



# AIA Japan Funds

May 2019

## Investment Objective

### AIA Japan Equity Fund

To achieve long-term capital appreciation through investment primarily in equities and equity-related securities of Japanese companies.

### AIA Japan Balanced Fund

To achieve long-term capital appreciation through investment primarily in equities and equity-related securities of Japanese companies, as well as stable income with capital preservation through investments in primarily fixed income securities of high credit quality issuers, denominated primarily in SGD, in such proportion as the manager deems fit.

## Key Fund Facts

### AIA Japan Equity Fund

**Launch Date:** 9 March 2006

**Launch Price:** S\$ 1.000

**Manager of ILP Fund:** Nikko Asset Management Asia Limited

**Name of Underlying Fund:** Nikko AM Shenton Japan Fund

**Manager of Underlying Fund:** Nikko Asset Management Asia Limited

**Sales Charge (For Cash and SRS):** Up to 5%

**Sales Charge (For CPF OA):** 1.5%

**Pricing Frequency:** Daily

**Management Fees:** 1.5% p.a. of Net Asset Value

**Subscription:** Cash, CPF(OA) and SRS

### AIA Japan Balanced Fund

**Launch Date:** 9 March 2006

**Launch Price:** S\$ 1.000

**Manager of ILP Fund:** AIA Investment Management Private Limited

**Name of Underlying Funds:** Nikko AM Shenton Japan Fund and PineBridge International Funds - Singapore Bond Fund

**Manager of Underlying Funds:** Nikko Asset Management Asia Limited and PineBridge Investments Singapore Limited

**Sales Charge (For Cash and SRS):** Up to 5%

**Sales Charge (For CPF OA or SA):** 1.5%

**Pricing Frequency:** Daily

**Management Fees:** 1.5% p.a. of Net Asset Value

**Subscription:** Cash, CPF(OA & SA) and SRS

**Bid:** S\$ 0.609 As of 31 March 2019  
**Offer:** S\$ 0.642 As of 31 March 2019  
**Fund Size:** S\$ 19,556,560 As of 31 March 2019

**Bid:** S\$ 1.090 As of 31 March 2019  
**Offer:** S\$ 1.148 As of 31 March 2019  
**Fund Size:** S\$ 17,933,141 As of 31 March 2019

## Manager's Commentary\* (Equities)

As of 31 March 2019

Source: Nikko Asset Management Asia Limited

The Fund underperformed the benchmark's return of 0.74% in SGD terms in March as growth stocks outperformed while large-cap value stocks performed weakly, as was the case in February.

During the month, sector allocation contributed positively while stock selection detracted from performance. In terms of sectors, our overweight in Real Estate and Fishery, Farming & Agriculture and underweight in Retail Trade contributed positively, outweighing the negative contribution from our overweight in the Marine Transportation and Nonferrous Metals and underweight in Foods. In terms of individual stocks, the top contributors in March included fishery Nippon Suisan, conglomerate Hitachi, and chemicals company Kyowa Hako Kirin while stocks such as consumer electronics maker Sony, maker of telecommunications measuring instruments Anritsu, and engineering firm JGC contributed negatively.

We invested in stocks of companies that appear undervalued from a profitability standpoint due to changes in their earnings and those that can expect to see a turnaround in their stock prices from structural changes driven by endogenous and exogenous factors. Specifically, we newly added outdoor clothing and equipment retailer Snow Peak. In addition to selling high-end camping equipment and apparel, the firm is increasing its focus on "experiential products" such as operating "glamping" (luxury camping) facilities with the aim of becoming a global outdoor lifestyle brand. We newly added the name following a correction on short-term earnings weakness. In addition, we increased our weightings of names such as chemicals company Mitsubishi Chemical Holdings, film manufacturer Fujifilm Holdings, and electric power company Chubu Electric Power.

While we did not fully exit any stocks during the month, we reduced our holdings of names such as maker of telecommunications measuring instruments Anritsu, trading company Mitsui & Co., and bank Mitsubishi UFJ Financial Group.

During the month, we maintained the portfolio's equity weighting at around 98%. As of the end of March, the Fund consisted of 88 names.

There were some positive developments during the month, such as heightened expectations for progress in US-China trade negotiations following reports of telephone discussions by senior officials from both countries as well as the announcement of tax cuts and other large-scale economic measures by the Chinese Prime Minister. However, stock prices were also weighed down by concerns over a slowdown in the Chinese economy after major semiconductor manufacturers temporarily halted production given a decrease in demand in China, as well as fears of a potential global economic slowdown as business sentiment indicators amongst US and European manufacturers were worse than expected. Of the 33 Tokyo Stock Exchange sectors, 12 sectors such as Fishery, Agriculture & Forestry, Real Estate, and Pulp & Paper rose, while 21 sectors including Marine Transportation, Rubber Products, and Transportation Equipment declined.

