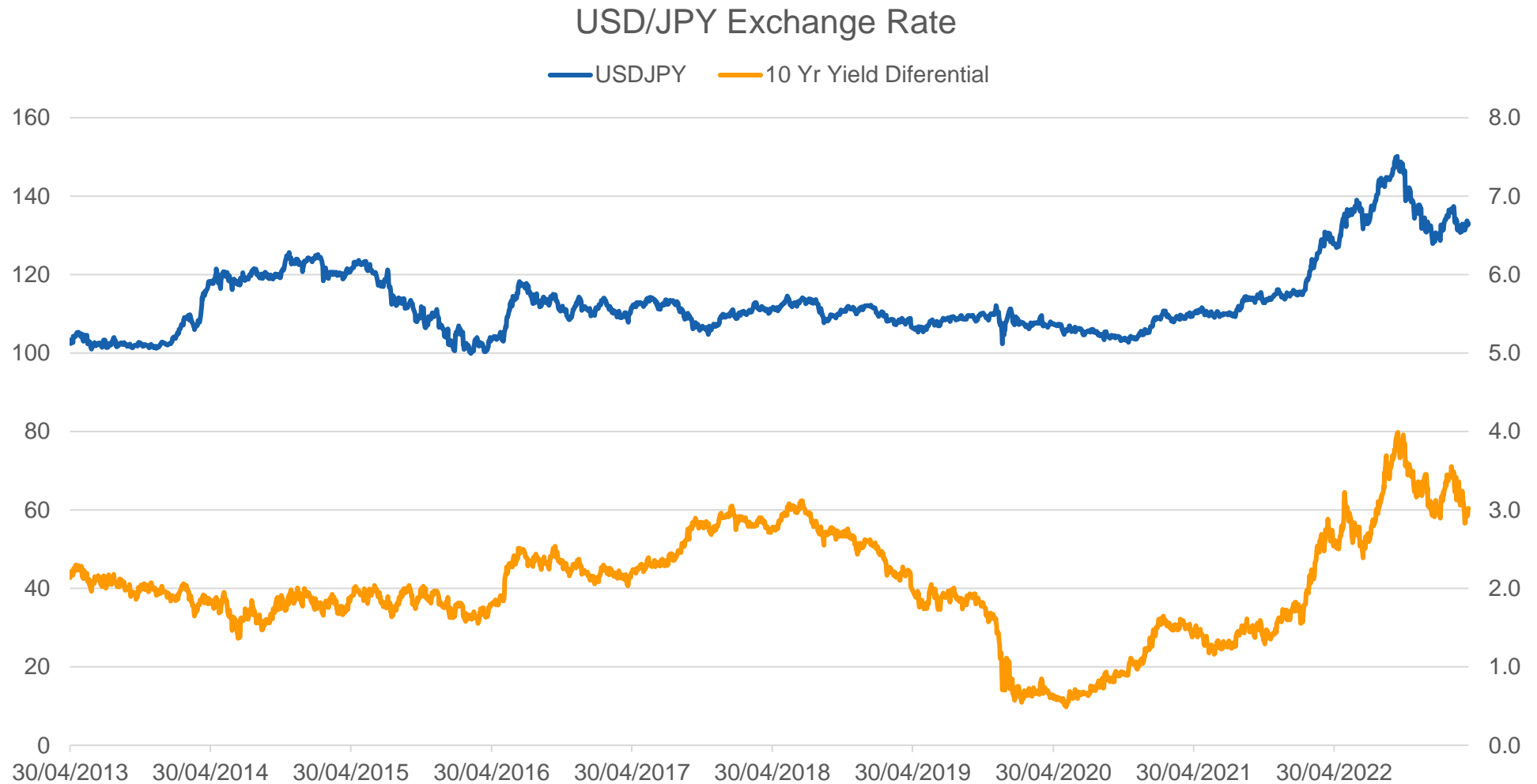


Source: Bloomberg

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# Japanese yen weakness

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



