

Japan Value Equity Value Focus

October 2024

Strategy

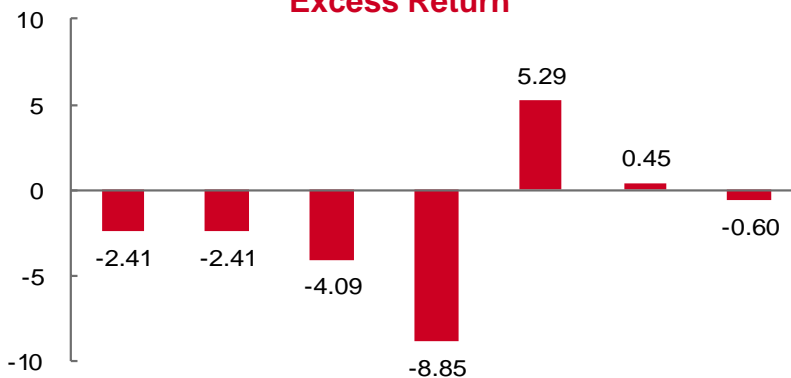
Value Focus Strategy is a focused, Japanese large/mid-cap equity strategy that aims for above-benchmark return in the mid- to long-term. The portfolio managers build the portfolio by investing in undervalued stocks with careful consideration of risk/return. A bottom-up approach is used. The Japanese equity research team analyzes the intrinsic value of individual stocks and compares it with market price to identify undervalued stocks. The portfolio is not constrained by sector weights.

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	%
NIDEC CORP	5.13
KIRIN HOLDINGS CO LTD	4.80
TORAY INDUSTRIES INC	4.68
SUMITOMO MITSUI TRUST HOLDIN	4.60
FANUC CORP	4.49
SUMITOMO MITSUI FINANCIAL GR	4.30
ASAHI KASEI CORP	3.98
MURATA MANUFACTURING CO LTD	3.93
OMRON CORP	3.85
KYOCERA CORP	3.72
Total	43.47

Characteristics

	Portfolio	Benchmark
P/E	13.09x	14.43x
P/B	1.00x	1.47x
ROE	7.63%	10.20%
Dividend Yield	2.99%	2.45%

Market Cap

	Portfolio	Benchmark
Large	59.0%	84.1%
Mid	39.9%	15.4%
Small	0.0%	0.0%
Others	1.1%	0.5%

	Oct	QTD	YTD	1Y	3Y	5Y	SI
Composite	-0.06	-0.06	12.95	14.61	18.57	13.63	9.72
Benchmark	2.34	2.34	17.03	23.46	13.29	13.18	10.32

Composite Summary

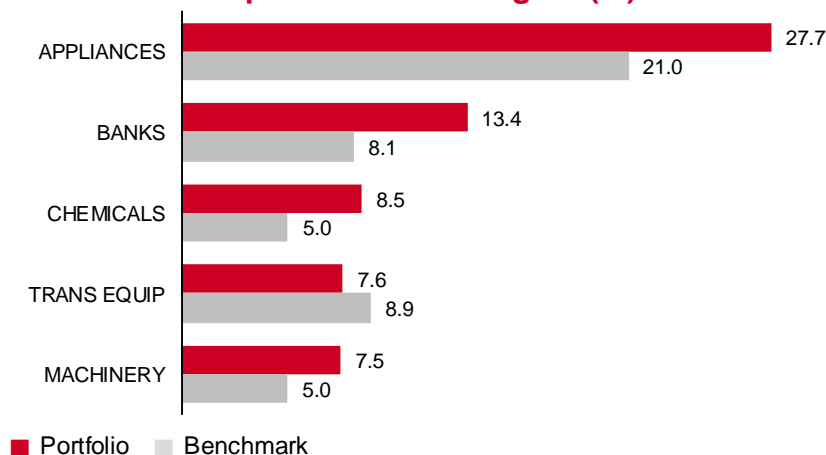
Composite Name	Japan Value Equity Focus					
Benchmark	MSCI Japan**					
Inception Date	March 2018					
Number of Holdings	41					
Assets Under Management	Domestic	JPY 4.3B (USD 28M)				
	Overseas	JPY 27.9B (USD 183M)				
	Strategy Total	JPY 32.2B (USD 211M)				

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

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.

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Top Five Sector Weights (%)



Eitaro Tanaka, CMA

Japanese Equity Group Head
Senior Portfolio Manager
20 years investment experience
9 years at Sompo AM

Attribution Analysis

Both sector allocation and stock selection detracted from performance. In sector allocation, overweighting (OW) of Banks and underweighting (UW) of Wholesale and Retail contributed to performance, while OW of Textiles, Chemicals, and Paper detracted. In stock selection, OW of Sumitomo Mitsui Financial Group and UW of Tokyo Electron and Sony Group contributed to performance, while OW of Omron and Kyocera and UW of Mitsubishi UFJ Financial Group detracted. Last month we increased holdings of Sumco, Kubota, and Subaru and decreased holdings of Makita, Omron, and Toray.

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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