

JAPAN EQUITY 2025: OUTLOOK & INVESTMENT OPPORTUNITIES

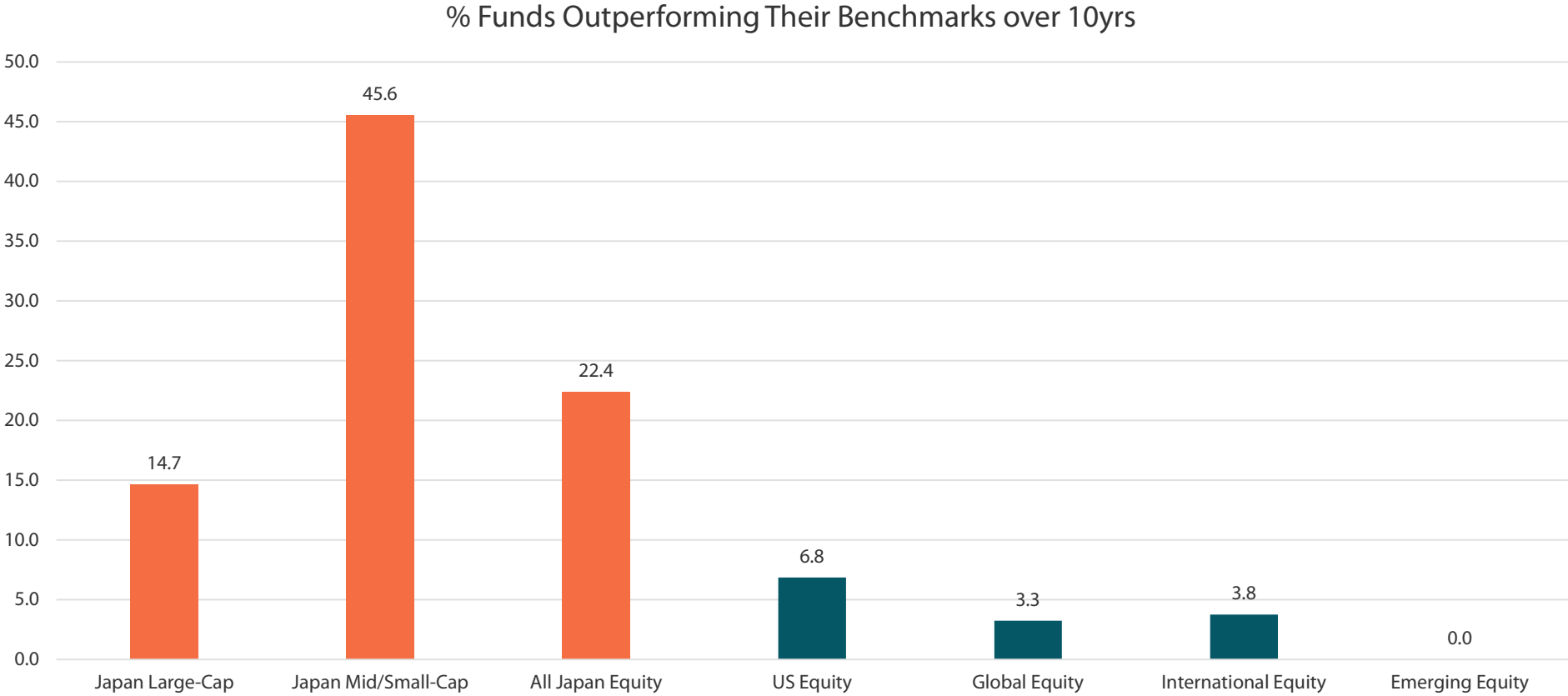
GELD-MAGAZIN INVESTMENTAUSBLICK 2025 / MEGATRENDS

Junichi Takayama, Investment Director of Japan Equity – Nikko Asset Management

% Funds outperforming their benchmarks

Active managers fare better in Japan

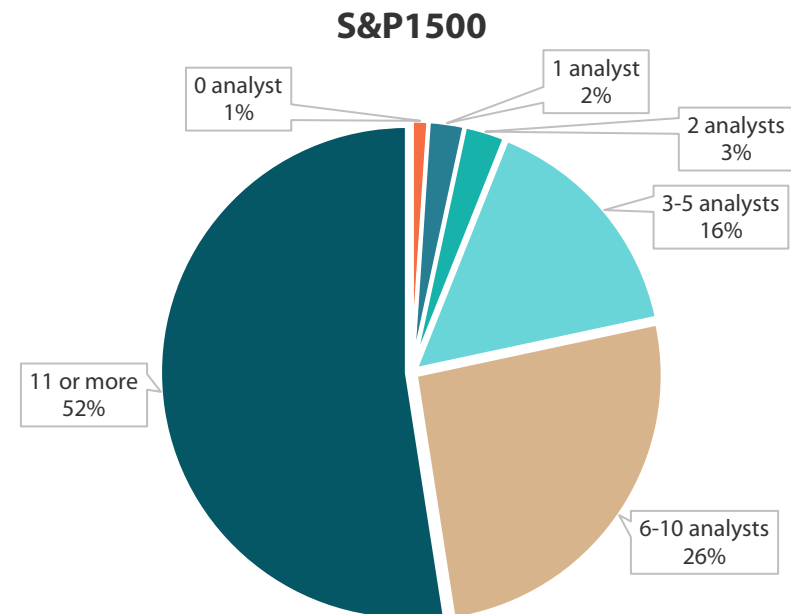
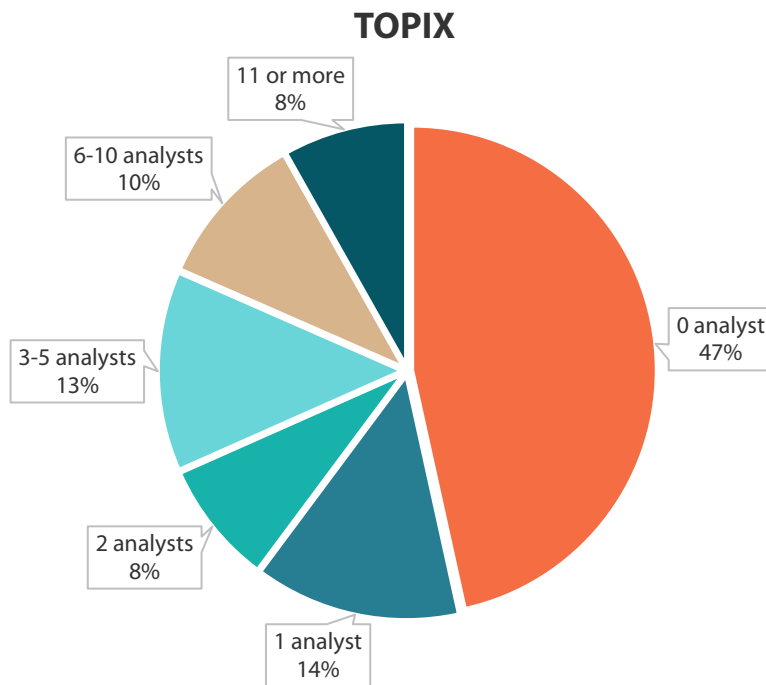
- More managers outperform the benchmarks in Japan than in other regions in the long term
- This trend is highly visible in Mid/Small cap segment, the most inefficient segment of the market



Source: Nikko AM based on S&P Dow Jones Indices SPIVA® Japan Scorecard Year-End 2023

Analyst Coverage by Market – Japan vs. US

- 47% of TOPIX Index receive zero coverage from sell-side analysts vs. 1% for S&P1500
- This offers potential to uncover opportunities overlooked by the market through proprietary research



Source: Bloomberg as of end-December 2023

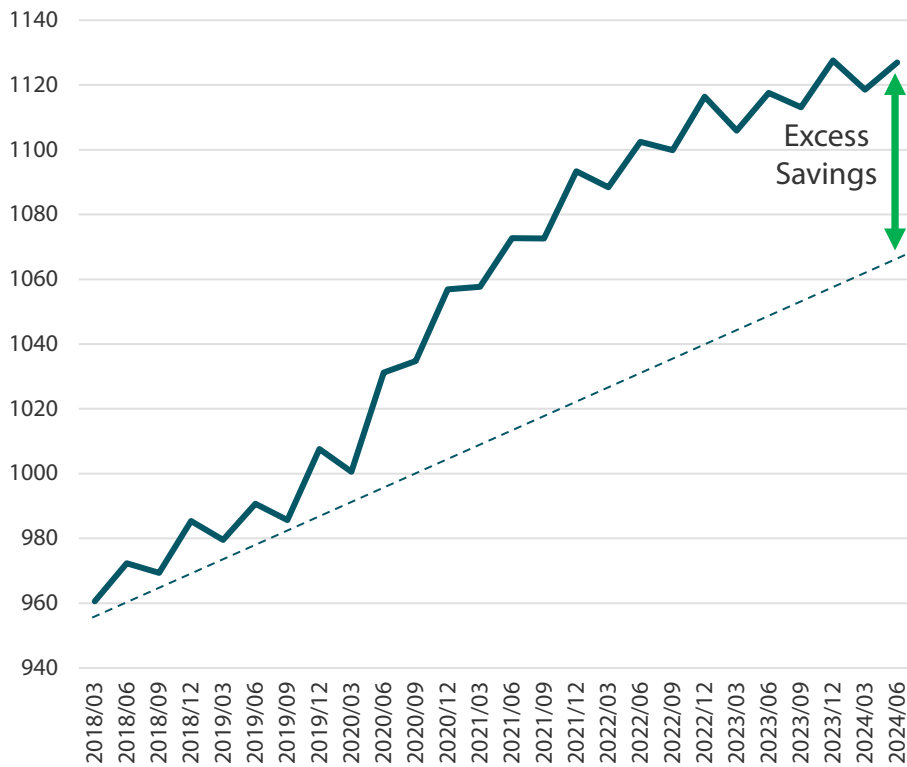
PENT-UP DEMAND AND THE HIGHEST WAGE HIKE IN DECADES

Forced Savings and Higher Wages

Forced savings and higher wages to support the economy

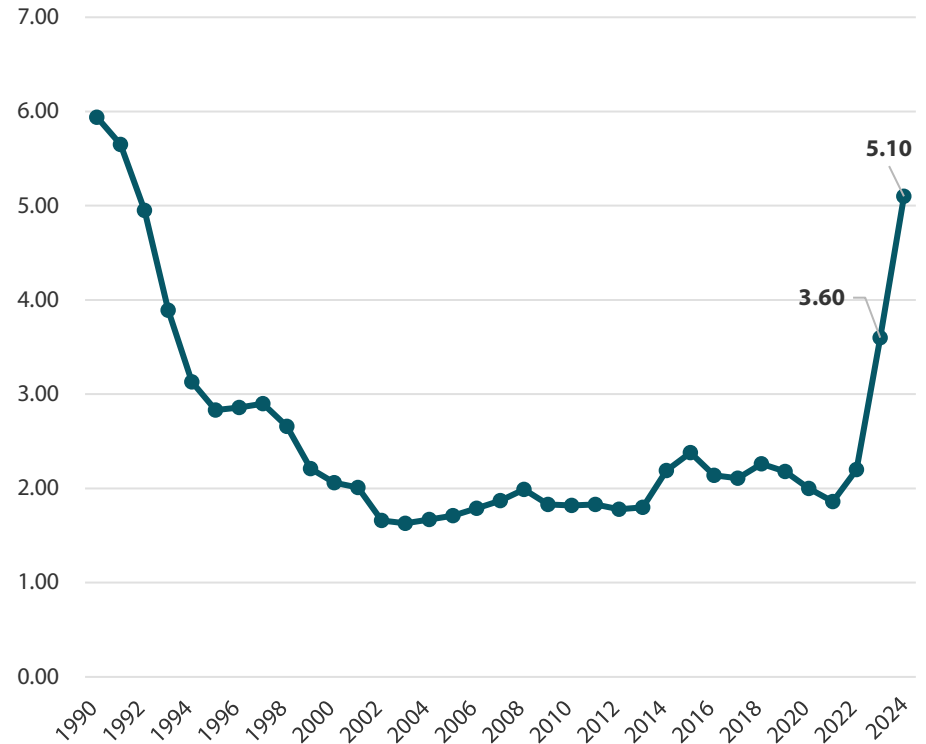
- Forced savings (JPY50+tn) from covid to be unleashed
- Highest wage hike in decades agreed in “Shunto” spring wage negotiations in 2023, gaining momentum in 2024

