

## Aberdeen Japan Equity Fund, Inc. (JEQ)

### Fund performance

Aberdeen Japan Equity Fund returned -11.90%<sup>1</sup> on a net asset value basis for the three-month period ended October 31, 2018, underperforming the -8.83% return of its benchmark, the Tokyo Stock Price Index (TOPIX).<sup>2</sup> Both asset allocation and stock selection detracted from the relative performance during the reporting period.

At the sector level, the Fund's overweight to basic materials relative to the benchmark detracted from performance, along with overweight allocations to both consumer goods and services. Conversely, the overweight allocation to the more defensive healthcare sector benefited Fund performance.

As bottom-up stock-pickers, our allocation strategy is a function of where we can find what we believe are attractively valued, good-quality companies.

### Market review

Japanese large-cap equities declined during the three-month review period. Investor sentiment was roiled by a recurring litany of worries, including the impact of moderating Chinese growth on Japanese companies, worsening China-U.S. trade relations, the pace of U.S. interest-rate hikes and contagion fears across emerging markets arising from financial crises in Turkey and Argentina. However, a solid corporate results season

helped mitigate losses, while news that Europe and the U.S. agreed to avert a transatlantic trade war and resilient American economic data also provided support.

The Japanese economy showed firmness, with estimates of second-quarter 2018 GDP revised upward, underpinned by capital investment from non-financial companies, and the manufacturing sector. The unemployment was at its lowest level since the 1990s in September, and precipitated robust investment in software related to labor-saving technologies. The Bank of Japan downgraded its inflation projections and maintained an accommodative monetary policy.

In politics, Prime Minister Shinzo Abe won a third term as leader of the governing Liberal Democratic Party (LDP), setting him up to become the longest-serving premier in Japanese history. Despite winning more than two-thirds of the votes cast, there appeared to be some discontent, judging from votes cast in favor of a rival candidate. We think that this may encourage the prime minister to direct greater infrastructure spending towards neglected areas that suffered from a series of natural disasters during the summer.

### Outlook

In our view, a persistent raft of worries is likely to dampen investor sentiment in global stock markets in the near term. Chief among these are fears that home-grown issues in Argentina and Turkey may spread the contagion to more vulnerable emerging economies, exacerbated by rising oil prices and the strengthening U.S. dollar. We feel that Japan's outlook appears more stable, with Prime Minister Shinzo Abe likely to win the upcoming LDP leadership vote and as the economy remains on a surer footing, although the recent string of natural disasters could prove disruptive. Overall, we think that global economic growth may come under pressure, especially if trade friction escalates.

In light of these challenges, we expect the Japanese stock market to be reactive to shorter-term newsflow and dismissive of the longer-term prospects. Against this backdrop, we remain vigilant in our assessment of the fundamentals of the Fund's holdings, and we are particularly mindful of their balance-sheet health should there be a prolonged period of uncertainty.

<sup>1</sup> Past performance is no guarantee of future results. Investment returns and principal value will fluctuate and shares, when sold, may be worth more or less than original cost. Current performance may be lower or higher than the performance quoted. Net asset value return data include investment management fees, custodial charges and administrative fees (such as Director and legal fees) and assumes the reinvestment of all distributions.

<sup>2</sup> The Tokyo Stock Price Index (TOPIX) is a market capitalization-weighted index of large- and mid-sized companies listed on the Tokyo Stock Exchange. Indexes are unmanaged and have been provided for comparison purposes only. No fees or expenses are reflected. You cannot invest directly in an index.

**Aberdeen Japan Equity Fund Total Returns (%)\***

	Cumulative as of Oct. 31, 2018			Annualized as of Oct. 31, 2018				Since Inception 01/27/07
	1 Mo	3 Mo	YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs	
NAV	-11.9	-11.9	-14.6	-11.7	4.4	6.2	7.0	1.8
Market Price	-11.8	-12.9	-18.1	-15.2	4.1	5.0	5.9	1.2
Tokyo Stock Price Index	-8.8	-6.1	-7.8	-4.1	6.4	5.8	7.4	3.1

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**Aberdeen Japan Equity Fund, Inc. Top 10 Holdings\*\***

Holding	%
Shin-Etsu Chemical	5.0
Keyence Corp.	4.3
Shionogi and Company Ltd.	3.9
Sysmex Corp.	3.9
Daikin Industries	3.5
Seven & I Holdings	3.4
Pigeon Corp.	3.4
Chugai Pharmaceutical	3.2
KDDI Corp.	3.1
Shiseido Co. Ltd.	3.0
<b>Total</b>	<b>36.6</b>

\*\* As of October 31, 2018. Based on total assets. Holdings are subject to change and are provided for informational purposes only and should not be deemed as a recommendation to buy or sell the securities shown. The top 10 holdings are reported by share class. Certain companies listed may be held in additional share classes not listed above.

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Equity stocks of small and mid-cap companies carry greater risk, and more volatility than equity stocks of larger, more established companies.

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