

Japan High Conviction Suganomics – Renewed Drive for Change



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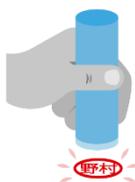
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Key Points:

- Prime Minister Yoshihide Suga is moving rapidly to accelerate the pace of structural reforms that could transform some sectors of Japan's economy
- Exporters are still vulnerable to renewed European lockdowns, but China's ongoing domestic demand recovery offers hope for some
- ESG is integrated into our investment process, and we believe this empowers our conviction. We highlight three Covid-era winners, resilient innovative companies that continue to emerge even stronger

Japan: Pivoting to Digital Transformation (DX) at Lightning Speed

Covid-19 has highlighted the need for digitalisation of Japan's public sector. One of Prime Minister Yoshihide Suga's priorities is to shake up the bureaucratic sectionalism in government, pressing ahead with administrative and regulatory reforms.



In a long overdue but highly symbolic step towards modernisation, the Japanese government has instructed its agencies to scrap the use of traditional "hanko" stamps for signing contracts and approving documents. There are also plans to phase out Fax machines at last, as these require the physical presence of workers in offices, often leading to more paperwork and longer working hours. (digital agency?)

Suga has also called for more competition among mobile telecom carriers, and has vowed to lower Japan's relatively high mobile communications rates. He has also outlined measures to tackle Japan's falling birth rate, proposing insurance coverage for expensive fertility treatments.

The Japanese government is also considering a third stimulus package, which it might submit to parliament in the next ordinary Diet session in early in 2021. Two supplementary budgets were passed earlier this year, totalling approximately JPY57 trillion.

Investment Themes harmonious with ESG

We continue to think in big themes, focusing on longer-term secular growth while avoiding the distraction of short-term market noise. We have integrated ESG into our investment process, as we believe this helps to empower this long-term conviction in our portfolio holdings.



Taking the long-term perspective is critical to our investment process, as we focus on companies that are capable of sustaining high ROE into the future, leading to progressive growth in shareholder's equity and the stock price. We begin from the premise that a company's current performance is the result of past decisions, so decisions being made now will be reflected over the next three to five years.

Integrating ESG factors into our fundamental analysis not only provides insights that can mitigate risks, but also helps us to identify opportunities and to better understand how a company is managed - how it interacts with its stakeholders, and its impact on the environment and wider society. This can also drive our investment policy.

Our decision to steer clear of companies that employ unsustainable, overly aggressive sales tactics is one example, and we also do not invest in Tobacco companies as we do not hold a positive view on their sustainability of growth, given their harm to human health. In both cases, their impact on society makes them unattractive as long-term growth investments.

Below, we look at a few of our high-conviction themes. Our confidence in these investment themes have only grown as our investment approach has made the portfolio more resilient to headwinds from Covid-19.

M3, Inc. **Digital Transformation (DX) of Medical Services**

Portfolio Weighting: 4.4% (as at September 30, 2020)



M3 leads the digital transformation (DX) of marketing for pharmaceutical companies, enabling companies to communicate with healthcare professionals over digital channels, removing the need for in-person visits.

With over 5.8 million physician members globally, the M3 group has operations in the UK, France, Germany, Spain, the USA, Sweden, China, South Korea and India. Its online platforms include mdlinx.com, doctors.net.uk, medigate.net, medlive.cn, and m3india.in.

The company also operates m3.com, a widely used tool for healthcare professionals, and over 90% of doctors in Japan are said to be registered to the portal site. The site provides marketing support for pharmaceutical companies, medical education, clinical development, job recruitment and clinic appointment services. M3's online `MR-kun` service has enabled pharmaceutical companies to approach a large number of doctors simultaneously, providing medical information and webinars.

With hospitals placing new restrictions on visitors due to the pandemic, M3 has enabled MRs (medical representatives) of pharmaceutical companies to strengthen online communications with doctors, with two-way, personalised information sharing between them. This is proving to be a game-changing service that is fundamentally changing the way pharmaceutical and medical supply companies operate.

Recruit Holdings **HR Tech, Recruitment services, & Online Education**

Portfolio Weighting: 3.7% (as at September 30, 2020)

Originally an advertising company that launched job hunting magazines in the 1960s, Recruit Holdings is now a publishing and business services empire that has successfully diversified into many areas from HR technology, media and staffing, and its influence can be seen across modern Japan.



With a focus on improving online job searches, Recruit Holdings controls the largest market share in Japan for recruiting services, as well as owning U.S.-based job websites Indeed.com and Glassdoor.com.

Recruit's lifestyle media operations are successful across many areas including job search, housing, real estate, wedding services, restaurants, travel, beauty, and even cars. The company is also considered to be a pioneer in digitalisation, evident in its successful launch of "StudySapuri", a hugely popular online learning service in Japan for primary to high school students.

Employment uncertainty and rapidly evolving economic conditions could explain recent recovery in Indeed's monthly unique visitor traffic to pre-Covid-19 levels.

