

Japan Value Equity SRI

October 2024

Strategy

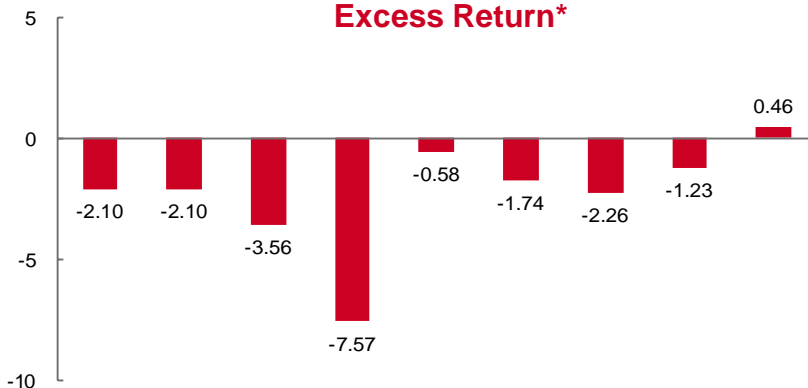
SRI Strategy invests in Japanese equities which meet the criteria of ESG (Environmental, Social, Governance) management and investment value, and aims to achieve above benchmark return in the mid- to long-term. Our equity investment takes a bottom-up approach in which the Japanese equity research team analyzes intrinsic value of individual stocks and compares it with market price in order to identify undervalued stocks. ESG research is conducted by Sompo Risk Management, which is a leading company in domestic ESG research.

Market Review

Share prices rose following the robust US economy and JPY depreciation versus USD, although the Japanese equity market was temporarily bearish on political uncertainty in the country given expectations for the ruling coalition of the Liberal Democratic Party (LDP) and its partner, Komeito, to lose a majority in the lower house election. Names in Banks, Securities & Commodity Futures, and Insurance rose as investors were bullish on an increase in domestic interest rates. However, Iron & Steel and Chemicals stocks fell due to fears over a recession in China.

Investors were concerned about heightened geopolitical risks in the Middle East in the first half of the month following Iranian strikes on Israel. However, Japanese equities rose as the market was supported by a higher-than-expected US job report, rising expectations for a soft landing of the US economy, and JPY depreciation versus USD arising from a widening interest rate gap between Japan and the US. The Japanese equity market then faced an upside resistance due to growing political uncertainty on the back of expectations for the ruling coalition to lose its parliamentary majority, ahead of the lower house election held on October 27th. However, after the election result revealed, Japanese equities rebounded towards the end of the month, helped by JPY depreciation and expectations for LDP/Komeito to plan economic stimulus policies to gain support from the opposition party, the Democratic Party for the People (DPFP).

Composite Performance (%) Excess Return*



	Oct	QTD	YTD	1Y	3Y	5Y	7Y	10Y	SI
Composite	-0.22	-0.22	12.84	14.86	12.66	11.02	6.53	8.54	7.02
Benchmark	1.88	1.88	16.40	22.43	13.24	12.77	8.79	9.77	6.56

Composite Summary

Composite Name	Sompo Japan SRI Mother Fund		
Benchmark	TOPIX Total Return**		
Inception Date	January 2005		
Number of Holdings	42		
Bloomberg Code	SNAMSRI		
Assets Under Management	Strategy Total	JPY 2.5B (USD 17M)	

Top Ten Holdings	%
NIPPON TELEGRAPH & TELEPHONE	4.21
MITSUBISHI ESTATE CO LTD	4.21
TORAY INDUSTRIES INC	3.97
MURATA MANUFACTURING CO LTD	3.73
SUMITOMO MITSUI TRUST HOLDIN	3.62
KIRIN HOLDINGS CO LTD	3.45
SECOM CO LTD	3.35
ASTELLAS PHARMA INC	3.30
NIDEC CORP	3.30
KAO CORP	3.12
Total	36.27

Characteristics

	Portfolio	Benchmark
P/E	14.04x	13.77x
P/B	1.09x	1.35x
ROE	7.79%	9.82%
Dividend Yield	2.94%	2.54%

Market Cap

	Portfolio	Benchmark
Large	55.2%	67.0%
Mid	35.1%	25.4%
Small	6.0%	7.5%
Others	0.0%	-

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

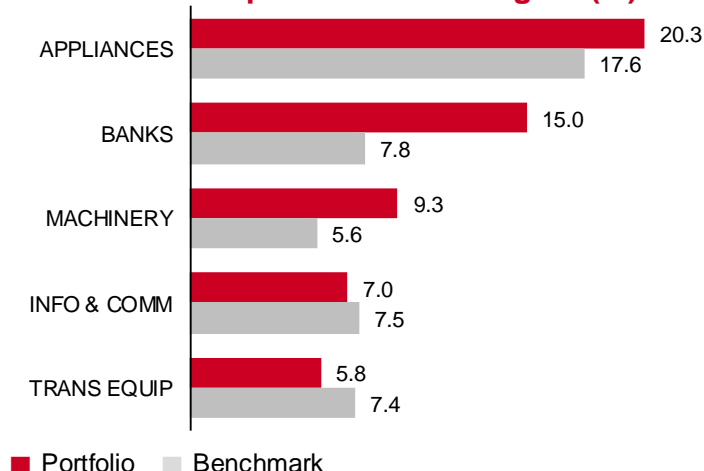
** TOPIX Total Return Index includes the dividends paid by the index constituents.

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 (%)



Masako Chikuma, CMA, CFA
Senior Portfolio Manager
20 years investment experience
9 years at Sampo AM

Attribution Analysis

While sector allocation contributed to performance, stock selection detracted. In sector allocation, overweighting (OW) of Banks and underweighting (UW) of Wholesale and Retail contributed to performance, while OW of Textiles, Real Estate, and Construction detracted. In stock selection, OW of Astellas Pharma and UW of Tokyo Electron and Sony Group contributed to performance, while OW of Nomura Research Institute, Omron, and Fujitsu General detracted. Last month we increased holdings of Nidec, The San-in Godo Bank, and Fujitsu General and decreased holdings of Dai-ichi Life Holdings, Seiko Epson, and Panasonic Holdings.

Outlook

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

While concerns about the slowing US economy remain, FY24 Japanese corporate earnings will likely grow on the back of Japan specific positive factors, such as a recovery in domestic real wages and capital efficiency improvement measures implemented by companies following pressures from the Tokyo Stock Exchange (TSE). Share prices do not look overvalued given their general valuation metrics such as forward P/E ratio. However, the Japanese market will unlikely see a full-scaled upward trend as long as uncertainty of policies of new governments in Japan and the US and fears over a sharp JPY appreciation linger. We 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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