Japan Value Equity Impact

SOMPO ASSET MANAGEMENT

August 2026

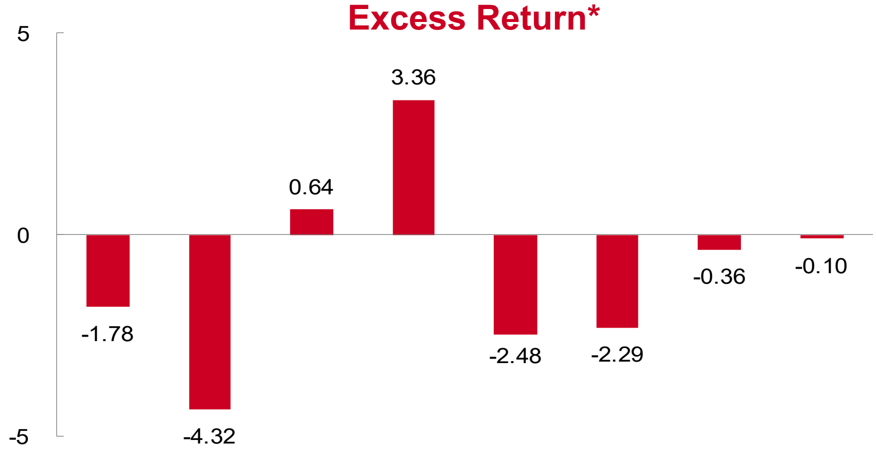
Strategy

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 was primarily driven by tech stocks, as excessive concerns over AI-related funding eased. The service sector rose on confirmed earnings expansion by the use of generative AI. The marine transportation sector also rose due to favorable shipping rates on the back of escalated tensions in the Middle East. Meanwhile, the insurance sector declined as shareholder returns announced at earnings reports fell short of market expectations. The glass & ceramic sector also saw a decline due to concerns over surging raw material prices.
In the first part of the month, the Japanese market rose, fueled by a series of strong earnings results. In the middle of the month, the market rose further as fears over AI-related funding eased following a major U.S. semiconductor company's announcement of a framework to support AI data center construction. The market was also supported by lower-than-expected U.S. CPI, which reduced expectations for early Fed rate hikes. Subsequently, the market plummeted due to heightened geopolitical risks in the Middle East. However, the market then recovered, supported by a drop in U.S. long-term rates following the US Treasury's announcement of increased purchases of long-term government bonds. Towards the end of the month, despite easing concerns over the Middle East situation, hawkish remarks by Fed Chair Walsh regarding rate hikes weighed on the market, which ended below its mid-month high.

Composite Performance (%)
Excess Return*



	Aug	QTD	YTD	1Y	3Y	5Y	7Y	SI
Composite	2.07	-0.24	24.03	41.63	21.65	16.78	17.99	14.25
Benchmark	3.85	4.08	23.39	38.28	24.12	19.07	18.35	14.36

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 48M)

Top Ten Holdings	%
TOYOTA MOTOR CORP	6.51
KDDI CORP	4.55
ITOCHU CORP	4.35
SHIN-ETSU CHEMICAL CO LTD	4.29
TOKYO ELECTRON LTD	4.23
MURATA MANUFACTURING CO LTD	4.05
DENSO CORP	3.56
FANUC CORP	3.18
DAIKIN INDUSTRIES LTD	3.17
BRIDGESTONE CORP	2.80
Total	40.70

Characteristics

	Portfolio	TOPIX
P/E	15.93x	15.91x
P/B	1.80x	1.76x
ROE	11.32%	11.06%
Dividend Yield	2.55%	2.22%

Market Cap

	Portfolio	TOPIX
Large	64.6%	68.2%
Mid	29.5%	24.7%
Small	4.4%	7.2%
Others	0.0%	-

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

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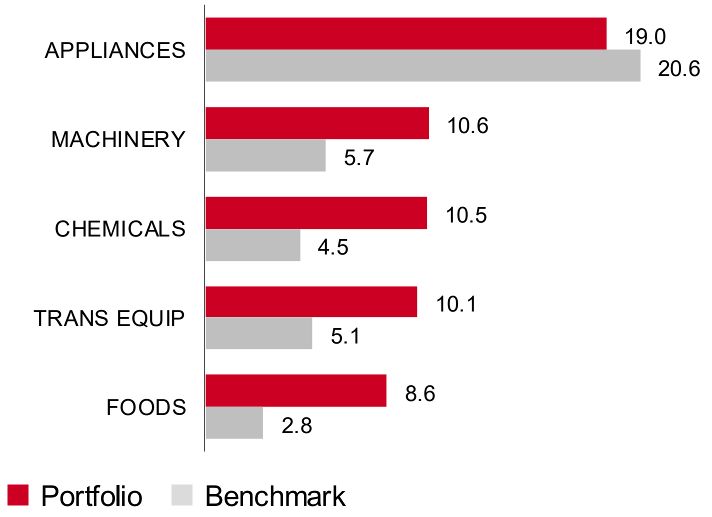
Top Five Sector Weights (%)



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

Attribution Analysis

In stock selection, share price increases for Omron, Kao, and Nomura Research Institute contributed to performance, while share price declines for Fanuc, Daikin Industries, and HORIBA, Ltd. detracted.

Outlook

We expect the market to remain firm. Valuations (forward P/E) already reflect market expectations to a considerable extent and suggest limited upside potential. FY26 earnings forecasts will likely be less impacted by rising costs driven by the Middle East situation than initially expected. We expect a firm market, driven by solid earnings, with improvements

expected across broader sectors beyond AI and semiconductors. We believe there is significant room for a re-rating of non-AI related stocks, while AI-related stocks have already priced in considerably high expectations. We should remain vigilant about a potential market correction, given that the recent rise in domestic long-term rates could put downward pressure on valuations. 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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