The recovery in the global equity markets following the global financial crisis has continued for a record nine and a half years and both stock price levels and the economic cycle are nearing a peak. This is the same for the Japanese equity market, which is rebounding from the sharp decline at the end of 2018. Our view remains unchanged that the stock market will face some periods of correction during the year and we are continuing to take a cautious approach as we manage the portfolio.

The factors that we expect could drive a correction include: concerns of a cyclical global slowdown, the waning effects of the US tax breaks, and the upcoming consumption tax hike in Japan in October 2019. We are also beginning to see a slowing of Japan's corporate earnings momentum, which is likely to lead to downward revisions going forward. In addition, although the US and China appear close to reaching an agreement on trade issues, this remains a concern over the long term.

However, we believe that following a correction in 2019, the Japanese equity market will rebound once again in 2020. We have identified the following two factors that are unique to the Japanese market and that we believe will act as catalysts: 1) new global innovations and increased demand for necessary materials and next-generation services; and 2) a sustainable improvement in shareholder returns.

Value stocks typically offer some downside resilience, which puts them in a relatively advantageous position even should the market undergo a correction. Moreover, in such a scenario, we expect that the market will present many opportunities to invest in attractive stocks at undervalued prices. We are investing in such stocks for the long run as we carefully watch developments in the market.

Given the highly volatile market environment, the risk factors we need to pay attention to may change. However, those we are currently keeping in mind as we manage the portfolio are as follows:

1. The direction of the US's economy and monetary policy
2. China's response to structural problems, including the policy measures it enacts
3. Political tensions in Europe stemming from the emergence of populism
4. Developments in the US-China struggle for supremacy
5. The direction of emerging market economies
6. The roadmap to the consumption tax hike in Japan

## Manager's Commentary (Fixed Income)

As of 31 March 2019

Source: PineBridge Investments Singapore Limited

Global yields fell in March, spurred by a confirmation of the Fed's dovish turn and a more accommodative stance taken by other systemic central banks, such as the European Central Bank (ECB). The Asian credit and Singapore corporate bond markets continue to hold firm as risk sentiment is relatively strong and investors chase for higher yielding instruments. Economic data broadly were mixed during the month, still pointing to a desynchronization of global growth and a broad slowdown compared to 2018.

Singapore's macroeconomic data came in generally stronger-than-expected with a rebound seen in retail sales and non-oil domestic exports.

The sharp turn in monetary policy out of the US and other large economies should continue to anchor the interest rate environment and provide support to the credit markets broadly, Asia being no exception. The many measures the Chinese policy makers have undertaken to stabilize growth will also start filtering through in the second quarter of 2019. This, coupled with some improvement in the US – China trade negotiations, should continue to positively support the markets.

In Singapore, we await the Monetary Authority of Singapore's monetary policy statement in April, but expect no change to its overall policy.

The team continues to monitor the fund's duration position and dynamically adjust its strategy. The team remains constructive on corporate credit, but its credit strategy continues to be selective.

## Performance

As of 31 March 2019

Source: AIA Singapore

### AIA Japan Equity Fund

| Period            | 1 Month | 3 Months | 6 Months | 1 Year | 3 Year <sup>^</sup> | 5 Year <sup>^</sup> | 10 Year <sup>^</sup> | Since Inception <sup>^</sup> |
|-------------------|---------|----------|----------|--------|---------------------|---------------------|----------------------|------------------------------|
| Fund (bid-to-bid) | 0.66%   | 6.28%    | -11.74%  | -8.14% | 8.41%               | 5.41%               | 4.75%                | -3.35%                       |
| Benchmark         | 0.74%   | 5.95%    | -9.88%   | -6.09% | 7.81%               | 6.60%               | 5.84%                | -0.18%                       |

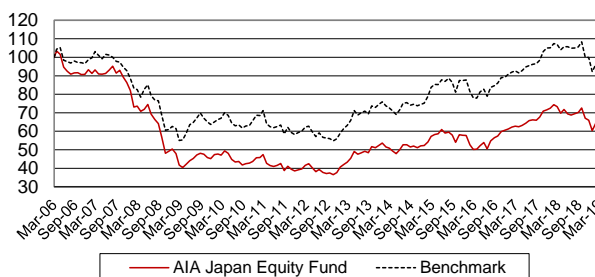
<sup>^</sup> Annualised returns

Current benchmark (w.e.f. 1 July 2011): TOPIX Index.