Household Cash and Deposit (JPYtn)



Source: Bank of Japan as of end-June 2024

%Wage increase in Spring Wage Offensive

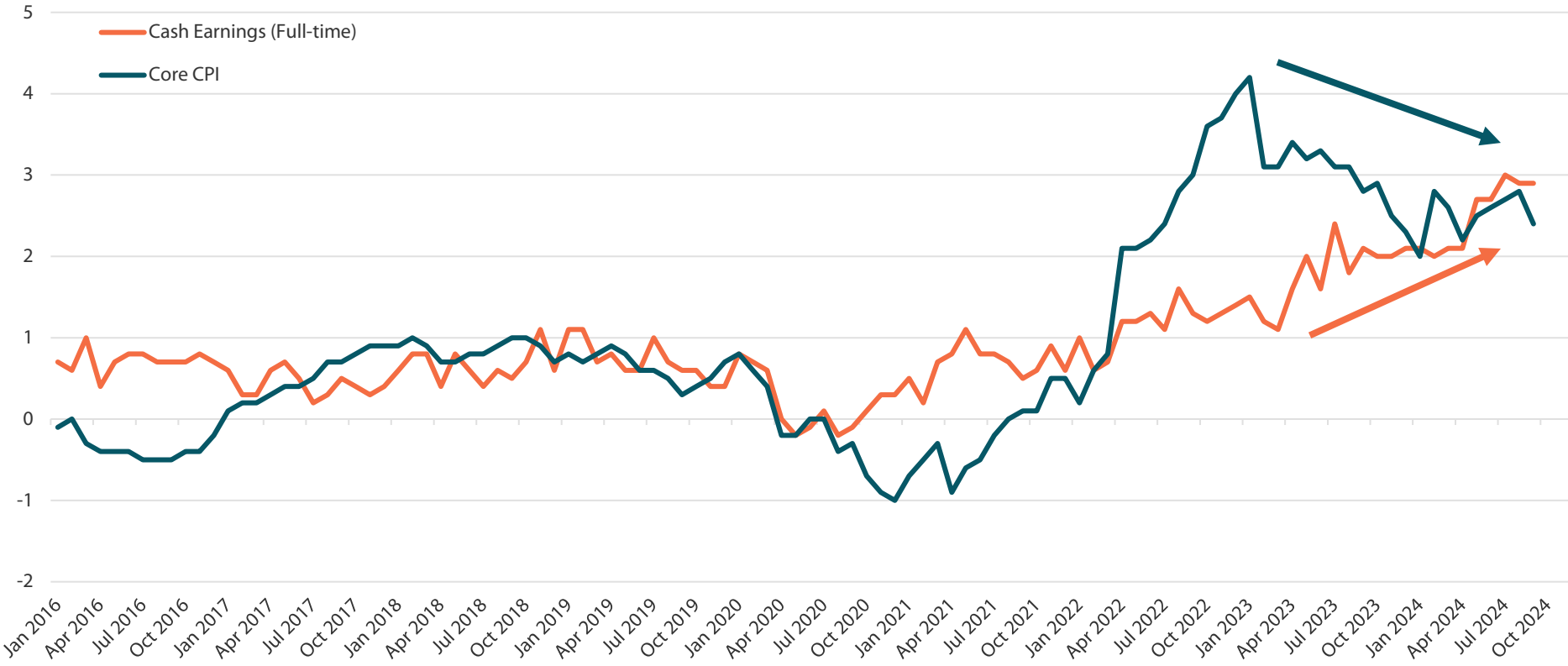


Source: Ministry of Health, Labour and Welfare of Japan and Rengo (for 2024) as of July 3, 2024

Wage growth gaining momentum outpacing inflation

- Wage growth in tandem with lower inflation to lead to widespread real income growth
- Expectation of higher income to result in higher consumer confidence

Cash Earnings vs. Core CPI yoy



* Cash Earnings is based on monthly labour survey (same sample basis) conducted by the Ministry of Health, Labour and Welfare

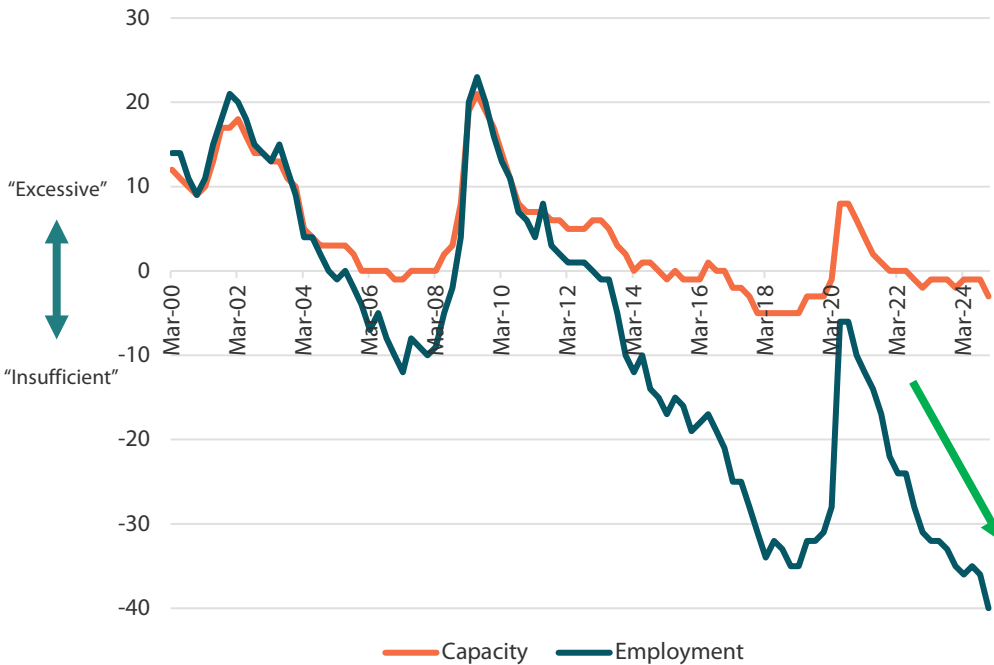
Source: Bloomberg as of November 7, 2024

LABOR SHORTAGE ALSO DRIVING CAPEX OUTLOOK

Capex to rise as labour shortage deepens

- Labor shortage amid declining working age population to continue to drive wages higher
- Capex is also expected to rise to substitute for labour

