

INDOSUEZ FUNDS - JAPAN OPPORTUNITIES

MAY 2016

NAV	Class P	JPY	874.00
	Class NL	JPY	1,043.00
	Class C	JPY	836.00
AUM		JPY 4,039.9 million	

INVESTMENT OBJECTIVE

Indosuez Funds - Japan Opportunities is a Fund aiming at delivering a long term income and / or a capital gain by investing principally in Funds invested in Japanese equities.

Risk profile:

1 2 3 4 5 **6** 7

Launch: November 2, 2007

Legal: SICAV - UCITS

Domicile: Luxembourg

Management company:

CA Indosuez Wealth (Asset Management)

Liquidity: Daily

Orders: D-1 @ 14:00 (CET)

Payment: D+3

Minimum: 1 share

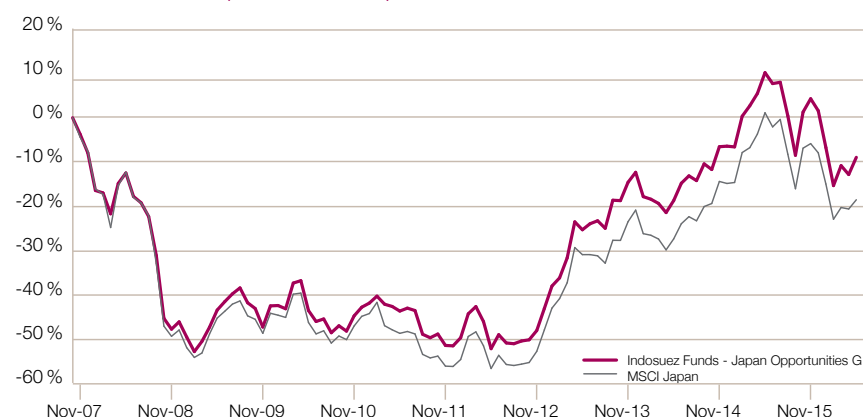
Recommended investment horizon:

Minimum 5 years

PERIOD	1 MONTH	2016	1 YEAR	3 YEARS	5 YEARS
Class P	4.42%	-10.63%	-18.09%	19.24%	56.35%
Class NL	4.30%	-11.01%	-18.00%	-	-
Class C	4.37%	-10.78%	-	-	-
Index	2.59%	-11.50%	-19.43%	17.92%	58.73%

the performances are those of the Bel Air Top Japan Fund absorbed by Indosuez Funds.

PERFORMANCES (net of fees in JPY)



TOP 10	Fund
1. OYSTER SICAV JAPAN OPPORTUNITIES-I JPY2-	18.13%
2. ABERDEEN GLOBAL JAPANESE EQ -I2- CAP	14.78%
3. FID JAP SM -Y-ACC-JPY- CAP	14.47%
4. AMUNDI ETF JPX-NIKKEI 400 ETF JPY	10.26%
5. ABERDEEN GLOBAL JPN SMR CIE -I2- CAP	9.05%
6. UBAM SNAM JAPAN EQUITY VALUE I JPY	7.97%
7. MELCHIOR INV FD JAPAN ADVANTAGE D JPY	6.31%
8. JPMORGAN INV FD JPN 50 EQ -C-	5.41%
9. AMUNDI EQ JAPAN TARGET -IJ- CAP	3.94%
10. POLAR K FD PLC JAPAN -I- DIS	3.23%
11. Future NIKKEI 225	4.26%
12. Future TOPIX	3.41%
13. Cash	-1.22%

MAIN INVESTMENTS

Oyster Funds - Japan Opportunities: The fund is invested in Japanese equity and is managed according to an approach based on the selection of individual securities and fundamental analysis. In terms of management approach, management aims to be agnostic in regard to style and fund distribution. The result is a portfolio of 40 to 70 stocks with no style bias and a medium to large cap orientation. The management of the sub-fund has been re-internalised and entrusted to a manager specialising in Japanese equities and who has almost 10 years experience in the Japanese market, particularly with Lazard AM and Credit Suisse.

Aberdeen Global-Japanese Equity Fund: The Fund's investment objective is long-term total return by investing in Japanese companies, mostly large cap companies. The fund follows a bottom-up process based on a disciplined evaluation of companies through direct visits. Stock selection is the major source of alpha. The value of the company is measured in two stages, quality then price. Quality is defined in reference to management, business focus, balance sheet and corporate governance. Price is calculated relative to key financial ratios, market, peer group and business prospects. The Portfolio is managed on a team basis, with investment managers doing their own research and analysis. The portfolio is conservatively run, with emphasis on traditional buy-and-hold, resulting in low turnover, in order to achieve long-term return.

Fidelity Funds - Japan Smaller Companies: The fund is managed by Jun Tano and supported by Fidelity Japan's internal research teams. Management is focused on small and medium cap segments.

Amundi ETF JPX-Nikkei 400: The Amundi ETF JPX-Nikkei 400 Uclts seeks to replicate as closely as possible the evolution of the performance of the yen-denominated JPX-Nikkei 400 index (net dividends reinvested), whether the trend is rising or falling. JPX-Nikkei Index 400 is composed of companies with high appeal for investors, which meet requirements of global investment standards, such as efficient use of capital and investor-focused management perspectives.