Fast Retailing Asia's Largest Apparel Retailer

Portfolio Weighting: 4.9% (as at September 30, 2020)



Asia's largest apparel retailer and owner of the Uniqlo brand recently posted a surge in operating profits for its financial year to August. Fast Retailing also announced strong projections for 2021, representing a recovery to pre-pandemic levels.

With its focus on Asian markets where the Covid-19 pandemic has been relatively subdued, Fast Retailing appears to be in a better position compared to its global peers. While revenue will continue to decline in the first half, a recovery is expected to kick in along with a recovery in China and Japan.

Uniqlo's sales have shown resilience throughout the pandemic as office workers have abandoned business wear in favour of more practical, affordable and comfortable casual wear that is suitable for working from home.

Portfolio Breakdown – September 2020

Top Ten Holdings	Fund Weight (%)
Nidec Corporation	7.76
Keyence Corporation	6.73
Daikin Industries Ltd.	5.23
Fast Retailing Co. Ltd.	4.88
Unicharm Corporation	4.84
SMC Corporation	4.57
M3, Inc.	4.38
Murata Manufacturing Co., Ltd.	4.31
Chugai Pharmaceutical Co.	4.26
Pigeon Corporation	4.11
Total	51.08

Sector Breakdown	Fund (%)	TOPIX (%)
Electric Appliances	21.86	15.51
Machinery	17.81	5.48
Services	16.35	5.74
Retail Trade	7.93	5.06
Chemicals	7.77	7.30
Information & Communication	7.35	10.15
Transportation Equipment	6.13	7.05
Pharmaceutical	4.14	6.50
Other Products	3.98	2.80
Precision Instruments	2.28	2.74

Performance – September 2020

	Fund Size (in \$ Millions)	3 Mth Return	6 Mth Return	YTD Return	1 Yr Return	2 Yrs Return	3 Yrs Return	4 Yrs Return	5 Yrs Return
Nomura Japan High Conviction (JPY)	286.2	13.22	44.24	18.76	29.20	7.90	13.12	15.16	14.08
 TOPIX TR JPY		5.17	17.00	-3.42	4.87	-3.05	1.38	7.73	5.24
Excess		8.05	27.24	22.18	24.32	10.94	11.74	7.43	8.84
Peer Group Rank		3	2	3	4	3	2	2	1
Quartile		1	1	1	1	1	1	1	1
Number of Funds Ranked		221	221	219	217	205	190	178	169

Source: Morningstar Direct as at 30-09-2020. Return data presented for the Nomura Funds Ireland Plc. Japan High Conviction Fund I JPY, in JPY, net of fees. Performance greater than 1 year is annualised. Morningstar Overall Ratings as at 30-09-2020. Copyright © 2020 Morningstar UK Limited. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results. Peer Group: Morningstar Open-Ended Funds: Japan Large Cap Equity.

Fund Overview

Essentially a best ideas portfolio of Japan, the Japan High Conviction Fund is positioned to pick truly competitive global companies and unique Japanese game changers that take advantage of structural trends.



#1 Best performing fund vs. peers over 5 years

With a 5-star Morningstar Rating™, the fund has delivered consistent 1st quartile returns across all time periods and delivered 8.8% p.a. annualised excess returns over 5 years*.

High conviction approach of 25-40 stocks

A high conviction portfolio of quality stocks where company selection is paramount.

Experienced investment team managing \$6.4bn AuM

The team manages approximately \$6.4bn in growth strategies including \$1.08bn in the Japan High Conviction strategy and over \$285m in our dedicated UCITS fund

Citywire award winning fund manager

Citywire award winning Fund Manager, Shintaro Harada, CMA, has been with Nomura since 1993 and has pioneered Nomura's ROE-focused approach to growth investing.

Large dedicated research resource

With over 30 research professionals on the ground, Nomura operates one of the largest, most experienced equity research teams in Japan. As a significant active investor Nomura has unrivalled depth and access to senior management teams across the country.

*Source: Morningstar Direct. Data presented as at 30/09/2020, net of fees for the Nomura Funds Ireland Plc Japan High Conviction Fund I JPY share class vs. TOPIX TR JPY, calculated in JPY. Since inception: 7th August 2013. Past performance is no guarantee of future results. AUM as at 30/06/2020.

Potential significant risks: By focusing its investments in Japan, the fund will have greater exposure to the market, political and economic risks of that country than if it was more diversified across a number of countries



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The prospectus, key investor information document (KIID) and other fund related materials are available on the NAM UK website at www.nomura-asset.co.uk

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The sales prospectus/ supplement to the prospectus in English language as well as the Key Investor Information Document (KIID) in German language of the Nomura Funds Ireland - Japan High Conviction Fund are available in electronic or printed form free of charge at <https://www.nomura-asset.co.uk/>, 8/F, 1 Angel Lane, London, EC4R 3AB, England or from Nomura Asset Management Europe KVG mbH, Grärfstraße 109, 60487 Frankfurt am Main, Germany.

Performance in the past is no guarantee of future success. This fund displays higher volatility due to its composition / the techniques used by the fund management, i.e. unit prices can fluctuate upwards or downwards within short periods of time.

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As at per October 2020

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