Japan Value Equity Small Cap

October 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

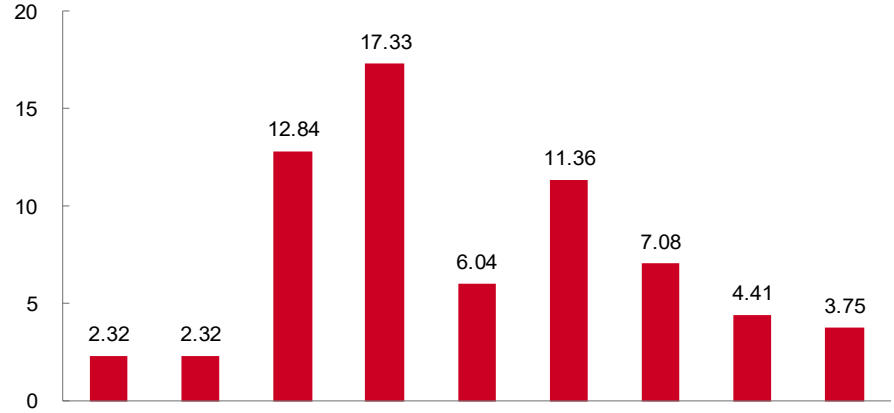
Concerns over financing risks for AI-related businesses weighed on the market. The services sector, which comprises a high concentration of domestic demand-oriented stocks rose amid an uncertain external environment. Mining also gained, supported by rising expectations for earnings improvements driven by surging crude oil prices. Conversely, non-ferrous metals and machinery, which include AI semiconductor-related names, underperformed as fears mounted over the profitability of AI-related investments.

At the beginning of the month, the market started higher as weaker-than-expected US employment data dampened expectations for early rate hikes. However, stock prices subsequently retreated as US long-term rates surged to historical highs following the release of the FOMC meeting minutes.

In the middle of the month, a sharp decline in bond prices for an emerging US cloud company triggered concerns over financing risks for AI-related businesses, leading to a major sell-off, particularly in high-tech names. Although the market temporarily saw a partial recovery driven by buying on weakness, escalating attacks on Saudi Arabia by pro-Iranian militant groups sent crude oil prices soaring and weighed on stock prices late in the month.

Toward the end of the month, earnings reports from major US tech companies reignited concerns over the heavy financial burden of massive AI investments, causing the market to test lower levels.

Composite Performance (%)
Excess Return*



	Oct	QTD	YTD	1Y	3Y	5Y	7Y	10Y	SI
Composite	-1.52	-1.52	28.30	39.69	28.01	27.06	20.47	16.24	11.95
Benchmark	-3.84	-3.84	15.46	22.36	21.96	15.70	13.38	11.82	8.20

Top Ten Holdings	%
JTEKT CORP	3.58
KEISEI ELECTRIC RAILWAY CO	3.49
RENGO CO LTD	3.43
SERIA CO LTD	3.35
NIHON M&A CENTER HOLDINGS IN	2.94
EN INC/JAPAN	2.92
MABUCHI MOTOR CO LTD	2.78
EIZO CORP	2.38
SUMITOMO HEAVY INDUSTRIES	2.24
JAPAN LIFELINE CO LTD	2.24
Total	29.35

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 36B (USD 228M)
	Overseas	JPY 16.9B (USD 107M)
	Strategy total	JPY 52.9B (USD 336M)

Characteristics	Portfolio	Benchmark
P/E	12.04x	12.89x
P/B	1.00x	1.30x
ROE	8.29%	10.08%
Dividend Yield	3.33%	2.91%

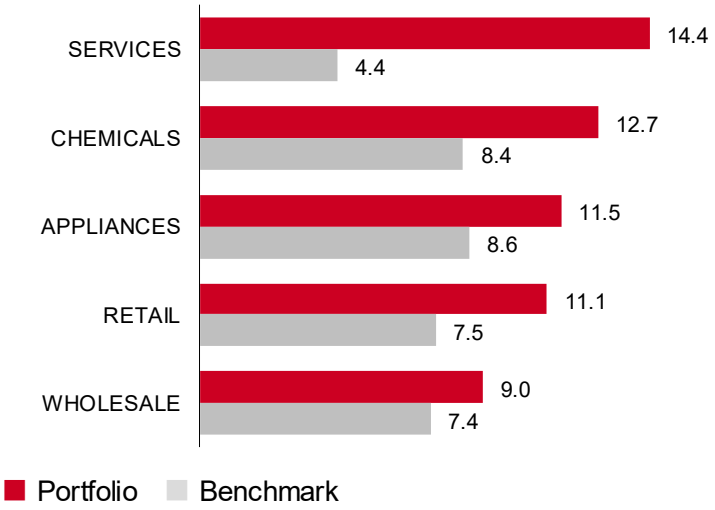
Market Cap	Portfolio	TOPIX
Large	0.0%	69.7%
Mid	48.0%	23.4%
Small	49.8%	6.9%
Others	0.0%	-