(w.e.f. 1 May 2017, net total return index methodology is used)

Previous benchmark: MSCI Japan DTR Net

AIA Japan Equity Fund



### AIA Japan Balanced Fund

| Period            | 1 Month | 3 Months | 6 Months | 1 Year | 3 Year <sup>^</sup> | 5 Year <sup>^</sup> | 10 Year <sup>^</sup> | Since Inception <sup>^</sup> |
|-------------------|---------|----------|----------|--------|---------------------|---------------------|----------------------|------------------------------|
| Fund (bid-to-bid) | 0.83%   | 4.21%    | -6.03%   | -3.71% | 6.08%               | 4.78%               | 5.67%                | 1.06%                        |
| Benchmark         | 0.91%   | 3.60%    | -4.48%   | -2.00% | 5.47%               | 5.19%               | 4.67%                | 1.39%                        |

<sup>^</sup> Annualised returns

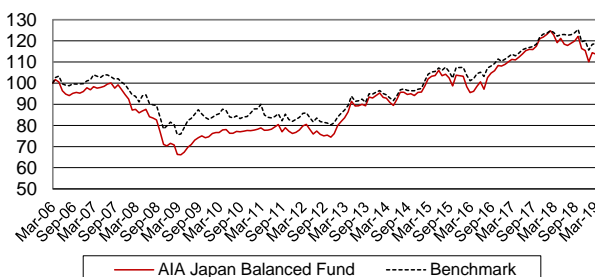
Current benchmark (w.e.f. 1 July 2011): 60% TOPIX Index (w.e.f. 1 May 2017, net total return index methodology is used) & 40% JP Morgan Sing Govt Bond Index All.

Previous benchmark: 60% MSCI Japan DTR Net & 40% JP Morgan Sing Govt Bond Index All (The combined benchmark is reflective of the fund's investment focus)

Disclaimer with regard to the above Benchmark:

The blended returns are calculated by AIA Investment Management Private Limited using end of day index level values licensed from MSCI ("MSCI Data"). For the avoidance of doubt, MSCI is not the benchmark "administrator" for, or a "contributor", "submitter" or "supervised contributor" to, the blended returns, and the MSCI Data is not considered a "contribution" or "submission" in relation to the blended returns, as those terms may be defined in any rules, laws, regulations, legislation or international standards. MSCI Data is provided "AS IS" without warranty or liability and no copying or distribution is permitted. MSCI does not make any representation regarding the advisability of any investment or strategy and does not sponsor, promote, issue, sell or otherwise recommend or endorse any investment or strategy, including any financial products or strategies based on, tracking or otherwise utilizing any MSCI Data, models, analytics or other materials or information.

AIA Japan Balanced Fund



Note: Performance of the fund is in SGD on a bid-to-bid basis with net dividends reinvested, without taking into consideration the fees and charges payable through deduction of premium or cancellation of units.

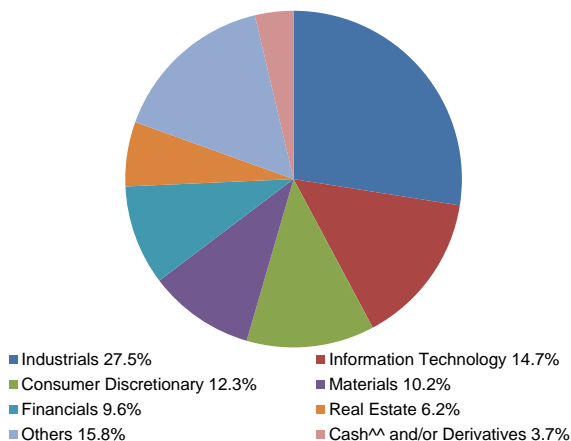
## Top 10 Holdings\*(Equity Investments)

As of 31 March 2019

| Holdings                                   | Percentage |
|--|------------|
| Sony Corporation                           | 3.5%       |
| Hitachi, Ltd.                              | 2.9%       |
| Toyota Motor Corp.                         | 2.6%       |
| Mitsubishi Heavy Industries, Ltd.          | 2.2%       |
| Mitsubishi UFJ Financial Group, Inc        | 2.1%       |
| Mitsubishi Corporation                     | 2.1%       |
| Nippon Telegraph And Telephone Corporation | 2.0%       |
| Sumitomo Metal Mining Co., Ltd.            | 2.0%       |
| Mitsui Fudosan Co., Ltd.                   | 2.0%       |
| Sumitomo Mitsui Financial Group, Inc.      | 2.0%       |
| Total                                      | 23.4%      |

**Holdings**

|                          |               |
|--------------------------|---------------|
| Industrials              | 27.5%         |
| Information Technology   | 14.7%         |
| Consumer Discretionary   | 12.3%         |
| Materials                | 10.2%         |
| Financials               | 9.6%          |
| Real Estate              | 6.2%          |
| Others                   | 15.8%         |
| Cash^ and/or Derivatives | 3.7%          |
| <b>Total</b>             | <b>100.0%</b> |



\*Information from the underlying Nikko AM Shenton Japan Fund formerly known as DBS Japan Growth Fund

^Cash includes cash equivalents.

Source: Nikko Asset Management Asia Limited formerly known as DBS Asset Management Ltd

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