SOMPO ASSET MANAGEMENT

Japan Value Equity Income

August 2026

Strategy

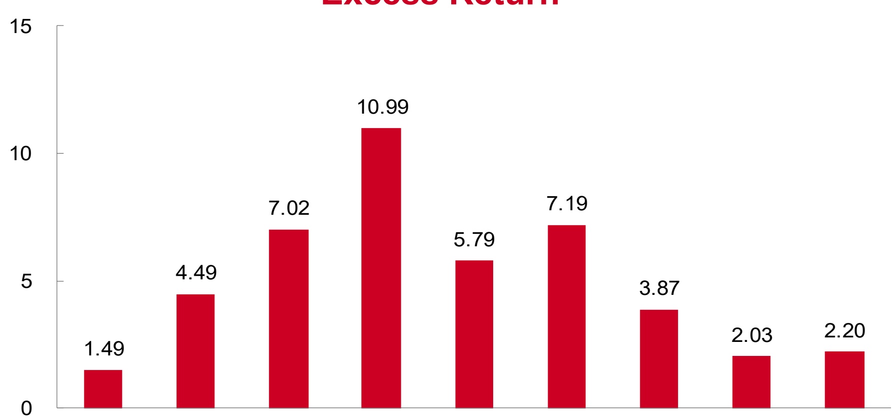
Income Strategy invests in Japanese equities that pay above-market average dividends and aims to beat the benchmark in the mid- to long-term. The portfolio is built by investing in undervalued stocks with careful consideration of risk/return. A bottom-up approach is used. The Japanese equity research 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

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	10Y	SI
Composite	5.34	8.57	30.41	49.27	29.91	26.26	22.22	16.77	10.56
Benchmark	3.85	4.08	23.39	38.28	24.12	19.07	18.35	14.73	8.36

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	
	Domestic	JPY 88.7B (USD 555M)

Top Ten Holdings	%
TOYOTA MOTOR CORP	4.14
SUMITOMO MITSUI TRUST GROUP	3.63
NTT INC	3.19
OTSUKA CORP	3.01
MITSUI CHEMICALS INC	2.94
ASAHI GROUP HOLDINGS LTD	2.89
AGC INC	2.24
RENGO CO LTD	2.08
HONDA MOTOR CO LTD	2.08
ZEON CORP	2.01
Total	28.21

Characteristics

	Portfolio	Benchmark
P/E	13.29x	15.91x
P/B	1.16x	1.76x
ROE	8.72%	11.06%
Dividend Yield	3.26%	2.22%

Market Cap

	Portfolio	Benchmark
Large	39.5%	68.2%
Mid	46.7%	24.7%
Small	12.4%	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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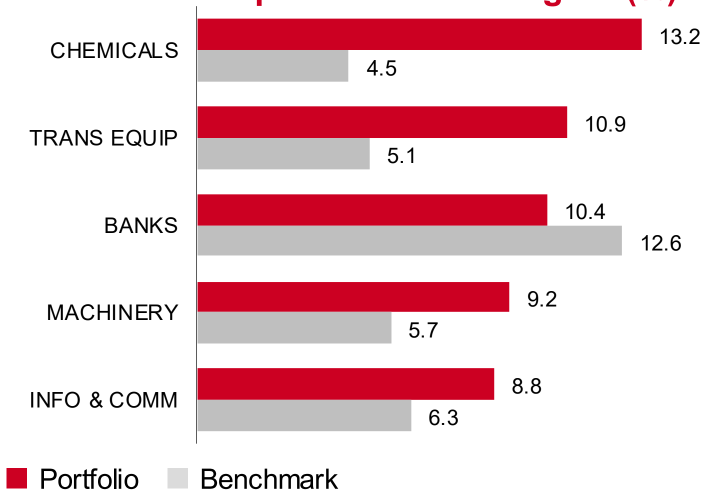
Top Five Sector Weights (%)



Satoshi Sasaki, CMA
Portfolio Manager
10 years investment experience
10 years at Sompo AM

Attribution Analysis

Stock selection contributed to performance, while sector allocation detracted. In sector allocation, underweighting (UW) of Insurance, Appliances, and Retail contributed to performance, while overweighting (OW) of Machinery, Glass & Ceramic, and Construction detracted. In stock selection, OW of Sumitomo Metal Mining, Omron, and NTT contributed to performance, while UW of Recruit Holdings and OW of AGC and Lintec detracted. Last month we increased holdings of Fanuc, JGC, and Asahi Group Holdings and decreased holdings of Sanyo Chemical Industries, Omron, and Sumitomo Seika Chemicals.

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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