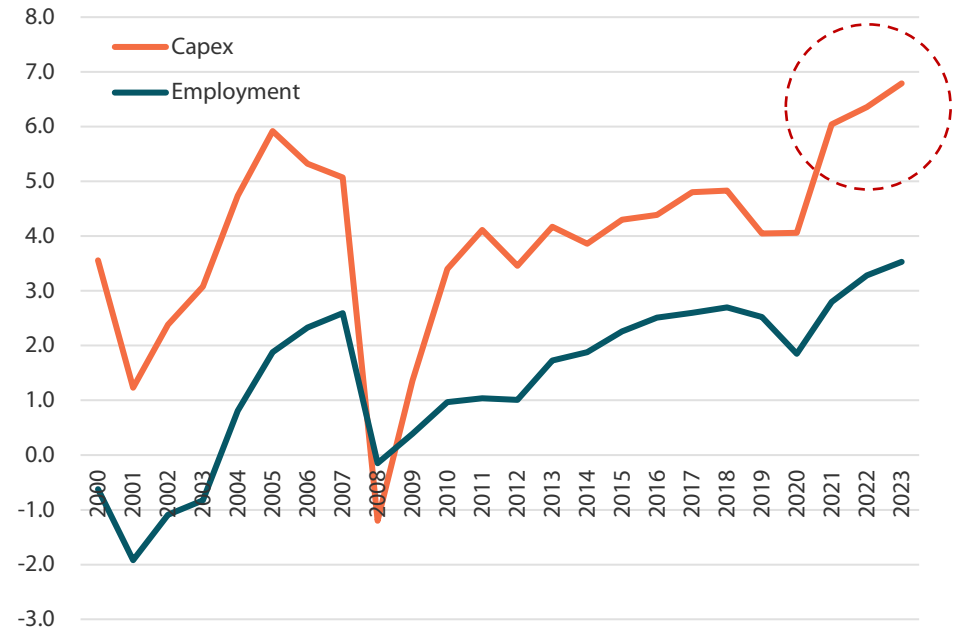
BOJ Tankan Survey All Industries DI



* December 2024 number is outlook provided in the survey

Source: Bloomberg as of October 1, 2024

Growth Outlook for the next 3yrs



Source: Cabinet Office Survey as of February 2024

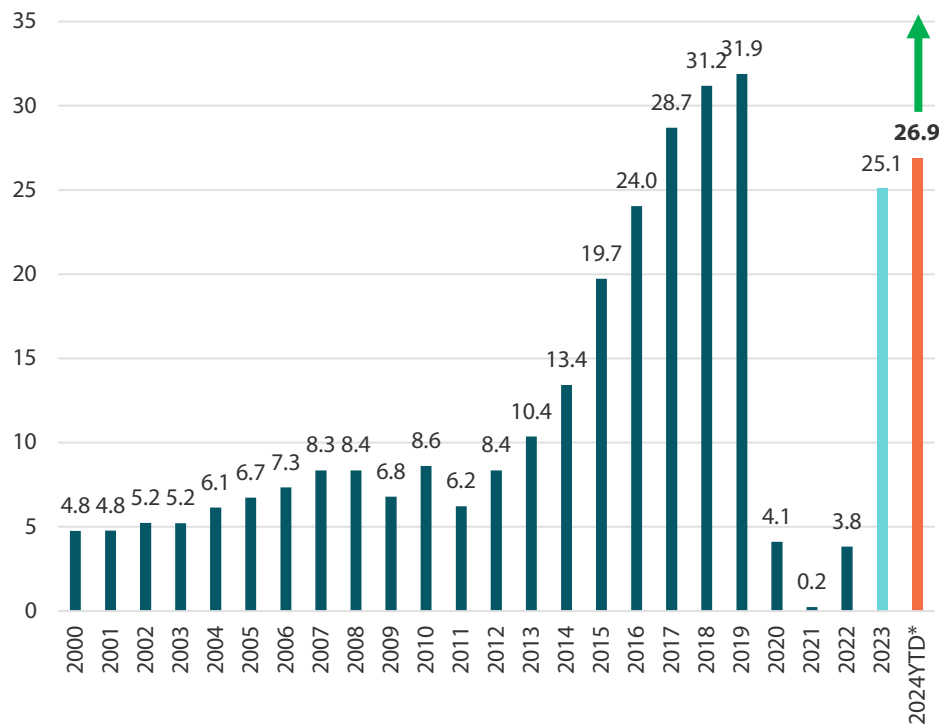
INBOUND TOURISM GAINING MOMENTUM

#Inbound Tourists and Tourism Spending

Inbound tourism rebounded in 2023 and continues to grow

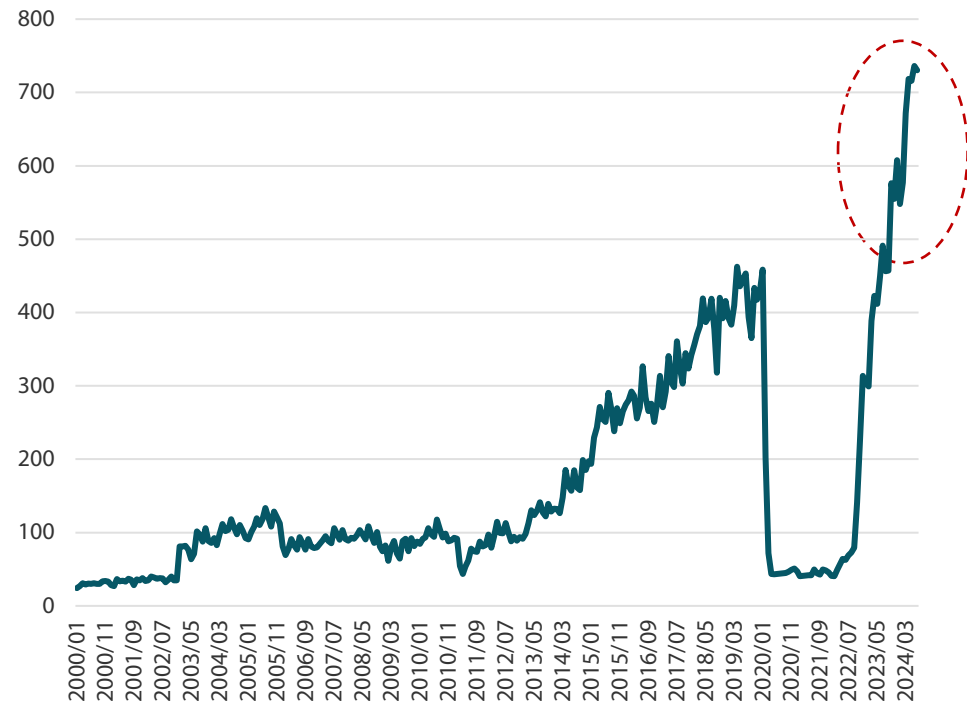
- Spending by inbound tourists was JPY4.8tn in 2019 (0.9% of GDP)
- Gov't lifted all covid-related border control measures in April 2023
- Yen weakness driving further growth in #tourists and spend per tourist

Number of Inbound Tourists (mn)



Source: Japan National Tourism Organization (JNTO) as of October 16, 2024
 * 2024YTD is through September

Monthly Inbound Tourism Spending (JPYbn)

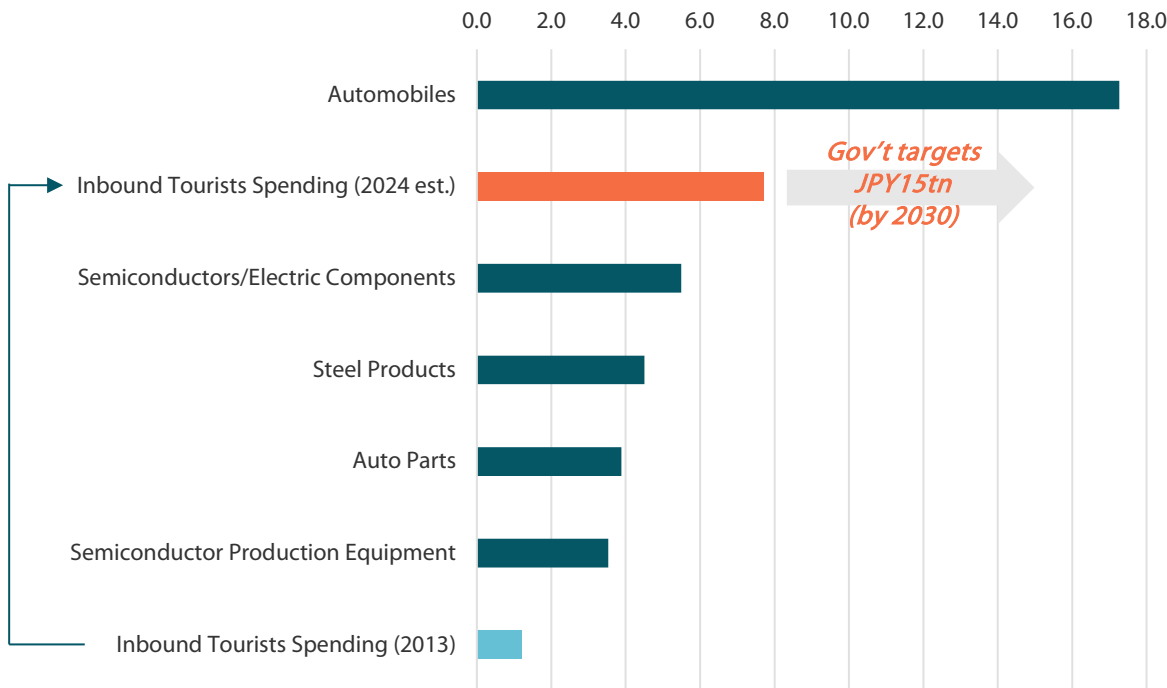


Source: Bank of Japan as of end-July 2024

Further growth in tourism spending to drive the economy

- Japanese government targets 60 million visitors with JPY15tn in spending by 2030
- Japan is further leveraging its assets to invite more tourists

Inbound Tourists Spending vs. Major Export Products (JPYtn)



Source: Nikko AM based on data from Cabinet Office, Ministry of Land, Infrastructure, Transport and Tourism and Ministry of Finance Trade Statistics

World Economic Forum Travel & Tourism Index 2024 Overall Ranking

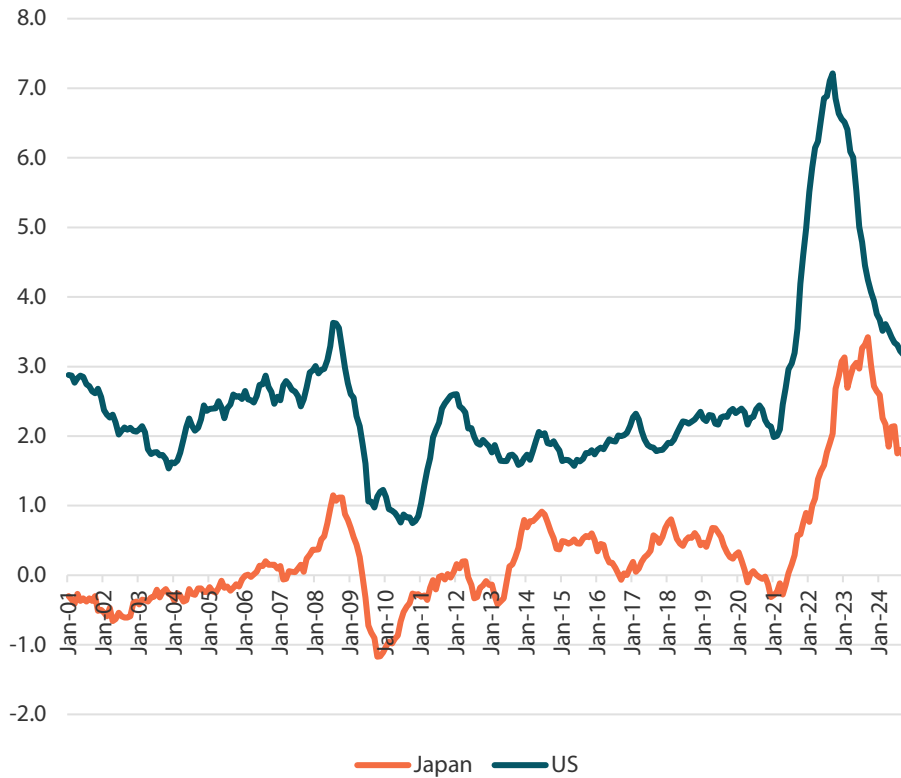
Rank	Economy	Score ²
1	United States	5.24
2	Spain	5.18
3	Japan	5.09
4	France	5.07
5	Australia	5.00
6	Germany	5.00
7	United Kingdom	4.96
8	China	4.94
9	Italy	4.90
10	Switzerland	4.81
11	Canada	4.81
12	Portugal	4.78
13	Singapore	4.76
14	Korea, Rep.	4.74
15	Austria	4.65
16	Netherlands	4.64
17	Denmark	4.63
18	United Arab Emirates	4.62
19	Sweden	4.57
20	Finland	4.52

Source: World Economic Forum Travel & Tourism Development Index 2024 Insight Report May 2024

Inflation and Policy Rates

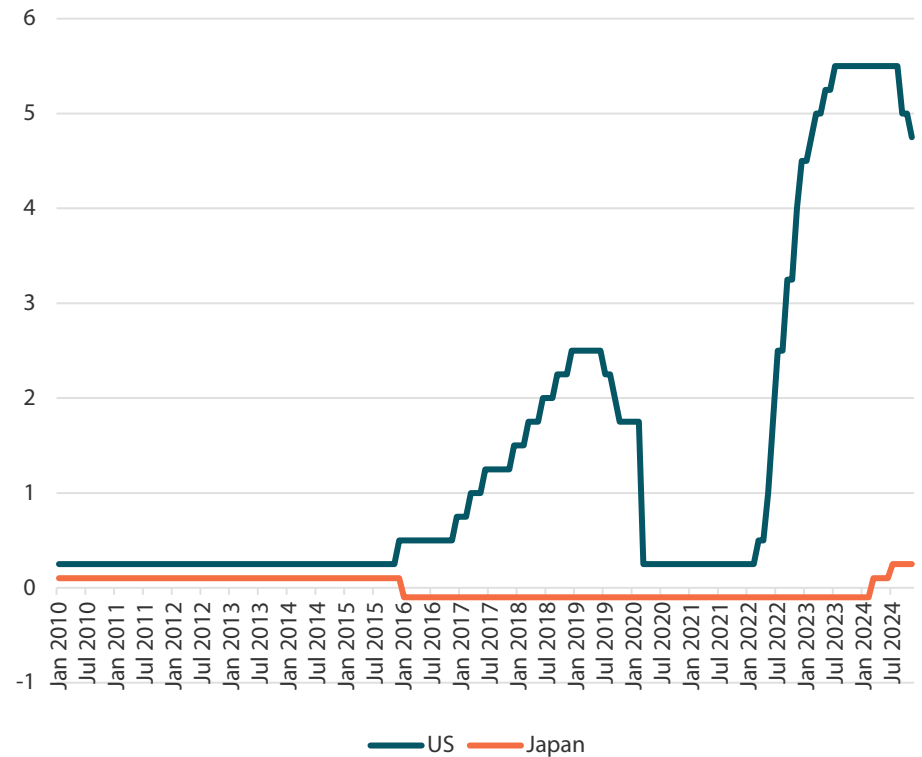
- Fed had been aggressive in hiking rates since March 2022 but started to reverse course
- On the other hand, BOJ finally removed its negative interest rate policy in March 2024 and subsequently hiked rates in July 2024

Trimmed-Mean CPI yoy% change



Source: Bank of Japan, Federal Reserve Bank of Cleveland as of end-September 2024

