



EQUITIES - JAPAN	1 Mth	3 Mth	YTD	12 Mth
MSCI Japan	-3.1	-4.2	-6.9	-13.1
Nikkei 225	-5.3	-5.3	-11.4	-12.8
Topix	-3.0	-4.2	-6.1	-13.6
Jasdaq	-2.9	-0.1	5.8	-0.7

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

TOPIX fell 5.3% to 801.7 in August. Weak macroeconomic news overshadowed robust domestic corporate results announcements. A string of weak US economic indicators raised concerns that the US economy may be headed for a “double-dip”. Further, the Fed’s stance on additional monetary easing fueled yen appreciation, causing Japanese stocks to fall further. The BOJ’s decision to carry out additional monetary easing, and the government’s announcement of a Y920bn fiscal stimulus package failed to lift sentiment.

The five best performing sectors in Air Transport, Real Estate, Electric Power & Gas, Pharmaceutical, and Foods. The worst performers were Maritime Transport, Electric Appliance, Glass & Ceramics, Precision Instruments, and Mining.

OUTLOOK AND STRATEGY

	Policy	Change	Comment
Financials	Neutral	↑	Raising weights in banks given near-trough valuations and reduced risk of additional capital issuance. Remain Neutral on real estate in anticipation of improvement in demand-supply imbalance in office space.
Consumer	Overweight	↑	Like selected companies within the specialty retail sector given growth potential and relative valuations.
Technology	Neutral	↓	Turned less positive given downward increased pressure on earnings from strong yen and weakening demand/supply outlook.



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BEST MIXED ASSETS FUND GROUP



Energy	Neutral	↓	Valuations are undemanding.
Industrials	Overweight	–	Valuations undemanding. Focus on companies which are beneficiaries of structural growth, e.g. automation, and those with leverage to mining activities/ capex.
Pharmaceuticals	Neutral	↑	The slow pace of product approvals due to stricter FDA requirements and patent expirations remain a negative for the sector. Like generic companies because of the Japanese government's push for more affordable drugs and companies that derive all of their sales domestically due to strong yen.
Materials	Overweight	–	Compelling valuations, especially those of glass, steel, and chemical companies.
Info Communications	Neutral	↑	Anaemic top-line growth makes the sector relatively unattractive, but valuations and dividends provide downside support.
Utilities	Underweight	–	Unexciting medium-term prospects and fair valuations.

Economic indicators for Japan have weakened in line with slowing external growth. Persistent strength in the yen could start to impact Japan's exports negatively in the quarters ahead. Deflation fears could also continue to weigh on Japanese equities. In addition, the political landscape has turned cloudy with Ichiro Ozawa contesting against Prime Minister Naoto Kan for the DPJ leadership. On the positive side, 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%. We adopt a sector neutral stance, emphasizing structural growth, quality and yield.

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



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