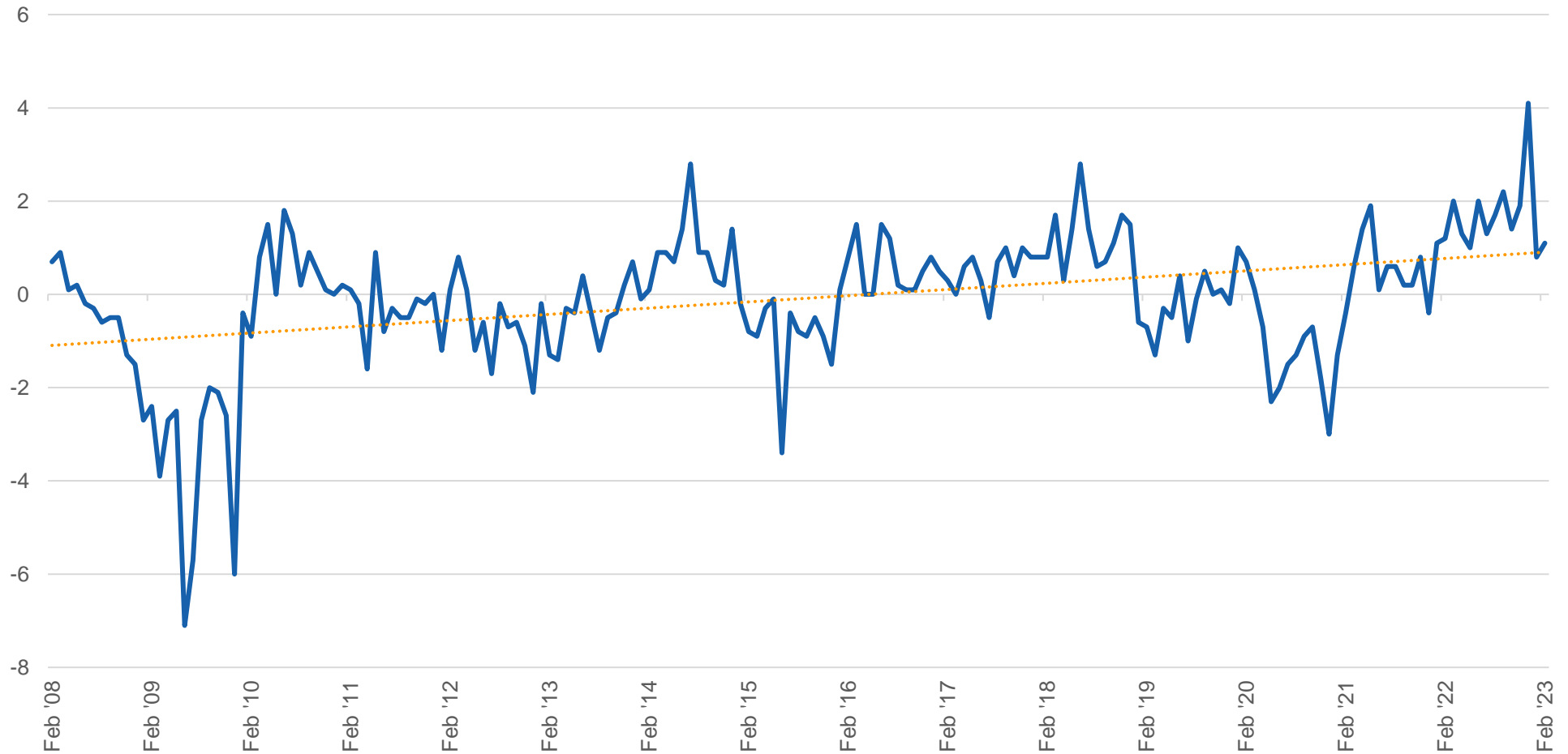
Source: Bloomberg

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# Wages – finally increasing

