

Nikko AM Japan Dividend Equity Fund

Highlights

- The Fund returned 3.16% (in SGD terms) in the month of September and rose 12.49% (in SGD terms) since inception (1 July 2013).
- The Japanese equity market gained September, as measured by the Tokyo Stock Exchange Price Index (TOPIX), which returned 4.51%% during the month. 26 out of the 33 TOPIX sectors saw stock price gains in September, while the remaining 7 sectors saw price declines.

While some Japanese corporations were affected by the consumption tax hike, most are generally seeing positive earnings progress. In addition, with the weakening yen, we expect firms to upgrade their earnings further.

Performance Review

	Performance		
	September 2014 (% change)	Year-to-Date (% change)	Since Inception (annualised)
Nikko AM Japan Dividend Equity Fund SGD Hedged Class Units (Net of fees)	3.16	7.33	12.49
Nikko AM Japan Dividend Equity Fund SGD Hedged Class Units (Net of fees and charges ¹)	-2.00	1.96	7.96
Benchmark (TOPIX Total Return Index ²)	4.51	3.77	15.84

Source: ©2014 Morningstar & Nikko Asset Management Asia Limited as of 30 September 2014. Returns are calculated on a NAV-NAV basis and assuming all dividends and distributions are re-invested if any. Past performance is not indicative of future performance.

¹Takes into account maximum sales and realisation charges, where applicable.

² The Fund's benchmark is TOPIX Total Return Index and is stated in JPY terms. The Fund's investment approach is not relative or constrained to its benchmark. The currency exposure of the "SGD Hedged Share Class" is hedged from the Fund's base currency – JPY to the Share Class' currency, to remove the currency conversion risk from the Fund's base currency to the Share Class' currency.

Since inception: 1 July 2013

Portfolio Review and Activity

Sentiment remained strong in the Japanese equity market in September, as the yen continued its weakening trend. We maintained the portfolio's stock weighting during the month at around 97%.

Our major trades in September included the newly added parking lot operator PARK24 and market leader in the field of time registration and parking systems Amano. At the same time, we lowered the weightings of pachinko game machine manufacturer Heiwa and automation equipment manufacturer Azbil.

Specifically, the stock price of PARK24 declined after the firm announced a downward revision to its earnings outlook, which we attributed the revision to short-term factors such as poor weather. We decided to add PARK24 to the portfolio as the firm has been raising its dividend, making its dividend yield attractive. Meanwhile, Amano's stock price fell as its first quarter earnings, which were negatively affected by the

consumption tax hike, failed to meet market expectations. However, given increasing demand for corporate investments in technology, the firm is expected to see an earnings recovery in the second half of the fiscal year and as such we added Amano to the portfolio. On the other hand, we lowered the weighting of Heiwa as we need to monitor the impact of the new regulations on the pachinko industry. We did the same for Azbil as the company became less undervalued due to its stock price gain.

Stocks that made significant positive contributions in September included mobile phone retailer T-GAIA and mobile phone network operator KDDI. Both companies' earnings are expected to benefit from the iPhone 6 sales. Similarly, major automobile maker Toyota Motor contributed to the monthly performance as it benefited from the weakening yen. Also contributing positively to the portfolio was the retail banking group Resona Holdings as the company is expected to improve its policy on shareholder going forward with its plan to repay its debt; and video game software manufacturer Tecmo Koei Holdings thanks to the strong sales of the video game software. In contrast, stocks that contributed negatively included golf course operator Accordia Golf, distribution centre operator Senko, and oil refiner JX Holdings. These companies were dragged down by concerns that they would be negatively affected by the sluggish economy. At the same time, Pachinko game machine maker Heiwa (also mentioned above) contributed negatively as concerns about new industry regulations weighed on its stock price.

As at end-September, the portfolio consisted of 52 issues with an average forward dividend yield of 2.93%.

Market Review

Japanese stock market rose in September

The Japanese equity market rose in September, with the TOPIX climbing 4.51% and the Nikkei rising 5.46% on month-on-month basis. Japanese stocks continued their uptrend throughout the month supported by a number of factors, including the weakening yen which fell to 109 against the USD amid strong economic sentiment in the US and potential long-term interest rates hike. The market was also lifted by growing expectations that the Bank of Japan might be forced into additional easing given the downward revision of Japan's April-June GDP and growing uncertainty about the future direction of Japan's economy. In addition, following the cabinet reshuffling by Prime Minister Abe, anticipation that the administration would make the economy its highest priority and move forward with structural reforms and deregulation became a tailwind for stock prices. Overall, 26 out of the 33 TOPIX sectors, including Transportation Equipment, Machinery, and Electric Appliances, saw month-on-month price increases. In contrast, 7 sectors, such as Marine Transportation, Oil & Coal Products, and Pulp & Paper, saw price declines.

Market Outlook

Japanese stocks to continue their uptrend

Since the start of the year, the Japanese equity market had undergone a consolidation phase triggered by concerns over geopolitical risks as well as worries over the resilience of the Japanese economy following the consumption tax hike. However, from mid-May onward, stocks rebounded supported by positive sentiment in the overseas equity markets and as Japanese corporations began to adopt more proactive shareholder return stances on the back of strong earnings. With the market also taking a favourable view of the weakening yen against other major currencies, Japanese stocks renewed its yearly high in September. While some Japanese corporations were affected by the consumption tax hike, most of these are generally seeing positive earnings progress. Furthermore, with the weakening yen, we expect firms to upgrade their earnings further. In the medium term, in addition to the government promoting its growth strategies, it has become clear that Japanese corporations are taking a positive stance on shareholder returns and aiming to improve their return-on-equities (which are low compared to the firms in Europe and North America). In such an environment, greater attention is being paid to stocks that are expected to raise their dividends, which should benefit the portfolio. Going forward, we also expect many companies to announce upwards earnings revisions and dividend increases. As such, we believe investors' interest in dividends will increase in general.

Investment Strategy

Portfolio is characterised by low volatility and low correlation relative to the market

In principle, we managed the Fund based on an investment policy of making investments selectively in companies with future dividend growth potential and higher projected dividend yield than the market average. In making stock selections, we adopt bottom-up research, which focuses on the company's corporate competitiveness, cash flow generation ability, financial stability and company's policy on shareholder return. Therefore, we will invest in firms selectively that are able to grow their dividends going forward. Given that many of the holdings are in stable growth stocks with strong earnings power and sound financials, the portfolio is characterised by low volatility and low correlation with the market. Currently, many of the Fund's holdings are in telecommunications firms, information services companies, general trading companies, precision equipment manufacturer, banks, automakers and chemical companies.

Focus on names with ample cash reserves and strong earnings momentum

In terms of stock selection, we will seek out names with ample cash reserves and/or strong earnings momentum that have potential to increase their dividends. In the recent stock market development, we saw short-term earnings having a significant impact on price action. There are cases, where price declines are caused by poor short-term earnings, despite the companies' strong mid-term growth potential. These companies offer investment opportunities, where we will consider investing.

As for portfolio weightings, we will make adjustments as necessary in response to changes in dividend yields that result from stock price fluctuation.

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