Policy Rates in Japan vs. US

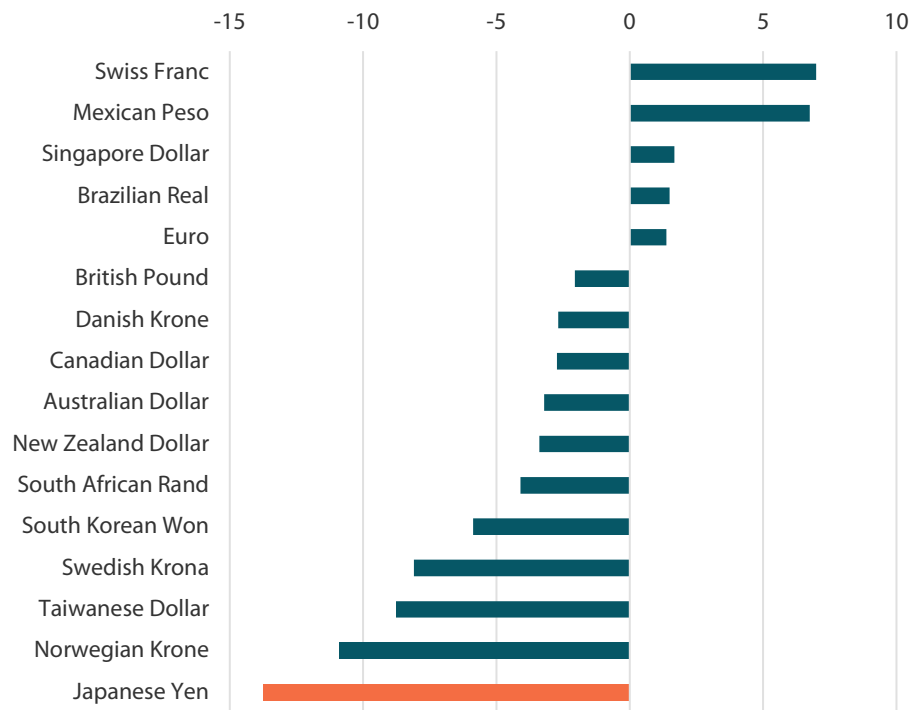


Source: Bloomberg as of November 8, 2024

Weakness in Japanese Yen

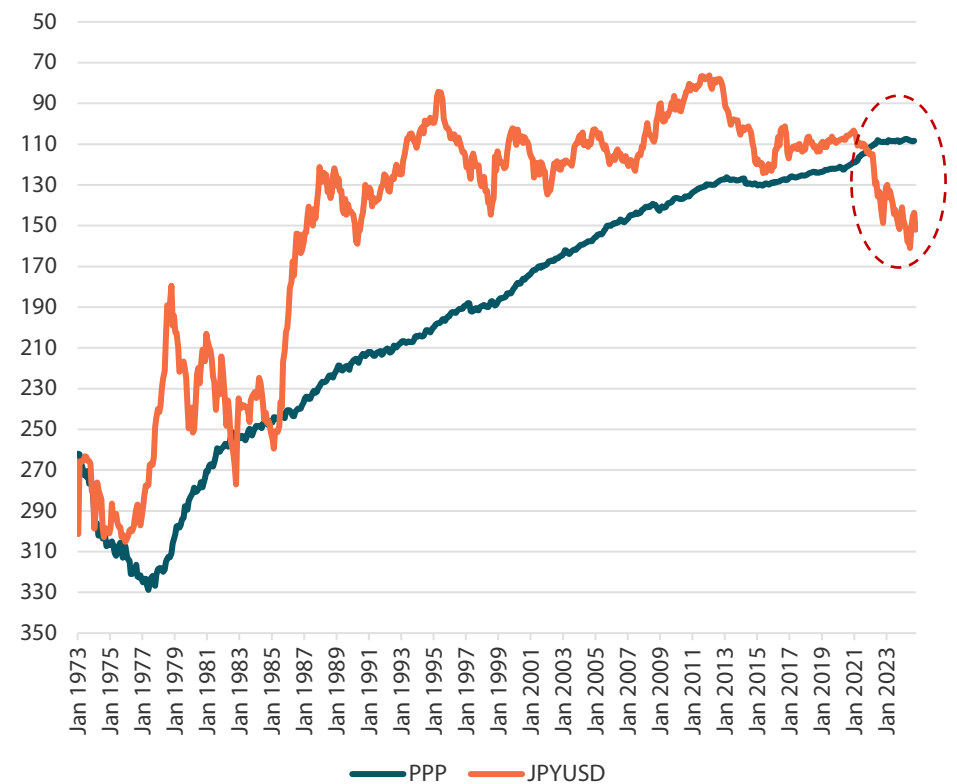
- Japanese Yen showed the largest depreciation among all major currencies since January 2022
- As of end-October 2024, JPY is 29% lower than the level PPP dictates

Major Currency Returns% (Jan 2022-Oct 2024)



Source: Bloomberg as of end-October 2024

JPYUSD vs. PPP



Source: Institute for International Monetary Affairs, Bloomberg as of end-October 2024

Past Performance is not a reliable indicator of future results.

The 2023 guidance by TSE driving companies to improve corporate governance practices

— TSE calls for actions to focus on cost of capital and stock price which involves:

1. Analysis of Current Situation
2. Planning & Disclosure
3. Implementation of Initiatives



Source: Tokyo Stock Exchange

Key Events

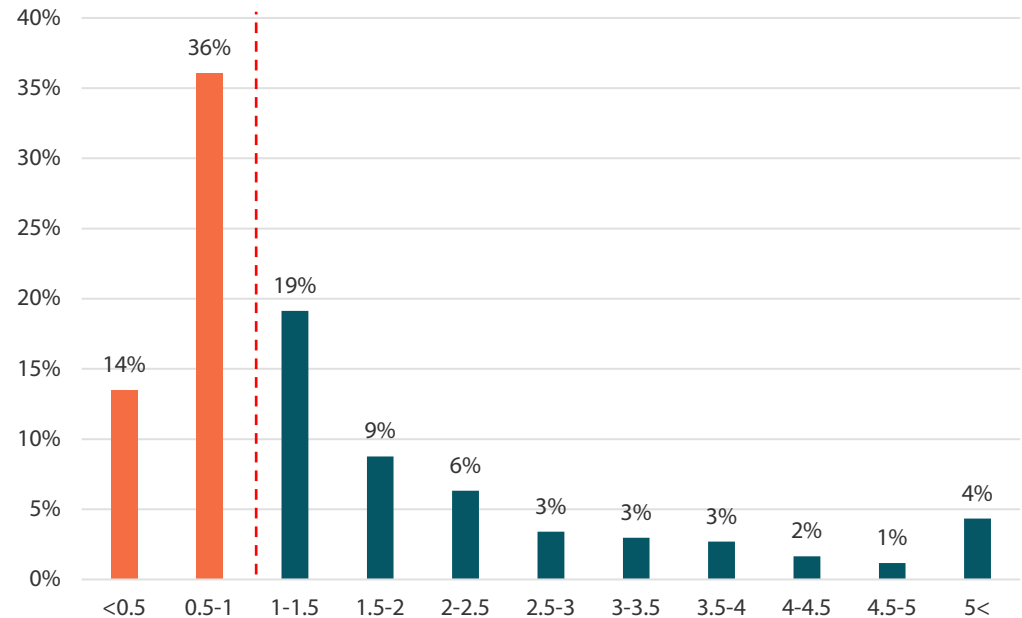
2014 Introduction of Stewardship Code

2015 Introduction of Corporate Governance Code

2022 Tokyo Stock Exchange market reform

2023 Tokyo Stock Exchange calls for further actions to focus on enhancing shareholder value

Distribution of Companies with respect to P/B



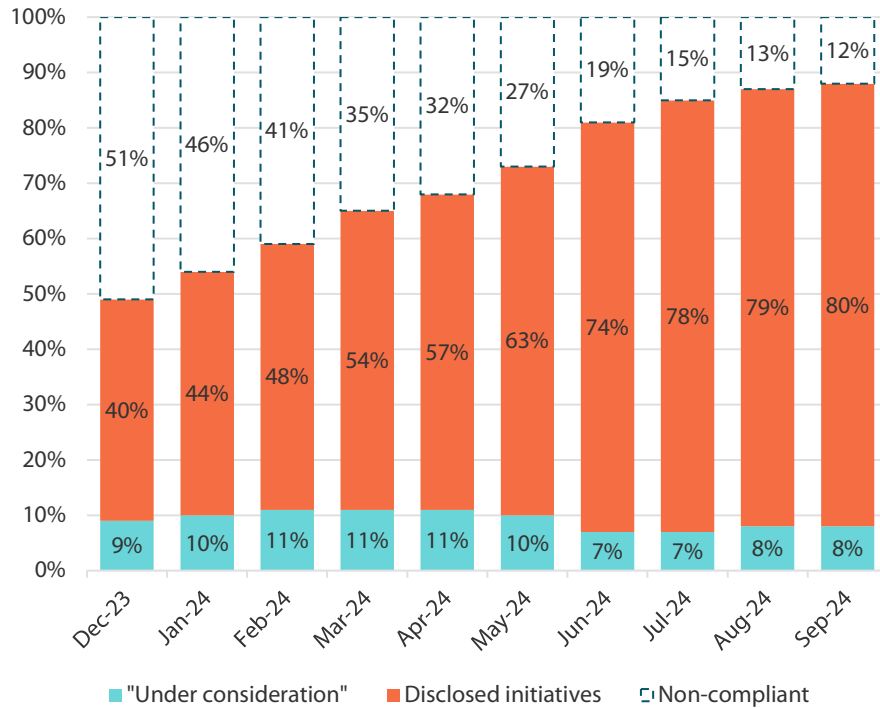
Source: Bloomberg as of end-October 2024

TSE GETS TOUGHER IN ADDRESSING CAPITAL EFFICIENCY

2024 – “Naming and Shaming”

- TSE started publishing a list of companies complying/not complying with the initiatives from **January 2024**
- Best practices are also compiled and shared with companies to help improve financial strategies
- Most companies have responded to TSE’s request and will be implementing their plans

Compliance Status to TSE's request



Source: Tokyo Stock Exchange as of end-September 2024

TSE’s compliance list

List of Companies that Have Disclosed Information in Accordance with “Action to Implement Management that is Conscious of Cost of Capital and Stock Price”

As of September 30, 2024

Sector code	Sector	Market segment	Securities code	Company name	Disclosure status in compliance with the request	Change in disclosure status from last month	English disclosure
50	Fishery, Agriculture and Forestry	Prime	1301	KYOKUYO CO.,LTD.	Under consideration		
50	Fishery, Agriculture and Forestry	Prime	1332	Nissui Corporation	Disclosed		Available
50	Fishery, Agriculture and Forestry	Prime	1333	Maruha Nichiro Corporation	Disclosed		
50	Fishery, Agriculture and Forestry	Prime	1375	YUKIGUNI MAITAKE CO.,LTD.	Disclosed		Available
50	Fishery, Agriculture and Forestry	Prime	1377	SAKATA SEED CORPORATION	Disclosed		Available
50	Fishery, Agriculture and Forestry	Prime	1379	HOKUTO CORPORATION	Disclosed		
50	Fishery, Agriculture and Forestry	Standard	1384	Hokuryo Co.,Ltd.	Disclosed		
1050	Mining	Prime	1515	Nittetsu Mining Co.,Ltd.	Disclosed		Available
1050	Mining	Prime	1518	MIITSUI MATSUSHIMA HOLDINGS CO.,LTD.	Disclosed		Available
1050	Mining	Prime	1605	INPEX CORPORATION	Disclosed		Available
1050	Mining	Prime	1662	Japan Petroleum Exploration Co.,Ltd.	Disclosed		Available
1050	Mining	Prime	1663	K&O Energy Group Inc.	Disclosed		
1050	Mining	Standard	1514	Sumiseki Holdings,Inc.	Disclosed		
2050	Construction	Prime	1414	SHO-BOND Holdings Co.,Ltd.	Disclosed	From unlisted to "disclosed"	Available
2050	Construction	Prime	1417	MIRAIT ONE Corporation	Disclosed		Available
2050	Construction	Prime	1419	Tama Home Co.,Ltd.	Disclosed		
2050	Construction	Prime	1429	Nippon Aqua Co.,Ltd.	Disclosed		Available
2050	Construction	Prime	1433	BESTERRA CO.,LTD	Disclosed		
2050	Construction	Prime	1719	HAZAMA ANDO CORPORATION	Disclosed		
2050	Construction	Prime	1720	TOKYU CONSTRUCTION CO., LTD.	Disclosed		Available
2050	Construction	Prime	1721	COMSYS Holdings Corporation	Disclosed		Available
2050	Construction	Prime	1726	Br. Holdings Corporation	Disclosed		
2050	Construction	Prime	1762	TAKAMATSU CONSTRUCTION GROUP CO.,LTD.	Disclosed		
2050	Construction	Prime	1786	Oriental Shiraishi Corporation	Disclosed		