The big shift everyone was hoping for might already be here

Average Cash Earnings YoY

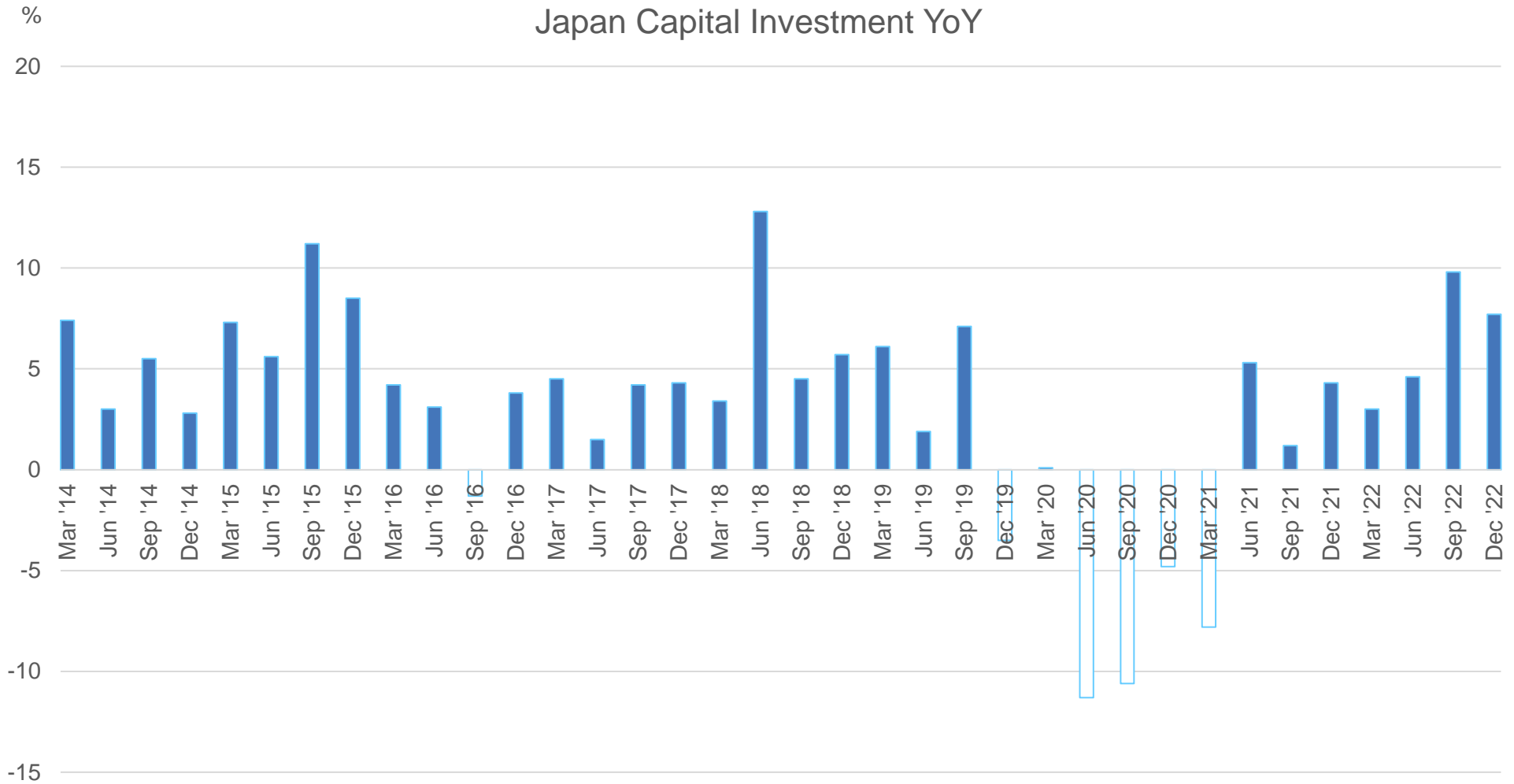


Source: Bloomberg

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# Capital Investment

A rebound is under way



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

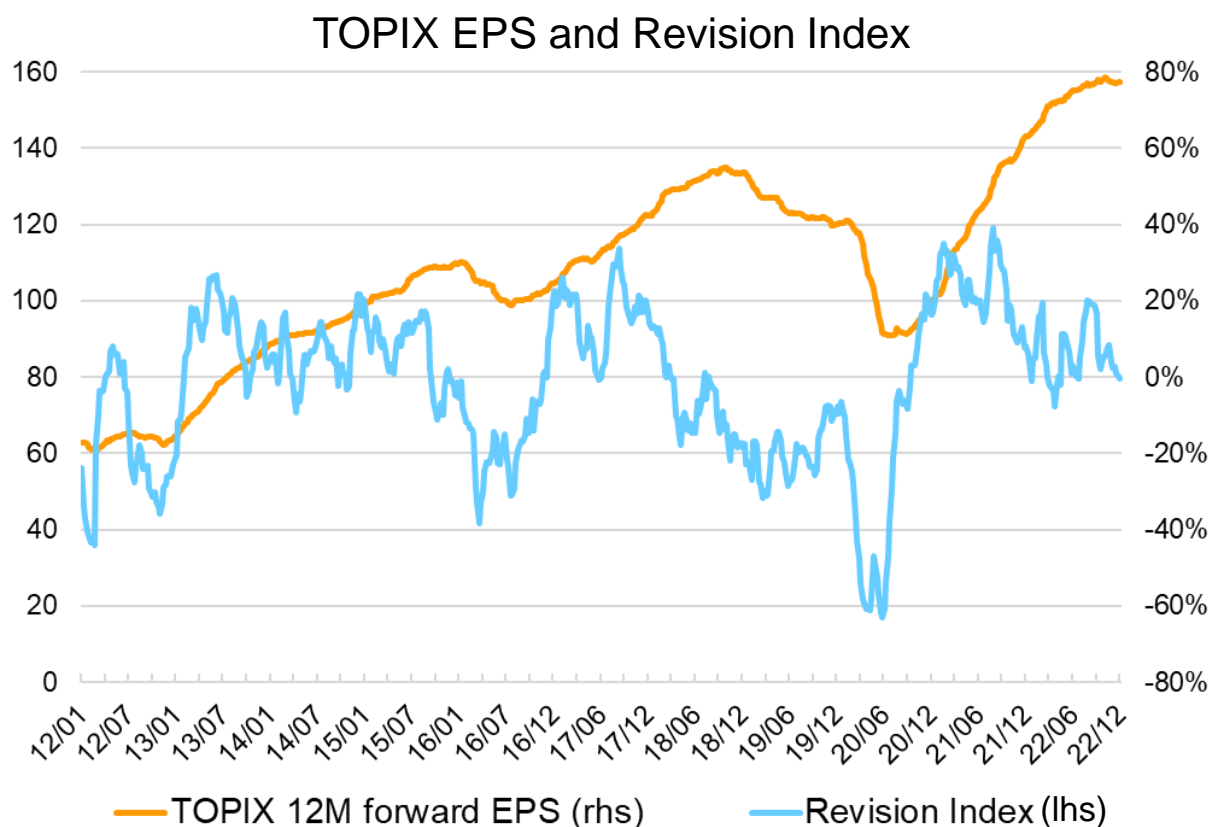
- Some upside left from the post-Covid reopening in domestic travel and retail sales.
- China's transition from zero-Covid towards a significant upside for tourism-related sectors.
- Increased input costs will continue to put pressure on margins but are easing.
- Value is a significant factor behind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