* 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.
This document has been prepared solely for informational purposes and does not constitute an offer to sell securities in any jurisdiction. Actual performance achieved by a client portfolio may be affected by a variety of factors, including the initial balance of the account, the timing and amount of any additions to or withdrawals from the portfolio, changes made to the account to reflect the specific investment needs or preferences of the client, duration and timing of participation as a client, and a client portfolio's risk tolerance, investment objectives and investment time horizon. The returns presented above are gross and do not reflect the deduction of investment advisory fees which will reduce returns.

Japan Value Equity Small Cap

Top Five Sector Weights (%)





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

Attribution Analysis

Both sector allocation and stock selection contributed to performance. In sector allocation, underweighting (UW) of Banks and, and overweighting (OW) of Services and Retail contributed to performance, while UW of Info & Comm and Foods, and OW of Appliances detracted. In stock selection, OW of Keisei Electric Railway, Alfresa Holdings, and Rengo contributed to performance, while OW of Sumitomo Heavy Industries, JTEKT, and COSEL detracted. Last month we increased holdings of Japan Aviation Electronics, NAKANISHI, and Towa Pharmaceutical and decreased holdings of Kakaku.com, Hakuhodo DY Holdings, and Doutor Nichires Holdings.

Outlook

We expect the market to bottom out and look for a rebound. Due to valuation corrections led by AI-related stocks, the overall market's forward P/E ratio has dropped to undervalued levels. While concerns over the sustainability of AI investments will likely linger, we believe the current valuation levels can be maintained given that there are no signs of a major downturn in the global economy and that any negative impacts on non-AI names will be limited. Even if AI-related demand slows down, earnings for this fiscal year are projected to remain robust, and we expect the market to return to focusing on earnings fundamentals. We should remain vigilant about a potential market correction, given that the recent rise in 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

Daniel Robbins
+81 3 5290 3414
Group email: global@sompo-am.co.jp

Important Notice
This material is being made available to you by SOMPO ASSET MANAGEMENT CO., LTD, "Sompo AM". Sompo AM is not licensed or registered in any jurisdiction except in Japan. You are not permitted to copy this material or pass it to anyone else. This material does not constitute an offer to sell securities in any jurisdiction. This material is not, and must not be treated as, investment advice or investment recommendations. Before making any investment decision, you should seek independent investment, legal, tax, accounting or other professional advice as appropriate, none of which is offered to you by Sompo AM. No investment service will be provided in or into any jurisdiction except to the extent permitted by local law. Sompo AM makes no representation or warranty, express or implied, except as required by law or in the case of fraud, regarding the accuracy, completeness or adequacy of the information in this material. Past performance is not a guarantee of future results.
For the attention of investors in the US
This report is for the use of non-U.S. persons.
For the attention of investors in the United Kingdom:
To the extent that this material is being issued by any persons who are not authorised under the Financial Services and Markets Act 2000 (the "Act"), it is being issued in the United Kingdom only to, and/or is directed only at, persons who are of a kind to whom it may lawfully be issued or directed under the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, including persons who are authorised under the Act ("authorised persons"), certain persons having professional experience in matters relating to investments, high net worth companies and high net worth unincorporated associations or partnerships. This material is only available to such persons in the United Kingdom and this material must not be copied or distributed to any other person without seeking prior consent from Sompo AM.
For the attention of investors in Abu Dhabi:
This material and the information contained herein, does not constitute, and is not intended to constitute, a public offer of securities or other form of investments in the UAE and accordingly should not be construed as such. The portfolio management services detailed herein are only being offered to a limited number of sophisticated investors in the UAE: (a) who are willing and able to conduct an independent investigation of the risks involved in the related investments and (b) upon their specific request. The investments and services detailed herein have not been approved by or licensed or registered with the UAE Central Bank, the Securities and Commodities Authority or any other relevant licensing authorities or governmental agencies in the UAE. This material is for the use of the named addressee only and should not be given or shown to any other person (other than employees, agents or consultants in connection with the addressee's consideration thereof). No transaction will be concluded in the UAE and any enquiries regarding the investments and services detailed herein should be made to Sompo AM.
Sompo AM is a registered Financial Instruments Firm with the Director General of Kanto Local Finance Bureau ("KLFB") of the Japan Ministry of Finance, KLFB (KINSYO) No. 351, and is a member of the Japan Investment Advisers Association, and The Investment Trusts Association, Japan.

Copyright © 2013 SOMPO ASSET MANAGEMENT CO., LTD. All Rights Reserved.