

Japan Value Equity Impact

May 2025

Strategy

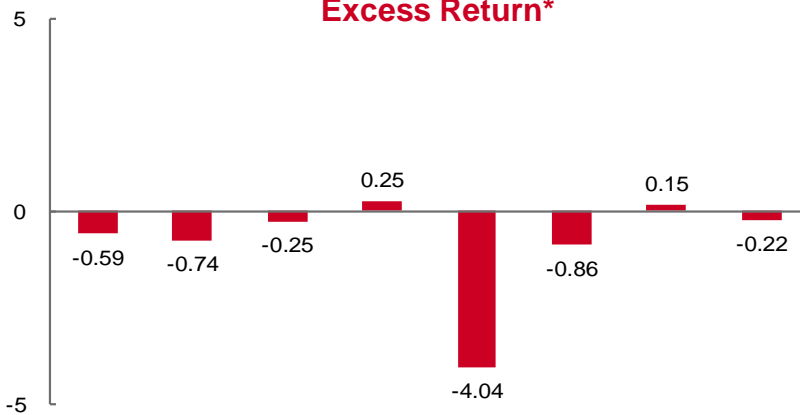
Impact Strategy takes concentrated and long-term positions in Japanese equities proactively rethinking traditional work practices, e.g. through the promotion of female participation in the workforce and diversification, and those with highly stable and profitable businesses top in value-add creation. 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 rose in May on expectations for softer tariff policy out of the Trump administration in the US. The rise was led by the non-ferrous sector, which grew on expectations for increased demand for telecommunication cables following the announcement of a large data centre construction project in the Middle East, and the banks sector, which grew on expectations for wider net interest margins following the increase in Japanese interest rates.

The market rose in the first half of the month as the BoJ left rates unchanged at its monetary policy meeting and Trump tariff policy fears weakened following the US and the UK coming to a trade deal. The market then rocked back and forth through the middle of the month despite the US and China agreeing to lower the additional tariffs they had imposed on each other as conservative earnings guidance weighed on sentiment. Share prices then rose again through the end of the month despite US long-term rates rising on the back of concerns over worsening fiscal conditions as the US agreed to postpone the imposition of tariffs on the EU and Nvidia released strong earnings results.

Composite Performance (%) Excess Return*



Top Ten Holdings	%
SHIN-ETSU CHEMICAL CO LTD	5.05
KDDI CORP	5.04
ITOCHU CORP	4.52
DENSO CORP	4.37
TOKYO ELECTRON LTD	4.27
MURATA MANUFACTURING CO LTD	4.02
DAIKIN INDUSTRIES LTD	3.96
FANUC CORP	3.29
BRIDGESTONE CORP	2.97
KOMATSU LTD	2.93
Total	40.43

Characteristics		
	Portfolio	TOPIX
P/E	14.68x	13.96x
P/B	1.54x	1.36x
ROE	10.48%	9.74%
Dividend Yield	2.94%	2.65%

Market Cap		
	Portfolio	TOPIX
Large	58.5%	66.7%
Mid	33.2%	25.7%
Small	6.3%	7.5%
Others	0.0%	-

	May	QTD	YTD	1Y	3Y	5Y	7Y	SI
Composite	4.52	4.71	1.58	3.83	12.39	14.23	9.75	10.84
Benchmark	5.10	5.45	1.83	3.58	16.44	15.09	9.60	11.06

Composite Summary

Composite Name	Japan Value Equity Impact
Benchmark	TOPIX Total Return**
Inception Date	October 2016
Number of Holdings	40
Assets Under Management	JPY 10.3B (USD 71M)

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

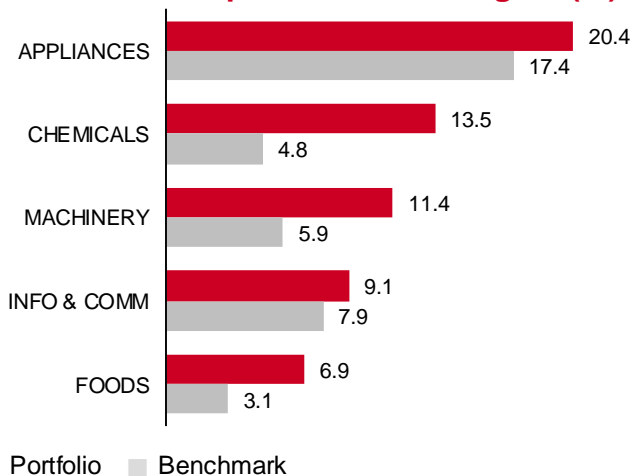
** TOPIX Total Return Index includes the dividends paid by the index constituents.

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
10 years investment experience
8 years at Sompo AM

Attribution Analysis

In stock selection, share price increases for Ajinomoto, Tokyo Electron, and Shin-etsu Chemical contributed to performance, while share price declines for Omron, Sohgo Security Services, and Murata Manufacturing detracted.

Outlook

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

Japanese corporate earnings will likely be positively impacted by a recovery in domestic real wages and capital efficiency improvement measures implemented by companies following pressure from the Tokyo Stock Exchange (TSE) but may stagnate because of negative impacts from additional Trump tariffs. Valuation metrics like forward P/E fell significantly on concerns over additional tariffs but have already recovered from this because of expectations over negotiations between the US and individual countries. The market will now likely bounce back and forth according to news flow concerning the tariffs. We believe that share price will be supported by strong equity demand from the high level of large-scale share buybacks seen recently and the BoJ having relatively accommodative monetary policy compared to the US and Europe but that investor sentiment will unlikely rise until it is clear where Trump tariff policy will ultimately end up.

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