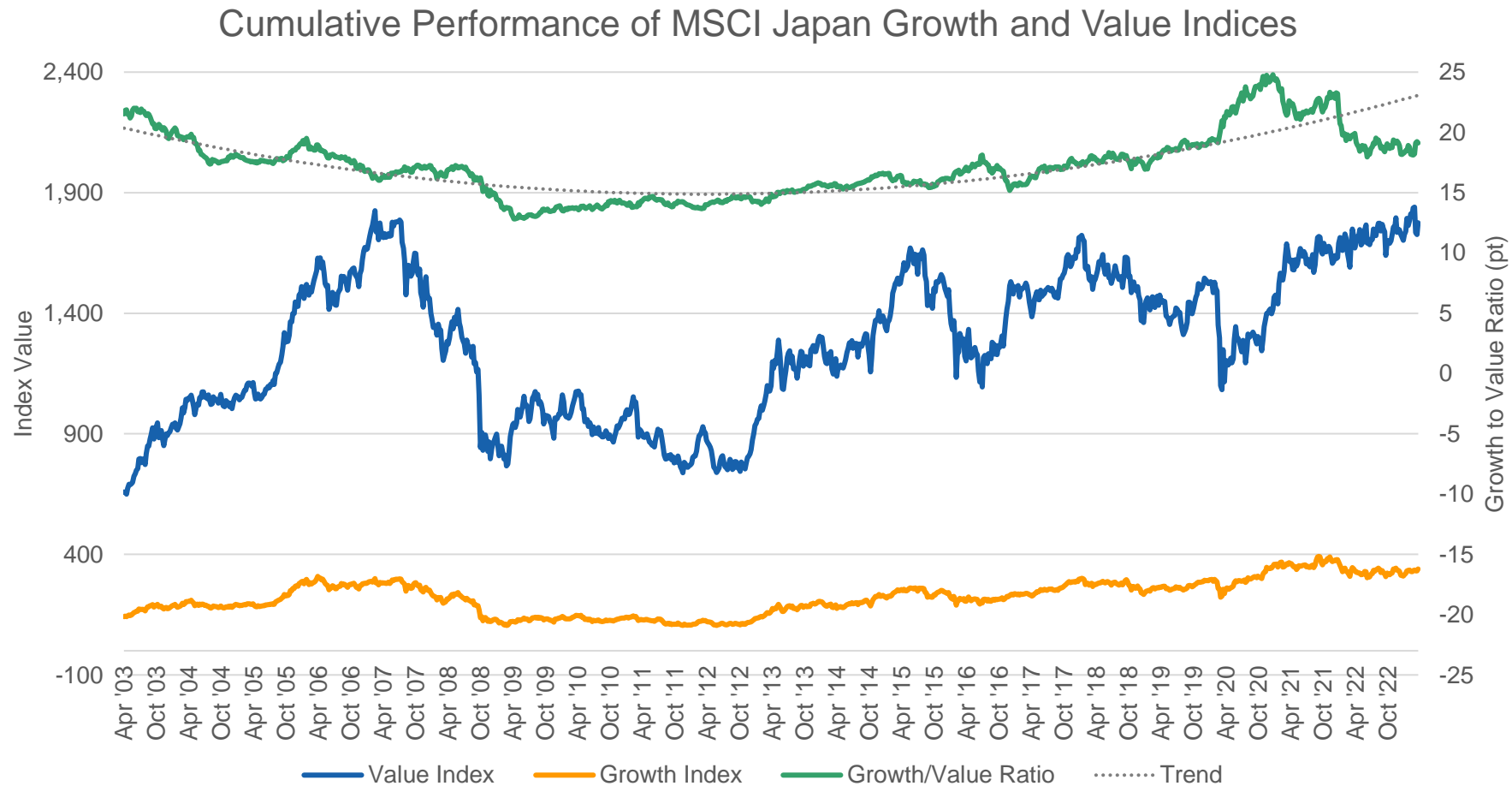
- Revenues up but profits slower as firms absorb rising input costs
- Terms of trade push corporate profits down with one year lag, but will improve in 2023
- FY2022: Steady earnings growth underpinned by weak yen and domestic demand recovery as the economy reopens
- FY2023: Single digit growth starting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

