

Japan Value Equity Small Cap

November 2024

Strategy

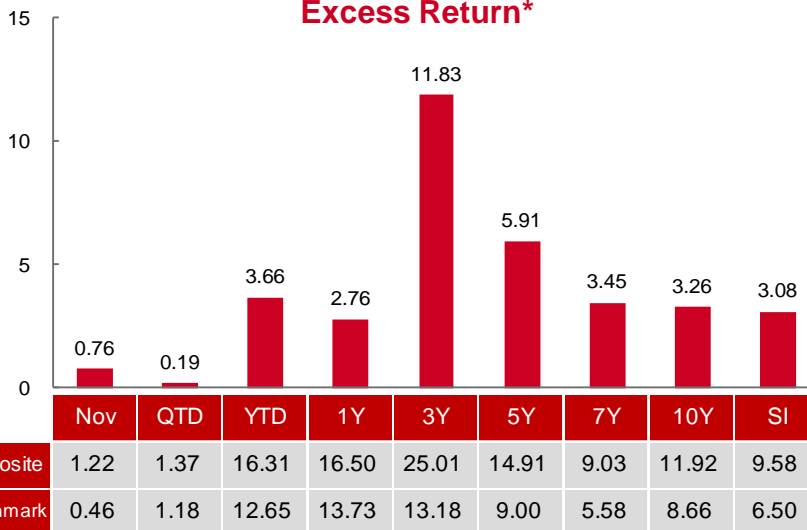
Small Cap Strategy invests in Japanese small cap equities and aims to achieve above-benchmark return in the mid-to long-term. The portfolio manager builds a portfolio by investing in undervalued stocks with careful consideration of risk/return. A bottom-up approach is used. The Japanese equity research 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 were dragged on by JPY appreciation versus USD, which was caused by concerns over protectionist policies from President-elect Donald Trump, such as increased tariffs, and the shrinking interest rate gap between the two countries. The Banks, Securities, and Insurance sectors rose as investors were positive on increasing domestic interest rates, while the Transportation Equipment and Chemicals sectors fell as investors were negative on potential increased tariffs from Trump.

Share prices were up in the first half of the month as the market was positive on Trump's victory in the US election given his stimulus policies of lowering corporate and income tax. This was despite a slight downtick caused by concerns of additional rate hikes by the BoJ. Concerns over protectionist policies from Trump, such as increased tariffs, and domestic earnings results coming in below investor expectations then weighed on the market. Share prices continued to fall through the end of the month on the release of actual details of tariffs, the drop in US interest rates after Trump publicly picked fiscal hawk Scott Bessent as next Secretary of the Treasury, and JPY appreciating to below JPY150 to 1USD.

Composite Performance (%) Excess Return*



| Top Ten Holdings | % |
|------------------------------|-------|
| JTEKT CORP | 4.03 |
| DAISHI HOKUETSU FINANCIAL GR | 3.36 |
| NISHI-NIPPON FINANCIAL HOLDI | 3.22 |
| SAWAI GROUP HOLDINGS CO LTD | 3.12 |
| K'S HOLDINGS CORP | 3.00 |
| HOKUHOKU FINANCIAL GROUP INC | 2.97 |
| FUJITSU GENERAL LTD | 2.96 |
| CHUGIN FINANCIAL GROUP INC | 2.95 |
| MABUCHI MOTOR CO LTD | 2.72 |
| TOYODA GOSEI CO LTD | 2.71 |
| Total | 31.03 |

| Characteristics | Portfolio | Benchmark |
|-----------------|-----------|-----------|
| P/E | 9.61x | 12.20x |
| P/B | 0.68x | 1.04x |
| ROE | 7.08% | 8.49% |
| Dividend Yield | 3.74% | 2.84% |

| Market Cap | Portfolio | TOPIX |
|------------|-----------|-------|
| Large | 0.0% | 67.0% |
| Mid | 42.7% | 25.4% |
| Small | 52.2% | 7.6% |
| Others | 2.3% | - |

| 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 27.6B (USD 183M) |
| | Overseas | JPY 5B (USD 34M) |
| | Strategy total | JPY 32.6B (USD 217M) |

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

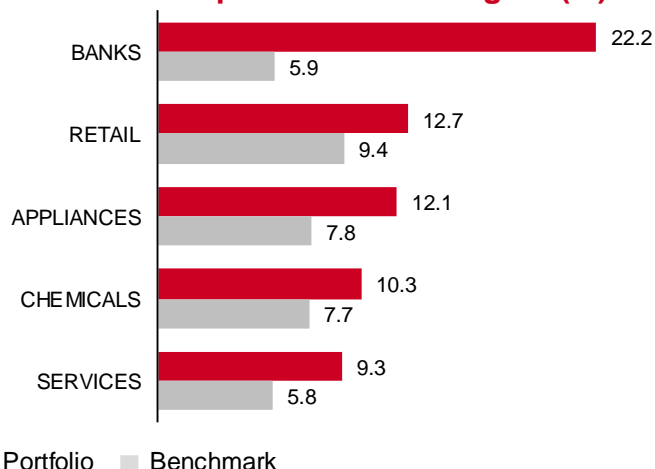
** Russell/Nomura Small Cap Index includes the dividends paid by the index constituents.

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 (%)



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

Attribution Analysis

While sector allocation contributed to performance, stock selection detracted. In sector allocation, overweighting (OW) of Banks and underweighting (UW) of Elec Power & Gas and Precision Instr contributed to performance, while UW of Info & Comm and Securities and OW of Appliances detracted. In stock selection, OW of Nishi-Nippon Financial Group, Aoyama Trading, and Daishi Hokuetsu Financial Group contributed to performance, while OW of Seria, en Japan, and Toyota Boshoku detracted. Last month we increased holdings of artience, Fukuyama Transporting, and Rengo and decreased holdings of Nippon Shokubai, Iyogin Holdings, and The Gunma Bank.

Outlook

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

While concerns about the slowing US economy remain, Japanese corporate earnings will likely grow on the back of a recovery in domestic real wages 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 continue to 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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