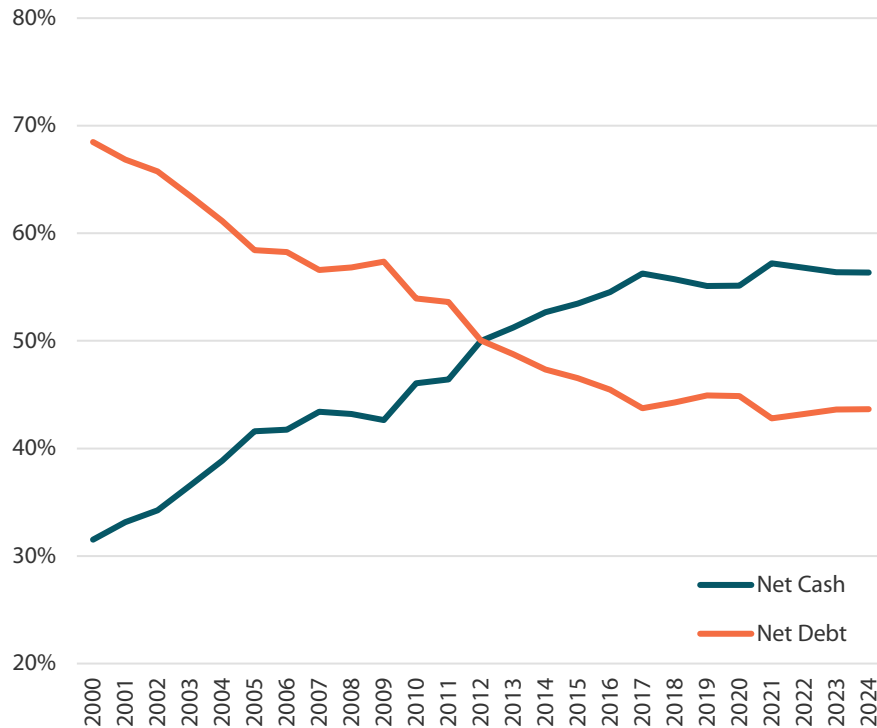
Source: Tokyo Stock Exchange as of end-September 2024

Reference to individual stocks is for illustration purpose only and does not guarantee their continued inclusion in the strategy's portfolio, nor constitute a recommendation to buy or sell.

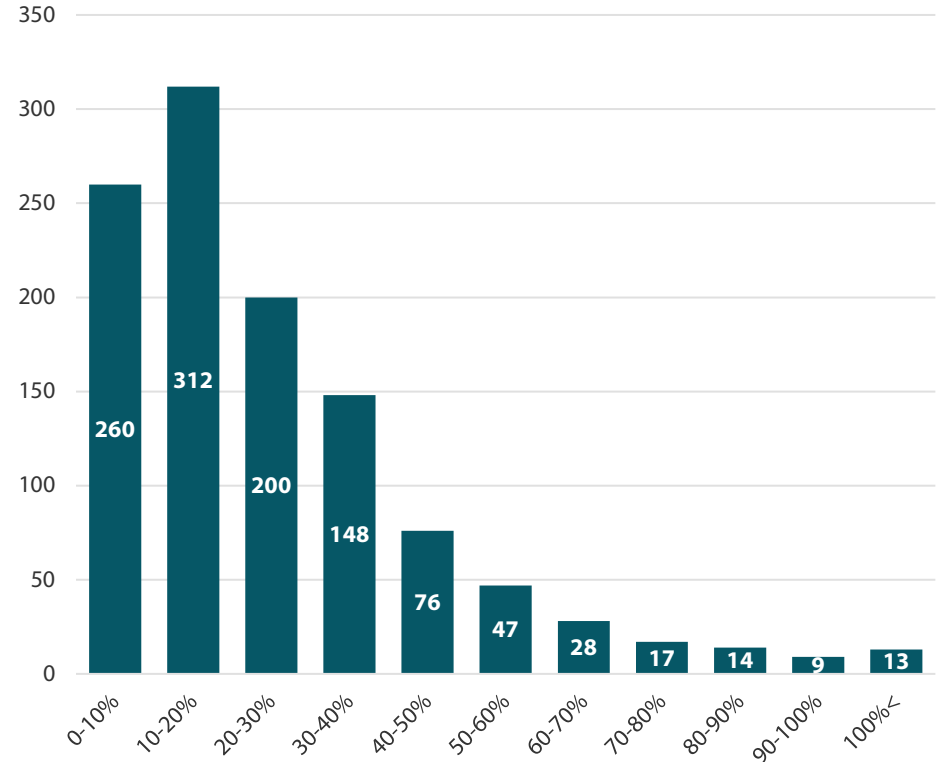
Majority of companies in Japan are net-cash positive

- Over the past 2 decades, companies with net cash has nearly doubled
- Companies have continued to hoard cash post-GFC and many companies currently own significant amounts relative to their market cap

%Net Cash vs. %Net Debt companies in Japan



Distribution of net cash companies with respect to Net Cash / Market Cap



* The universe of the analysis is TOPIX excluding financial companies

Source: Nikko AM based on Bloomberg data as of June 2024

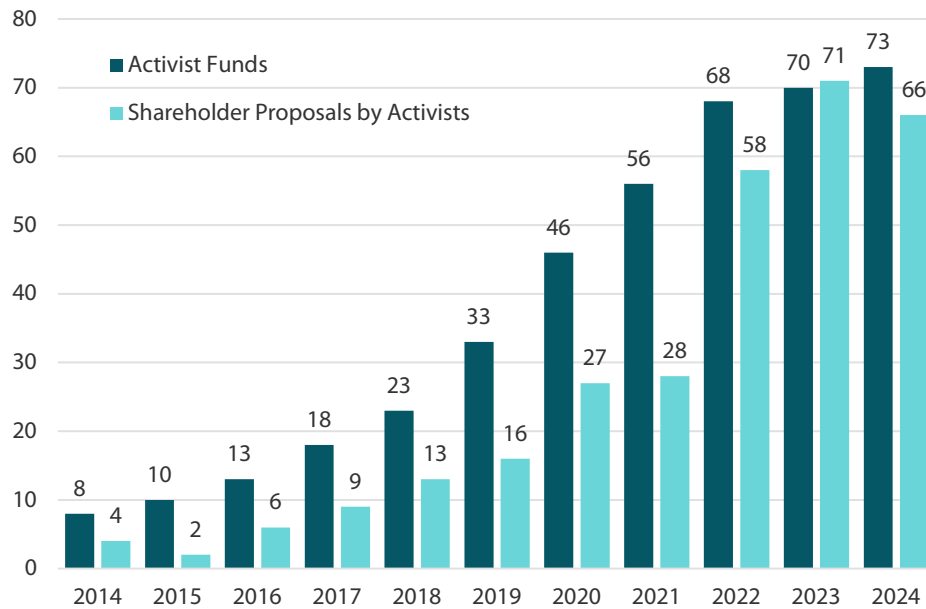
Source: Nikko AM based on Bloomberg data as of June 2024

JAPAN FINALLY READY FOR SHAREHOLDER ENGAGEMENT

Embracing shareholder activism

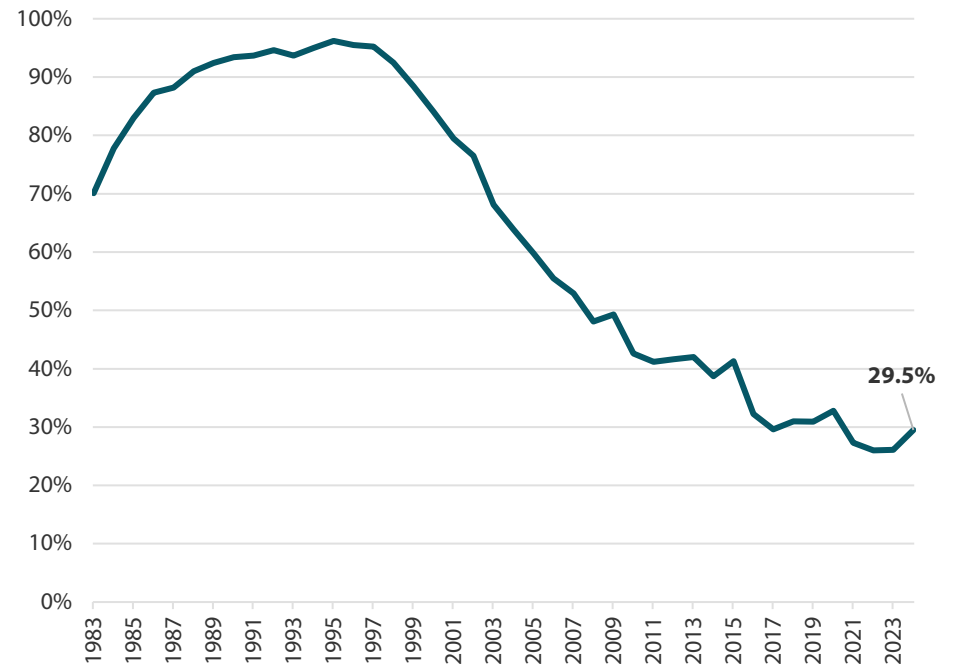
— Number of activists and shareholder proposals more than doubled & quadrupled respectively from 2019 (pre-covid)

