

Japan Value Equity Value Focus

February 2025

Strategy

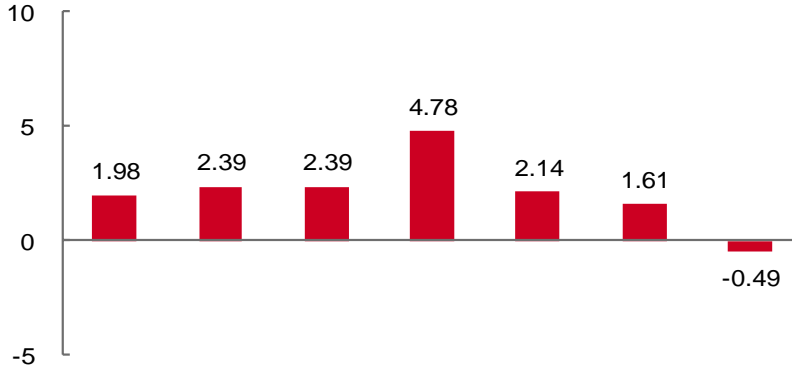
Value Focus Strategy is a focused, Japanese large/mid-cap equity strategy that aims for above-benchmark return in the mid- to long-term. The portfolio managers build the portfolio by investing in undervalued stocks with careful consideration of risk/return. A bottom-up approach is used. The Japanese 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

The Japanese market fell in February on the back of concerns over US tariffs and economic decline as well as JPY appreciation following the shrinking of the Japan-US interest rate gap. Growth stock were down because of harsher regulations on semiconductor-related sales to China and concerns of a slowdown in investment in AI.

The market fell in the first half of the month on executive orders from US President Donald Trump for further tariffs on Canada, Mexico, and China. The market did rebound after Trump said he would delay the activation of tariffs on Canada and Mexico, but uncertainty concerning tariffs once again spiked when he signed an executive order for 25% tariffs on all steel and aluminium imports. The market then trended sideways. Although strong domestic earnings acted to support the market, preliminary domestic GDP figures coming in higher than expected raised the spectre of further rate increases by the BoJ. Share prices then fell through the end of the month as JPY appreciated (on the shrinking Japan-US interest rate gap) and concerns over the economy grew on the back of US Services PMI falling below 50 (the point between expansion and contraction) for the first time in two years and US consumer confidence also falling significantly.

Composite Performance (%) Excess Return*



| Top Ten Holdings | % |
|------------------------------|-------|
| SUMITOMO MITSUI TRUST GROUP | 4.60 |
| FANUC CORP | 4.30 |
| KIRIN HOLDINGS CO LTD | 4.29 |
| NIDEC CORP | 4.17 |
| KYOCERA CORP | 3.96 |
| AISIN CORP | 3.63 |
| HONDA MOTOR CO LTD | 3.51 |
| MURATA MANUFACTURING CO LTD | 3.43 |
| SUMITOMO MITSUI FINANCIAL GR | 3.30 |
| TORAY INDUSTRIES INC | 3.29 |
| Total | 38.47 |

| | Feb | QTD | YTD | 1Y | 3Y | 5Y | SI |
|-----------|-------|-------|-------|------|-------|-------|------|
| Composite | -2.02 | -1.54 | -1.54 | 6.51 | 17.47 | 16.61 | 9.23 |
| Benchmark | -4.00 | -3.93 | -3.93 | 1.73 | 15.33 | 15.00 | 9.72 |

Composite Summary

| | | | |
|-------------------------|--------------------------|----------------------|--|
| Composite Name | Japan Value Equity Focus | | |
| Benchmark | MSCI Japan** | | |
| Inception Date | March 2018 | | |
| Number of Holdings | 52 | | |
| Assets Under Management | Domestic | JPY 4.3B (USD 29M) | |
| | Overseas | JPY 18.1B (USD 120M) | |
| | Strategy Total | JPY 22.5B (USD 149M) | |

| Characteristics | | |
|-----------------|-----------|-----------|
| | Portfolio | Benchmark |
| P/E | 12.07x | 13.66x |
| P/B | 0.89x | 1.41x |
| ROE | 7.39% | 10.30% |
| Dividend Yield | 3.24% | 2.60% |

| Market Cap | | |
|------------|-----------|-----------|
| | Portfolio | Benchmark |
| Large | 53.0% | 84.9% |
| Mid | 46.7% | 15.0% |
| Small | 0.2% | 0.0% |
| Others | 0.0% | 0.2% |

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

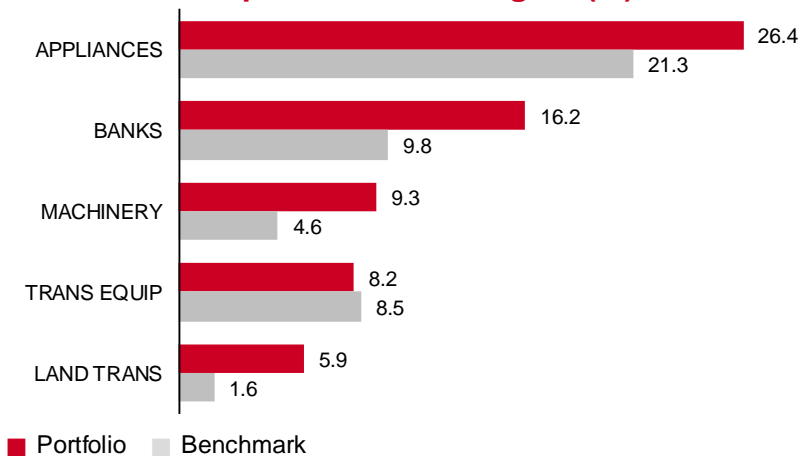
** The MSCI Japan Index is designed to measure the performance of the large and mid cap segments of the Japanese market. With 191 constituents (as of November 29, 2024), the index covers approximately 85% of the free float-adjusted market capitalization in Japan.

The data shown is of a representative account. Past performance is not a guarantee of future 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 contributed to performance. In sector allocation, underweighting (UW) of Services and Precision Instr and overweighting (OW) of Land Trans contributed to performance, while UW of Other Prod and Insurance and OW of Machinery detracted. In stock selection, UW of Recruit Holdings and OW of Kirin Holdings and Shizuoka Financial Group contributed to performance, while UW of Sony Group and Nintendo, OW of Omron detracted. Last month we increased holdings of Rohm, The Hachijuni Bank, and Jtekt and decreased holdings of Exeo Group, Makita, and Fanuc.

Outlook

We expect the market will face heavy upside resistance over the near term.

Japanese corporate earnings will likely grow on the back of a recovery in domestic real wages, a cyclical recovery to the manufacturing sector, and capital efficiency improvement measures implemented by companies following pressure from the Tokyo Stock Exchange (TSE). Valuation metrics like forward PER have fallen on concerns over further tariffs from the US and JPY appreciation caused by divergent monetary policy by the US and Japan. We expect market volatility (degree of movement in share prices) to increase as long as there is not a clear picture on coming tariff policy. As such, we believe it will take some time before valuations return to an upward trajectory. That said, it is difficult to envision a large correction to the Japanese market given strong equity demand from the high level of large-scale share buybacks seen recently and the BoJ's 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

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