

Japan Value Equity Small Cap

December 2024

Strategy

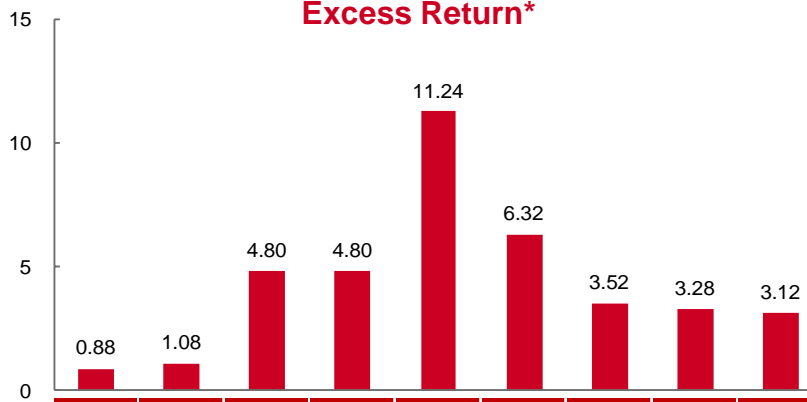
Small Cap Strategy invests in Japanese small cap equities and aims to achieve above-benchmark return in the mid-to long-term. The portfolio manager builds a portfolio by investing in undervalued stocks with careful consideration of risk/return. A bottom-up approach is used. The Japanese equity research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

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*



	Dec	QTD	YTD	1Y	3Y	5Y	7Y	10Y	SI
Composite	4.17	5.59	21.15	21.15	24.56	15.69	9.17	12.09	9.79
Benchmark	3.29	4.51	16.36	16.36	13.31	9.38	5.66	8.81	6.67

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 28.2B (USD 179M)
	Overseas	JPY 5.2B (USD 33M)
	Strategy total	JPY 33.4B (USD 213M)

Top Ten Holdings	%
JTEKT CORP	4.43
DAISHI HOKUETSU FINANCIAL GR	3.37
FUJITSU GENERAL LTD	3.27
NISHI-NIPPON FINANCIAL HOLDI	3.19
HOKUHOKU FINANCIAL GROUP INC	3.11
SAWAI GROUP HOLDINGS CO LTD	3.01
TOYODA GOSEI CO LTD	2.99
NIHON M&A CENTER HOLDINGS IN	2.93
CHUGIN FINANCIAL GROUP INC	2.91
K'S HOLDINGS CORP	2.91
Total	32.11

Characteristics

	Portfolio	Benchmark
P/E	10.79x	12.53x
P/B	0.70x	1.07x
ROE	6.50%	8.50%
Dividend Yield	3.55%	2.79%

Market Cap

	Portfolio	TOPIX
Large	0.0%	67.3%
Mid	45.5%	25.2%
Small	50.9%	7.5%
Others	2.2%	-

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

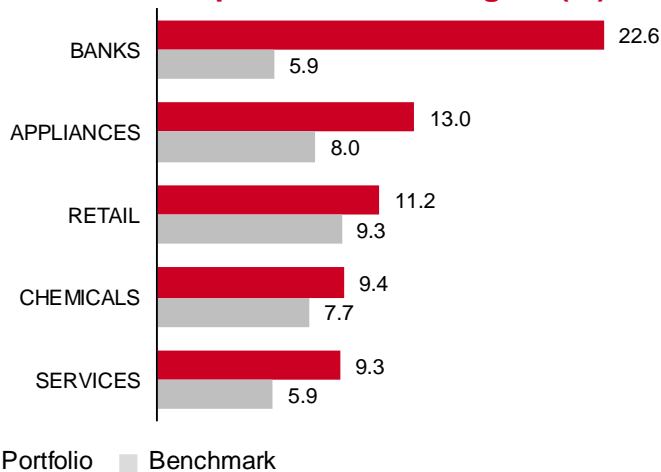
** Russell/Nomura Small Cap Index includes the dividends paid by the index constituents.

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

Both sector allocation and stock selection contributed to performance. In sector allocation, overweighting (OW) of Trans Equip and underweighting (UW) of Info & Comm and Foods contributed to performance, while UW of Precision Instr and OW of Pharms and Retail detracted. In stock selection, OW of Jtekt, Fujitsu General, and Toyota Gosei contributed to performance, while OW of Cosel and Sawai Group Holdings and UW of Topcon detracted. Last month we increased holdings of OSG, Taiyo Yuden, and JGC Holdings and decreased holdings of United Arrows, Nippon Shokubai, and Nippon Shinyaku.

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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