Aberdeen Global - Japanese Smaller Companies Fund: The Fund's investment objective is long-term total return by investing in Japanese smaller Companies, which are defined as companies with a market capitalisation under Yen 250 billion. The fund follows a bottom-up process based on a disciplined evaluation of companies through direct visits. Stock selection is the major source of alpha. The value of the company is measured in two stages, quality then price. Quality is defined in reference to management, business focus, balance sheet and corporate governance. Price is calculated relative to key financial ratios, market, peer group and business prospects. The Portfolio is managed on a team basis, with investment managers doing their own research and analysis. The portfolio is conservatively run, with emphasis on traditional buy-and-hold, resulting in low turnover, in order to achieve long-term return.

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UBAM - SNAM Japan Equity Value: This fund is co-managed between London (for macro-economic and sector research, quants analysis and management) and Tokyo (qualitative analysis). The investment process is mainly bottom-up based. The manager aims to identify undervalued stocks with solid growth potential. This fund is mainly invested in medium and big caps and is largely diversified (80 to 100 positions).

Melchior Investment Funds - Japan Advantage Fund: The investment objective of the Melchior Japan Advantage Fund is to achieve longer term capital growth, without undue risk, through diversified investment in equities and bonds that are issued by companies that have their registered office or carry out a predominant portion of their economic activity in Japan. Equally the Fund also invests in other collective investment schemes and cash.

JPMorgan Investment Funds - Japan 50 Equity Fund: This fund relies on the expertise of JPMorgan AM's buy-side platform analysts in Japan (17 people). The investment process involves valuing the main stocks in the index using the DDM method and a standardised level of results. The values identified as more attractive due to their under-valuation are integrated in the portfolio whilst ensuring it remains sector neutral in relation to the Topix index. As its name suggests, the portfolio also tends to be concentrated.

Amundi Funds - Equity Japan Target: The objective of the Sub-Fund is to seek long-term capital growth by investing in shares of Japanese companies that are under-valued or being in a turnaround situation.

Polar Capital Funds PLC - Japan Fund: This fund is managed by Polar Capital, an independent fund management company that specialises in Japanese equities. Its management approach blends top-down aspects (target allocation using categories such as export stocks, defensive stocks, domestic stocks, etc.) with a stock selection based on fundamentals. One of the unique aspects of this fund is that it invests in every market capitalisation segment and has a significant small and mid-cap bias.

MANAGER'S COMMENT

Japanese equity markets started the month of May with large falls, continuing its downward trend seen in end-April. However, the markets held on an uptrend at the end of the month, supported by the growing expectation in the wake of the Japan G7 summit and increasing prospects of postponement of the next consumption tax hike as well as further economic stimulus measures anticipated by the global investors. MSCI Japan ended up 2.59% in May, after the negative return of 0.39% in April. The TOPIX and Nikkei Average rose 2.93% and 3.41% respectively over the month. The JPX-Nikkei Index 400 was up 2.71%, underperforming the TOPIX for the first time in two months. As of 31st May, Japanese equities recovered part of the heavy losses in the first quarter this year, but still considerably lagging behind global equity markets on a YTD basis: MSCI Japan posted a negative return of -11.50%, comparing to MSCI USA (+1.43%) and MSCI Europe (-5.58%), all in local currencies.

In the first half of May, Japanese equities continued its decline following the BOJ's decision at its policy board meeting on 28th April not to adopt additional easing measures. Further concerns over corporate earnings as JPY appreciation (USD/JPY 105) during the Golden week holidays weighed on market sentiment and triggered further loss in equities. However, the market turned more positive in the second half of the month, supported by several positive factors, such as the speculation of the pullback of the next consumption tax rate hike, budget decision and stimulus by the government and the BOJ in the upcoming June's meeting. Moreover, Asian region equities held well on the uptrend through the end of the month as investors increasingly focus on China's ADR and A-shares inclusion into the MSCI index and the Shenzhen-HK trading connect opening, in turn, helped Japanese equities performance, especially in IT-related companies (regional-wise). The JPY weakened to the 109 level against the USD at the end of the month.

On the macro data front, key economic statistics released in May somehow showed a mixed picture: Real GDP rose 0.4% QoQ (1.7% YoY) in Q1 2016, well above market consensus. Growth was supported by pick up in overseas demand, which pushed the annualized GDP up by +0.8%. However, taking into account of the impact of the leap year, the real economy growth seems less strong than the numbers indicated. BoJ Tankan survey for April released that current conditions DI fell 1.9 m-m to 43.5, below the level of 50 that marks the threshold between expansion and contraction for a ninth consecutive month. The manufacturing PMI for May came in at 47.6, down 0.6pt from 48.2 in April, pointed to the weak manufacturing activity in May, mainly due to weaker domestic demand. April export turned down: real exports declined 2.1% m-m in April, after rising 0.4% in March, mostly indicating some weakness in US demand. Consumer spending numbers were slightly weak, although much better market expected: April retail sales came in flat m-o-m (vs -0.6% market consensus), still awaiting firming signs for a bottoming-out. Employment environment remained solid: the Job openings-to-applicants ratio for April was up 0.04 M-o-M to 1.34 x, above the consensus forecast of 1.30 x, stood at the highest level in more than 24 years. So far, we remain confident and constructive that the Japanese domestic economy will continue to recover, boosted by strong corporate earnings, higher household income and higher consumption, while being cautious in the near terms of several factors: profitability of Japanese firms in an environment of JPY appreciation and its impact on future wages could have effected house purchase decisions; the real impact of the BOJ's introduction of negative interest rate policy; delay of the next consumption tax hike, as well as the near term event risks such as Fed's decision in June, ECB and OPEC meeting, BOJ meeting as well as the Upper house election due in July.

