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LionGlobal Japan Growth Fund: Staying Ahead Amid Market Volatility

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STAYING AHEAD AMID MARKET VOLATILITY

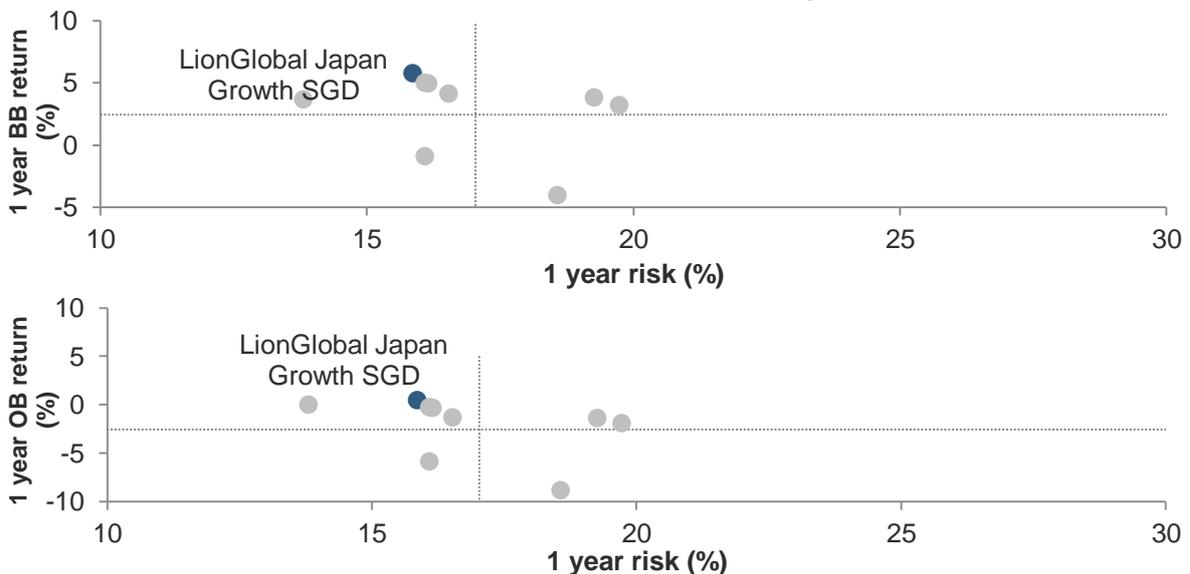
Key takeaways:

Ahead of peer average	LionGlobal Japan Growth Fund has stayed ahead of the peer average with above average returns at below average risk
Ahead of benchmark	LionGlobal Japan Growth Fund has outperformed the benchmark over various timeframes
Attractive valuations	Japanese equities trading at historically low valuations present an attractive entry point for patient investors

Against the volatile 2016, the importance of managing both risk and return is highlighted – a fund that outperforms on a market rally may easily give up those gains in a market correction.

This article aims to show that the LionGlobal Japan Growth Fund has outperformed the benchmark TOPIX TR Index by delivering higher returns at lower risk than the peer average. On this measure, the LionGlobal Japan Growth Fund has stayed ahead of peers, as shown in Chart 1.

Chart 1: LionGlobal Japan Growth Fund Ahead of Peer Average



Past performance is no indication of future performance. Peers consist of 7 Japan equity funds. Offer-bid returns are based on normal sales charge which may vary with peers. Source: Morningstar, in SGD bid-bid or offer-bid dividends reinvested returns as at 31 January 2016.

Over 12 months, the Fund has posted above average returns at below average risk, indicating the Fund took less risk to deliver higher returns compared to peers.

Besides staying ahead of peers, the Fund has also stayed ahead of the benchmark TOPIX Total Return Index over 1-year, 3-year, and 5-year periods (Table 1).

