FUND PERFORMANCE UPDATE

March 2015

Nikko AM Japan Dividend Equity Fund

Highlights

- The Fund returned 2.93% (in SGD terms) in the month of March and rose 18.10% (in SGD terms) since inception (1 July 2013).
- The Japanese equity market rose in March, with the Tokyo Stock Exchange Price Index (TOPIX) climbing 2.06% on a month-on-month basis. 19 out of the 33 TOPIX sectors, including Other Products, Pharmaceutical and Services, saw month-on-month price increases. In contrast, 14 sectors, such as Iron & Steel, Mining and Pulp & Paper, saw price declines.
- Entering into the new fiscal year (starting in April), the double positive effect of the weaker yen and cheaper oil prices should begin contributing to corporate earnings, while the negative impact of the consumption tax hike will soon run its course. Corporate profit growth is also expected to continue as the wider implementation of wage hikes in the corporate sector helps boost domestic consumption. Therefore, we believe Japanese stocks will continue their upward trend.

Fund Performance Review

	Performance		
	March 2015 (% change)	**Year-to-Date** (% change)	**Since Inception** (annualised)
Nikko AM Japan Dividend Equity Fund SGD Hedged Class Units (Net of fees)	2.93	12.03	18.10
Nikko AM Japan Dividend Equity Fund SGD Hedged Class Units (Net of fees and charges[1])	-2.21	6.43	14.69
Benchmark (TOPIX Total Return Index[2])	2.06	10.53	21.77

Source: ©2015 Morningstar & Nikko Asset Management Asia Limited as of 31 March 2015. 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.

[1]Takes 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

Japanese stocks gained in March amid improvements in domestic business sentiment and as Japanese firms continued to strengthen their stance on shareholder returns. We maintained the Fund's stock weighting during the month in the 98% range.

Major trades in March included newly added Hitachi group's electronic components manufacturer Hitachi Maxell. We took a positive view of the structural reforms implemented by the firm, particularly the large reduction in scope of its recordable media operations, which used to be its mainstay business, and the shift of managerial resources to its in-vehicle camera lens business, for which growth is expected. As a result, the firm's earnings are expected to expand going forward. We also newly added automobile dealer VT

Holdings in March. With the Japanese automobile market chartacterised by stagnation recently, the firm's stock price has dropped and now appears undervalued. Despite its recent lackluster performance, we take a positive view of the firm – which mainly operates Honda Motor and Nissan Motor dealerships – that it will be able to secure steady earnings through after-sales service and achieve growth through actively seeking opportunities for mergers and acquisitions.

In contrast, we sold off our holdings in credit card firm AEON Financial Service and call center operator Transcosmos. Both companies no longer appear attractive in terms of their dividend yields following their stock prices gain.

Stocks that made large positive contributions in March included personal consumption-driven names that were sought after amid improvements in the consumer and business sentiment in Japan. Such names included an operator of men's clothing chain Aoki Holdings, cosmetics company Pola Orbis Holdings and homebuilder Sekisui House. Also contributing positively to the portfolio were precision equipment-related names purchased on expectations that the European economy will recover. These include printer manufacturer Canon, copier and printer maker Ricoh, and precision equipment manufacturer Star Micronics.

In contrast, stocks that contributed negatively to the portfolio included names that faced concerns over falling crude oil and other natural resources prices. These include oil refiner JX Holdings, petroleum distributor TonenGeneral Sekiyu, and construction equipment manufacturer Komatsu. Other negative contributors were names whose stock prices underwent a correction as a result of profit-taking, including retail banking group Resona Holdings and pachinko game machine manufacturer Heiwa.

As at end-March, the portfolio consisted of 53 issues with an average forward dividend yield of 2.75%.

Market Review

Japanese stock market gained in March

The Japanese equity market rose in March, with the TOPIX climbing 2.06% and the Nikkei rising 2.78% on a month-on-month basis. Stocks gained momentum as more market participants adopted a positive outlook on the Japanese economy after a series of indicators beat market expectations and as the government raised its assessment of the economy in its March economic report. Also contributing to the positive outlook was news that major corporations in Japan had in general agreed to the union demands for historically high wage and bonus increases during the annual spring labour negotiations. Sentiment in the Japanese stock market was further supported by the expansion of central banks' monetary easing programs in Europe and certain emerging countries. In addition, with the growing trend in Japan toward companies strengthening shareholder returns, Japanese stocks were also buoyed by increased buying from investors aiming to secure the right to receive dividends from companies closing their financial books in March. Nineteen of 33 TOPIX sectors, including Other Products, Pharmaceutical and Services, saw month-on-month price increases. In contrast, 14 sectors, such as Iron & Steel, Mining and Pulp & Paper, saw price declines.

Market Outlook & Strategy

Japanese stocks to continue their uptrend

The Japanese stock market held steady during the month as stocks in major overseas markets remained robust and as Japanese posted favourable earnings results. As we move into the new fiscal year (starting in April), the double positive effect of the weaker yen and cheaper oil prices should finally begin contributing to corporate earnings (albeit with some delay), while the negative impact of the consumption tax hike will soon run its course. Corporate profit growth is also expected to continue as the wider implementation of wage hikes in the corporate sector helps boost domestic consumption. Therefore, we believe Japanese stocks will continue their upward trend for the time being. In addition, Japanese corporate management is clearly taking a positive approach toward making investments for the future and increasing shareholder returns in order to improve companies' ROEs (which are low compared to in Europe and North America). As such, we believe the Japanese stock market will be gradually pushed up to higher levels over the medium term.

Expect the number of firms paying bigger dividends to increase during the next fiscal year

Since the inauguration of the Abe administration in 2012, the Japanese stock market has gone through several consolidation phases, but has ultimately maintained an upward trend. This can be attributed to the effects of monetary easing and strong corporate earnings. In addition, as Japan prepares to introduce a corporate governance code, we believe the market has reacted favourably to Japanese companies striving to improve their ROEs, investing in future growth and adopting positive stances on shareholder returns. In such an environment, greater attention is being paid to stocks with healthy financials that are expected to raise their dividends, which should benefit the portfolio. Market interest in dividends is also growing following the release of October-December earnings, as many firms announced upward revisions to earnings, dividend increases and share buybacks. Given the strong earnings environment, we forecast the number of firms paying bigger dividends to increase in the next fiscal year.

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

In principle, we managed the portfolio 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 focus on bottom-up research, which focuses on the company's corporate competitiveness, cash flow generation ability, financial stability and company's stance on shareholder return. Therefore, we will invest in firms selectively that are able to continually grow their dividends, and invest from a medium- to long-term perspective. Since 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 portfolio's holdings are in telecommunications firms, information services companies, general trading companies, precision equipment makers, banks and retailers.

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 balance investment in future growth with providing returns to shareholders. In particular, we will focus on those names from which sustained dividend growth can be expected, paying close attention to firms with indications from their management (via business mid-term plans, etc.) that the firm is changing its stance on shareholder returns.

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