

Japan Value Equity Small Cap

October 2024

Strategy

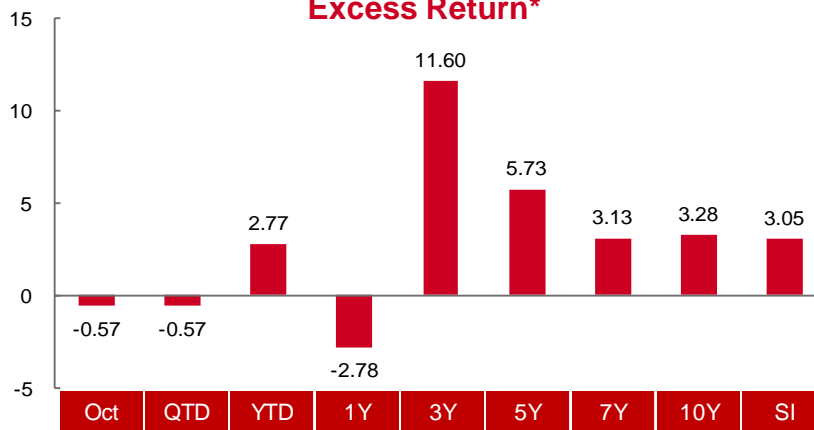
Small Cap Strategy invests in Japanese small cap equities and aims to achieve above-benchmark return in the mid-to long-term. The portfolio manager builds a portfolio by investing in undervalued stocks with careful consideration of risk/return. A bottom-up approach is used. The Japanese equity research 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

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*



Top Ten Holdings	%
JTEKT CORP	3.96
K'S HOLDINGS CORP	3.04
SAWAI GROUP HOLDINGS CO LTD	2.89
DAISHI HOKUETSU FINANCIAL GR	2.88
TOYOTA BOSHOKU CORP	2.85
TOYODA GOSEI CO LTD	2.85
FUJITSU GENERAL LTD	2.72
MABUCHI MOTOR CO LTD	2.66
NISHI-NIPPON FINANCIAL HOLDI	2.64
HOKUHOKU FINANCIAL GROUP INC	2.64
Total	29.12

Characteristics		
	Portfolio	Benchmark
P/E	9.58x	12.30x
P/B	0.67x	1.06x
ROE	7.04%	8.61%
Dividend Yield	3.75%	2.77%

Market Cap		
	Portfolio	TOPIX***
Large	0.0%	67.0%
Mid	46.2%	25.4%
Small	45.8%	7.5%
Others	2.5%	-

	Oct	QTD	YTD	1Y	3Y	5Y	7Y	10Y	SI
Composite	0.15	0.15	14.91	15.54	22.18	15.19	8.93	12.36	9.55
Benchmark	0.72	0.72	12.13	18.32	10.58	9.46	5.81	9.07	6.51

Composite Summary

Composite Name	SJAM Small Cap Mother Fund	
Benchmark	Russell/Nomura Small Cap**	
Inception Date	October 2007	
Number of Holdings	82	
Bloomberg Code	SNAMSMC	
Assets Under Management	Domestic	JPY 27.2B (USD 179M)
	Overseas	JPY 5B (USD 33M)
	Strategy total	JPY 32.2B (USD 211M)

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

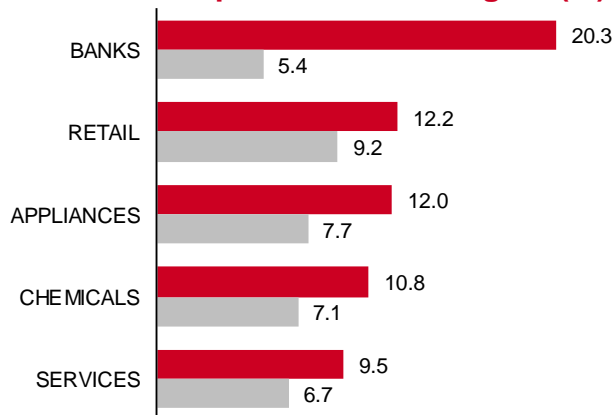
** Russell/Nomura Small Cap Index includes the dividends paid by the index constituents.

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 Sampo AM

Attribution Analysis

While sector allocation contributed to performance, stock selection detracted. In sector allocation, overweighting (OW) of Banks and Pharms and underweighting (UW) of Construction contributed to performance, while UW of Nonferrous and OW of Retail and Paper detracted. In stock selection, OW of Toyota Boshoku, Toyoda Gosei, and Nippon Shinyaku contributed to performance, while OW of Seria and Fujitsu General and UW of Fujikura detracted. Last month we increased holdings of KH Neochem, Rengo, and BML and decreased holdings of DIC, Nippon Shinyaku, and Park24.

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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