Number of Activist Funds & Shareholder Proposals



Source: IR Japan as of November 1, 2024

%Concentration of AGMs for TSE companies

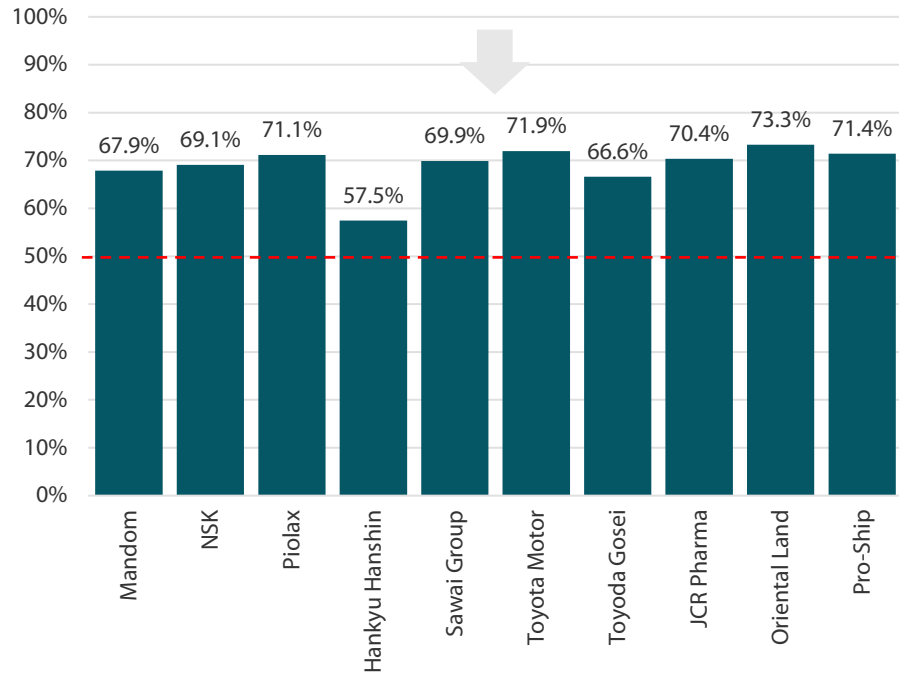


Source: Tokyo Stock Exchange as of June 10, 2024

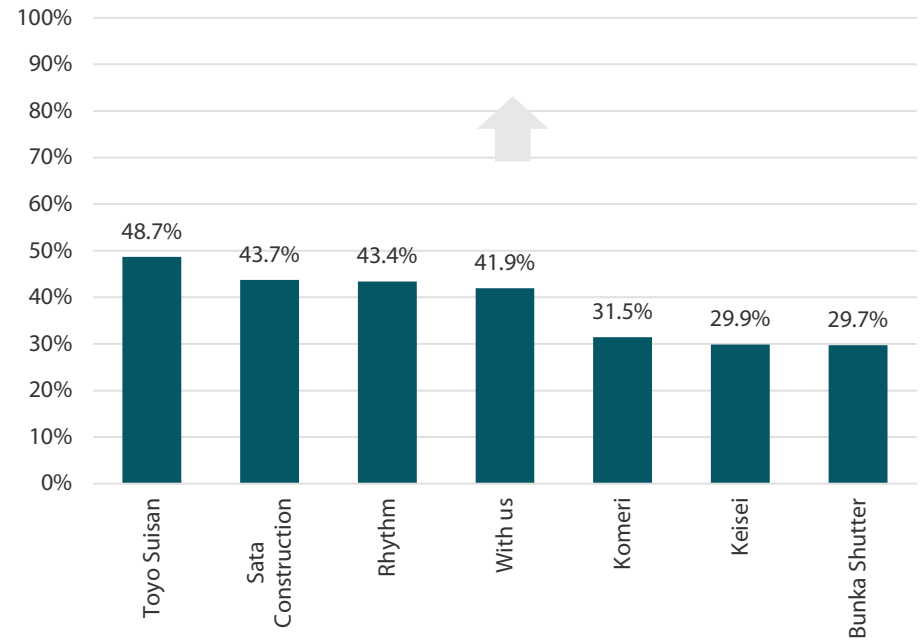
More pressure from vocal shareholders at 2024 AGMs

- Lower support for re-election of board members when companies are facing issues
- Certain shareholder proposals are increasingly getting support from both institutional & individual shareholders
- Some shareholder proposals were withdrawn after companies proactively addressed the issues

Mgmt proposed agendas: %Votes For



Shareholders proposed agendas: %Votes For



Agendas

Capital Efficiency

Scandal

Outside Director

Diversity

Capital Efficiency

Dividend Hike

Corporate Governance

Idle Assets

Cross-shareholdings

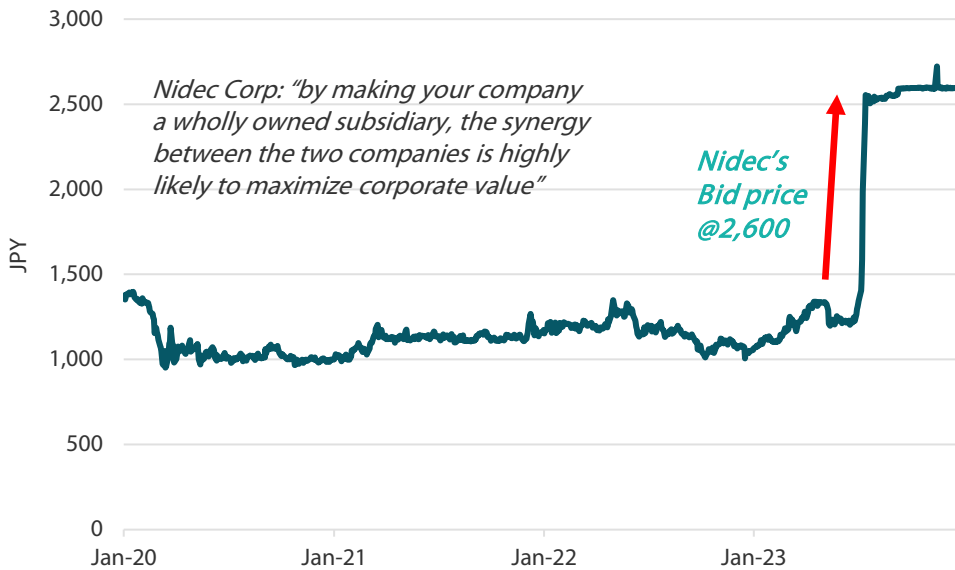
Source: Nikko AM based on Nikkei

Source: Nikko AM based on Nikkei

Unsolicited offers serve as catalyst to unlock value

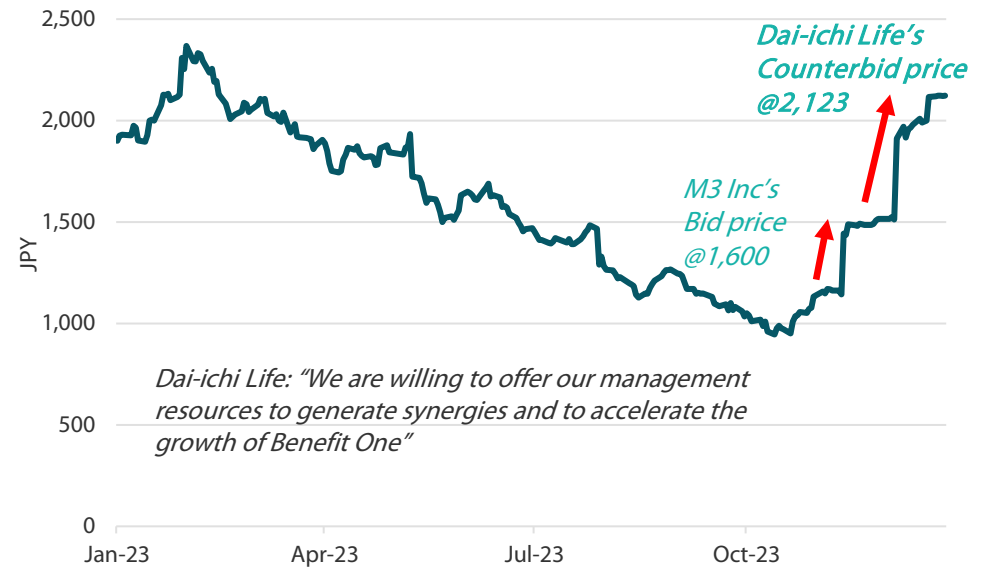
- In August 2023, METI (Ministry of Economy, Trade and Industry) announced best practice guidelines for corporate takeovers, effectively forcing companies to consider any “bona fide” offers
- In late 2023, two established Japanese companies made moves to go ahead with takeover bids “without consent”
- The target companies’ stock prices shown below:

Takisawa Machine Tool Stock Price



Source: Nidec and Bloomberg as of end-December 2023

Benefit One Stock Price



Source: Dai-ichi Life and Bloomberg as of end-December 2023

Past Performance is not a reliable indicator of future results.

Reference to individual stocks is for illustration purpose only and does not guarantee their continued inclusion in the strategy’s portfolio, nor constitute a recommendation to buy or sell.

PRIVATE EQUITY GIANTS ARE ALSO EYEING DEALS IN JAPAN

Private Equity firms increasing its commitment to Japan for the long term

- Many Japanese firms have room for operational improvements which creates opportunities
- PE firms can drive earnings growth by capital expenditure and disposal of non-core businesses etc.

Blackstone aims for 1.5tn yen (\$9.6bn) in deals in Japan through 2027



On par with total investments since 2007

Bain Capital to invest more than 5tn yen in the 5 years through FY2029



Roughly double its tally for the preceding 5 years

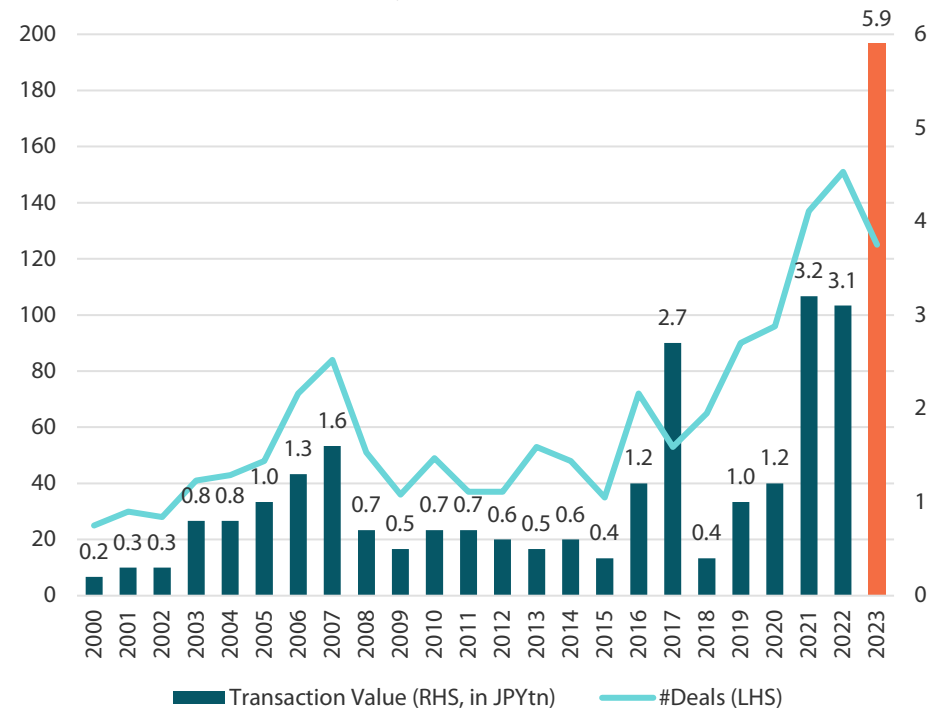
Carlyle Group in May wrapped up fundraising for a new Japan-focused fund



