

Japan Value Equity Green

December 2024

Strategy

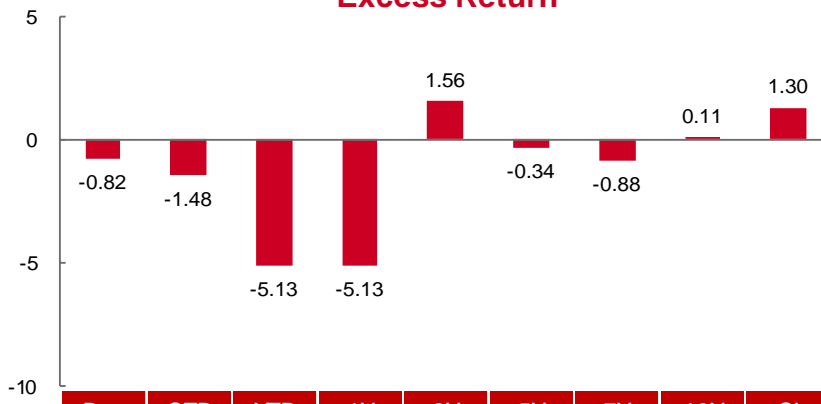
Green Strategy invests in Japanese equities that meet environmental management and investment value criteria, and aims to achieve above-benchmark return in the mid- to long-term. We use a bottom-up approach. The Japanese equity research team analyzes intrinsic value of individual stocks and compares it with market price in order to identify undervalued stocks. Environmental research is conducted by Sompo Risk Management, a leading company in domestic ESG research.

Market Review

The Japanese market rose during the month as investors were positive on significant JPY depreciation against USD caused by the expanding interest rate gap between the two countries. Transportation equipment names were a large driver of the growth. They benefited from the significant depreciation of JPY, expectations surrounding the merger of the two domestic automobile majors of Honda and Nissan, and reports that Toyota aims to roughly double its ROE.

The market rose in the first half of the month as China's Caixin PMI beat expectation and hopes grew for the GPIF (Government Pension Investment Fund) to raise its allocation to equity following reports the Ministry of Health, Labour and Welfare will raise the investment return target for the largest pension fund in the country. The market then dropped somewhat as although the BoJ left rates unchanged and the central bank governor Kazuo Ueda stated he would not be rushing into rate hikes, the market was negative on the prospect of slow rate cuts by the Fed in 2025 despite the US central bank lowering rates 25bps during the month. Share prices then picked up again through the end of the month on the retreat of excessive fears of slower Fed rate cuts following weaker-than-expected core PCE inflation numbers and JPY depreciation versus USD.

Composite Performance (%) Excess Return*



	Dec	QTD	YTD	1Y	3Y	5Y	7Y	10Y	SI
Composite	3.20	3.95	15.33	15.33	16.21	12.44	7.97	9.65	6.59
Benchmark	4.02	5.43	20.45	20.45	14.65	12.78	8.85	9.54	5.29

Composite Summary

Composite Name	Sompo Japan Green Mother Fund	
Benchmark	TOPIX Total Return**	
Inception Date	July 2006	
Number of Holdings	77	
Bloomberg Code	SNAMGRN	
Assets Under Management	Strategy Total	JPY 49.8B (USD 317M)

Top Ten Holdings	%
MITSUBISHI UFJ FINANCIAL GRO	4.66
SUMITOMO MITSUI FINANCIAL GR	3.32
TOYOTA MOTOR CORP	3.28
NIPPON TELEGRAPH & TELEPHONE	2.71
DAIKIN INDUSTRIES LTD	2.47
PANASONIC HOLDINGS CORP	2.44
MURATA MANUFACTURING CO LTD	2.37
EAST JAPAN RAILWAY CO	2.06
MEBUKI FINANCIAL GROUP INC	1.90
TAKEDA PHARMACEUTICAL CO LTD	1.89
Total	27.10

Characteristics

	Portfolio	Benchmark
P/E	12.87x	14.01x
P/B	0.99x	1.38x
ROE	7.72%	9.87%
Dividend Yield	3.17%	2.52%

Market Cap

	Portfolio	Benchmark
Large	45.5%	67.3%
Mid	47.3%	25.2%
Small	6.7%	7.5%
Others	0.0%	-

* Excess return figures are annualized for three years and longer.

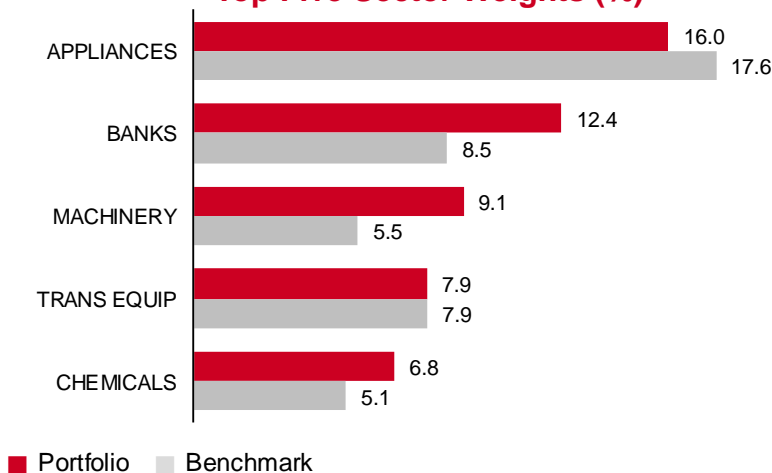
** TOPIX Total Return Index includes the dividends paid by the index constituents.

The data shown is of a representative account. Past performance is not a guarantee of future returns.

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Top Five Sector Weights (%)



Yuya Harashima, CMA, CFA
Portfolio Manager
10 years investment experience
8 years at Sompo AM

Attribution Analysis

Both sector allocation and stock selection detracted from performance. In sector allocation, underweighting (UW) of Elec Power & Gas, Pharms, and Info & Comm contributed to performance, while overweighting (OW) of Land Trans, Banks, and Chemicals detracted. In stock selection, OW of Panasonic Holdings and UW of Daiichi Sankyo and Shin-Etsu Chemical contributed to performance, while UW of Sony Group and Toyota Motor and OW of East Japan Railway detracted. Last month we increased holdings of OSG, Taiyo Yuden, and Daikin Industries and decreased holdings of Sohgo Security Services, Toray, and Sumitomo Electric Industries.

Outlook

We expect the market will face heavy upside resistance over the near term.

Japanese corporate earnings will likely grow on the back of a recovery in domestic real wages, a cyclical recovery to the manufacturing sector, and capital efficiency improvement measures implemented by companies following pressure from the Tokyo Stock Exchange (TSE). Share prices do not look overvalued given current general valuation metrics such as forward P/E. However, downward pressure on share prices will likely increase because of concerns of increased tariffs from the US and worries that JPY will appreciate on the back of divergent monetary policy between the US and Japan. That said, it is difficult to envision a large correction to the Japanese market given strong equity demand from the high level of large-scale share buybacks seen recently and the BoJ's relatively accommodative monetary policy compared to the US and Europe.

Contact Information

Daniel Robbins
+81 3 5290 3414

Takuya Orime
+81 3 5290 3406

Group email: global@sompo-am.co.jp

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