



| EQUITIES - JAPAN | 1 Mth | 3 Mth | YTD | 12 Mth |
|------------------|-------|-------|------|--------|
| MSCI Japan | 1.1 | -7.3 | -3.9 | -7.3 |
| Nikkei 225 | 1.4 | -6.9 | -6.5 | -4.7 |
| Topix | 0.7 | -7.1 | -3.2 | -7.5 |
| Jasdaq | -0.4 | -2.1 | 9.0 | 6.6 |

Returns in Singapore dollars. Source: Bloomberg, 31 July 2010

TOPIX edged up 0.96% to 849.50. The Japan equity market remained volatile. The market started the month significantly lower. Share prices rebounded temporarily due to stronger stock markets worldwide, yen depreciation, and favorable US company results. However, in the latter half of the month, fears of a US economic slowdown intensified following a string of poor economic indicators. Sentiment recovered somewhat following the release of EU bank stress test results, and robust domestic company results.

The five best performing sectors in July were Rubber Products, Other Financing Business, Electric Appliances, Precision Instruments, and Oil & Coal Products. The worst performers were Mining, Pulp & Paper, Other Products, Services, and Electric Power & Gas.

OUTLOOK AND STRATEGY

| | Policy | Change | Comment |
|------------|-------------|--------|---|
| Financials | Underweight | – | We are Neutral on real estate and banks. Underweight non-banks. |
| Consumer | Neutral | – | We favour selected companies within the specialty retail sector given growth potential and relative valuations. |
| Technology | Overweight | – | Valuations are becoming more compelling. Buying opportunity for long-term global winners. |
| Energy | Overweight | – | Valuations are undemanding. |



**BEST ONSHORE FUND HOUSE
(SINGAPORE)**

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BEST OF THE BEST AWARDS
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BEST FUND GROUP (OVERALL)



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| | | | |
|---------------------|-------------|---|--|
| Industrials | Overweight | – | Japan’s industrial production growth momentum has slowed but remains positive. Sector valuations are also undemanding relative to the market. Like beneficiaries of Asia growth. |
| Pharmaceuticals | Underweight | – | Slow pace of product approval remains a negative for the sector. Like generic companies. |
| Materials | Overweight | – | Valuations at lower-end of historical levels for steel, glass & ceramics, and petrochemicals. |
| Info Communications | Underweight | – | Anaemic top-line growth makes the sector relatively unattractive. |
| Utilities | Underweight | – | Unexciting medium-term prospects. |

Deflation fears could continue to weigh on global equities. While Japanese equity fundamentals are increasingly mixed, market valuations are undemanding. The price-to-book ratio for TSE1 companies has dropped to 1.0x, close to the lower end of the historical range. FY10 expected dividend yield of 2.1% exceeds the 10-year JGB yield of almost 1%. Valuations of exporters are undemanding, and share prices could rise if the yen starts to weaken. For now, we would remain cautious and selective, favoring companies with strong pricing power, minimal Euro exposure, and structural growth drivers.

We are overweight Industrials, Materials, Technology, and Energy. We are neutral on Banks, Consumer Discretionary, Consumer Staples, and Real Estate, and underweight Info-Communications, Pharmaceuticals, Utilities, and Non-Banks.



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