

Japan Value Equity SRI

February 2025

Strategy

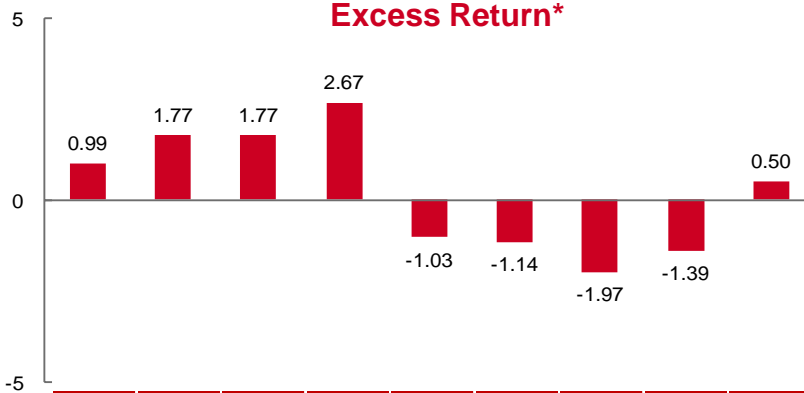
SRI Strategy invests in Japanese equities which meet the criteria of ESG (Environmental, Social, Governance) management and investment value, and aims to achieve above benchmark return in the mid- to long-term. Our equity investment takes a bottom-up approach in which the Japanese equity research team 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 fell in February on the back of concerns over US tariffs and economic decline as well as JPY appreciation following the shrinking of the Japan-US interest rate gap. Growth stock were down because of harsher regulations on semiconductor-related sales to China and concerns of a slowdown in investment in AI.

The market fell in the first half of the month on executive orders from US President Donald Trump for further tariffs on Canada, Mexico, and China. The market did rebound after Trump said he would delay the activation of tariffs on Canada and Mexico, but uncertainty concerning tariffs once again spiked when he signed an executive order for 25% tariffs on all steel and aluminium imports. The market then trended sideways. Although strong domestic earnings acted to support the market, preliminary domestic GDP figures coming in higher than expected raised the spectre of further rate increases by the BoJ. Share prices then fell through the end of the month as JPY appreciated (on the shrinking Japan-US interest rate gap) and concerns over the economy grew on the back of US Services PMI falling below 50 (the point between expansion and contraction) for the first time in two years and US consumer confidence also falling significantly.

Composite Performance (%) Excess Return*



	Feb	QTD	YTD	1Y	3Y	5Y	7Y	10Y	SI
Composite	-2.80	-1.88	-1.88	5.27	14.26	13.75	6.73	6.88	6.93
Benchmark	-3.79	-3.65	-3.65	2.59	15.29	14.89	8.70	8.27	6.43

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 2.4B (USD 16M)

Top Ten Holdings	%
MITSUBISHI ESTATE CO LTD	4.42
MURATA MANUFACTURING CO LTD	4.36
SUMITOMO MITSUI TRUST GROUP	4.23
NIPPON TELEGRAPH & TELEPHONE	3.94
TORAY INDUSTRIES INC	3.90
KIRIN HOLDINGS CO LTD	3.66
YAMATO HOLDINGS CO LTD	3.46
SAN-IN GODO BANK LTD/THE	3.40
MEBUKI FINANCIAL GROUP INC	3.37
MABUCHI MOTOR CO LTD	3.26
Total	38.00

Characteristics

	Portfolio	Benchmark
P/E	13.32x	13.11x
P/B	1.03x	1.29x
ROE	7.70%	9.88%
Dividend Yield	3.10%	2.69%

Market Cap

	Portfolio	Benchmark
Large	50.8%	66.8%
Mid	35.9%	25.6%
Small	12.8%	7.6%
Others	0.0%	-

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

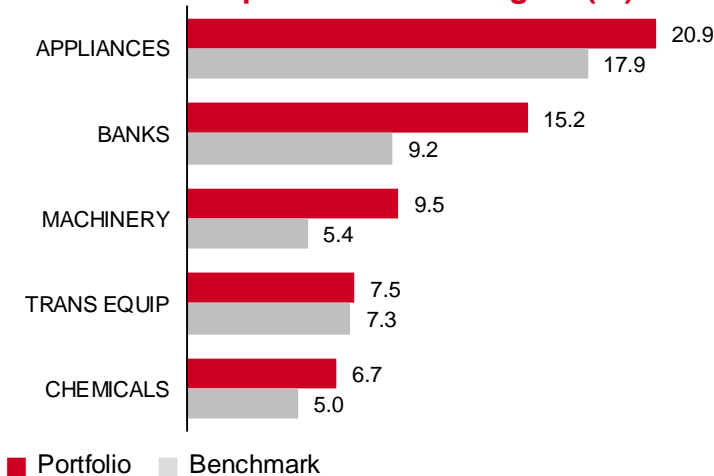
** TOPIX Total Return Index includes the dividends paid by the index constituents.

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

While sector allocation detracted from performance, stock selection contributed. In sector allocation, underweighting (UW) of Precision Instr and Services and overweighting (OW) of Land Trans contributed to performance, while UW of Other Prod and Insurance and OW of Machinery detracted. In stock selection, OW of Mabuchi Motor and Murata Manufacturing and UW of Recruit Holdings contributed to performance, while UW of Sony Group and OW of Daikin Industries and Omron detracted. Last month we increased holdings of Lintec, artience, and Taikisha and decreased holdings of Daifuku, Fujitsu General, and Nomura Research Institute.

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). Valuation metrics like forward PER have fallen on concerns over further tariffs from the US and JPY appreciation caused by divergent monetary policy by the US and Japan. We expect market volatility (degree of movement in share prices) to increase as long as there is not a clear picture on coming tariff policy. As such, we believe it will take some time before valuations return to an upward trajectory. 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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