After the de-rating since the beginning of the year, Japanese equities appear very attractive in terms of valuation: MSCI Japan is trading at x 14.3 for FY16 and x 12.9 for FY17, discounted compared to MSCI USA (FY16 P/E x 17.9, FY17 P/E x 15.7) and MSCI Europe (FY16 P/E x 16.1, FY17 P/E x 14.0). Japan's P/B is trading at 1.2 for FY2016, well below its global peers (MSCI USA P/B x 2.7 and MSCI Europe P/B x 1.7) as well as MSCI AC World (P/B x 2.0). Estimated 1-year EPS growth on the index level stands at 10.6% for FY16 and 10.8% for FY17 (*). Moreover, Japanese Companies share buybacks hit record high and profitability remains the key investment theme in Japan: MSCI Japan ROE 8.3% for FY16 and 8.7% for FY17. As of end May, Japanese companies announced buybacks are nearly 90% of the last year's total amount. Surging buybacks strongly suggest Japanese companies' increasing commitments to corporate governance. It is also a strong indication that most Japanese companies are cash rich and generating strong cash flows (54% of Topix ex-financials companies are net cash, against 21% for the S&P*), which should continue help to stay resilient with external headwinds as the global growth slowing down and Fed's rates hike. Though the Q1 current earnings season suggested somehow negative earnings momentum and downward revisions for Japanese companies, due to a negative impact from the JPY appreciation against the USD and a major impact from fluctuation in corporate goods prices accompanying increase in oil prices, the on-going corporate governance and management behavior changes are expected to drive improvement in medium-term earnings and remain the bright spot to support equity market performance.

In May, Indosuez Japan Opportunities posted a gain of 1.42 %, slightly underperformed its benchmark by 17 bps (MSCI Japan -1.61%). Small & mid caps resumed its outperformance after the reversal trend in April (notably IT-related sector, followed companies with high overseas income weightings), mainly on the back of Yen depreciation and investors increasing focus on the IT sectors as seen elsewhere in Asian markets. IT, construction, food, transportation equipment, and bank sectors are ranked as best performers of the month. Amid a sustained uptrend in crude oil prices, deep value stocks such as (materials, mining, and energy) underperformed after the strong rebound since March. Indosuez Japan Opportunities performed mostly in line with its benchmark, our OW small cap exposure and OW domestic consumption / growth bias (OW consumer, pharmaceuticals and services) performed well in relative terms, while our UW financials especially banks and insurance hurt the relative performance. Looking forward, albeit the persisting high volatility in global markets and the challenging macroeconomic outlook, we maintain our positive view on Japanese equities over the long term, which are supported by appealing valuation and decent earnings growth. We favor domestic consumption plays and maintain our small & mid cap exposure to benefit from the domestic consumption recovery. In the near term, although the downside risks could persist in the market, we may still see positive surprises coming from the possibility of additional stimulus ahead of July's election, FY2016 supplementary budget, the high likely postponed next consumption tax which could be positive supports given the already pessimistic outlook in the market.

*Source: Factset

**Source: CLSA research, Bloomberg

Class*	Investors	Currency	Distribution	ISIN	Telekurs	MF**	SF***	DF****	RF***
P	All clients	JPY	Accumulation	LU1073912740	24.580.299	1.70%	3.00%	nil	1.00%
PX	All clients	JPY	Distribution	LU1073913045	24.580.315	1.70%	3.00%	nil	1.00%
NL	All clients	JPY	Accumulation	LU1073913391	24.580.334	1.70%	nil	1.00%	1.00%
NLX	All clients	JPY	Distribution	LU1073913557	24.580.351	1.70%	nil	1.00%	1.00%
C	All clients	JPY	Accumulation	LU1213844001	27.720.384	2.00%	4.00%	nil	nil
CX	All clients	JPY	Distribution	LU1213844183	27.720.397	2.00%	4.00%	nil	nil
CE	All clients	EUR	Distribution	LU1213844266	27.720.401	2.00%	4.00%	nil	nil

* Not all classes are available in every country. If you are an investor, please contact your advisor for more information

** MF : Management Fees (annual rate), outperformance fee not included

*** SF / RF : Subscription Fee / Redemption Fee, maximum rate

**** DF : Deferred Fee *pro rata temporis*

DISCLAIMER

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