

Japan Value Equity Income

September 2024

Strategy

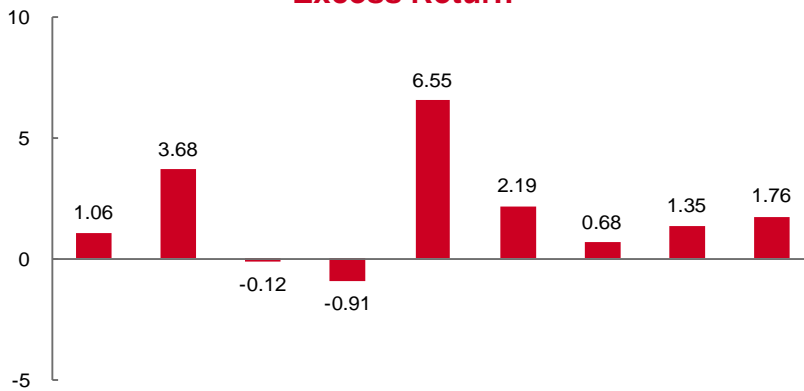
Income Strategy invests in Japanese equities that pay above-market average dividends and aims to beat the benchmark in the mid- to long-term. The portfolio is built by investing in undervalued stocks with careful consideration of risk/return. A bottom-up approach is used. The Japanese equity research team analyzes the intrinsic value of individual stocks and compares it with the market price to identify undervalued stocks. The portfolio is not constrained by sector weights and market caps.

Market Review

Japanese equities fell as the market was bearish on JPY appreciation versus USD, stemming from a narrowing interest rate differential between Japan and the US and Shigeru Ishiba chosen as the ruling Liberal Democratic Party (LDP)'s new leader, although the market was bullish on China's large-scale economic stimulus measures. Air Transportation and Warehousing & Harbor Transportation Services stocks rose as they are relatively less impacted by the JPY appreciation. However, Mining stocks dropped because of a decline in crude oil prices amid concerns over a recession and increasing oil supply.

The Japanese equity market fell in the first half of the month due to growing concerns of a recession on the back of a weaker-than-expected US ISM Manufacturing Index and JPY appreciation, stemming from the narrowed gap between Japanese and US interest rates. The market subsequently faced an upside resistance as JPY/USD temporarily strengthened to 139 yen, then share prices rose on growing expectations for a soft landing in the US following a 50bps rate cut by the Fed. The market temporarily saw JPY depreciation and higher stock prices towards the end of the month as the market favored China's economic stimulus measures and expectations for Sanae Takaichi, a former Economic Security Minister and supporter of easing monetary policy, to win the LDP leadership race. However, TOPIX ended nearly flat MoM due to rapid JPY appreciation and lower stock prices following Ishiba winning the race as he advocates increasing taxes on financial income and more restrictive fiscal policy.

Composite Performance (%) Excess Return*



	Sep	QTD	YTD	1Y	3Y	5Y	7Y	10Y	SI
Composite	-0.47	-1.22	14.13	15.66	18.55	15.63	10.01	10.98	8.25
Benchmark	-1.53	-4.90	14.25	16.57	12.01	13.45	9.33	9.63	6.49

Composite Summary

Composite Name	Sompo Japan High Dividend Japanese Equity Mother Fund		
Benchmark	TOPIX Total Return**		
Inception Date	July 2005		
Number of Holdings	94		
Bloomberg Code	SNAMINC		
Assets Under Management	Composite (T9891)	JPY 51.5B (USD 360M)	

Top Ten Holdings	%
NIPPON EXPRESS HOLDINGS CO L	2.78
SUMITOMO MITSUI TRUST HOLDIN	2.73
NIPPON TELEGRAPH & TELEPHONE	2.66
KIRIN HOLDINGS CO LTD	2.54
BELLSYSTEM24 HOLDINGS INC	2.53
HONDA MOTOR CO LTD	2.39
ARE Holdings, Inc.	2.34
NIPPON ELECTRIC GLASS CO LTD	2.31
ASAHI GLASS CO LTD	2.24
KYOWA EXEO CORP	1.92
Total	24.44

Characteristics

	Portfolio	Benchmark
P/E	11.14x	13.50x
P/B	0.84x	1.28x
ROE	7.57%	9.51%
Dividend Yield	4.05%	2.58%

Market Cap

	Portfolio	Benchmark
Large	22.5%	65.5%
Mid	53.4%	26.3%
Small	21.3%	8.2%
Others	0.0%	-

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

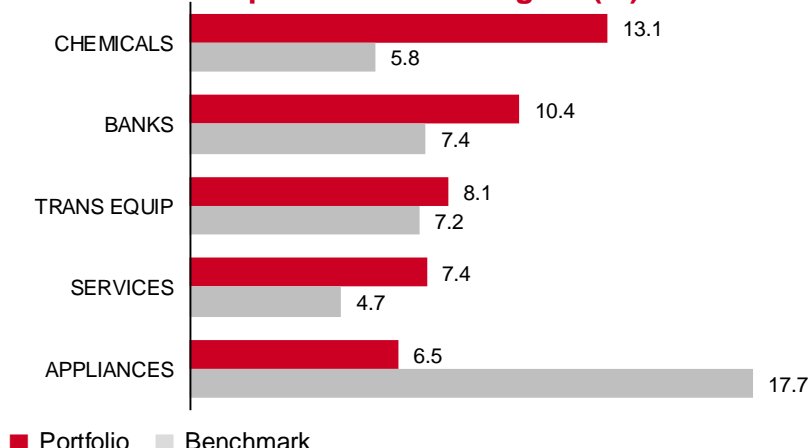
** TOPIX Total Return Index includes the dividends paid by the index constituents.

The data shown is of a representative account. Past performance is not a guarantee of future returns.

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Top Five Sector Weights (%)



Yasuhiro Kano, CMA
Senior Portfolio Manager
31 years investment experience
27 years at Sompo AM

Attribution Analysis

Both sector allocation and stock selection contributed to performance. In sector allocation, overweighting (OW) of Chemicals, Construction, and Glass & Ceramic contributed to performance, while underweighting (UW) of Wholesale and Appliances and OW of Securities detracted. In stock selection, UW of Daiichi Sankyo and Toyota Motor and OW of Zeon contributed to performance, while UW of Hitachi and Mitsubishi Heavy Industries and OW of Astellas Pharma detracted. Last month we increased holdings of Toyo Tire, Taiyo Yuden, and AGC and decreased holdings of artience, Iyogin Holdings, and Kirin Holdings.

Outlook

We expect the market will fluctuate around the recent bottom but show signs of a potential recovery.

FY24 Japanese corporate earnings will likely grow and share prices do not look overvalued given their general valuation metrics such as forward P/E ratio, whilst the Japanese market will unlikely see a full-scaled upward trend as long as fears over a US recession continue to linger. Share prices fell as the market priced in concerns over policies of Ishiba's new administration. We believe that investors will regain a sense of calm as directions of economic policies and fiscal management of the administration become clearer and that the market will show signs of a potential recovery over the near term. We also believe that it is difficult to envision a large correction to the Japanese market given strong equity demand from the high level of large scale share buyback seen recently and the BoJ's relatively accommodative monetary policy compared to the US and Europe.

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