# Growth/Value Dynamics

Significant dislocation from the long-term historical trend



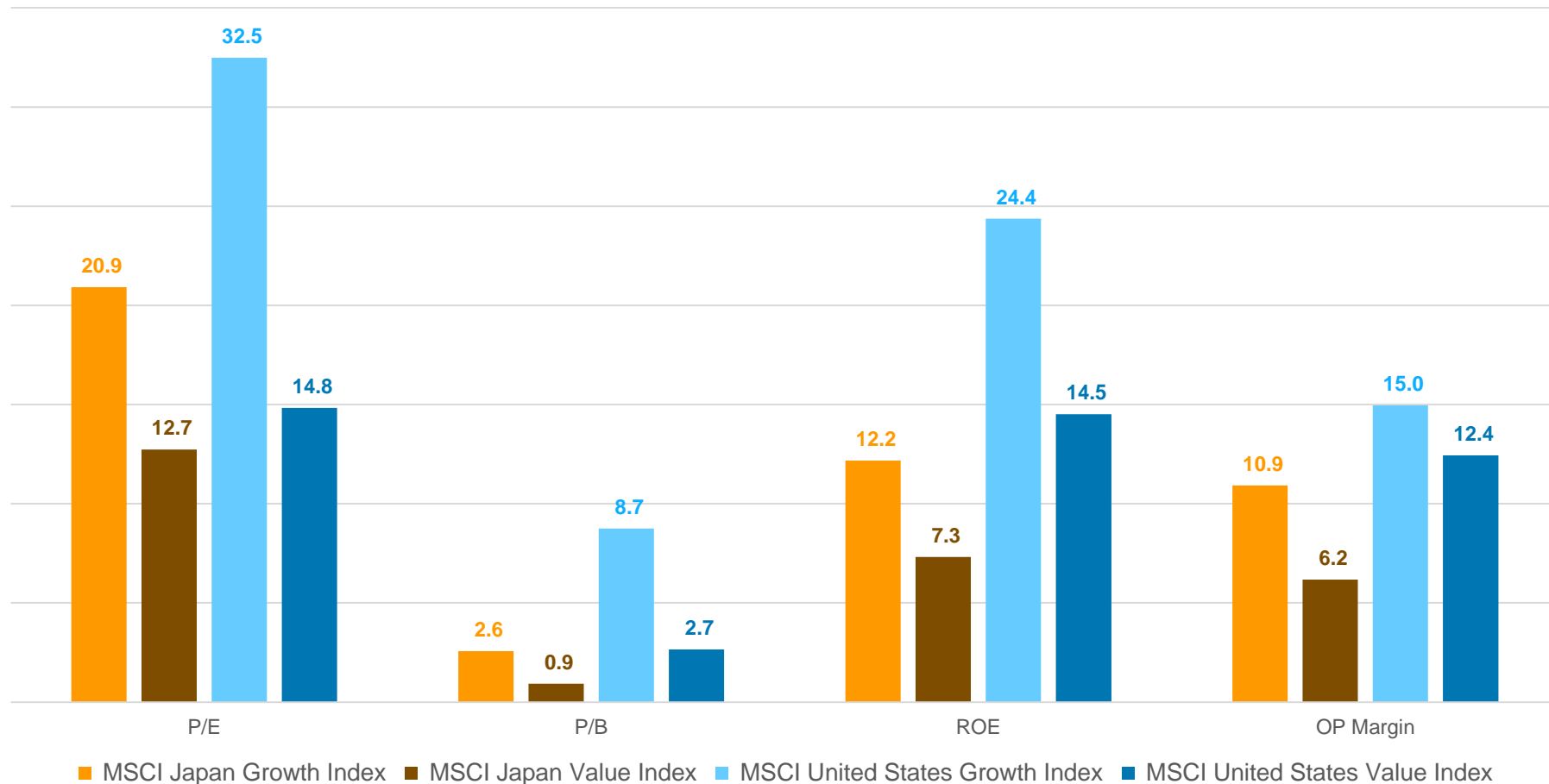
Source: Bloomberg. Past performance is not a guide to future returns. The value of investments can go down as well as up and you may not get back what you invested.



