

Japan Value Equity Impact

December 2024

Strategy

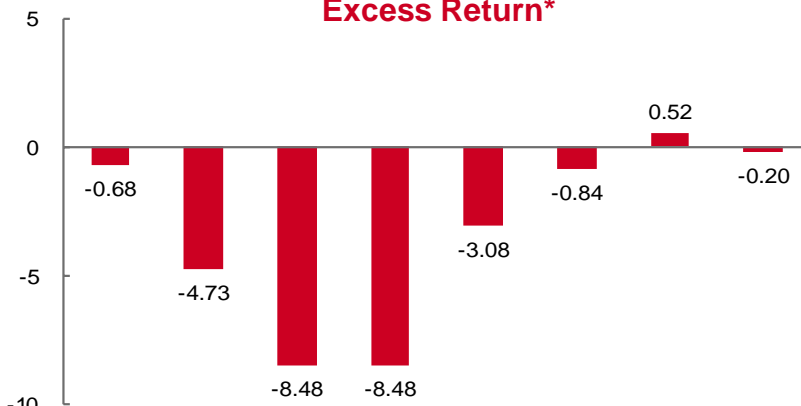
Impact Strategy takes concentrated and long-term positions in Japanese equities proactively rethinking traditional work practices, e.g. through the promotion of female participation in the workforce and diversification, and those with highly stable and profitable businesses top in value-add creation. These are important targets given Japan's declining population. Our equity investment takes a bottom-up approach in which the Japanese equity research team analyzes intrinsic value of individual stocks and compares it with market price in order to identify undervalued stocks.

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*



Top Ten Holdings	%
KDDI CORP	5.77
SHIN-ETSU CHEMICAL CO LTD	5.34
DENSO CORP	4.83
ITOCHU CORP	4.70
DAIKIN INDUSTRIES LTD	4.58
MURATA MANUFACTURING CO LTD	4.12
FANUC CORP	3.64
BRIDGESTONE CORP	3.20
KOMATSU LTD	3.08
ASTELLAS PHARMA INC	3.01
Total	42.29

Characteristics		
	Portfolio	TOPIX
P/E	15.37x	14.01x
P/B	1.61x	1.38x
ROE	10.50%	9.87%
Dividend Yield	2.67%	2.52%

Market Cap		
	Portfolio	TOPIX
Large	57.2%	67.3%
Mid	35.5%	25.2%
Small	6.3%	7.5%
Others	0.0%	-

	Dec	QTD	YTD	1Y	3Y	5Y	7Y	SI
Composite	3.34	0.70	11.97	11.97	11.57	11.94	9.37	11.21
Benchmark	4.02	5.43	20.45	20.45	14.65	12.78	8.85	11.41

Composite Summary

Composite Name	Japan Value Equity Impact
Benchmark	TOPIX Total Return**
Inception Date	October 2016
Number of Holdings	39
Assets Under Management	JPY 11.3B (USD 72M)

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

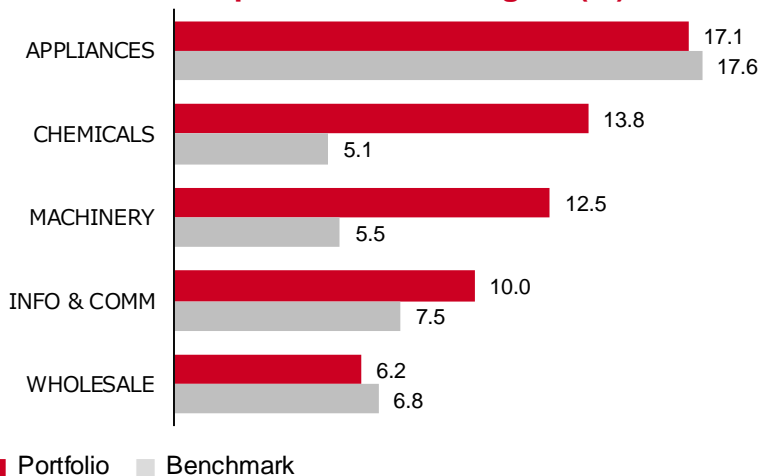
** TOPIX Total Return Index includes the dividends paid by the index constituents.

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

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Japan Value Equity Impact

Top Five Sector Weights (%)



Hiromasa Tatsuta, CMA
Portfolio Manager
9 years investment experience
8 years at Sompo AM

Attribution Analysis

In stock selection, share price increases for Anritsu, Ryohin Keikaku, and Itochu Corporation contributed to performance, while share price declines for Shin-Etsu Chemical, Toto, and Tokyu Corporation detracted.

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.

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