



Q4 2020

UBAM - SNAM Japan Equity sustainable

Quarterly Comment | Q4 2020

For Qualified Investors in Switzerland or Professional Investors or Eligible Counterparties as defined by the relevant laws.

Market Comment

- TOPIX (TR) growth for the period from October to December was 11.2%. After a good third quarter, the fourth quarter of 2020 saw a rapid appreciation for Japanese equities particularly in November. The domestic equity market was strong as investors were hopeful for an economic recovery following the successful development of a Covid-19 vaccine. That said, the global increase in case numbers and the new Covid variant weighed on prices.
- In October, the market was pulled up and down by news flow concerning the US presidential election and potential additional stimulus in the US. A risk-off mood then took over because of increasing Covid-19 case numbers in both Europe and the US, leading the market to finish the month down slightly. Successful development of a Covid vaccine was announced in November, pushing up hopes for the economy to return to normal and boosting share prices significantly from mid-month. While December market movements were weighed on by increasing Covid-19 cases in Japan and the discovery of a new strain of the virus in Europe, the market finished the month up on the rollout of vaccinations, agreement in the US on additional stimulus, and the signing of a trade agreement between the UK and the EU.
- In December, the market rose at the beginning of the month because of expectations for a quick rollout of vaccines and better-than-expected machinery orders data. That said, there were moments of weakness because of concern over the global increase in Covid-19 case numbers and short-term overheating in prices.
- Prices largely moved sideways as continued fears of damage to the economy on increasing Covid-19 cases were offset by increased hopes for a recovery on vaccine rollouts in Europe and the US and a sense of relief in the market following the FRB's announcement that it will continue with monetary easing over the long term.

Sources: UBP, Bloomberg Finance LP.



Performance Review

- The portfolio outperformed TOPIX (TR). Asset allocation was negative while stock selection was positive.
- Portfolio overweighting of Health Care and Consumer Staples detracted from performance.
- For individual stock picks, overweighting of SUMCO, Denso, and Kirin Holdings contributed, while overweighting of Sawai Pharmaceutical, SCSK and underweighting of SoftBank Group detracted from performance.
- December was in line with the overall quarter. In sector allocation, main detractors were our overweight in Real Estate and Health Care. In stock selection, our overweight in Denso, Sumitomo Electric Industries, and Komatsu contributed to performance, while our overweight in Mitsubishi Estate and J.Front Retailing and underweight in Toyota Motor detracted. Overall, stock selection contributed positively.

Portfolio Activity

- The portfolio manager constructs the portfolio according to Sampo AM's expected alpha ranking (expected alpha = intrinsic value / market price), a reflection of the team's fundamental analysis, forecasting, and valuation methodology, as well as ESG scores.
- Some names we reduced our portfolio weighting in include NYK Line, Shimadzu Corporation, Daiwa House Industry. Names we increased our weighting in include Kyowa Exeo, Anritsu, Nippon Soda.
- The portfolio was constructed in such a way to be neutrally weighted against our ESG classified sectors (Manufacturing, Consumer/Service, Finance, Public/Infrastructure). As of the end of the quarter, the sectors (GICS 11) the portfolio was overweight in were Information Technology and Consumer Staples. Underweight sectors were Communication Services and Industrials.
- Our incorporation strategy will continue to focus on ESG scores and undervalued names, as determined by our alpha rank measure. We will continue to construct a portfolio with ESG sector neutral weightings and an effective risk/return balance.



Outlook

- The Japanese equity market continued to grow in December. The market has been desensitized to increasing Covid-19 case numbers and has aggressively factored in a return to normal around the globe on the back of the development of a vaccine.
- The current economic recession is unlike those of the past caused by financial crises and popped asset bubbles. This time, it is highly likely the economy will see a rapid rebound, largely pushed by the release of pent-up demand once the vaccine is able to lift restrictions on movement.
- We expect the market to fluctuate around its current level over the short term as stocks no longer look undervalued and macroeconomic indicators are expected to be weak, given increasing Covid-19 case numbers. Over the longer term, we expect market movements to remain strong as global monetary easing leaves ample cash to enter the equity market and investors are basing forecasts on profit levels for FY22, when the Covid-19 situation is expected to be behind us.
- We expect TOPIX could continue to rise in 2021, rising to 1,950 from its 2020-end position of 1,804. We believe that value will once again show promise once stock-picking starts to factor in an end to easy monetary policy in a post-vaccine market and long-term interest rates start a gentle ascent.

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