Japan Value Equity Impact

October 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

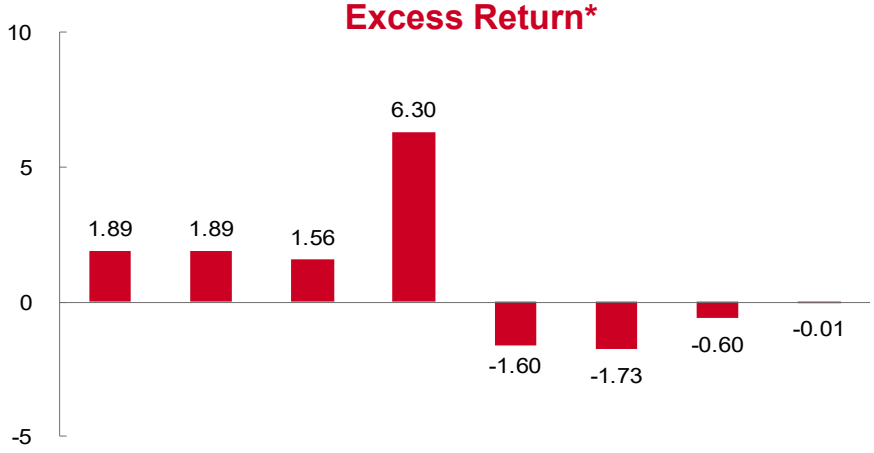
Concerns over financing risks for AI-related businesses weighed on the market. The services sector, which comprises a high concentration of domestic demand-oriented stocks rose amid an uncertain external environment. Mining also gained, supported by rising expectations for earnings improvements driven by surging crude oil prices. Conversely, non-ferrous metals and machinery, which include AI semiconductor-related names, underperformed as fears mounted over the profitability of AI-related investments.

At the beginning of the month, the market started higher as weaker-than-expected US employment data dampened expectations for early rate hikes. However, stock prices subsequently retreated as US long-term rates surged to historical highs following the release of the FOMC meeting minutes.

In the middle of the month, a sharp decline in bond prices for an emerging US cloud company triggered concerns over financing risks for AI-related businesses, leading to a major sell-off, particularly in high-tech names. Although the market temporarily saw a partial recovery driven by buying on weakness, escalating attacks on Saudi Arabia by pro-Iranian militant groups sent crude oil prices soaring and weighed on stock prices late in the month.

Toward the end of the month, earnings reports from major US tech companies reignited concerns over the heavy financial burden of massive AI investments, causing the market to test lower levels.

Composite Performance (%)
Excess Return*



	Oct	QTD	YTD	1Y	3Y	5Y	7Y	SI
Composite	-1.59	-1.59	20.33	28.01	21.99	15.76	15.31	13.66
Benchmark	-3.48	-3.48	18.77	21.71	23.59	17.50	15.92	13.67

Top Ten Holdings	%
TOYOTA MOTOR CORP	6.34
SHIN-ETSU CHEMICAL CO LTD	4.56
TOKYO ELECTRON LTD	4.37
KDDI CORP	4.34
MURATA MANUFACTURING CO LTD	4.13
ITOCHU CORP	4.00
DENSO CORP	3.35
FANUC CORP	3.27
DAIKIN INDUSTRIES LTD	3.22
ORIX CORP	2.91
Total	40.48

Characteristics	Portfolio	TOPIX
P/E	15.15x	14.23x
P/B	1.76x	1.73x
ROE	11.64%	12.13%
Dividend Yield	2.63%	2.41%

Market Cap	Portfolio	TOPIX
Large	64.1%	69.7%
Mid	29.2%	23.4%
Small	4.4%	6.9%
Others	0.0%	-

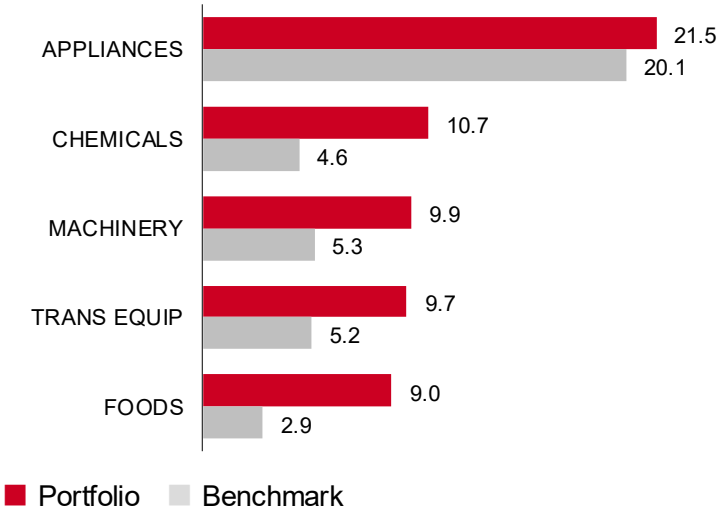
Composite Summary	
Composite Name	Japan Value Equity Impact
Benchmark	TOPIX Total Return**
Inception Date	October 2016
Number of Holdings	40
Assets Under Management	JPY 7.4B (USD 47M)

* 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
11 years investment experience
9 years at Sompo AM

Attribution Analysis

In stock selection, share price increases for Nomura Research Institute, Toyota Motor, and Astellas Pharma contributed to performance, while share price declines for Tokyo Electron, Murata Manufacturing, and Komatsu detracted.

Outlook

We expect the market to bottom out and look for a rebound. Due to valuation corrections led by AI-related stocks, the overall market's forward P/E ratio has dropped to undervalued levels. While concerns over the sustainability of AI investments will likely linger, we believe the current valuation levels can be maintained given that there are no signs of a major downturn in the global economy and that any negative impacts on non-AI names will be limited. Even if AI-related demand slows down, earnings for this fiscal year are projected to remain robust, and we expect the market to return to focusing on earnings fundamentals. We should remain vigilant about a potential market correction, given that the recent rise in 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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