

Tokio Marine Japanese Equity Focus Fund

Monthly Report – February 2018



TOKIO MARINE
ASSET MGT

Fund Manager



Hiroyasu Sato

Objective

The objective of the Fund is to achieve long-term capital growth over TOPIX Total Return Index by investing in a concentrated, high-conviction portfolio of stocks, focusing on companies' 3-5 year earnings growth.

Fund Details

Launch Date
31 August 2010

Month-end Fund Size
JPY 93,159 million

Base Currency
JPY

Benchmark
TOPIX Total Return Index

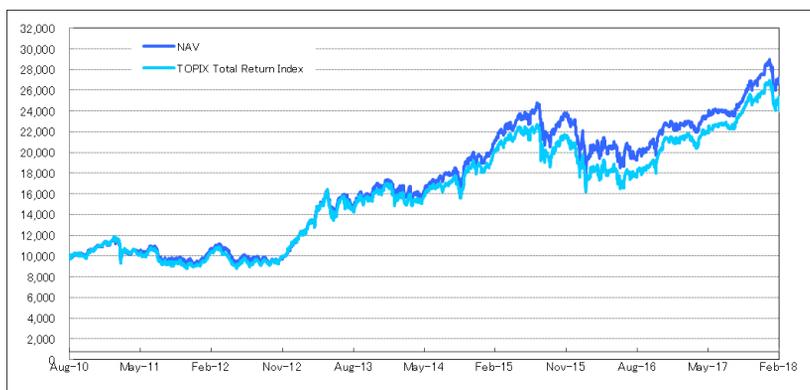
Sector
Japanese Equity

Number of Holdings
39 (as at month-end)

Domicile / Legal Structure
Ireland, OEIC (UCITS)

Liquidity
Daily

Fund Performance Since Inception in JPY



Cumulative Performance

	1 month	3 month	6 month	YTD	1 year	3 year (pa)	5 year (pa)	Since Inception (pa)
Fund	-3.13%	0.19%	12.37%	-1.94%	19.18%	8.27%	16.57%	14.10%
Benchmark	-3.70%	-1.15%	10.38%	-2.68%	17.59%	7.28%	14.94%	12.98%
Excess Return	0.58%	1.34%	2.00%	0.74%	1.59%	0.99%	1.64%	1.13%

	2017	2016	2015	2014	2013	2012	2011	2010
Fund	22.29%	-2.93%	17.94%	13.31%	58.60%	16.56%	-14.17%	9.03%
Benchmark	22.23%	0.31%	12.06%	10.27%	54.41%	20.86%	-17.00%	9.37%
Excess Return	0.06%	-3.25%	5.88%	3.04%	4.19%	-4.29%	2.83%	-0.34%

※2010: 31 August (fund launch date) through December-end

※The Fund performance is represented by performance of Class D

※Past performance is not a guide to future performance

Source: Tokio Marine Asset Management Co., Ltd. based on Net Asset Value per share calculated by SMT Fund Services (Ireland) Limited, in JPY.

Top 10 Holdings as at Month-end

Ticker	Name	Fund	Benchmark
8316	Sumitomo Mitsui Financial Group, Inc.	4.20%	1.38%
6902	Denso Corporation	3.60%	0.55%
6758	Sony Corporation	3.58%	1.44%
9984	Softbank Group Corp.	3.44%	1.56%
6367	Daikin Industries, Ltd.	3.35%	0.68%
7532	Don Quijote Holdings Co.,Ltd.	3.35%	0.15%
4452	Kao Corp.	3.31%	0.76%
4681	Resorttrust, Inc.	3.21%	0.04%
6869	System Corporation	3.21%	0.27%
4578	Otsuka Holdings Co., Ltd.	3.12%	0.44%

Investment Information

Target Alpha
5.0 %

Annualised Tracking Error
4.0% (for the past 3 years)

Stock Holdings
20 – 40 stocks

Share Information

Annual Management Charge
0.70%*1

Min. Initial Investment
JPY 100,000,000
GBP 1,000,000
EUR 1,000,000
USD 1,000,000
CHF 1,000,000

*1 Annual management charge refers to combined investment management fee and distributor fee. Please see the prospectus or contact the distributor for fund fee structure details.

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Positive/Negative Contributors

Positive Contributors	Negative Contributors
1 4578 Otsuka Holdings Co., Ltd.	1 4516 Nippon Shinyaku Co., Ltd.
2 4768 Otsuka Corporation	2 2914 Japan Tobacco Inc.
3 2413 M3, Inc.	3 5938 LIXIL Group Corp.
4 4543 Terumo Corporation	4 9719 SCSK Corporation
5 6869 Sysmex Corporation	5 9983 FAST RETAILING CO., LTD.

Commentary and Outlook

Market Review

The TOPIX and the Nikkei Stock Average lost 3.73% and 4.46% respectively over February.

The month began with stocks bouncing back from a fall in the preceding days, but US employment figures the following week led to fears that a US interest rate hike may come sooner than expected. With US long-term interest rates rising, and the Dow Jones Industrial Average recording its biggest ever drop, the TOPIX also plunged, and has been unstable since.

