

Japan Value Equity Impact

February 2025

Strategy

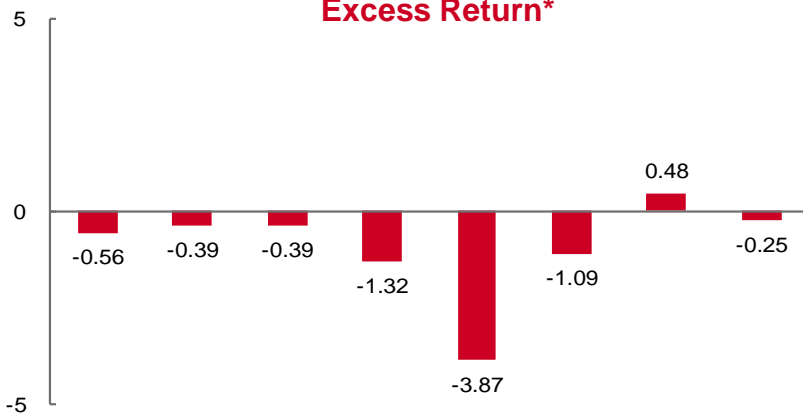
Impact Strategy takes concentrated and long-term positions in Japanese equities proactively rethinking traditional work practices, e.g. through the promotion of female participation in the workforce and diversification, and those with highly stable and profitable businesses top in value-add creation. 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 fell in February on the back of concerns over US tariffs and economic decline as well as JPY appreciation following the shrinking of the Japan-US interest rate gap. Growth stock were down because of harsher regulations on semiconductor-related sales to China and concerns of a slowdown in investment in AI.

The market fell in the first half of the month on executive orders from US President Donald Trump for further tariffs on Canada, Mexico, and China. The market did rebound after Trump said he would delay the activation of tariffs on Canada and Mexico, but uncertainty concerning tariffs once again spiked when he signed an executive order for 25% tariffs on all steel and aluminium imports. The market then trended sideways. Although strong domestic earnings acted to support the market, preliminary domestic GDP figures coming in higher than expected raised the spectre of further rate increases by the BoJ. Share prices then fell through the end of the month as JPY appreciated (on the shrinking Japan-US interest rate gap) and concerns over the economy grew on the back of US Services PMI falling below 50 (the point between expansion and contraction) for the first time in two years and US consumer confidence also falling significantly.

Composite Performance (%) Excess Return*



Top Ten Holdings	%
KDDI CORP	5.81
SHIN-ETSU CHEMICAL CO LTD	5.08
ITOCHU CORP	4.90
DENSO CORP	4.71
DAIKIN INDUSTRIES LTD	4.44
MURATA MANUFACTURING CO LTD	3.97
BRIDGESTONE CORP	3.30
FANUC CORP	3.29
KOMATSU LTD	3.16
MITSUBISHI ESTATE CO LTD	2.98
Total	41.64

Characteristics		
	Portfolio	TOPIX
P/E	14.26x	13.11x
P/B	1.49x	1.29x
ROE	10.42%	9.88%
Dividend Yield	2.86%	2.69%

Market Cap		
	Portfolio	TOPIX
Large	57.0%	66.8%
Mid	35.9%	25.6%
Small	6.0%	7.6%
Others	0.0%	-

	Feb	QTD	YTD	1Y	3Y	5Y	7Y	SI
Composite	-4.34	-4.04	-4.04	1.27	11.42	13.80	9.17	10.43
Benchmark	-3.79	-3.65	-3.65	2.59	15.29	14.89	8.70	10.67

Composite Summary

Composite Name	Japan Value Equity Impact
Benchmark	TOPIX Total Return**
Inception Date	October 2016
Number of Holdings	39
Assets Under Management	JPY 11.9B (USD 79M)

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

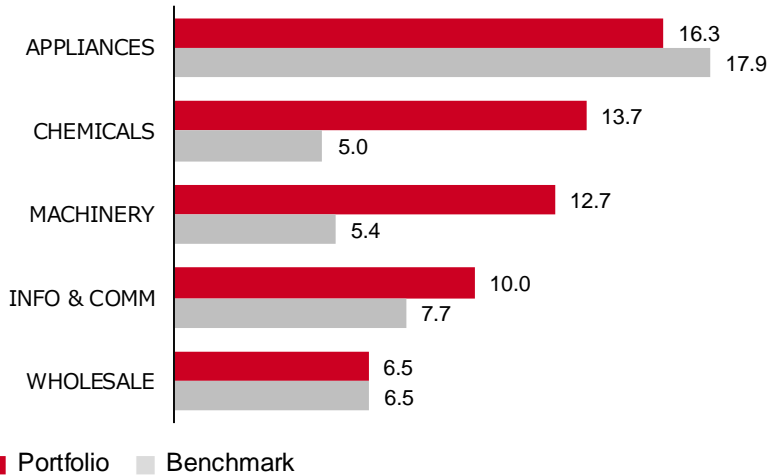
** TOPIX Total Return Index includes the dividends paid by the index constituents.

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 SCSK, Ariake Japan, and Bridgestone contributed to performance, while share price declines for Daikin Industries, Denso, and Shin-Etsu Chemical 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). Valuation metrics like forward PER have fallen on concerns over further tariffs from the US and JPY appreciation caused by divergent monetary policy by the US and Japan. We expect market volatility (degree of movement in share prices) to increase as long as there is not a clear picture on coming tariff policy. As such, we believe it will take some time before valuations return to an upward trajectory. 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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