SOMPO ASSET MANAGEMENT

Japan Value Equity Impact

June 2026

Strategy

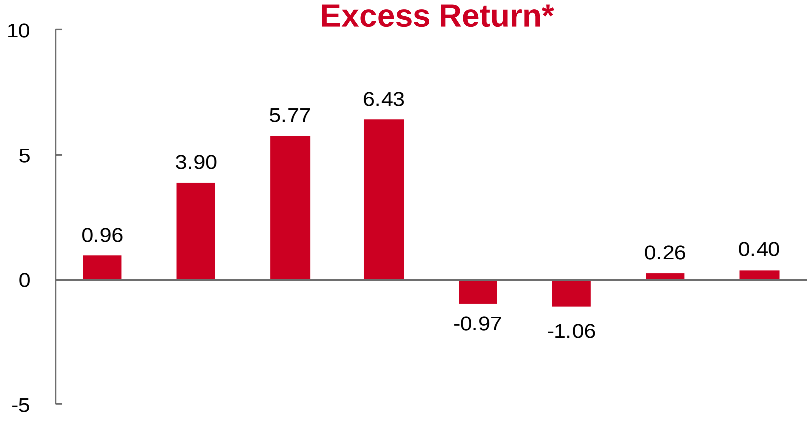
Impact Strategy takes concentrated and long-term positions in Japanese equities proactively rethinking traditional work practices, e.g. through the promotion of female participation in the workforce and diversification, and those with highly stable and profitable businesses top in value-add creation. 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 market lacked a clear sense of direction with mixed trading influenced by media reports of the Middle East situation and semiconductors for generative AI. The electric appliances sector rose on expectations for demand growth for generative AI, and the bank sector performed well as its profits are poised to improve from rising domestic interest rates. Meanwhile, the wholesale and mining sectors fell on reduced expectations for earnings growth given the eased tension in the Middle East.

In the first part of the month, the Japanese market fell due to heightened fears over the Middle East situation following an Israeli strike on Lebanon and expectations for early rate hikes stemming from the BoJ Governor Ueda's speech. The market then bounced back, driven by tech stocks as reports of progress in ceasefire negotiations between the US and Iran improved investor sentiment. Subsequently, the market's upside was capped by increased expectations for US rate hikes within the year after the release of the FOMC's dot plot. In the latter part of the month, Asian stock markets saw a decline due to concerns over overheating in AI-related stocks, and this selling extended to the domestic market. As the month drew to a close, the market experienced choppy trading, primarily driven by position adjustments ahead of the quarter-end.

Composite Performance (%)
Excess Return*



	Jun	QTD	YTD	1Y	3Y	5Y	7Y	SI
Composite	2.01	18.30	24.33	49.69	22.29	17.27	17.51	14.55
Benchmark	1.05	14.40	18.56	43.26	23.27	18.34	17.25	14.15

Composite Summary

Composite Name	Japan Value Equity Impact
Benchmark	TOPIX Total Return**
Inception Date	October 2016
Number of Holdings	40
Assets Under Management	JPY 7.7B (USD 47M)

* Excess return figures are annualized for three years and longer.
** TOPIX Total Return Index includes the dividends paid by the index constituents.

Top Ten Holdings	%
TOYOTA MOTOR CORP	6.36
KDDI CORP	4.65
ITOCHU CORP	4.25
SHIN-ETSU CHEMICAL CO LTD	4.22
MURATA MANUFACTURING CO LTD	3.86
DAIKIN INDUSTRIES LTD	3.71
DENSO CORP	3.60
FANUC CORP	3.04
TOKYO ELECTRON LTD	2.90
BRIDGESTONE CORP	2.69
Total	39.29

Characteristics

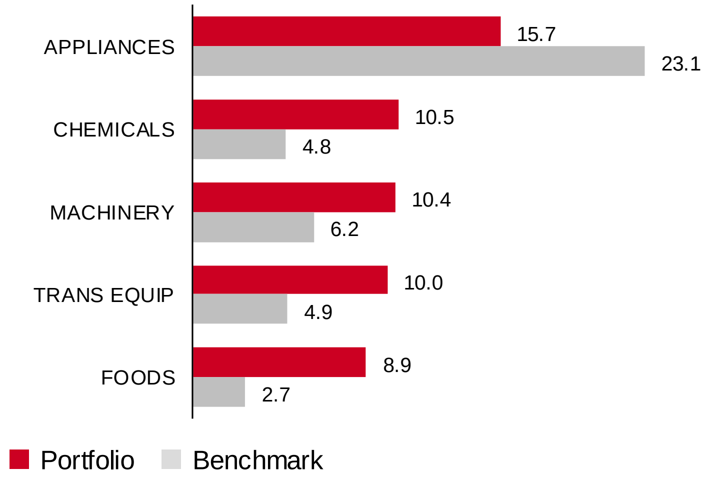
	Portfolio	TOPIX
P/E	16.05x	16.30x
P/B	1.75x	1.75x
ROE	10.88%	10.74%
Dividend Yield	2.57%	2.23%

Market Cap

	Portfolio	TOPIX
Large	62.5%	67.6%
Mid	28.1%	25.4%
Small	4.4%	6.9%
Others	0.0%	-

Japan Value Equity Impact

Top Five Sector Weights (%)



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

Attribution Analysis

In stock selection, share price increases for Tokyo Electron, Murata Manufacturing, and Kikkoman contributed to performance, while share price declines for Toyota Motor, Shin-Etsu Chemical, and Fuji Electric detracted.

Outlook

We expect the market to remain firm. Valuation (forward P/E), which reflects overall market expectations, is currently at a high level compared to historical averages, primarily driven by some AI and semiconductor names amid diminishing uncertainty in the Middle East. Although the market has already priced in expectations for AI and semiconductor names to a large extent, these expectations are likely to be sustained as there are no immediate signs of a decline in semiconductor demand and AI-related investments. We expect the market to remain robust, driven by improvement in earnings forecasts for FY26. Crude oil prices have now stabilized, and the situation has eased more than previously, despite likely cost increases stemming from the Middle East. We should remain vigilant about a potential market correction, given that share prices have risen rapidly so far. That said, we don't expect a large market correction as there is strong equity demand from a high level of share buybacks and the BoJ has relatively accommodative monetary policy compared to the US and Europe.

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