Table 1: LionGlobal Japan Growth Fund versus Benchmark

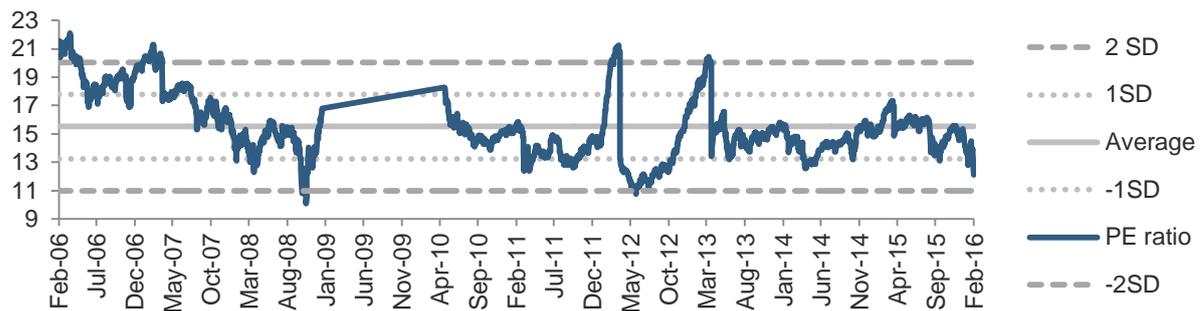
As at 31 January 2016	2016 YTD	1-year	3-years	5-years
LionGlobal Japan Growth Fund (BB)	-7.36%	5.73%	12.49%	5.76%
TOPIX TR Index	-7.73%	5.29%	11.14%	4.25%
Excess	0.37%	0.44%	1.34%	1.51%
LionGlobal Japan Growth Fund (OB)	-11.99%	0.44%	10.58%	4.68%

Source: Lion Global Investors, in SGD terms, calculated based on bid-bid (BB) or offer-bid (OB) dividends reinvested returns, as at 31 January 2016. Offer-bid returns are based on sales charge stated in prospectus. Past performance of the scheme is not necessarily indicative of future performance. LionGlobal Japan Growth Fund SGD Class inception on 3 December 1999. Benchmark: Since 1 March 2014, TOPIX Total Return Index, prior to 1 March 2014, the TOPIX Price Index.

Despite the Fund’s outperformance, the start of 2016 has been one of the most challenging for investors and Japanese equities were not spared the global selloff in the start of 2016, declining -14% in SGD terms as at 11 February 2016.

A combination of Yen strength, weak oil prices and a potential global economic slowdown has contributed to the selloff in Japanese equities. But amid the selloff, valuations of the Japanese equity market have fallen below the historical average. Excluding crisis-level valuations seen in 2009-2010, valuations are more than one standard deviation below the 10-year historical average as at 13 February 2016 (Chart 2). This indicates valuations are at statistically low levels and present a buying opportunity.

Chart 2: Valuations Below Historical Average



Source: Bloomberg, January 2016, excludes period from January 2009 to April 2010. PE ratio: price-earnings ratio; SD: standard deviation.

While valuations are low, we seek to identify potential triggers that could spark a return to average valuations. A strengthening JPY against other developed currencies is a key concern and the introduction of negative interest rates by the Bank of Japan (BoJ) was aimed at putting a floor to JPY strength. The introduction of negative interest rates was unprecedented by the BoJ and the outcome of such a measure is difficult to predict. The BoJ is likely to introduce further measures if required.

Fiscal measures continue to support the domestic economy, with the supplementary budget expected to be a slight positive. In terms of corporate shareholder culture, the strengthening of shareholder returns continues with higher dividend payouts and share buybacks.

Amid these supportive factors, the current low valuations present a buying opportunity for patient investors. Positive factors for Japanese equities include supportive monetary and fiscal policy amid an improving shareholder return culture. LionGlobal Japan Growth Fund is an actively managed portfolio of Japanese equities which has stayed ahead of the peer average and the benchmark.

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