# Comparative Valuations

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

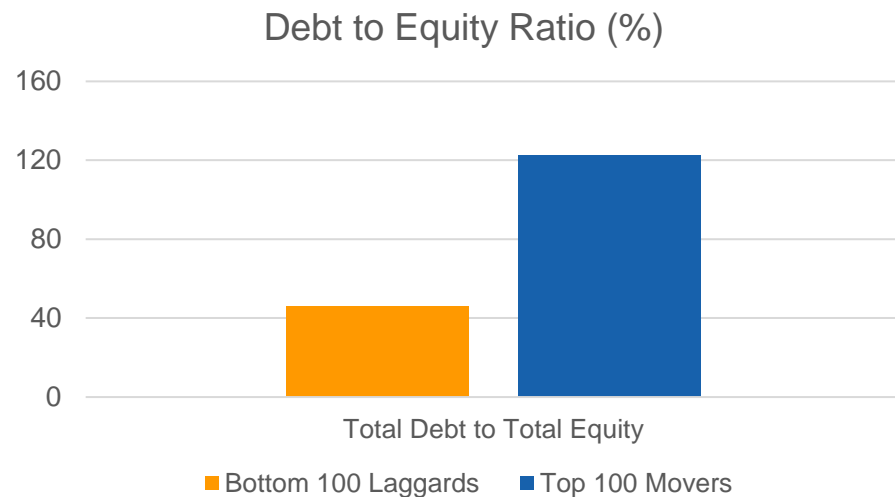
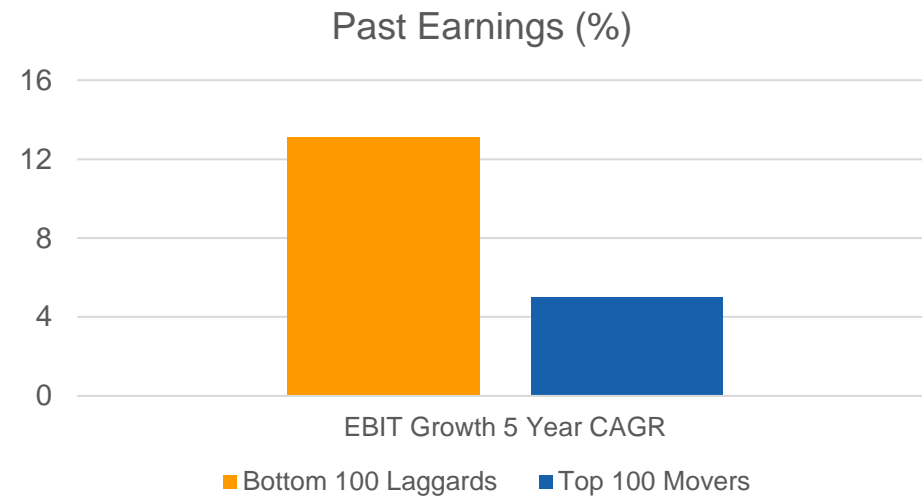
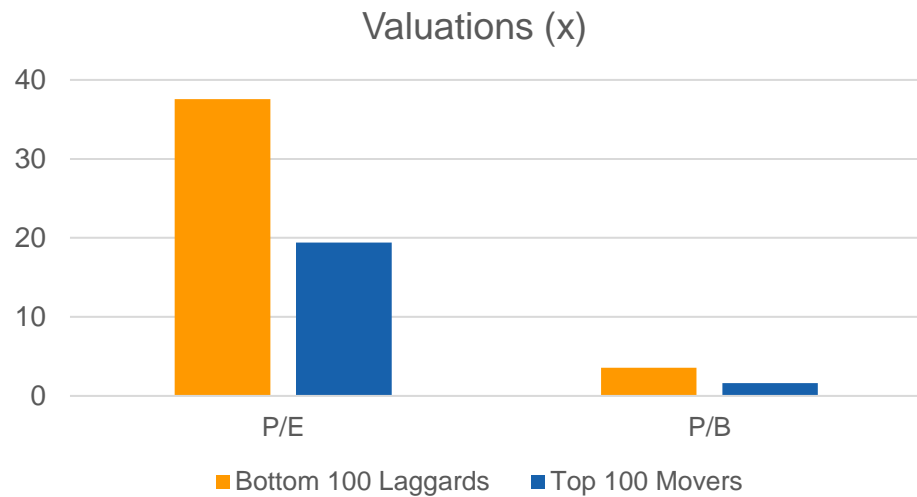
Valuation Multiples and Profitability - Growth & Value in US & Japan



