

Japan market scorecard

Amundi Japan's Yas Iwanaga gives his take on Abenomics and investing in Japan equities



HOPES ran high for the Japanese economy when “Abenomics” was first embarked upon. But after the euphoria in 2013, the Japanese economy slipped into a recession in the third quarter of 2014, due to the impact of a sales tax hike.

Amundi Japan Chief Investment Officer Yas Iwanaga shares his views.

Q: How do you rate the success of the policies so far; how optimistic are you that the policy goals will be achieved?

“Abenomics” has multiple fronts—changing the deflationary

mindset, making progress in fiscal consolidation and resurrecting the economy. My overall rating is a “B plus” for what the Abe administration has implemented so far. The Bank of Japan's (BOJ) extraordinary monetary policy, qualitative and quantitative easing (QQE), was successful in signalling a strong message to the market. The yen has depreciated and contributed to improving corporate earnings, whereas it has not benefited export growth as much as originally anticipated.

The hard part, implementing structural changes, is yet to come. Therefore, the deliverables are mixed, so “Abenomics” deserves a B. Nonetheless, I am positive about it because of the

positive progress made by the developments to revive the Japanese equity market. Hence I add a “plus”.

The government has taken a holistic approach to changing the behaviour of the market stakeholders through multiple channels, with the objective of improving capital efficiency. The message is that Japan Inc must recover its earning power by taking risks to innovate products and reinvent itself in an uncharted territory where it faces a shrinking labour force.

First, the Abe administration supported a new benchmark, the Nikkei JPX400, which incorporates capital efficiency and corporate governance in its construction. Then GPIF, the government pension plan, allocated capital to the index as part of the domestic equity manager restructuring, in which the fund made a significant shift from conventional active strategies to passive and smart beta products. Now, the world's biggest pension fund has made its stand clear about the better use of capital.

Moreover, the government set Japan's stewardship code that urges asset owners and managers to engage with companies that they invest in and to have more dialogue for companies' long-term growth and shareholder value creation. The principles have been adopted by 175 institutional investors.

The other code of conduct, the corporate governance code, will be published in 2015. It is meant to create the right ecosystem for companies with animal spirit by requiring the appointment of at least two independent directors and making the Board of Directors challenge executive decisions objectively from diverse perspectives.

These moves have a profound impact on the economy over the long run. The market stakeholders now use ROE (return on equity) as the common language. Share buy-backs and dividend pay-outs are reaching a record high level. Besides, QQE has created a decline of the real interest rate, which should lead to a “portfolio rebalancing effect”. Slowly but steadily, companies have begun to increase capital expenditure. As this momentum builds up, the economy should achieve better economic growth and hence increase national wealth.

Q: Japan equities have delivered double-digit gains over the past year despite near-term downdrafts. What is your outlook for stock returns over a 12 month view?

Amundi Japan maintains a positive outlook on the Japanese equity market. The combination of an ultra-low or no interest rate environment and improving corporate earnings will support valuation extension. Hence, our outlook is that Nikkei 225 will be in a range between 16,500 and 19,500.

The BOJ has shown a strong commitment to reflating the economy by the additional easing. The size of BOJ's balance sheet would accordingly reach 70 per cent of GDP by the end of 2015 from about 50 per cent prior to the end-October decision. It is significant when compared with other central banks – 20 per cent for European Central Bank (now planned to be 30 per cent) and 25 per cent for the Federal Reserve Board. Thus, the long-term yield will remain low.

On the other hand, corporate earnings are improving on the back of the depreciation of the yen. The companies in our research universe will post a 12.4 per cent (year-on-year) growth of recurring profit (pre-tax) in FY2015. Other supporting factors are a corporate tax cut (2.5 per cent is being discussed), cheap energy prices, and the strong US economy.

Q: Please describe your approach to investing in Japan equities; what metrics are most important, and what are these signalling to you today?

We manage Japanese equity exposures both in single country strategies and parts of global/regional strategies. Our flagship Japanese equity strategy is well positioned in the context of increasing awareness about shareholder value in the market. The strategy takes a benchmark-



Amundi Japan maintains a positive outlook on the Japanese equity market. The combination of an ultra-low or no interest rate environment and improving corporate earnings will support valuation extension.

agnostic approach and looks for investment opportunities among domestic “cash-rich” companies whose intrinsic value is unrecognised.

The team examine the balance sheet of firms and make extensive contacts for conversation with the management. They carefully monitor valuation re-rating as a result of catalysts such as dividend increases, share buy-backs and business turnarounds. Another case is when a company in the portfolio is acquired with a premium because of its strong balance sheet and/or unique positioning in the industry.

