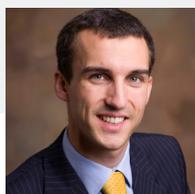




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POINT**[®]

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In-depth analysis and insights
to inform your decision-making.



Archibald Ciganer
*Portfolio Manager,
Japan Equity Strategy*

Japanese Equities **THE TIMES ARE A CHANGIN' AND SO IS JAPAN**

KEY POINTS

- From aging demographics and labor shortages to changing consumption patterns and dietary habits, Japanese society is undergoing significant change.
- One of the biggest changes that we are seeing is in relation to Japanese workers, who are increasingly changing jobs throughout their career. This is a modern phenomenon and a major shift away from historical expectations of lifetime employment.
- Similarly, consumer spending patterns are also changing, and the trend toward online retail is another key theme that is growing rapidly in Japan.
- The services sector is another rich area of opportunity, in our view, specifically for nurses and care workers for the elderly. The over 60 years demographic makes up more than 33% of Japan's total population, the largest of any country in the world.¹
- A large part of what we do involves identifying these secular trends early and focusing on those areas that we anticipate being the key long-term beneficiaries of the changes taking place in Japanese society.

One of the key investment themes that we continue to focus on is the significant change taking place in Japanese society. From aging demographics and labor shortages to changing consumption patterns and dietary habits, Japanese society is evolving, and being on the right side of these long-term, secular trends offers a rich vein of potential rewards, in our view.

JAPAN'S LABOR MARKET IS CHANGING

One of the biggest changes that we are seeing is in relation to Japanese workers,

who are increasingly changing jobs throughout their career. This is a modern phenomenon and a marked shift from the previous mind-set of many Japanese workers, where the general expectation was one of lifetime employment. As a result, we view a number of staffing agencies as the most direct beneficiaries of the growing trend toward greater job mobility. The largest of these is a company called Recruit Holdings.

At the same time, there are also a number of companies that are indirect beneficiaries of the employment mobility

¹ United Nations World Population Ageing Report, 2017.

theme. One example is Benefit One, a business that provides employee reward programs to companies. The host company pays a small monthly subscription per employee, and, in return, Benefit One provides a broad catalogue of discounted goods, services, and partner deals, from haircuts, to rounds of golf, to cheap deals at bars and restaurants. By providing this kind of benefit program, at minimal cost to the company, employee retention is greatly improved. This is very important when you consider the labor shortages that exist in Japan and the fact that companies are finding it increasingly difficult to hire new staff within a tightening pool of talent. In this way, Benefit One stands as a potentially major beneficiary of Japan's evolving employment landscape.

CONSUMER TRENDS ARE ALSO EVOLVING

As with the rest of the world, the trend toward online retail is growing rapidly in Japan. One example is Start Today, one of Japan's largest online fashion portals. Traditionally, Japanese consumers would always go to the physical shops to buy their clothes; however, over the past 10 years, we have seen a significant shift toward online shopping and having the clothes delivered to your home. Start Today has started a wardrobe service whereby they send customers a tailored box of clothes, based on their historical purchases/preferences; they keep what they like and simply return whatever they don't, free of charge. Another example within the retail space is istyle. The company operates the popular @cosme beauty and cosmetics user site, as well as a number of offline specialty cosmetics shops.

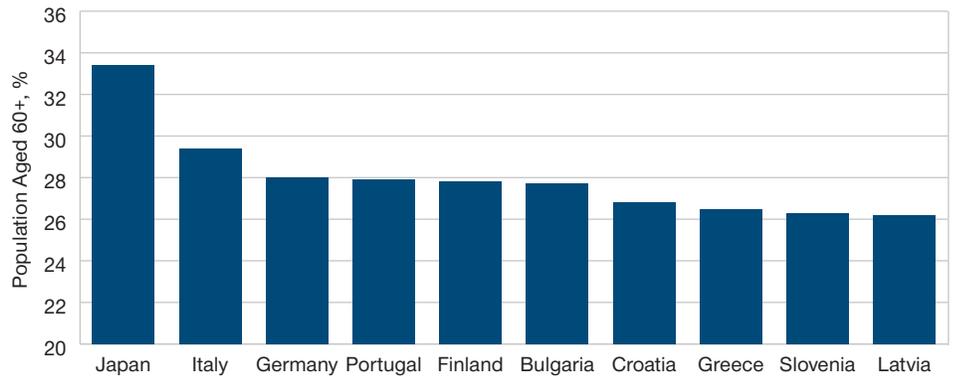
GROWING DEMAND FOR SERVICES

The broad IT and services sector within Japan's TOPIX Index continues to be a rich source of opportunities, particularly within the services component of the sector. Many service companies in Japan are benefiting

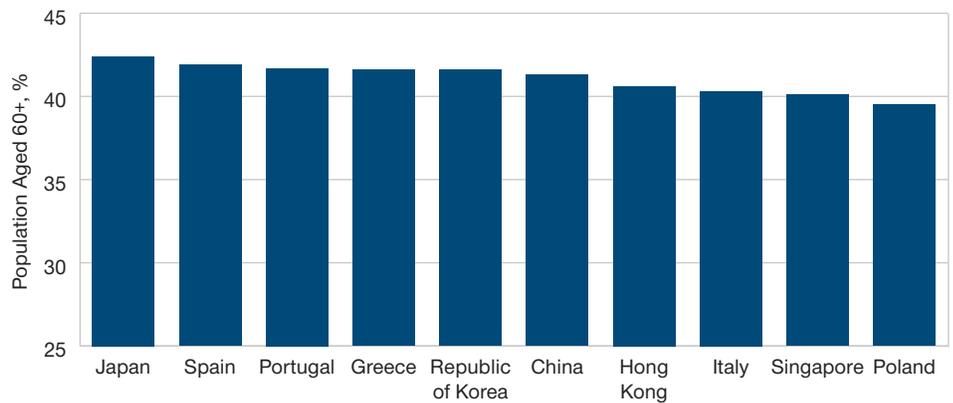
FIGURE 1: Japan's Aging Demographics

As of December 2017

Countries With Oldest Populations—2017



Countries With Oldest Populations—2050*



Source: United Nations World Population Ageing Report, 2017. Percentage of population aged 60 or above. *Estimate, based on 201 countries with at least 90,000 inhabitants in 2017.

from structural and socio-demographic shifts, as well as from a gradually improving macroeconomic backdrop.

For example, SMS is a leader in recruitment services for nurses and workers in elderly care and a provider of a management support software package for in-home nursing care operations. The company continues to benefit from an acceleration in its nursing care business. Similarly, Solasto is one of the leading players in the staffing and operational outsourcing market for medical institutions. It has been reinvesting earnings into its nursing care business, where it has been able to raise salaries and reduce staff turnover. Nursing care is

a significant long-term opportunity in Japan as an aging population means the elderly are the country's fastest-growing demographic (Figure 1). The company also highlighted accelerating revenue growth in its February 2018 results, due to the successful recent acquisitions of two other large providers in the health care space.

Major changes are taking place in Japanese society, resulting in the emergence of long-term secular trends. As a longtime investor in Japan, a large part of what we do revolves around identifying these trends early and focusing on those areas that we anticipate being the principal beneficiaries of this societal change.

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