Source: Bloomberg; as of April 2023

# 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
<b>GARP Strategy</b>	<b>Yoshihisa Nakagawa, CMA, CIAA (32/32)</b> Chief Portfolio Manager	<b>Yoshimasa Ikazaki, CMA (23/9)</b> Head of Investment Research Financial & Services Team Leader				Retail	
	<b>Koji Hashizume, CMA (31/14)</b> Deputy Portfolio Manager	<b>Akio Otani, CMA (22/22)</b> IT Team Leader		Technology, Media and Telecoms			
	<b>Tetsushi Wakayama, CMA (16/16)</b> Deputy Portfolio Manager	<b>Hiroyuki Natsume, CMA (21/21)</b> Basic Industry Team Leader	Autos				
		<b>Shunsuke Bando, CFA, CMA (9/5)</b> Social Infrastructure Team Leader				Services	Construction/real estate
<b>Focus Strategy</b>	<b>Shinji Watanabe, CMA (12/3)</b> Chief Portfolio Manager	<b>You Mizuno, CFA, CMA (28/11)</b>				Healthcare	
		<b>Takeru Asano, CMA (23/21)</b>	Machinery				Utilities
<b>Small Cap Strategy</b>	<b>Taku Yoshida, CMA (23/6)</b> Chief Portfolio Manager	<b>Tetsushi Wakayama, CMA (16/16)</b>				Banking	
		<b>Shun Nemoto, CFA, CMA (8/1)</b>		Consumer electronics			
		<b>Daisuke Kosugi (7/1)</b>				Foods	
		<b>Nozomi Kokubun, CFA, CMA (14/4)</b>				Financials	
<b>Kenichi Hiramatsu, CFA, CMA (29/21)</b> Portfolio Manager		<b>Masanori Yagura, CMA (5/5)</b>		Industrial electronics, Components			
<b>Takuya Yamanaka, CMA (30/18)</b> Portfolio Manager		<b>Naoki Mushiake (3/5)</b>	Materials				
		<b>Justin Cho (2/3)</b>					Transport
		<b>Sayuri Ishii, CMA (1/8)</b>				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 August 2010
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.

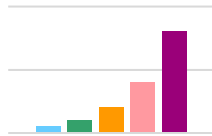
- CMA: Chartered Member of the Securities Analysts Association of Japan.

# What makes up the Focus portfolio?

## We separate 'growth' stocks into two categories

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

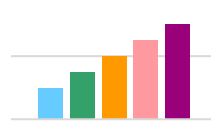
### *Secular Growth*



Earnings  
Growth Trend

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

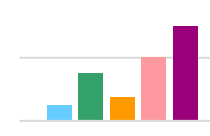
### *Steady Growth*



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*



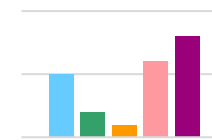
Earnings  
Growth Trend

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.



