

# Japan Value Equity Sustainable

October 2024

## Strategy

Sustainable Strategy is a smart-beta Japanese equity strategy that tracks the proprietary Sompo 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 Sompo Risk Management, a leading domestic ESG research company.

## Market Review

Share prices rose following the robust US economy and JPY depreciation versus USD, although the Japanese equity market was temporarily bearish on political uncertainty in the country given expectations for the ruling coalition of the Liberal Democratic Party (LDP) and its partner, Komeito, to lose a majority in the lower house election. Names in Banks, Securities & Commodity Futures, and Insurance rose as investors were bullish on an increase in domestic interest rates. However, Iron & Steel and Chemicals stocks fell due to fears over a recession in China.

Investors were concerned about heightened geopolitical risks in the Middle East in the first half of the month following Iranian strikes on Israel. However, Japanese equities rose as the market was supported by a higher-than-expected US job report, rising expectations for a soft landing of the US economy, and JPY depreciation versus USD arising from a widening interest rate gap between Japan and the US. The Japanese equity market then faced an upside resistance due to growing political uncertainty on the back of expectations for the ruling coalition to lose its parliamentary majority, ahead of the lower house election held on October 27th. However, after the election result revealed, Japanese equities rebounded towards the end of the month, helped by JPY depreciation and expectations for LDP/Komeito to plan economic stimulus policies to gain support from the opposition party, the Democratic Party for the People (DPFP).

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



Top Ten Holdings	%
TOYOTA MOTOR CORP	2.49
MITSUBISHI UFJ FINANCIAL GRO	1.99
SUMITOMO MITSUI FINANCIAL GR	1.40
HITACHI LTD	1.34
SONY CORP	1.32
NIPPON TELEGRAPH & TELEPHONE	1.20
HONDA MOTOR CO LTD	1.11
MITSUBISHI CORP	1.10
MIZUHO FINANCIAL GROUP INC	1.08
ITOCHU CORP	1.05
Total	14.08

Characteristics		
	Portfolio	TOPIX
P/E	12.30x	13.77x
P/B	1.11x	1.35x
ROE	9.02%	9.82%
Dividend Yield	2.95%	2.54%

Market Cap		
	Portfolio	TOPIX
Large	46.1%	67.0%
Mid	43.6%	25.4%
Small	8.9%	7.5%
Others	0.0%	-

	Oct	QTD	YTD	1Y	3Y	5Y	7Y	10Y	SI
Composite	1.13	1.13	16.70	21.60	15.75	13.77	9.32	10.74	15.01
Benchmark	1.88	1.88	16.40	22.43	13.24	12.77	8.79	9.77	13.89

### Composite Summary

Composite Name	SNAM Sustainable Investment Mother Fund		
Benchmark	TOPIX Total Return**		
Inception Date	September 2012		
Number of Holdings	301		
Bloomberg Code	SNAMSUS		
Assets Under Management	Composite (T9915)	JPY 36.3B (USD 238M)	
	Discretionary Mandate	JPY 185.5B (USD 1218M)	
	Strategy Total	JPY 221.8B (USD 1456M)	

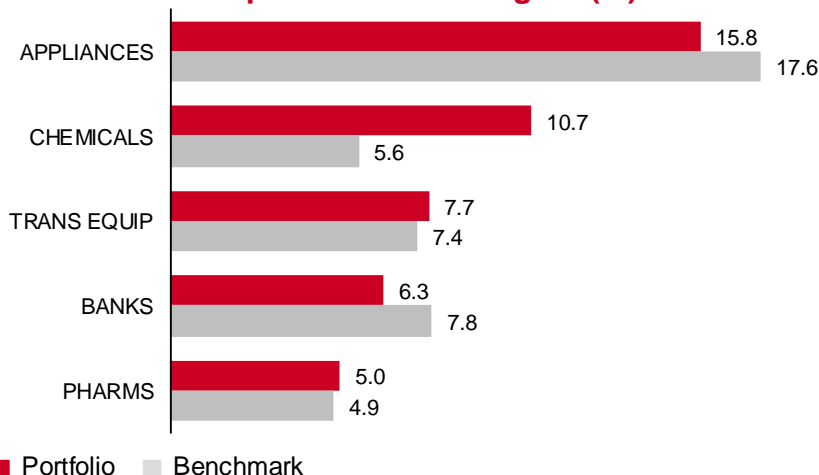
\* Excess return figures are annualized for three years and longer.

\*\* 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 Mitsubishi UFJ Financial Group, Advantest, and Toyota Motor contributed to performance, while share price declines for Tokyo Electron, Nomura Research Institute, and Daikin Industries detracted.

## Outlook

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

While concerns about the slowing US economy remain, FY24 Japanese corporate earnings will likely grow on the back of Japan specific positive factors, such as a recovery in domestic real wages and capital efficiency improvement measures implemented by companies following pressures from the Tokyo Stock Exchange (TSE). Share prices do not look overvalued given their general valuation metrics such as forward P/E ratio. However, the Japanese market will unlikely see a full-scaled upward trend as long as uncertainty of policies of new governments in Japan and the US and fears over a sharp JPY appreciation linger. We 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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