With 430bn yen in capital, it is roughly 70% larger than its last fund

Source: Nikko AM based on Nikkei as of June 11, 2024

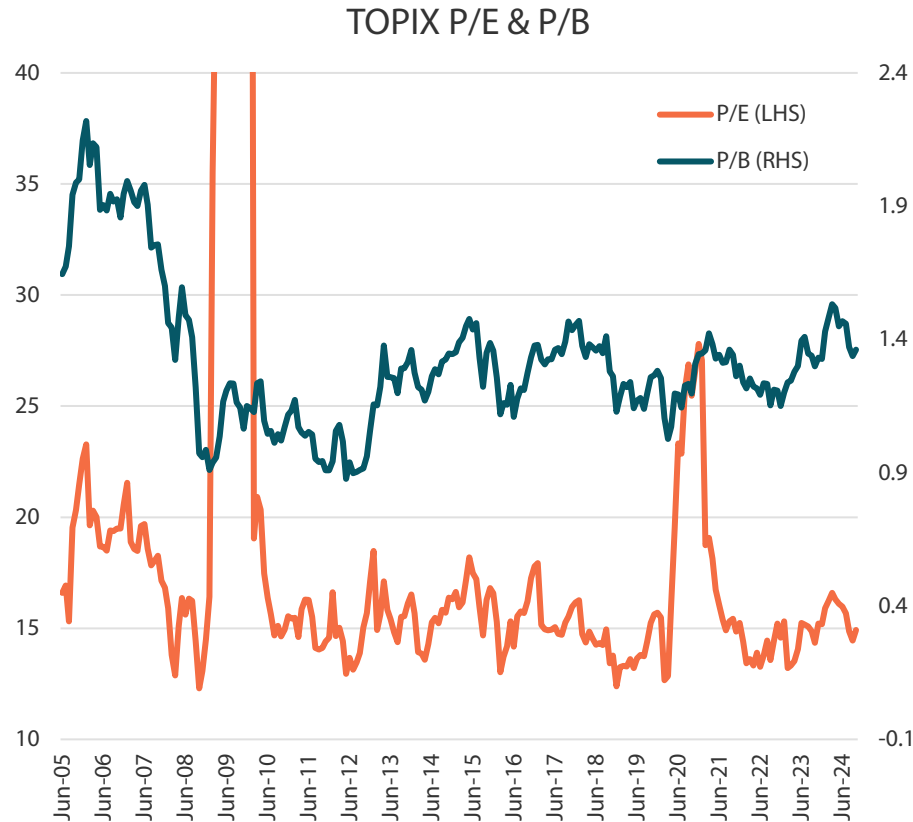
Private Equity transactions in Japan



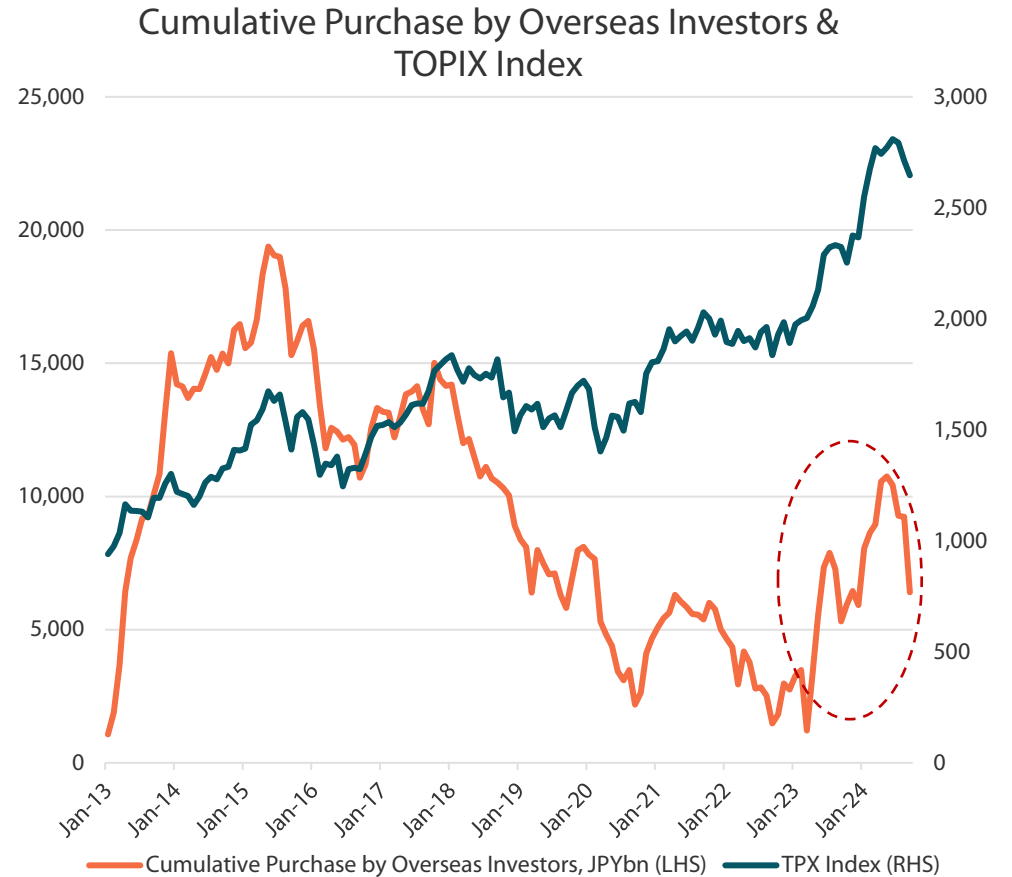
Source: AVCJ, Japan Private Equity Association

Valuations still reasonable

- P/E and P/B still trading within historical range
- Overseas investors have only partially rebuilt positions in Japan



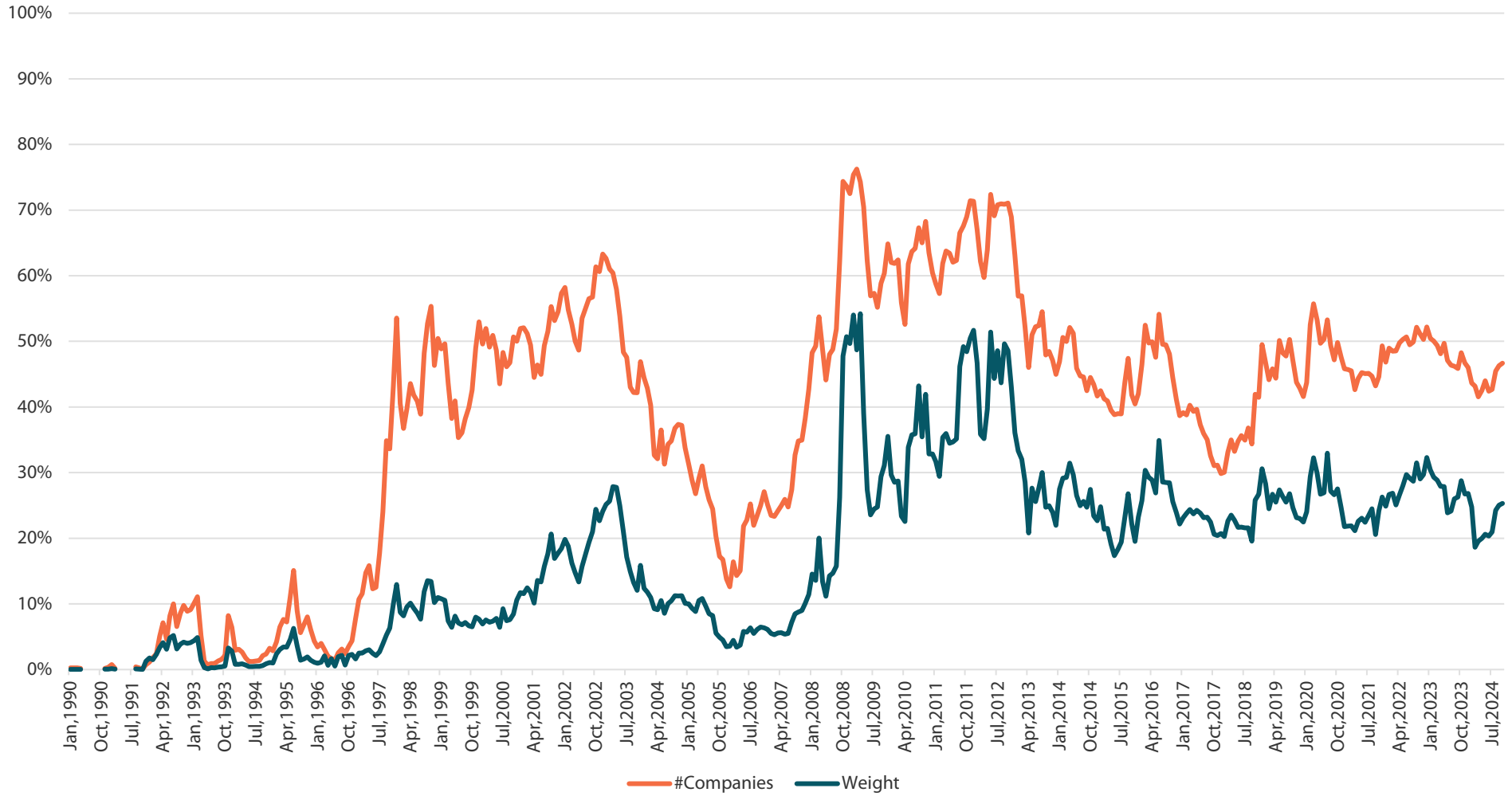
Source: Bloomberg as of end-October 2024



Source: Tokyo Stock Exchange, Bloomberg as of end-September 2024

MANY COMPANIES STILL TRADING BELOW BOOK VALUE

%TOPIX companies trading below book value



Source: Toyo Keizai as of end-October 2024

MANY VALUE STOCKS STILL TRADING AT A DISCOUNT TO BOOK VALUE

More value to be unlocked in 2025

- Despite the strong rally in the overall market since 2023, many value stocks continue to trade below book value
- In particular, small/mid cap value stocks have much room to move higher as the rally broadens out

end-Dec 2022

	Large	Mid	Small	Total
Value	0.80x	0.73x	0.66x	0.77x
Growth	2.31x	2.36x	2.45x	2.32x
Total	1.22x	1.09x	0.93x	1.16x



end-Oct 2024

	Large	Mid	Small	Total
Value	0.92x	0.87x	0.79x	0.90x
Growth	2.51x	2.38x	2.35x	2.50x
Total	1.41x	1.21x	1.06x	1.35x

Source: Russell/Nomura Japan Indexes, Nomura Fiduciary Research & Consulting

The strategy seeks to deliver superior performance by identifying undervalued companies that are expected to undergo change, and investing in them over the long term

Philosophy

- Japanese stock markets are underpinned by the country's mature economic foundation. It is highly cyclical and tends to exhibit repeating patterns. This is why we believe consistent and thorough application of a contrarian value-oriented investment approach is more effective in delivering stable excess returns than a momentum-driven approach.

Key Metrics

- Benchmark : TOPIX Total Return Index
- Investment Target : Approx. 3% p.a. excess return over mid to long term
- Tracking Error : Approx. 4% p.a. (target)
- No. of Positions : Approx. 80-100
- Strategy AUM* : USD 5.85 billion

Investment Approach

- Seeks to achieve high returns by applying a contrarian approach in order to uncover undervalued companies that are expected to undergo change, and investing in them over the long term
- Determines whether poor stock performance is due to a structural or cyclical issue; superior performance can be achieved by making long term investments in stocks that are underperforming due to structural issues, but possess a turnaround catalyst

*Strategy AUM includes assets of similar mandates managed by the team that employ the same process and philosophy but are not included in the composite. The AUM of the composite is USD 3.53 billion. This is provided as supplementary information to the performance report prepared and presented in compliance with Global Investment Performance Standards (GIPS®).

