

# Japan Value Equity Small Cap

February 2025

## Strategy

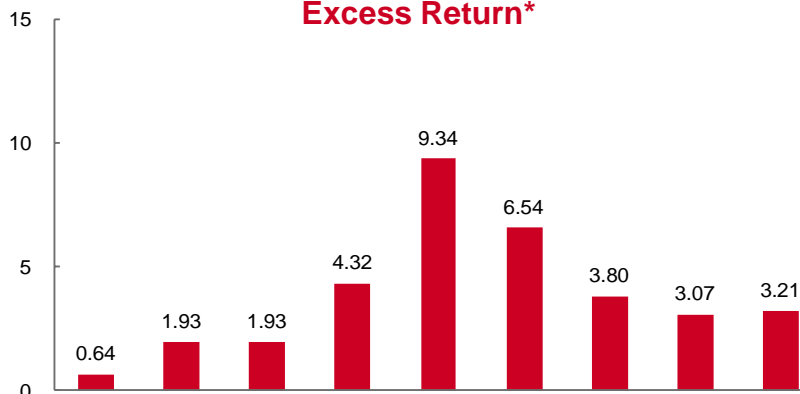
Small Cap Strategy invests in Japanese small cap equities and aims to achieve above-benchmark return in the mid-to long-term. The portfolio manager builds a portfolio by investing in undervalued stocks with careful consideration of risk/return. A bottom-up approach is used. The Japanese equity research 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 fell in February on the back of concerns over US tariffs and economic decline as well as JPY appreciation following the shrinking of the Japan-US interest rate gap. Growth stock were down because of harsher regulations on semiconductor-related sales to China and concerns of a slowdown in investment in AI.

The market fell in the first half of the month on executive orders from US President Donald Trump for further tariffs on Canada, Mexico, and China. The market did rebound after Trump said he would delay the activation of tariffs on Canada and Mexico, but uncertainty concerning tariffs once again spiked when he signed an executive order for 25% tariffs on all steel and aluminium imports. The market then trended sideways. Although strong domestic earnings acted to support the market, preliminary domestic GDP figures coming in higher than expected raised the spectre of further rate increases by the BoJ. Share prices then fell through the end of the month as JPY appreciated (on the shrinking Japan-US interest rate gap) and concerns over the economy grew on the back of US Services PMI falling below 50 (the point between expansion and contraction) for the first time in two years and US consumer confidence also falling significantly.

## Composite Performance (%) Excess Return\*



	Feb	QTD	YTD	1Y	3Y	5Y	7Y	10Y	SI
Composite	-2.30	-1.18	-1.18	9.12	22.93	19.43	9.34	10.88	9.62
Benchmark	-2.94	-3.11	-3.11	4.80	13.58	12.89	5.54	7.82	6.41

### 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 27.7B (USD 184M)
	Overseas	JPY 5.2B (USD 34M)
	Strategy total	JPY 32.8B (USD 218M)

Top Ten Holdings	%
JTEKT CORP	3.93
DAISHI HOKUETSU FINANCIAL GR	3.25
MABUCHI MOTOR CO LTD	3.21
NISHI-NIPPON FINANCIAL HOLDI	3.17
TOYODA GOSEI CO LTD	3.12
TOYOTA BOSHOKU CORP	3.09
K'S HOLDINGS CORP	2.95
NIHON M&A CENTER HOLDINGS IN	2.91
CHUGIN FINANCIAL GROUP INC	2.88
NORTH PACIFIC BANK LTD	2.81
Total	31.32

### Characteristics

	Portfolio	Benchmark
P/E	9.58x	11.70x
P/B	0.68x	1.01x
ROE	7.05%	8.65%
Dividend Yield	3.71%	2.97%

### Market Cap

	Portfolio	TOPIX
Large	0.0%	66.8%
Mid	49.3%	25.6%
Small	48.2%	7.6%
Others	2.1%	-

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

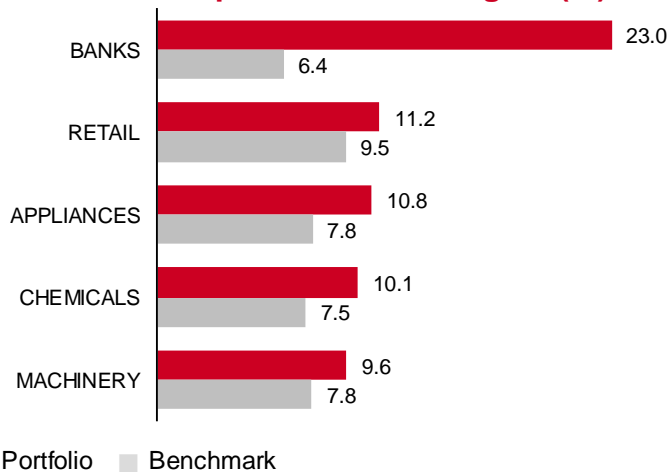
\*\* Russell/Nomura Small Cap Index includes the dividends paid by the index constituents.

The data shown is of a representative account. Past performance is not a guarantee of future returns.

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## Japan Value Equity Small Cap

### Top Five Sector Weights (%)



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

### Attribution Analysis

While sector allocation detracted from performance, stock selection contributed. In sector allocation, underweighting (UW) of Nonferrous and Precision Instr and overweighting (OW) of Banks contributed to performance, while UW of Real Estate and OW of Trans Equip and Appliances detracted. In stock selection, OW of Mabuchi Motor, Japan Lifeline, and Hokuhoku Financial Group contributed to performance, while OW of Daishi Hokuetsu Financial Group, en Japan, and Jtekt detracted. Last month we increased holdings of Taiyo Yuden, en Japan, and Rengo and decreased holdings of Hokuhoku Financial Group, Japan Lifeline, and Fujitsu General.

### 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). Valuation metrics like forward PER have fallen on concerns over further tariffs from the US and JPY appreciation caused by divergent monetary policy by the US and Japan. We expect market volatility (degree of movement in share prices) to increase as long as there is not a clear picture on coming tariff policy. As such, we believe it will take some time before valuations return to an upward trajectory. 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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