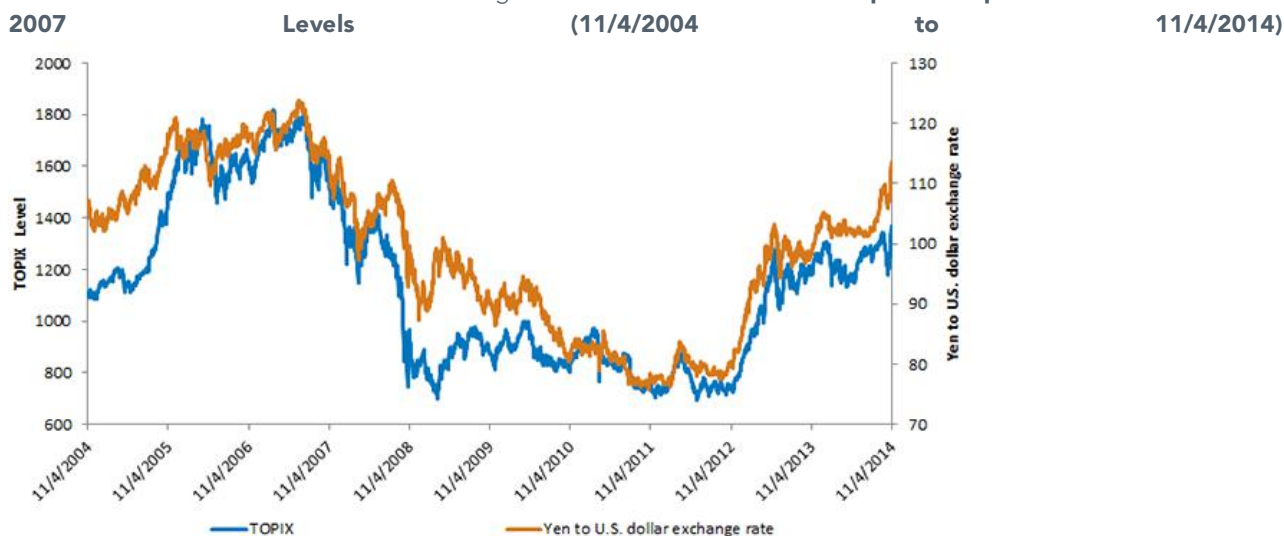


THE OPPORTUNITY IN JAPAN IS NOT OVER

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From the start of [Abenomics](#) —essentially November 30, 2012—through November 4, 2014, the [TOPIX](#) is up a cumulative 82%.¹ This strong performance may inspire people to ask whether they've missed the rally, especially if over the same period:² • The [S&P 500 Index](#) is up 48%. • The [MSCI EAFE Index](#) is up 22%. • The [MSCI Emerging Markets Index](#) is up 5%. The bottom line is that, even in the face of these returns, we believe that the window of opportunity is still open. **A Decade's Worth of Context** One way to contextualize the Abenomics move in Japan is to place today's market levels into a historical context. The figure looks at the last decade. **Japanese Equities and Yen Still not at**



Source: Bloomberg. You cannot invest directly in an Index. Past performance is not indicative of future results.

• Still Not Up to “Pre-Crisis” Levels:

Another way to think about 2007 levels is to suggest where markets were prior to the Global Financial Crisis of 2008-09. As of November 4, 2014, the TOPIX was at 1369. That means it still needs to appreciate approximately 33% to reach 1817, the value that it reached on February 26, 2007. At that time, the yen to U.S. dollar exchange rate was approximately 121, implying that from the current level of almost 114, nearly 6% of further depreciation would be needed.³

• **Profit expectations Improving:** Even with the total returns of the TOPIX up more than 80% during the Abenomics period⁴, profit expectations have increased nearly 72% over the same period. We believe this to be one of the most important reasons why the [valuation](#) window in Japan has not closed. The S&P 500, the MSCI EAFE and the MSCI Emerging Markets Indexes have not seen anywhere near this level of change in profit expectations. The [forward P/E ratio](#) for the TOPIX has actually remained stable over this period, even in the face of the performance that was experienced. • **Actual Profits Close to Record Highs:** While profit expectations have improved, we believe that it is also important to note what actual profits have done. Using quarterly data from September 30, 2012 to June 30, 2014 (the latest available), we can see that profits have improved approximately 57%. In fact, as of the end of the first quarter of 2014, Japanese profits had achieved record levels of over 17 trillion yen.⁵ **Room for Further Appreciation** We believe that the ultimate success of Abenomics will be judged over a period of multiple years, and while certain actions—especially those from the Bank of Japan—have been significant, others, like structural “third arrow” reforms, will take time. As we take in how far we’ve come in equity market rallies, we simply take this moment to remind people that: •

The TOPIX is still more than 30% below its pre-crisis levels. • Expectations of earnings for Japanese firms have been very strong during Abenomics. • Actual profits have achieved record highs during Abenomics. It's possible that this is just the beginning for Japan. ¹Source: Bloomberg, with cumulative performance measured from 11/30/12 to 11/4/14.

²Source for performance of all three Indexes is Bloomberg, with cumulative performance measured from 11/30/12 to 11/4/14. ³Source: Bloomberg. ⁴Source: Bloomberg, for period from 11/30/12 to 11/4/14. ⁵Source: Policy Research Institute of the Japan Ministry of Finance; income statement data, specifically ordinary profits, for period 9/30/12 to 6/30/14 used to approximate profit behavior during the Abenomics time frame of 11/30/12 to 11/4/14. Data published quarterly.

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DEFINITIONS

Abenomics : Series of policies enacted after the election of Japanese Prime Minister Shinzo Abe on December 16, 2012 aimed at stimulating Japan's economic growth.

Tokyo Stock Price Index (TOPIX) : A free float-adjusted market capitalization-weighted index that is calculated based on all the domestic common stocks listed on the Tokyo Stock Exchange First Section.

S&P 500 Index : Market capitalization-weighted benchmark of 500 stocks selected by the Standard and Poor's Index Committee designed to represent the performance of the leading industries in the United States economy.

MSCI Emerging Markets Index : a broad market cap-weighted Index showing performance of equities across 23 emerging market countries defined as "emerging markets" by MSCI.

Profit expectations : Compilation of analyst estimates for earnings per share over the coming 12-month period. These are estimates that may be subject to revision or prove to be incorrect over time.

Valuation : Refers to metrics that relate financial statistics for equities to their price levels to determine if certain attributes, such as earnings or dividends, are cheap or expensive.