Portfolio Managers



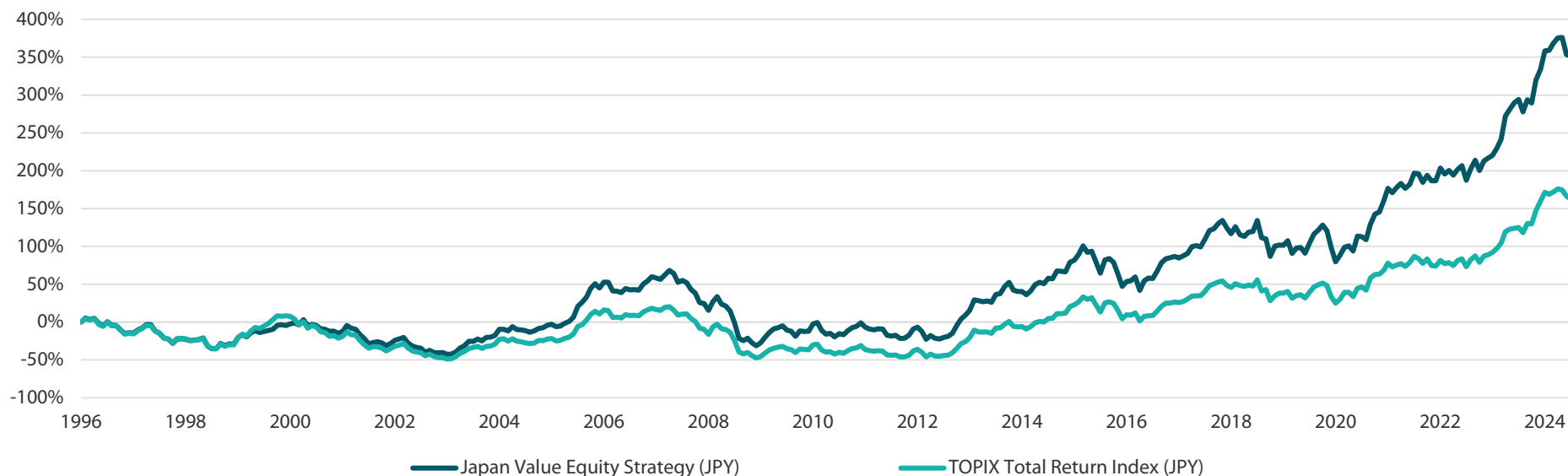
Takaaki Harashima



Shinya Takada

JAPAN VALUE EQUITY STRATEGY (FUNDAMENTAL VALUE)

Cumulative performance since inception



	1 Year	3 Years	5 Years	7 Years	10 Years	Since Inception
Annualised Active Return (JPY, %)	-2.01	3.02	3.69	2.28	1.46	1.99

	YTD										
Annual Gross Returns (CY, JPY, %)	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Japan Value Equity Strategy	15.92	29.71	2.24	20.98	6.42	22.21	-18.83	25.26	2.59	6.98	9.70
TOPIX Total Return Index	14.25	28.26	-2.45	12.74	7.39	18.12	-15.97	22.23	0.31	12.06	10.27
Excess Return	1.67	1.45	4.70	8.24	-0.97	4.10	-2.86	3.03	2.28	-5.08	-0.57

Returns are based on Nikko AM Global's (hereafter referred to as the "Firm") Japan Equity Value composite returns. The Firm claims compliance with the Global Investment Performance Standards (GIPS®). Returns are Japanese Yen based and are calculated gross of advisory and management fees, custodial fees and withholding taxes, but are net of transaction costs and include reinvestment of dividends and interest. The benchmark for this composite is TOPIX Total Return Index. The copyright and intellectual rights to the index displayed above are the sole property of the index provider. Returns for calculation periods in excess of one year are annualised, but those for the periods of less than one year are not annualised. Numbers in the table may not sum to total due to rounding. Past performance does not guarantee future returns. GIPS is a registered trademark of the CFA Institute. To obtain a GIPS Composite Report, please contact GIPS_inquiry@nikkoam.com. Composite inception date: 1 April 1996.

Source Nikko AM; TOPIX Total Return Index data from JPX Market Innovation & Research, Inc.

Higher returns can be achieved by investing in undervalued ‘cash-rich’ companies

Focus on whether liquid reserves can be used effectively towards growth and enhance shareholder returns

Philosophy

- Undervalued companies with significant cash reserves (so called ‘cash-rich companies’) are a source of higher returns
- Companies with large cash positions are likely to become acquisition targets and take active approach to enhancing shareholder returns (e.g. via dividends); such firms also may switch to more aggressive management strategies and invest in future growth

Key Metrics

- Benchmark : None (reference: TOPIX Total Return Index)
- Investment Target : 5% p.a.
- Tracking Error : Ex-post TE of approx. 7% p.a. vs the reference benchmark
- No. of Positions : Approx. 100-130
- Composite AUM : USD 373 million

Investment Approach

- Primarily invests in ‘cash-rich’ companies
- Selects companies with a high probability of achieving earnings recovery, maintaining growth, or changing their capital policies
- Focuses on undervalued and mid- and small-cap stocks
- Results in low correlation with conventional Japanese equity investment strategies

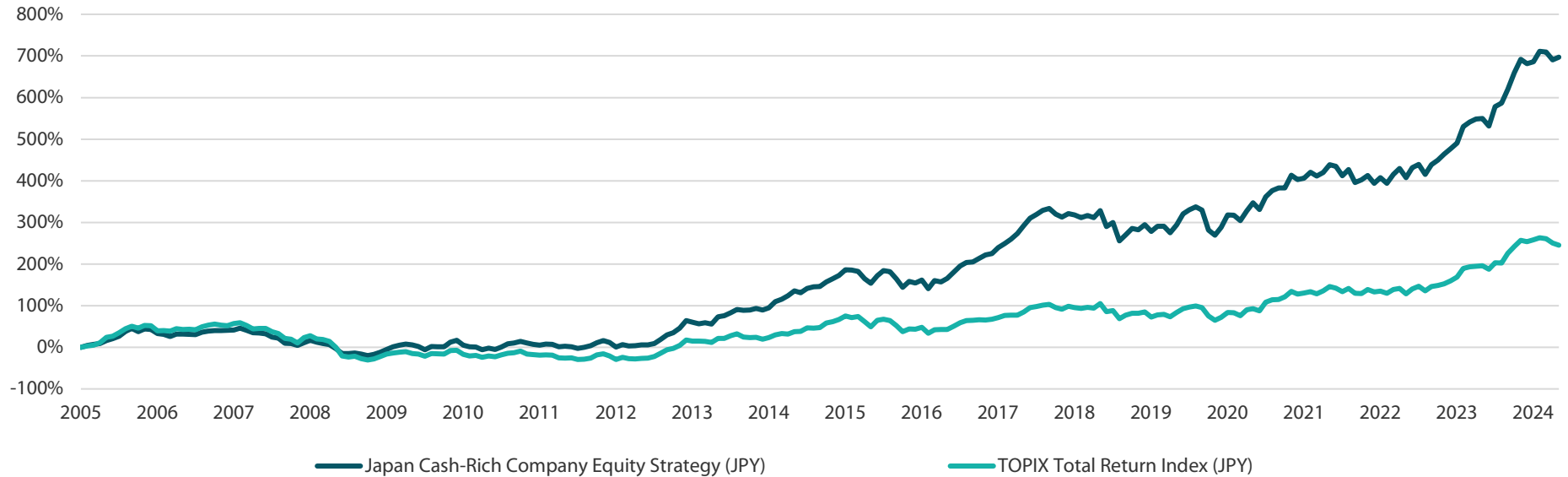
Portfolio Manager Profile: Yu Sato



Yu Sato joined Nikko AM as an analyst and portfolio manager in the Research Active Management team in 2015. He served as back-up portfolio manager for the Japan Active Value Equity Strategy and the Japan Cash-Rich Company Equity Strategy from May 2021 until February 2023, when he took on the role of co-lead manager of both strategies. Since July 2024, he has served as lead manager for both strategies. Prior to joining Nikko AM, he worked as a research analyst at Asahi Life Asset Management. He began his career in 2010 with auditing firm PricewaterhouseCoopers Aarata where his duties included fund auditing. He holds a B.A. in Commerce from Hitotsubashi University and is a Certified Member Analyst of the Security Analysts Association of Japan.

JAPAN CASH-RICH COMPANY EQUITY STRATEGY

Cumulative performance since inception



	1 Year	3 Years	5 Years	7 Years	10 Years	Since Inception
Annualised Active Return (JPY, %)	6.16	1.94	1.68	1.33	3.35	4.72

	YTD										
Annual Gross Returns (CY, JPY, %)	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Japan Cash-Rich Company Equity Strategy	16.09	33.21	-2.13	10.60	8.92	22.87	-16.98	41.01	7.93	14.70	28.82
TOPIX Total Return Index	14.25	28.26	-2.45	12.74	7.39	18.12	-15.97	22.23	0.31	12.06	10.27
Excess Return	1.84	4.95	0.32	-2.14	1.54	4.75	-1.01	18.78	7.62	2.64	18.55

Returns are based on Nikko AM Global's (hereafter referred to as the "Firm") Japan Cash-Rich Company Equity composite returns. The Firm claims compliance with the Global Investment Performance Standards (GIPS®). Returns are Japanese Yen based and are calculated gross of advisory and management fees, custodial fees and withholding taxes, but are net of transaction costs and include reinvestment of dividends and interest. The composite has no benchmark; however, for this presentation, TOPIX Total Return Index is used as a reference index. The copyright and intellectual rights to the index displayed above are the sole property of the index provider. Returns for calculation periods in excess of one year are annualised, but those for the periods of less than one year are not annualised. Numbers in the table may not sum to total due to rounding. Past performance does not guarantee future returns. GIPS is a registered trademark of the CFA Institute. To obtain a GIPS Composite Report, please contact GIPS_inquiry@nikkoam.com. Composite inception date: 1 June 2005.

Source Nikko AM; TOPIX Total Return Index data from JPX Market Innovation & Research, Inc.

Your points of contact with Nikko Asset Management



Junichi Takayama, Japan Equity Investment Director

Junichi Takayama joined Nikko Asset Management in 2013 as Investment Director with the Tokyo-based Nikko Asset Management Japan Equity team. In April 2023 he relocated and is now based in London where he acts as a direct conduit for the team's investment process, research, and insights to EMEA-based clients.

Junichi is fluent in Japanese and English, and with over two decades of investment management industry experience in Japan and the US, he has a distinct East to West and West to East view of capital markets. He started his career at Daiwa Securities SMBC (now Daiwa Securities Group) in Tokyo. After spending three years as an investment banking analyst involved in equity capital raising, he moved to California to join Taiyo Pacific Partners, which manages a Japan-focused activist fund in partnership with CalPERS and WL Ross & Co. Having spent four years there, conducting bottom-up fundamental equity research and engaging with Japanese corporate managers, he moved back to Tokyo to join the U.S. asset manager Principal Global Investors as a Japan Equity Analyst and last served as a Japan Equity Portfolio Manager.

Junichi earned his Bachelor of Arts in Economics from the University of Michigan, Ann Arbor and Master of Business Administration with Honours from the University of Chicago Booth School of Business. He is a Chartered Financial Analyst (CFA), Chartered Alternative Investment Analyst (CAIA) and Chartered Member of the Securities Analysts Association of Japan (CMA).



Michael Steiner, Business Development Director, DACH region

Michael joined Nikko Asset Management in June 2018 as Director Business Development and is Branch Manager of our German office in Frankfurt am Main. He has extensive experience working with German-based institutional and intermediary investors.

Prior to Nikko AM he worked in similar roles for German Banks and other international Asset Managers – Citi Group, LGT, Investec and Generali.

Michael is fully conversant with regulatory restrictions, concerning German Spezialfonds, Master KVG structures and MiFID regulation.

Michael Steiner

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Romiet Anand, Sales Support Continental Europe, Frankfurt

Romiet Anand is German national and joined Nikko Asset Management in August 2021.

Romiet is based in Frankfurt and supporting Michael in the DACH region.

Prior to Nikko Asset Management he worked in similar roles for German Banks and other international Asset Managers such as J.P. Morgan, Fidelity International and Amundi Asset Management.

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Nikko AM
Japan Equity



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