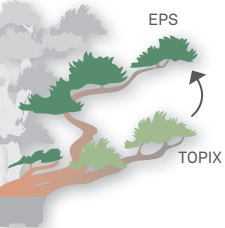


FIVE CHANGES HELPING TO NURTURE GROWTH

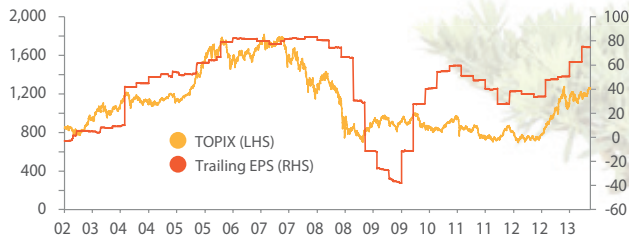
Major economic and political shifts mean Japan has the potential to surprise on the upside over the next 20 years.



1 MARKET HAS NOT YET RISEN TO REFLECT INCREASED EPS

Even though the Japanese stock market rose by 58% in 2013¹, it has not reflected the growth in earnings seen in other equity markets since 2008 and has yet to factor in this potential for change.

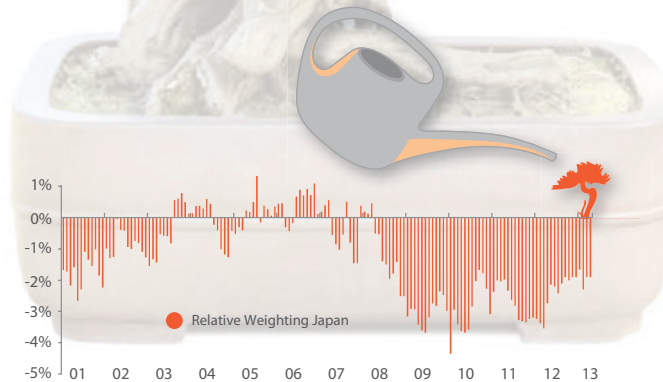
1. Source: BBC News Business, Dec 2013



Source: Bloomberg, Nomura, 4 December 2013

2 NEW INFLOWS FROM OVERSEAS INVESTORS

Despite the many positive signals about Japan's political and economic turnaround, with company earnings and the TOPIX both rising, global investors are still underweight Japanese equities. We anticipate increased demand for these stocks as overseas investors reassess their position.



Source: EPFR, Nomura, September 2013

3 PLENTY OF WORKERS TO FUEL GROWTH

The private sector has a vital role in ensuring the success of economic reforms. The turnaround requires more jobs to be created, and as Japan only utilises half its potential working population, there is a huge pool of reserve labour. Progress is underway; more flexible labour laws are being introduced, the manufacturing sector has increased employee bonuses and a government survey suggests 80% of companies are considering wage rises².

2. Source: Ministry of Health, Labour & Welfare, January 2014



4 PROPERTY VALUES INCREASING

The positive impact generated by 'Abenomics', including more flexible fiscal policies, can also be seen in the real estate sector. Rising property prices and a decline in the vacancy rate in central Tokyo are important signs of increasing confidence.



5 PUBLIC ACCEPT THE NEED FOR CHANGE

A cultural shift is taking place, as the Japanese people show themselves willing to endure greater economic discipline. Japan has raised its consumption tax for the first time in 17 years to help reduce public debt, and the public have also accepted changes to inheritance tax, the medical burden on the elderly and a reform of the employment market. That a society traditionally so resistant to change is now backing these progressive measures shows the strength of support for the Abe government.

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