

Japan Value Equity Impact

September 2025

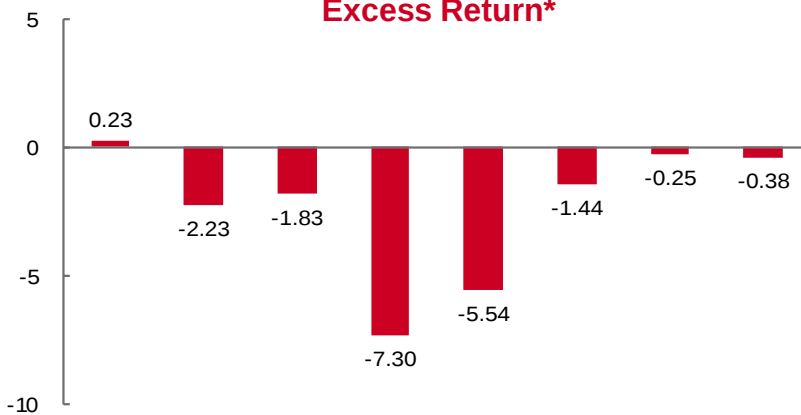
Strategy

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

Japanese market prices rose on heightened expectations for Fed rate cuts and expansionary fiscal policy following the change in Prime Minister in Japan. Growth in the nonferrous and electric appliances, driven by increased expectations for AI investment expansion, pulled the overall market up. Share prices rose in the beginning of the month as expectations rose for rate cuts in the US following employment data undershooting market expectations and investors came to believe there could be an expansion in fiscal policy following the resignation announcement from standing Prime Minister Shigeru Ishiba. The market then remained strong through the middle of the month on the back of expectations for expanded investment in AI and forecasts for two Fed rate cuts in 2025. The market did briefly decline on the announcement that the BoJ will be selling its ETF and J-REIT holdings but then recovered as the pace of selling will be extremely slow. The market then fell at the end of the month as JPY appreciated on comments from BoJ officials about the increased need for the BoJ to hike rates as well as concerns over the possibility of a government shutdown in the US if the Senate is not able to pass a government services funding bill.

Composite Performance (%) Excess Return*



Top Ten Holdings	%
SHIN-ETSU CHEMICAL CO LTD	5.20
KDDI CORP	5.11
ITOCHU CORP	4.51
TOKYO ELECTRON LTD	4.30
DENSO CORP	4.18
DAIKIN INDUSTRIES LTD	3.98
MURATA MANUFACTURING CO LTD	3.93
FANUC CORP	3.37
BRIDGESTONE CORP	3.03
KOMATSU LTD	2.88
Total	40.49

Characteristics		
	Portfolio	TOPIX
P/E	15.60x	15.19x
P/B	1.69x	1.49x
ROE	10.85%	9.84%
Dividend Yield	2.77%	2.48%

Market Cap		
	Portfolio	TOPIX
Large	58.5%	66.3%
Mid	33.3%	26.0%
Small	6.1%	7.7%
Others	0.0%	-

	Sep	QTD	YTD	1Y	3Y	5Y	7Y	SI
Composite	3.21	8.81	13.46	14.25	16.98	15.41	10.53	11.79
Benchmark	2.98	11.04	15.29	21.55	22.52	16.85	10.78	12.17

Composite Summary

Composite Name	Japan Value Equity Impact
Benchmark	TOPIX Total Return**
Inception Date	October 2016
Number of Holdings	40
Assets Under Management	JPY 7B (USD 48M)

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

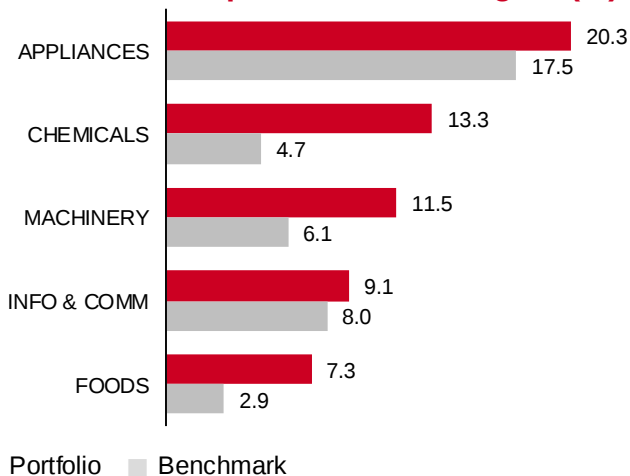
** TOPIX Total Return Index includes the dividends paid by the index constituents.

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
9 years at Sompo AM

Attribution Analysis

In stock selection, share price increases for Tokyo Electron, Murata Manufacturing, and Shin-Etsu Chemical contributed to performance, while share price declines for KDDI, Daikin Industries, and Kao detracted.

Outlook

We expect the market will face heavier upside resistance going forward. We urge caution over the near term given that valuation metrics like forward P/E look overall somewhat overheated, having been pulled upwards by a small number of stocks on the back of the US rate cut and expectations for fiscal policy from the incoming government administration in Japan. However, corporate earnings forecasts for this fiscal year may now be revised upwards given the heightened likelihood they will not fall as much as originally expected following the easing of Trump's tariffs. In addition, we do not foresee any large fall in the Japanese market as there is strong equity demand from the high level of large-scale share buybacks seen recently and the BoJ has relatively accommodative monetary policy compared to the US and Europe. While we do expect investors to more readily make predictions of earnings growth as the negative impacts of the Trump tariffs fade away in the second half of the coming fiscal year, we believe it will still take some time before we see serious fundamentals-driven market growth.

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