Besides this, sell-side analysts may start covering such companies, which contributes to improving information efficiency. After Prime Minister Shinzo Abe made his comeback in late 2012, the strategy has had a distinctive performance outcome as more market players began to focus on shareholder's value.

Q: What risks should investors be most mindful of in the context of Japan equities?

A negative factor may be some external shocks that induce significant risk-off globally: China's further deceleration, a re-emergence of euro sovereign risk, and the repercussions of oil price declines among energy producers.

Internally, the government could stumble with the negative campaigns by the opposition parties relating to national security discussions. Japan has to continue to send the market the right signals vis-à-vis its fiscal consolidation and structural reform. Mr Abe has replenished his political capital by winning a majority in the lower house. Despite his political ambition, however, the new Cabinet must remain focused on the economy as the top priority item until the economy sees the deflation cycle revolving smoothly. ■

Premier Financial Institutions

ORGANISATION	CONTACT DETAILS	DESCRIPTION
ABN AMRO Private Banking	Tel : +65 6597 8866 www.abnamroprivatebanking.com	ABN AMRO Private Banking has a mature local presence in more than 10 countries worldwide. Within Asia and Middle East, ABN AMRO currently has three private banking centres in Singapore, Hong Kong and UAE. It is the oldest bank in Singapore, with its history dating back to 1858.
BANK OF SINGAPORE Asia's global private bank A subsidiary of OCBC Bank	Tel : +65 6559 8000 www.bankofsingapore.com	Bank of Singapore , a dedicated private bank headquartered in Singapore, offers global private banking services on a fully open-architecture product platform. It is a wholly owned subsidiary of OCBC Bank. Currently, Bank of Singapore has over 1,000 employees worldwide, including close to 300 private bankers.
BNP PARIBAS WEALTH MANAGEMENT	Tel : +65 6210 3888 www.asia-wealthmanagement.bnpparibas.com	BNP Paribas Wealth Management is a leading global private bank, present in some 30 countries. It has a solid offer and wide spectrum of products and services to suit and address clients' wealth management needs. Clients benefit not only from the expertise of their dedicated private bankers but also all of the BNP Paribas Group divisions: real estate, art, philanthropy advisory, corporate and investment banking, insurance, and asset management.
CRÉDIT AGRICOLE PRIVATE BANKING 東方匯理私人銀行	Tel : +65 6423 0325 www.ca-suisse.sg	Crédit Agricole Private Banking has a long heritage in Asia and is firmly committed to the region demonstrating the bank's stability and regional expertise. In Hong Kong since 1894 and Singapore since 1905, both business locations are booking centres which grant the bank the capacity to propose the most adapted services, be it in investment solutions, wealth structuring or specific financing.
CREDIT SUISSE	Tel : +65 6212 6000 www.credit-suisse.com	Credit Suisse AG is one of the world's leading financial services providers. As an integrated bank, Credit Suisse is able to offer clients its expertise in the areas of private banking, investment banking and asset management from a single source.
HSBC Private Bank	Tel : +65 6224 8080 www.hsbcprivatebank.com	As part of the HSBC Group and one of the world's largest banking and financial services organisations, HSBC Private Bank seeks to be the leading international private bank for business owners and their families. We provide clients with wealth, business and family succession solutions in the largest and fastest growing markets around the world. For details, visit www.hsbcprivatebank.com
IG	Tel : +65 6390 5118 www.ig.com.sg	IG is the world's largest CFD provider and Singapore's most preferred FX provider*. We give retail investors leveraged access to thousands of financial markets, including forex, shares, indices and commodities, through our award-winning trading platform and mobile apps. *See IG.com.sg for details.
Julius Bär	Tel : +65 6827 1999 www.juliusbaer.asia	Julius Baer is the leading Swiss private banking group, with a focus on servicing and advising sophisticated private clients. As of October 2014, Julius Baer's total client assets amounted to CHF 385 billion, including CHF 285 billion of assets under management. For more information, please visit our website at www.juliusbaer.com/asia
nikko am Nikko Asset Management	Tel : +65 6535 8025 www.nikkoam.com.sg	Nikko Asset Management is Asia's premier global asset manager, with approximately USD159 billion in assets under management at the end of September 2014. The firm offers world-class asset management strategies and solutions for global investors, capitalising on opportunities in markets around the world.
Standard Chartered Private Bank	Tel : +65 6596 7000 www.sc.com/privatebank	Standard Chartered Private Bank is the private banking division of Standard Chartered. Headquartered in Singapore, it has 11 offices across Asia, Africa, the Middle East and Europe. The Private Bank leverages the natural strengths of Standard Chartered: a heritage of over 150 years, a network across more than 70 countries and strong local presence in growth markets.