

## Nomura Funds

## Japan Equity

October 2008

## Fund Price Changes

The fund underperformed the benchmark by 276 basis points over the one-month period from 30 September to 31 October 2008. Since inception the fund has underperformed the benchmark by 1333 basis points, delivering a performance of -33.52% versus -20.19% for the benchmark. For the year to date, the fund has underperformed the benchmark by 498 basis points, delivering a performance of -46.62% versus -41.64% for the benchmark.

## Performance of the Fund since Inception (Yen basis)

	1 month	3 month	6 month	1 Year	YTD	Since Inception
NAVps** %	-23.81	-38.39	-41.68	-52.58	-46.62	-33.52
Index (MSCI Japan)**	-21.06	-33.89	-36.91	-46.68	-41.64	-20.19
Excess Return	-2.76	-4.50	-4.77	-5.90	-4.98	-13.33
Rolling Year	September 07 - September 08		September 06 - September 07		September 06 - September 07	
Performance	-38.06		-1.44		18.39	

\*Inception date: 12<sup>th</sup> April 2005. \*\*Net Asset Value per share (NAVps) is calculated by Nomura Bank (Luxembourg) S.A. according to the prospectus and market standards in Luxembourg. \*\*\*MSCI Japan is the Morgan Stanley Capital International Japan Total Return (Net of Tax) Index Source: Nomura Asset Management U.K. Ltd

## Investment Objective

To achieve long term capital growth through investment in an actively managed portfolio of Japanese securities listed/dealt on Regulated Markets in Japan and to outperform the Benchmark [Being the Morgan Stanley Capital International Japan Total Return (Net of Tax) Index].

Launch date: 12 April 2005  
Base Currency: Japanese Yen  
ISIN Code: LU0217998821  
Bloomberg Code: NOMJAEQ LX Equity DES

Total Net Assets as at 31 October 2008:

JPY 975,304,321.00

NAV Per Share as at 31 October 2008:

JPY 66,483

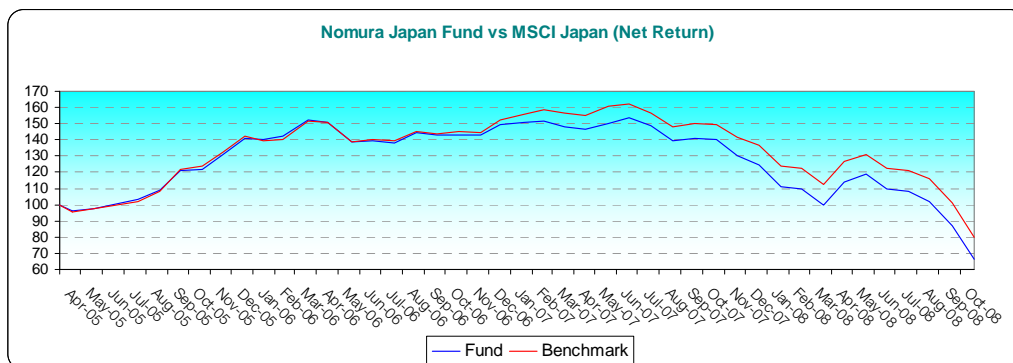
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## Web site address

<http://www.nomura.com/nam-europe/funds>



Source: Nomura Asset Management U.K. Ltd based on Net Asset Value per share calculated by Nomura Bank Luxembourg

## Monthly Performance Review for October 2008

The equity portfolio underperformed against the benchmark in October. Sector allocation and stock selection failed to add value, while the negative stock selection outcome weighed heavily on the relative performance. Despite a barrage of financial measures from the authorities in the US, Europe, and Japan, the global market turmoil and extremely high volatility continue, while the excessive risk aversion is not likely to ease in the near term. Our sector strategy and stock selection have already moved towards rather more conservative positions than before, considering the global macroeconomic downturn and the rapid yen strengthening. However, the portfolio suffered from the unfavourable impact of an overweight exposure to the economic-sensitive sectors in a market environment that largely neglected valuations and fundamentals. The underweight position in Infrastructure again had a negative effect amid the extremely risk averse mind-set in the current market. Utility stocks posted a solid outperformance regardless of their stretched valuations and vulnerable fundamentals based on their defensive characteristics. In the meantime, the underweight exposure to the Financials sector was able to add value. Although the major Japanese banking groups have relatively healthy balance sheets compared to their US and European peers, recent news of equity capital raising deals caused a sell-off among these stocks given the market's concerns over equity dilution risk.

