

Japan Value Equity Sustainable

September 2024

Strategy

Sustainable Strategy is a smart-beta Japanese equity strategy that tracks the proprietary Sompō Sustainability Index. 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 invests in widely diversified stocks high in ESG-quality. ESG research is conducted by Sompō Risk Management, a leading domestic ESG research company.

Market Review

Japanese equities fell as the market was bearish on JPY appreciation versus USD, stemming from a narrowing interest rate differential between Japan and the US and Shigeru Ishiba chosen as the ruling Liberal Democratic Party (LDP)'s new leader, although the market was bullish on China's large-scale economic stimulus measures. Air Transportation and Warehousing & Harbor Transportation Services stocks rose as they are relatively less impacted by the JPY appreciation. However, Mining stocks dropped because of a decline in crude oil prices amid concerns over a recession and increasing oil supply.

The Japanese equity market fell in the first half of the month due to growing concerns of a recession on the back of a weaker-than-expected US ISM Manufacturing Index and JPY appreciation, stemming from the narrowed gap between Japanese and US interest rates. The market subsequently faced an upside resistance as JPY/USD temporarily strengthened to 139 yen, then share prices rose on growing expectations for a soft landing in the US following a 50bps rate cut by the Fed. The market temporarily saw JPY depreciation and higher stock prices towards the end of the month as the market favored China's economic stimulus measures and expectations for Sanae Takaichi, a former Economic Security Minister and supporter of easing monetary policy, to win the LDP leadership race. However, TOPIX ended nearly flat MoM due to rapid JPY appreciation and lower stock prices following Ishiba winning the race as he advocates increasing taxes on financial income and more restrictive fiscal policy.

Composite Performance (%) Excess Return*



Top Ten Holdings	%
TOYOTA MOTOR CORP	2.15
MITSUBISHI UFJ FINANCIAL GRO	1.73
SONY CORP	1.50
HITACHI LTD	1.32
SUMITOMO MITSUI FINANCIAL GR	1.25
NIPPON TELEGRAPH & TELEPHONE	1.21
MITSUBISHI CORP	1.06
HONDA MOTOR CO LTD	1.02
ITOCHU CORP	1.01
MIZUHO FINANCIAL GROUP INC	1.00
Total	13.23

Characteristics		
	Portfolio	TOPIX
P/E	12.25x	13.50x
P/B	1.07x	1.28x
ROE	8.71%	9.51%
Dividend Yield	2.94%	2.58%
Market Cap		
	Portfolio	TOPIX
Large	45.1%	65.5%
Mid	44.3%	26.3%
Small	9.1%	8.2%
Others	0.0%	-

	Sep	QTD	YTD	1Y	3Y	5Y	7Y	10Y	SI
Composite	-0.54	-2.85	15.39	16.44	14.61	14.87	9.99	10.66	15.02
Benchmark	-1.53	-4.90	14.25	16.57	12.01	13.45	9.33	9.63	13.81

Composite Summary

Composite Name	SNAM Sustainable Investment Mother Fund		
Benchmark	TOPIX Total Return**		
Inception Date	September 2012		
Number of Holdings	302		
Bloomberg Code	SNAMSUS		
Assets Under Management	Composite (T9915)	JPY 35.9B (USD 251M)	
	Discretionary Mandate	JPY 183.5B (USD 1283M)	
	Strategy Total	JPY 219.4B (USD 1534M)	

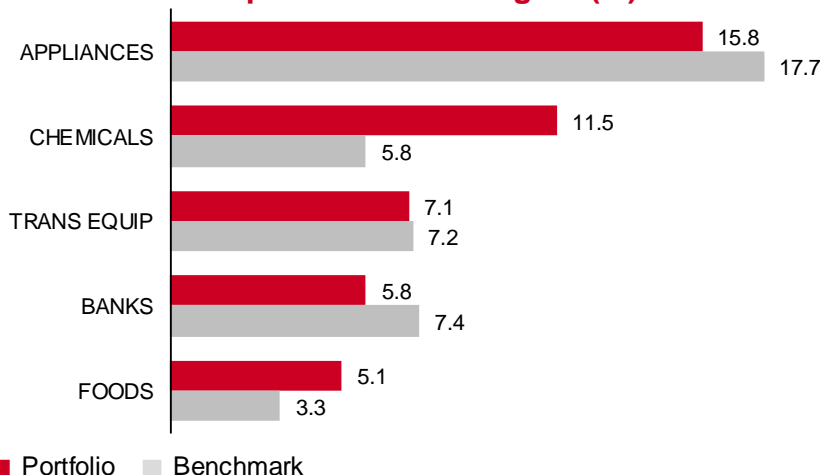
* Excess return figures are annualized for three years and longer.

** TOPIX Total Return Index includes the dividends paid by the index constituents.

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Top Five Sector Weights (%)



Masako Chikuma, CMA, CFA
Senior Portfolio Manager
20 years investment experience
9 years at Sompo AM

Attribution Analysis

In stock selection, share price increases for Daikin Industries, Hitachi, and Shiseido contributed to performance, while share price declines for Toyota Motor, Daiichi Sankyo, and Mitsui Fudosan detracted.

Outlook

We expect the market will fluctuate around the recent bottom but show signs of a potential recovery.

FY24 Japanese corporate earnings will likely grow and share prices do not look overvalued given their general valuation metrics such as forward P/E ratio, whilst the Japanese market will unlikely see a full-scaled upward trend as long as fears over a US recession continue to linger. Share prices fell as the market priced in concerns over policies of Ishiba's new administration. We believe that investors will regain a sense of calm as directions of economic policies and fiscal management of the administration become clearer and that the market will show signs of a potential recovery over the near term. We also believe that it is difficult to envision a large correction to the Japanese market given strong equity demand from the high level of large scale share buyback seen recently and the BoJ's relatively accommodative monetary policy compared to the US and Europe.

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