

Japan Value Equity Small Cap

September 2024

Strategy

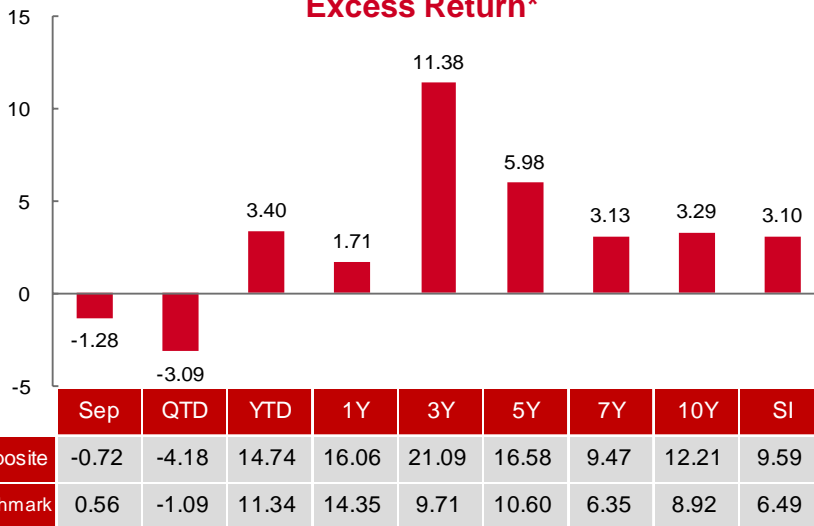
Small Cap Strategy invests in Japanese small cap equities and aims to achieve above-benchmark return in the mid-to long-term. The portfolio manager builds a portfolio by investing in undervalued stocks with careful consideration of risk/return. A bottom-up approach is used. The Japanese equity research team analyzes intrinsic value of individual stocks and compares it with market price in order to identify undervalued stocks. The portfolio is not constrained by sector weights.

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*



Top Ten Holdings	%
JTEKT CORP	3.97
K'S HOLDINGS CORP	3.29
FUJITSU GENERAL LTD	2.96
SAWAI GROUP HOLDINGS CO LTD	2.89
SERIA CO LTD	2.84
DAISHI HOKUETSU FINANCIAL GR	2.83
NISHI-NIPPON FINANCIAL HOLDI	2.66
CHUGIN FINANCIAL GROUP INC	2.62
HOKUHOKU FINANCIAL GROUP INC	2.60
MABUCHI MOTOR CO LTD	2.59
Total	29.25

Characteristics		
	Portfolio	Benchmark
P/E	9.38x	12.18x
P/B	0.67x	1.04x
ROE	7.18%	8.57%
Dividend Yield	3.56%	2.75%

Market Cap		
	Portfolio	TOPIX
Large	0.0%	65.5%
Mid	48.1%	26.3%
Small	45.8%	8.2%
Others	2.8%	-

Composite Summary		
Composite Name	SJAM Small Cap Mother Fund	
Benchmark	Russell/Nomura Small Cap**	
Inception Date	October 2007	
Number of Holdings	84	
Bloomberg Code	SNAMSMC	
Assets Under Management	Domestic	JPY 26.4B (USD 185M)
	Overseas	JPY 5B (USD 35M)
	Strategy total	JPY 31.4B (USD 219M)

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

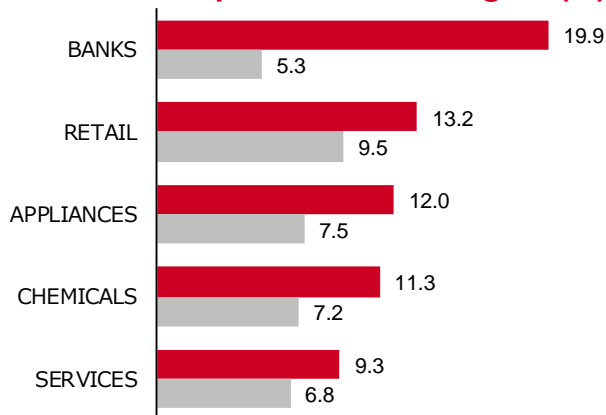
** Russell/Nomura Small Cap Index includes the dividends paid by the index constituents.

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 (%)



■ Portfolio ■ Benchmark



Shigeyoshi Fujiwara, CMA
Senior Portfolio Manager
18 years investment experience
18 years at Sompo AM

Attribution Analysis

Both sector allocation and stock selection detracted from performance. In sector allocation, underweighting (UW) of Elec Power & Gas and Securities and overweighting (OW) of Retail contributed to performance, while OW of Banks and UW of Nonferrous and Other Prod detracted. In stock selection, OW of Fujitsu General, Japan Lifeline, and Morinaga Milk Industry contributed to performance, while OW of Jtekt, Daishi Hokuetsu Financial Group, and Hokuohoku Financial Group detracted. Last month we increased holdings of Toyota Boshoku, Toyoda Gosei, and Fujitsu General and decreased holdings of Morinaga Milk Industry, Kyorin Pharmaceutical, and TV Asahi 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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