

Candriam Sustainable Equity Japan

Market overview

The Bank of Japan appears to be getting scrap yield-curve control and negative rates. Governor Kazuo Ueda's comments in January after the BOJ stood pat suggested the move may come sooner than later, a surprisingly robust retreat in the BOJ's dovish tone. On January 22, the Japanese stock market tested an all-time high as it rose to its highest level in 33 years. Japan indices closed the month fairly flat [TPX +7.8%, NKY +8.4%].

Fund performance

In January, the fund returned 7.93%*, underperforming its benchmark by 55bp. The MSCI Japan NR ended the month up by 8.47%**.

Sector level

From a sector perspective, our stock selection detracted (-39bp) while allocation had a negligible impact on performance (-6bp). Our stock selection in Industrials (-106bp) and Financials (-18bp) underperformed. Our selection in Materials (32bp) and Information Technology (29bp) on the other hand, generated relative gains.

Stock specific

With a positive contribution of 15bp, the overweight of **CAPCOM CO LTD** (Communication Services) was the main contributor to relative performance. With a negative contribution of 15bp, the overweight of **BAYCURRENT CONSULTING INC** (Industrials) was the main detractor from relative performance. In terms of absolute performance, our positions in **CAPCOM CO LTD** and **ADVANTEST CORP** (Information Technology) were the standout gainers, rising by 23.9% and 21.4% respectively. Our positions in **BAYCURRENT CONSULTING INC** and **MONOTARO CO LTD** (Industrials) were down 30.0% and 9.0% respectively.

Portfolio activity

In January, we introduced the two enterprises located in Japan, **TDK CORP** (Information Technology) and **SUMITOMO CHEMICAL CO LTD** (Materials) to our portfolio (+1.1% and +0.4% respectively). We also increased the positions of the Japanese companies, **DAIICHI SANKYO CO LTD** and **CHUGAI PHARMACEUTICAL CO LTD**, both operating in the Health care sector as well as **TOKYO ELECTRON LTD** (Information Technology), from 0.8% to 2.3%, 1.2% to 1.6% and from 2.5% to 3.1% respectively. We sold our positions in the three Japanese enterprises, **ASTELLAS PHARMA INC** (Health Care), **T&D HOLDINGS INC** (Financials) and **KOBE STEEL LTD** (Materials) (-1.1%, -0.5% and -0.4% respectively). We also reduced the portfolio weights of the three Japanese corporations, **ADVANTEST CORP**, **YASKAWA ELECTRIC CORP** (Industrials) and **YAKULT HONSHA CO LTD** (Consumer Staples), from 0.7% to 0.3%, 1.4% to 0.8% and from 1.1% to 0.6% 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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