

Japan Value Equity Small Cap

January 2025

Strategy

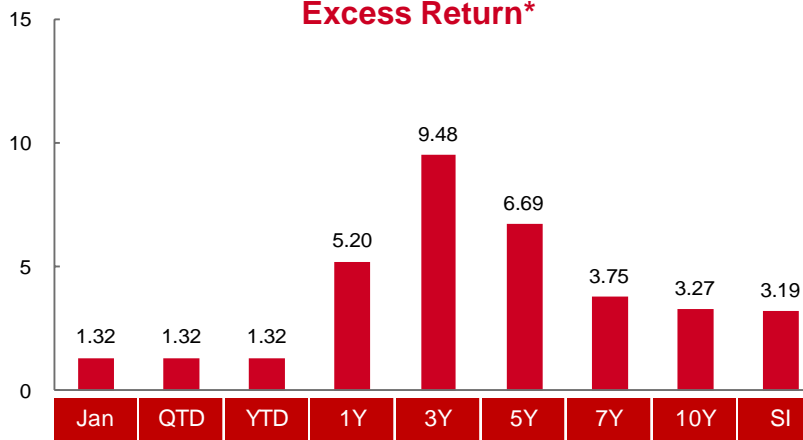
Small Cap Strategy invests in Japanese small cap equities and aims to achieve above-benchmark return in the mid-to long-term. The portfolio manager builds a portfolio by investing in undervalued stocks with careful consideration of risk/return. A bottom-up approach is used. The Japanese equity research 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 ended January roughly unchanged MoM as positives, like retracted concerns of tariffs as US President Donald Trump did not implement them the moment he took office, and negatives, like concerns of a drop in demand for semiconductors following the release of a low-cost AI model from China, balanced out. The Securities & Commodities Futures and Banks sectors rose on the back of a BoJ rate hike and the Marine Transportation sector fell on a drop in expectations for heightened freight rates after strikes were avoided at US ports.

The market fell in the first half of the month as investors were negative on retreating expectations for rate cuts after both US jobs data and ISM Manufacturing PMI beat expectations. Despite heightened expectations for rate cuts on the back of US CPI not meeting expectations, tighter restrictions on US semiconductor exports to China then weighed on share prices. The market then rose through the rest of the month despite the release of Chinese startup DeepSeek's low-cost AI model temporarily acting as a drag by igniting concerns over the future of demand for semiconductors, concerns over Trump tariffs abated as he did not immediately implement any after taking office.

Composite Performance (%) Excess Return*



Top Ten Holdings	%
JTEKT CORP	4.54
DAISHI HOKUETSU FINANCIAL GR	3.47
HOKUHOKU FINANCIAL GROUP INC	3.40
NISHI-NIPPON FINANCIAL HOLDI	3.33
CHUGIN FINANCIAL GROUP INC	3.00
TOYODA GOSEI CO LTD	2.95
K'S HOLDINGS CORP	2.91
MABUCHI MOTOR CO LTD	2.86
TOYOTA BOSHOKU CORP	2.81
SAWAI GROUP HOLDINGS CO LTD	2.78
Total	32.05

Characteristics		
	Portfolio	Benchmark
P/E	9.82x	12.29x
P/B	0.69x	1.06x
ROE	7.04%	8.60%
Dividend Yield	3.53%	2.83%

Market Cap		
	Portfolio	TOPIX
Large	0.0%	67.3%
Mid	47.5%	25.2%
Small	49.1%	7.5%
Others	2.1%	-

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 28.5B (USD 184M)
	Overseas	JPY 5.3B (USD 34M)
	Strategy total	JPY 33.8B (USD 218M)

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

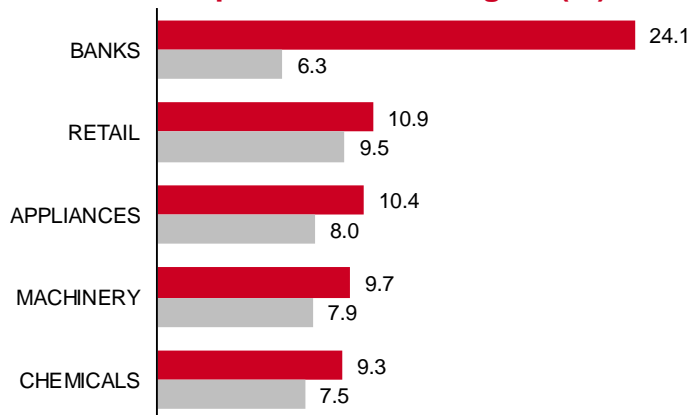
** Russell/Nomura Small Cap Index includes the dividends paid by the index constituents.

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 contributed to performance. In sector allocation, overweighting (OW) of Banks and underweighting (UW) of Foods and Glass & Ceramic contributed to performance, while UW of Info & Comm and Nonferrous and OW of Trans Equip detracted. In stock selection, OW of Fujitsu General, North Pacific Bank, and Hokuohoku Financial Group contributed to performance, while OW of Trusco Nakayama, Nihon M&A Center, and Sawai Group Holdings detracted. Last month we increased holdings of Sumitomo Heavy Industries, Yamato Holdings, and JGC Holdings and decreased holdings of Fujitsu General, Aoyama Trading, and Anritsu.

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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