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## Monthly Performance Review for October 2008 (continued)

The selection result within the Electronics sector had a negative impact, as DRAM chip maker Elpida Memory issued a convertible bond of JPY50 billion to raise cash in order to survive the intense competitive conditions in the DRAM chip market.

Although its balance sheet will be reinforced to give it an advantage over other marginal competitors in Asia and Europe, equity investors sold the shares down aggressively due to the increased dilution risk and pushed the stock price below the minimum convertible price limit.

## Market Outlook

Japan's interim earnings season for the first half of FY2008 is just gathering momentum, and over the next few weeks should give us a clearer picture of the outlook for the full fiscal year. Companies are seeing some improvement in their terms of trade, which should ease the pressure on input costs. However, any short-term support for earnings will likely dissipate over the next three to six months as waning final demand causes more intense price competition, especially in the consumer, industrial, and component related industries. The rapid appreciation of the yen, especially against the euro, is also a negative factor for exporting companies. Taking account of a likely recession and the first-half earnings announcements available so far, we expect recurring profits to contract, with an aggregate figure of around -15% to -20% for FY2008 (ending March 2009), with little or no subsequent growth in the following fiscal year (based on Nomura 400 ex-Financials).

Equity valuations in the Japanese market have discounted not only worsening fundamentals but also the ongoing credit crisis, the rapid appreciation of the yen, and the forced liquidation of equity holdings due to fund redemptions. The exceptionally low market price-earnings ratio of 10.0 and price to book ratio of 0.8 observed in October were consistent with an implied 30% to 40% slump in recurring profits over the next two years. Although we believe Japanese corporate earnings are sure to suffer amid the economic slowdown, with stock market and currency volatility set to continue, these valuations seem to imply depression-like conditions and appear to be an anomaly.

## Sector Allocation

NAM 10 Cluster %	MSCI	Portfolio
	<u>Oct. 08</u>	<u>Oct. 08</u>
Consumption	8.65	9.03
Medical	6.49	5.18
Infrastructure	17.31	14.37
Machinery	4.97	6.40
Automobiles	11.36	11.25
Electronics	15.43	14.34
Commodities	12.47	16.93
Financials	14.93	13.28
Communication	3.42	5.20
Inform./System	4.98	4.02

## Top 5 Holdings (as at 31 Oct 2008)

<u>Company Name</u>	<u>% of Equity Portion</u>
1 TOYOTA MOTOR	5.16
2 ITOCHU	3.52
3 SUMITOMO MITSUI FIN GROUP	3.38
4 NTT DOCOMO	3.21
5 MITSUBISHI UFJ FIN GROUP	3.08

Source: Nomura Asset Management Co. Ltd  
Msci Japan

## Top 3 Positive Contributors\* (as at 31 Oct 2008)

<u>Company Name</u>
1 MIZUHO FIN GROUP
2 NTT DOCOMO
3 HASEKO

## Top 3 Negative Contributors\* (as at 31 Oct 2008)

<u>Company Name</u>
1 ELPIDA MEMORY
2 MAZDA MOTOR
3 SUMITOMO MITSUI FIN GROUP

\*Performance contributors of the fund relative to the benchmark. Source: Nomura Asset Management Co. Ltd

## Top 10 Positive Positions (as at 31 Oct. 2008)

	<u>Company Name</u>	<u>% of Betting</u>
1	ITOCHU	3.10
2	SHIMADZU	1.96
3	SUMITOMO MITSUI FIN GROUP	1.95
4	NTT DOCOMO	1.86
5	ROHM	1.75
6	ORIX	1.61
7	CREDIT SAISON	1.40
8	KAMIGUMI	1.35
9	SHIONOGI	1.28
10	SANTEN PHARM	1.26

## Top 10 Negative Positions (as at 31 Oct. 2008)

	<u>Company Name</u>	<u>% of Betting</u>
1	TAKEDA PHARM	-2.23
2	HONDA MOTOR	-2.20
3	CANON	-1.98
4	NINTENDO	-1.68
5	PANASONIC	-1.54
6	EAST JPN RAILWAY	-1.31
7	MIZUHO FIN GROUP	-1.25
8	MITSUBISHI	-1.21
9	NTT	-1.13
10	TOKIO MARINE HD	-1.12

\*Active weight of the fund relative to the benchmark. Source: Nomura Asset Management Co. Ltd

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