# Japan Value Equity Small Cap

SOMPO ASSET MANAGEMENT

**August 2026**

## Strategy

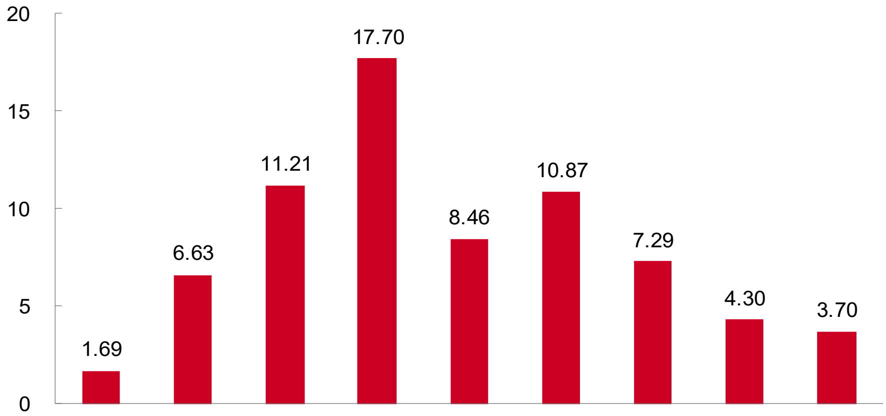
Small Cap Strategy invests in Japanese small cap equities and aims to achieve above-benchmark return in the mid- to long-term. The portfolio manager builds a portfolio by investing in undervalued stocks with careful consideration of risk/return. A bottom-up approach is used. The Japanese equity research 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 market was primarily driven by tech stocks, as excessive concerns over AI-related funding eased. The service sector rose on confirmed earnings expansion by the use of generative AI. The marine transportation sector also rose due to favorable shipping rates on the back of escalated tensions in the Middle East. Meanwhile, the insurance sector declined as shareholder returns announced at earnings reports fell short of market expectations. The glass & ceramic sector also saw a decline due to concerns over surging raw material prices.

In the first part of the month, the Japanese market rose, fueled by a series of strong earnings results. In the middle of the month, the market rose further as fears over AI-related funding eased following a major U.S. semiconductor company's announcement of a framework to support AI data center construction. The market was also supported by lower-than-expected U.S. CPI, which reduced expectations for early Fed rate hikes. Subsequently, the market plummeted due to heightened geopolitical risks in the Middle East. However, the market then recovered, supported by a drop in U.S. long-term rates following the US Treasury's announcement of increased purchases of long-term government bonds. Towards the end of the month, despite easing concerns over the Middle East situation, hawkish remarks by Fed Chair Walsh regarding rate hikes weighed on the market, which ended below its mid-month high.

## Composite Performance (%)
## Excess Return*




| | Aug | QTD | YTD | 1Y | 3Y | 5Y | 7Y | 10Y | SI |
|---|---|---|---|---|---|---|---|---|---|
| Composite | 6.02 | 9.95 | 31.64 | 49.49 | 31.03 | 27.93 | 23.22 | 17.62 | 12.22 |
| Benchmark | 4.33 | 3.32 | 20.42 | 31.79 | 22.57 | 17.07 | 15.93 | 13.32 | 8.52 |

| Composite Summary | | |
|---|---|---|
| **Composite Name** | SJAM Small Cap Mother Fund | |
| **Benchmark** | Russell/Nomura Small Cap** | |
| **Inception Date** | October 2007 | |
| **Number of Holdings** | 90 | |
| **Bloomberg Code** | SNAMSMC | |
| **Assets Under Management** | Domestic | JPY 37.2B (USD 233M) |
| | Overseas | JPY 13.3B (USD 83M) |
| | Strategy total | JPY 50.4B (USD 316M) |

| Top Ten Holdings | % |
|---|---|
| JTEKT CORP | 3.78 |
| RENGO CO LTD | 3.49 |
| SERIA CO LTD | 3.34 |
| KEISEI ELECTRIC RAILWAY CO | 3.28 |
| NIHON M&A CENTER HOLDINGS IN | 2.99 |
| MABUCHI MOTOR CO LTD | 2.79 |
| EN INC/JAPAN | 2.68 |
| EIZO CORP | 2.51 |
| SUMITOMO HEAVY INDUSTRIES | 2.39 |
| JGC HOLDINGS CORP | 2.35 |
| Total | 29.61 |

| Characteristics | Portfolio | Benchmark |
|---|---|---|
| P/E | 13.57x | 14.21x |
| P/B | 1.04x | 1.35x |
| ROE | 7.70% | 9.47% |
| Dividend Yield | 3.11% | 2.64% |

| Market Cap | Portfolio | TOPIX |
|---|---|---|
| Large | 0.0% | 68.2% |
| Mid | 50.3% | 24.7% |
| Small | 45.0% | 7.2% |
| Others | 3.3% | - |

* Excess return figures are annualized for three years and longer.
** Russell/Nomura Small Cap Index includes the dividends paid by the index constituents.

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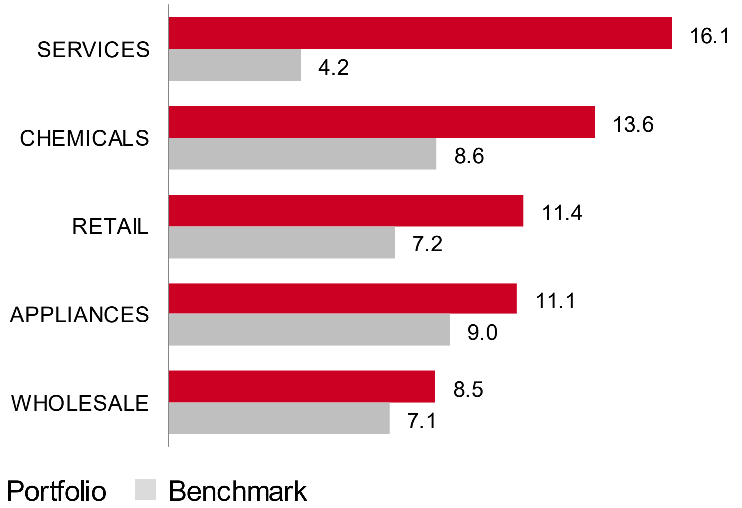
## Top Five Sector Weights (%)




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

## Attribution Analysis

Stock selection contributed to performance, while sector allocation detracted. In sector allocation, overweighting (OW) of Services and underweighting (UW) of Warehousing and Rubber contributed to performance, while UW of Banks, Nonferrous, and Info & Comm detracted. In stock selection, OW of en Inc, Seria, and UT Group contributed to performance, while OW of JTEKT, Sawai Group Holdings and UW of Seiko Group detracted. Last month we increased holdings of ULVAC, Alfresa Holdigns, and Nichiha and decreased holdings of Topre, The San-in Godo Bank, and Kakaku.com.

## Outlook

We expect the market to remain firm. Valuations (forward P/E) already reflect market expectations to a considerable extent and suggest limited upside potential. FY26 earnings forecasts will likely be less impacted by rising costs driven by the Middle East situation than initially expected. We expect a firm market, driven by solid earnings, with improvements
expected across broader sectors beyond AI and semiconductors. We believe there is significant room for a re-rating of non-AI related stocks, while AI-related stocks have already priced in considerably high expectations. We should remain vigilant about a potential market correction, given that the recent rise in domestic long-term rates could put downward pressure on valuations. That said, we don’t expect a large market correction as there is strong equity demand from a high level of share buybacks and the BoJ has relatively accommodative monetary policy compared to the US and Europe.

## Contact Information

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