

Japan Value Equity SRI

December 2024

Strategy

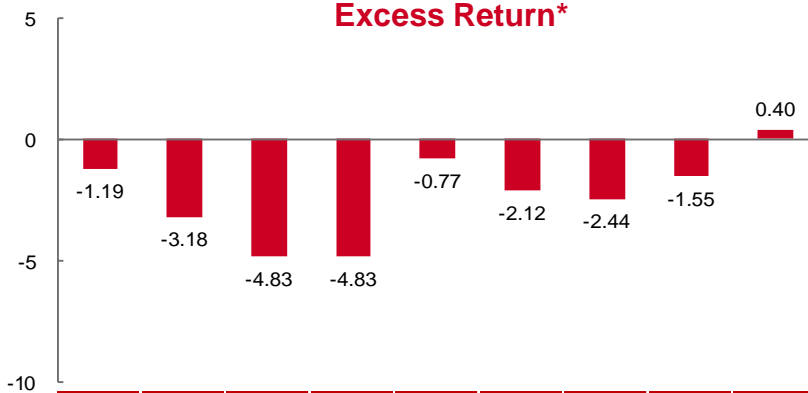
SRI Strategy invests in Japanese equities which meet the criteria of ESG (Environmental, Social, Governance) management and investment value, and aims to achieve above benchmark return in the mid- to long-term. Our equity investment takes a bottom-up approach in which the Japanese equity research team 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

The Japanese market rose during the month as investors were positive on significant JPY depreciation against USD caused by the expanding interest rate gap between the two countries. Transportation equipment names were a large driver of the growth. They benefited from the significant depreciation of JPY, expectations surrounding the merger of the two domestic automobile majors of Honda and Nissan, and reports that Toyota aims to roughly double its ROE.

The market rose in the first half of the month as China's Caixin PMI beat expectation and hopes grew for the GPIF (Government Pension Investment Fund) to raise its allocation to equity following reports the Ministry of Health, Labour and Welfare will raise the investment return target for the largest pension fund in the country. The market then dropped somewhat as although the BoJ left rates unchanged and the central bank governor Kazuo Ueda stated he would not be rushing into rate hikes, the market was negative on the prospect of slow rate cuts by the Fed in 2025 despite the US central bank lowering rates 25bps during the month. Share prices then picked up again through the end of the month on the retreat of excessive fears of slower Fed rate cuts following weaker-than-expected core PCE inflation numbers and JPY depreciation versus USD.

Composite Performance (%) Excess Return*



Top Ten Holdings	%
MITSUBISHI ESTATE CO LTD	4.11
TORAY INDUSTRIES INC	4.05
SUMITOMO MITSUI TRUST GROUP	4.02
NIPPON TELEGRAPH & TELEPHONE	4.01
MURATA MANUFACTURING CO LTD	3.98
KIRIN HOLDINGS CO LTD	3.51
SAN-IN GODO BANK LTD/THE	3.35
OMRON CORP	3.33
NIDEC CORP	3.11
MEBUKI FINANCIAL GROUP INC	3.10
Total	36.55

	Dec	QTD	YTD	1Y	3Y	5Y	7Y	10Y	SI
Composite	2.83	2.25	15.63	15.63	13.88	10.66	6.42	8.00	7.09
Benchmark	4.02	5.43	20.45	20.45	14.65	12.78	8.85	9.54	6.68

Composite Summary

Composite Name	Sompo Japan SRI Mother Fund	
Benchmark	TOPIX Total Return**	
Inception Date	January 2005	
Number of Holdings	41	
Bloomberg Code	SNAMSRI	
Assets Under Management	Strategy Total	JPY 2.5B (USD 16M)

Characteristics		
	Portfolio	Benchmark
P/E	14.25x	14.01x
P/B	1.08x	1.38x
ROE	7.56%	9.87%
Dividend Yield	2.95%	2.52%

Market Cap		
	Portfolio	Benchmark
Large	47.3%	67.3%
Mid	36.0%	25.2%
Small	10.1%	7.5%
Others	0.0%	-

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

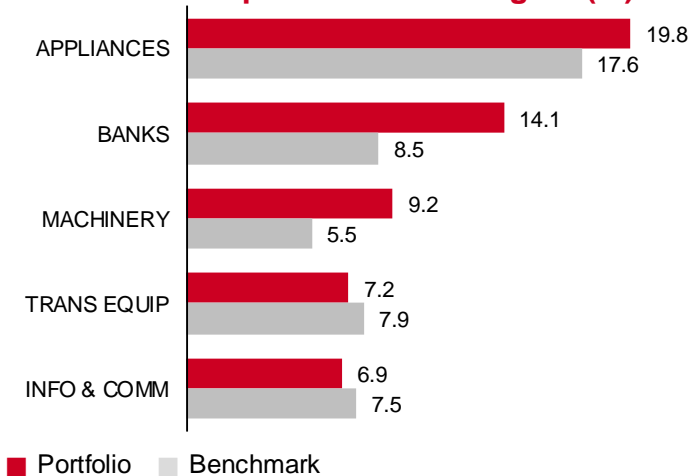
** TOPIX Total Return Index includes the dividends paid by the index constituents.

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 Sompo AM

Attribution Analysis

Both sector allocation and stock selection detracted from performance. In sector allocation, underweighting (UW) of Elec Power & Gas, Pharms, and Retail contributed to performance, while overweighting (OW) of Land Trans and Banks and UW of Wholesale detracted. In stock selection, OW of Omron and Fujitsu General and UW of Daiichi Sankyo contributed to performance, while UW of Toyota Motor and OW of Resona Holdings and Mebuki Financial Group detracted. Last month we increased holdings of Omron, Denso, and Kubota and decreased holdings of Dai-ichi Life Holdings, Daifuku, and Shimizu Corporation.

Outlook

We expect the market will face heavy upside resistance over the near term.

Japanese corporate earnings will likely grow on the back of a recovery in domestic real wages, a cyclical recovery to the manufacturing sector, and capital efficiency improvement measures implemented by companies following pressure from the Tokyo Stock Exchange (TSE). Share prices do not look overvalued given current general valuation metrics such as forward P/E. However, downward pressure on share prices will likely increase because of concerns of increased tariffs from the US and worries that JPY will appreciate on the back of divergent monetary policy between the US and Japan. That said, it is difficult to envision a large correction to the Japanese market given strong equity demand from the high level of large-scale share buybacks seen recently and the BoJ's relatively accommodative monetary policy compared to the US and Europe.

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