

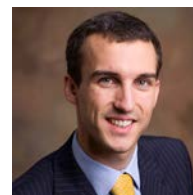


Quarterly Outlook – Japan Equity TAKING ADVANTAGE OF PERFORMANCE DISPARITIES

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Archibald Ciganer

Portfolio Manager, Japan Equity Strategy



KEY INSIGHTS

- We have worked hard to identify quality cyclical companies that stand to potentially outperform as earnings expectations improve from depressed levels.
- The Japanese equity market registered its strongest quarterly performance since 2016 over the second quarter.
- Market returns, but also sector and stock dispersion, have been extreme.

During the second quarter, the huge amount of liquidity provided by major central banks, signs of economic recovery in China, and economies reopening following the lifting of lockdown measures outweighed the impact of looming recessionary conditions and growth in the number of coronavirus cases in certain parts of the world. In May, Japan's Prime Minister Shinzo Abe announced that he was lifting the state of emergency for the remaining five prefectures that were still on lockdown orders.

Investors turned bullish on the news and stocks staged an impressive rally. The unveiling of stimulus packages that in total represent approximately 40% of Japan's annual GDP provided an additional boost to share prices. As a result, the Japanese equity market rallied over the second quarter and registered its strongest quarterly performance since 2016.

EXTREME SECTOR AND STOCK DISPERSION CREATED OPPORTUNITIES

In this environment, returns, but also sector and stock dispersion, were extreme. Pharmaceuticals rallied because of the defensive, quality nature of the sector and its role in addressing the coronavirus pandemic, while electric appliances and precision instruments rebounded following precipitous falls in the first quarter. Overall, Japanese growth stocks outperformed value stocks. Electric power and gas and transportation and logistics lagged.

“The Japanese equity market registered its strongest quarterly performance since 2016 over the second quarter.”

IDENTIFYING QUALITY CYCLICAL COMPANIES

We have worked hard to identify quality cyclical companies that stand to potentially outperform as earnings expectations improve from depressed levels. We decided to increase the portfolio's turnover as we took advantage of these performance disparities.

We believe that the coronavirus pandemic will lead to an acceleration in trends that we are already seeing, such as the shift from offline to online in the form of e-commerce and factory automation. We also see opportunities in companies with exposure to China, where the economy appears to be reopening.

Japan is more exposed to the global economic cycle than many other markets. Therefore, we believe that the country is well positioned to benefit from the unprecedented fiscal and monetary easing measures implemented globally to support economies and an improvement in earnings from depressed levels as the global economy enters the recovery stage.

RISKS

The following risks are materially relevant to the portfolio.

Currency risk- Changes in currency exchange rates could reduce investment gains or increase investment losses. **Small and mid-cap risk-** Stocks of small and mid-size companies can be more volatile than stocks of larger companies. **Style risk-** Different investment styles typically go in and out of favour depending on market conditions and investor sentiment.

General Portfolio Risks

Capital risk- The value of your investment will vary and is not guaranteed. It will be affected by changes in the exchange rate between the base currency of the portfolio and the currency in which you subscribed, if different.

Equity risk- In general, equities involve higher risks than bonds or money market instruments. **Geographic concentration risk-** To the extent that a portfolio invests a large portion of its assets in a particular geographic area, its performance will be more strongly affected by events within that area. **Hedging risk-** A portfolio's attempts to reduce or eliminate certain risks through hedging may not work as intended. **Investment portfolio risk-** Investing in portfolios involves certain risks an investor would not face if investing in markets directly.

Management risk- The investment manager or its designees may at times find their obligations to a portfolio to be in conflict with their obligations to other investment portfolios they manage (although in such cases, all portfolios will be dealt with equitably). **Operational risk-** Operational failures could lead to disruptions of portfolio operations or financial losses.

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