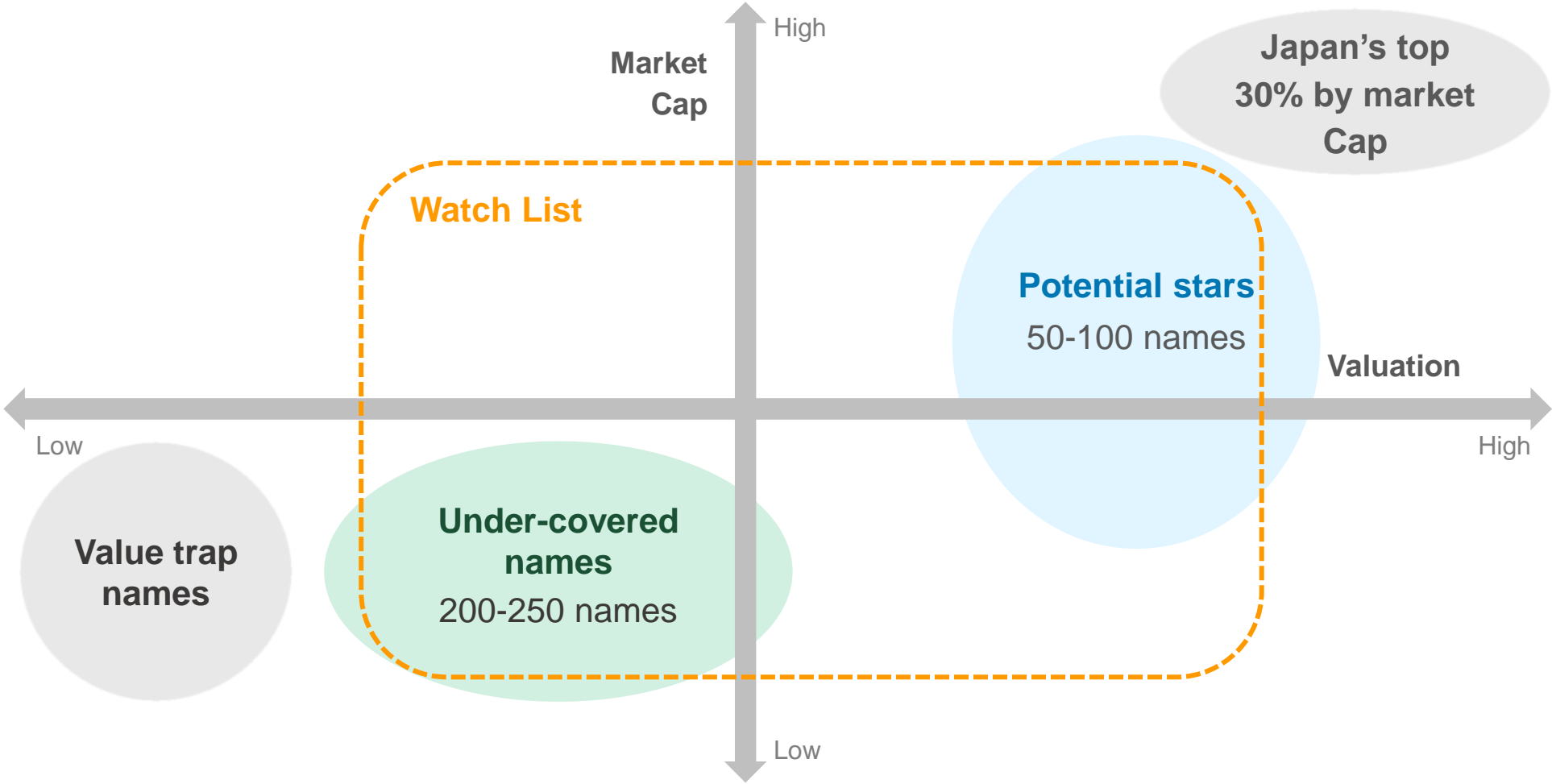
Earnings  
Growth Trend



# 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.  
For further information, please contact Tokio  
Marine Asset Management (London) Limited.



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Focus Fund: <https://www.tokiomarineam.com/uk/ucits/focus.html>

Small Cap Fund: [https://www.tokiomarineam.com/uk/ucits/small\\_cap.html](https://www.tokiomarineam.com/uk/ucits/small_cap.html)

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Latest fund Legal Offering Documents and other information is available in English to EEA Investors from Bridge Fund Management Limited (<https://bridgefundmanagement.mjudson.com/funds/focus/>) which is authorised and regulated by the Central Bank of Ireland, registered office Percy Exchange, 8/34 Percy Place, Dublin, D04 P5K3, Ireland. Focus Fund KIIDs are available in German, Swedish, French, Italian, and Spanish, while Small Cap Fund KIIDs are available in German and Spanish.

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.

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## **Additional information for investors in the EEA:**

The Focus Fund is currently registered for sale in Austria, Finland, France, Germany, Ireland, Italy, Luxembourg, and Spain, and the Small Cap Fund is registered in Austria, Germany, Luxembourg, Ireland and Spain. Some share classes may not be available for public sale in certain jurisdictions, and additional restrictions may apply. The TMF may decide to terminate the arrangement made for marketing in such jurisdictions in accordance with relevant regulations. In such circumstances, Shareholders in the affected EEA Member State will be notified of this decision and will be provided with the opportunity to redeem their shareholding in the Funds free of any charges or deductions for at least 30 working days from the date of such notification.

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# Disclaimer

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## **Additional information for investors in Switzerland:**

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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