

# Candriam Sustainable Equity Japan

## Market overview

In Japan, the economy expanded by 6.0% q/q in the second quarter of 2023 on the back of a strong contribution from net trade. Japan also seems to be turning the page on its deflationary period, with core CPI up 10 bps to 4.3% y/y in July and spring (Shunto) wage negotiations. This combined with a less-hawkish speech from Powell at the Jackson Hole end of month helped support overall risk assets. Nevertheless with a continued dovish narrative from the BoJ, the USDJPY rose from 143-handle (early Aug) to 145-handle to close the month and supported the cyclical/value driven sectors.

Compared to other markets, Japanese equities proved relatively resilient in August as the Topix posted a modest gain of 0.41%. Japan indices were down with mixed performance between the two main indices [NKY -2.5%, TPX -0.2%].

## Fund performance

In August, the fund returned 0.01%\*, in line with its benchmark. The MSCI Japan NR generated a performance of -0.02%\*\*. Year-to-date, the fund underperforms its benchmark by 327bp, despite a positive absolute performance of 22.07%\*.

## Sector level

From a sector point of view, our stock picking added to the excess portfolio return (12bp) while allocation had a neutral impact on performance (-3bp). Our stock picking in Industrials (87bp) and Consumer Discretionary (68bp) generated relative gains. On the other hand, our selection in Financials (-25bp) and Communication Services (-16bp) underperformed.

## Stock specific

With a positive impact of 15bp, the overweight of **AJINOMOTO CO INC** (Consumer Staples) was the top contributor to the excess portfolio return. With a negative contribution of 13bp, the overweight of **DAIKIN INDUSTRIES LTD** (Industrials) was the main detractor from the excess return. Our position in **LION CORP** (Consumer Staples) rose by 16.6%, making this stock the largest gainer in terms of absolute performance. Last month's worst absolute performer was **SYSMEX CORP** (Health Care), which returned -19.5%.

## Portfolio activity

In August, we introduced the two Japanese firms, **DENSO CORP** (Consumer Discretionary) and **OMRON CORP** (Information Technology) to our portfolio (+1.3% and +0.6% respectively). We also increased the positions of the two Japanese firms, **CHUGAI PHARMACEUTICAL CO LTD** (Health Care) and **NIPPON TELEGRAPH & TELEPHONE** (Communication Services), from 0.6% to 1.4% and from 0.3% to 0.8% respectively. We sold the two Japanese firms, **M3 INC** and **OLYMPUS CORP**, both operating in the Health care area (-0.4% and -0.5% respectively). We also decreased the positions of the two corporations located in Japan, **KIKKOMAN CORP** (Consumer Staples) and **BRIDGESTONE CORP** (Consumer Discretionary), from 0.9% to 0.4% and from 2.1% to 1.6% respectively.

\* net of fees in JPY terms

\*\* net return in JPY terms

## Fund outlook

We see a clear trend towards a more sustainable world. Authorities around the world are taking the lead by changing regulations. Companies are taking active decisions by adjusting their business models to achieve a better ESG footprint. Consumers are taking ESG criteria into account when buying products and services, and investors are doing the same when evaluating alternatives to invest their wealth. In light of this trend, it is essential to take into account ESG criteria when making investment decisions. The objective of this strategy is to invest in companies that score well on both ESG and financial criteria. We believe that this type of company is well positioned to outperform the market in the long run.

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