



EQUITIES - JAPAN	1 Mth	3 Mth	YTD	12 Mth
MSCI Japan	-6.2	-4.9	-2.7	-0.3
Nikkei 225	-6.9	-6.3	-6.4	4.2
Topix	-6.0	-4.4	-2.0	-0.4
Jasdaq	-4.9	-2.5	5.9	17.6

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

TOPIX fell 10.8% to 880.46 in May 2010. The market opened the month with a sharp decline in response to a plunge in overseas stocks during the Japanese Golden Week holidays. The European Union's announcement of a Eurozone rescue fund triggered a rebound, but the momentum was short-lived due to concerns that the European fiscal crisis may threaten the region's financial system. Risk aversion drove the yen up, causing a selloff in companies with high exposure to Euro revenues.

The best performing sectors in May were Pulp & Paper, Electric Power & Gas, Fishery, Agriculture & Forestry, Oil & Coal Products, and Pharmaceutical. The five worst performers were Real Estate, Other Financing Business, Precision Instruments, Securities & Commodity Futures, and Mining.

## OUTLOOK AND STRATEGY

	Policy	Change	Comment
Financials	Underweight	–	Neutral on real estate and banks. Underweight non-banks.
Consumer	Neutral	–	Like selected companies within the specialty retail sector given growth potential and relative valuations.
Technology	Overweight	–	Revival in corporate IT spending, and new product launches are expected to drive growth.
Energy	Overweight	–	Valuations are undemanding.



**BEST ONSHORE FUND HOUSE (SINGAPORE)**

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**BEST FUND GROUP (OVERALL)**



**BEST FUND GROUP (OVERALL)**



**BEST EQUITY FUND GROUP**



**BEST MIXED ASSETS FUND GROUP**



Industrials	Overweight	–	Positive on the sector given recovery in Japan's industrial production, and positive earnings revision momentum. 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	–	More positive on electronic materials, particularly those leveraged to LCD theme, as inventory correction has now run its course. For petro-chemicals, the worst appears to be over.
Info Communications	Underweight	–	Anaemic top-line growth makes the sector relatively unattractive.
Utilities	Underweight	–	Unexciting medium-term prospects.

Slower economic growth in Europe and China could lead to a moderation in Japan exports growth in the following months, and cause corporate earnings to be revised down. However, significant negatives are likely to be reflected in stock prices already. At the TOPIX level of 866.4, the Japan equity market trades at a Price/Book Ratio of only 1.05x, which is more than one standard deviation below the historical mean of 1.8x. The prospective Price/Earnings Ratio of 16.7x is also lower than the historical average of 18x.

The recent market sell-off has presented buying opportunity, especially in the exporters. Given that external risks have risen, we are 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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