Turmoil in the Japanese stock market continued until mid-month, with the TOPIX bottoming out just below 1,700 points during trading hours on the 14th, its lowest since October 2017. The US dollar dipped below JPY 106, but bounced back after the 16th, and Japanese stocks also began to recover.

Instability continued into the latter part of the month. Rising long-term US interest rates in response to the release of FOMC (Federal Open Market Committee) minutes caused US stock markets to drop, but renewed interest in strong performing stocks helped Japanese markets to gradually pick up the pace. At the end of the month, however, comments from newly-appointed Federal Reserve chairman Jerome Powell suggested a more aggressive rate hike policy, leading to higher US long-term interest rates and falling US stocks, as a result of which Japanese stock markets also dropped.

Best performing sectors in a month where stocks fell overall were precision – notably manufacturers of medical devices – and pharmaceuticals, thanks to high earnings stability. Worst performing sectors were shipping and rubber, with earnings going forward seen as unstable.

Performance Review

Portfolio activity:

The portfolio's performance fell significantly at the start of the month due to rising US interest rates coinciding with the earnings season. US interest rate hikes have previously brought rises in value names in financials and autos, but the recent rate rise was not accompanied by a weaker yen, and a spike in volatility also held back these stocks; movements in the market were mainly based on fundamentals, namely earnings announced.

Given this environment, we have moved to increase exposure and weighting of stocks likely to produce earnings growth next year, and sold stocks where improvements in earnings have already become manifest in the current earnings season. We have continued to focus on identifying transformational growth stocks, as in the last three months.

Performance analysis:

The fund outperformed the benchmark over the month.

Positive contributors were stable growth stocks announcing strong earnings, including Otsuka HD (4578), with its increasingly strong new drug pipeline; Otsuka Corporation (4768), which is enjoying the benefits of increased IT investment by small and medium enterprises against a background of personnel shortages; and M3, Inc. (2413), where earnings clearly demonstrated improvements in overseas sales growth potential.

Main detractors, meanwhile, tended to be stocks with disappointing earnings announcements, including Nippon Shinyaku (4516), whose pharmaceutical competitors overseas announced a new drug; Japan Tobacco (2914), currently behind schedule on launching new products; and LIXIL (5938), where rising metal prices have had a greater impact than expected on costs, leading to a drop in profit margins.

NAV Information

Month end NAV ^{*2}	
Class B (EUR)	216.5891
Class G ^{*3} (USD)	195.3970
Class H ^{*5} (CHF)	122.4255
Class I ^{*5} (JPY)	10,914.9833
Class J ^{*4} (EUR-H)	110.2250
Class K ^{*4} (CHF-H)	108.1234
Class M ^{*5} (USD-H)	109.0920

^{*2} FX rate is WM Reuter as at month-end

^{*3} Class G started in February 2012

^{*4} Classes started in July 2015

^{*5} Classes started in August 2015

Fund Codes

ISIN

Class B (EUR)	IE00B3ZYDS66
Class G ^{*3} (USD)	IE00B4100S42
Class H ^{*5} (CHF)	IE00BYTTL300
Class I ^{*5} (JPY)	IE00BYTTL417
Class J ^{*4} (EUR-H)	IE00BYTTL524
Class K ^{*4} (CHF-H)	IE00BYTTL631
Class M ^{*5} (USD-H)	IE00BYTTL854

Key Information

Investment Manager:

Tokio Marine Asset Management Co., Ltd.

Administrator:

SMT Fund Services (Ireland) Limited

Custodian:

SMT Trustees (Ireland) Limited

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Outlook and Investment Strategy

We believe the Japanese stock market will remain unstable due to fluctuations in interest rates and equity markets in the US, as well as forex trends, and global political and geopolitical risks.

Overseas investors were net buyers of Japanese equities in the first week of January, but became substantial net sellers in the second week, which proved the main reason for the February drop in Japanese stocks.

While sudden increases in the VIX volatility index can generally be traced back to specific geopolitical risks or financial instability, no definitive reason could be seen for this recent volatility. If this is simply a case of investors squaring their positions, we would expect a quick recovery in the market; if, however, this is in anticipation of a sea-change in financial markets supported by excess liquidity from quantitative easing, market corrections may take longer. Matters are further complicated by the situation on the Korean peninsula, increasing confusion in the Middle East, and political uncertainty in Europe, notably in Germany and Italy.

The US dollar remains below JPY 110, and if Japanese companies base their new fiscal year exchange rate assumptions on a strong yen, earnings growth may not reach market expectations. Any failure of expected wage increases to come through could derail the Abenomics plan of higher wages leading to higher consumption and ending deflation, raising the likelihood of a fiscal stimulus from the government in order to keep the planned October 2019 consumption tax hike on track.

Note: Portfolio holdings information and detailed analysis are available to all fund investors upon request.

Contact Information

For further information regarding the Tokio Marine Japanese Equity Focus Fund, please contact Tokio Marine Asset Management (London) Limited.

Authorised and Regulated by the Financial Conduct Authority

Tel: + 44 (0) 20 7280 8580 (calls may be recorded)

Business Development: tmal@tokiomarine.co.uk

General Enquiries: focus@tokiomarine.co.uk

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