Japan Value Equity Concentrated

SOMPO ASSET MANAGEMENT

December 2024

Strategy

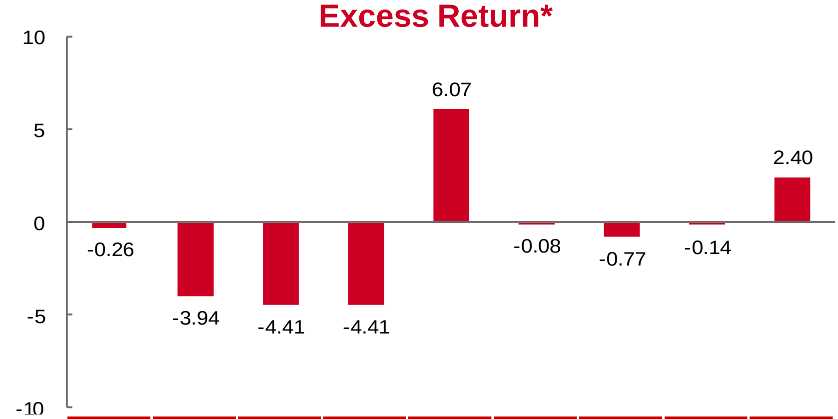
Concentrated Strategy is a focused Japanese equity strategy that aims for above-benchmark return in the mid- to long-term. The portfolio is constructed through investment in undervalued stocks, with careful consideration of risk/return. The strategy takes a bottom-up approach in which the research team analyzes the intrinsic value of individual stocks and compares it with market price in order to identify undervalued names. The portfolio is not constrained by sector weights or market caps.

Market Review

The Japanese market rose during the month as investors were positive on significant JPY depreciation against USD caused by the expanding interest rate gap between the two countries. Transportation equipment names were a large driver of the growth. They benefited from the significant depreciation of JPY, expectations surrounding the merger of the two domestic automobile majors of Honda and Nissan, and reports that Toyota aims to roughly double its ROE.

The market rose in the first half of the month as China's Caixin PMI beat expectation and hopes grew for the GPIF (Government Pension Investment Fund) to raise its allocation to equity following reports the Ministry of Health, Labour and Welfare will raise the investment return target for the largest pension fund in the country. The market then dropped somewhat as although the BoJ left rates unchanged and the central bank governor Kazuo Ueda stated he would not be rushing into rate hikes, the market was negative on the prospect of slow rate cuts by the Fed in 2025 despite the US central bank lowering rates 25bps during the month. Share prices then picked up again through the end of the month on the retreat of excessive fears of slower Fed rate cuts following weaker-than-expected core PCE inflation numbers and JPY depreciation versus USD.

Composite Performance (%)
Excess Return*



	Dec	QTD	YTD	1Y	3Y	5Y	7Y	10Y	SI
Composite	3.76	1.49	16.04	16.04	20.72	12.70	8.09	9.40	9.31
Benchmark	4.02	5.43	20.45	20.45	14.65	12.78	8.85	9.54	6.90

Composite Summary		
Composite Name	SJAM Value Mother Fund	
Benchmark	TOPIX Total Return**	
Inception Date	January 2004	
Number of Holdings	68	
Bloomberg Code	SNAMCON	
Assets Under Management	Domestic	JPY 64.9B (USD 413M)
	Overseas	JPY 3B (USD 19M)
	Strategy Total	JPY 67.9B (USD 432M)

Top Ten Holdings	%
SUMITOMO MITSUI TRUST GROUP	4.36
TORAY INDUSTRIES INC	4.29
FANUC CORP	4.16
NIDEC CORP	4.14
KIRIN HOLDINGS CO LTD	3.79
NIPPON TELEGRAPH & TELEPHONE	3.24
MURATA MANUFACTURING CO LTD	3.02
YAMATO HOLDINGS CO LTD	3.00
KYOCERA CORP	2.85
HONDA MOTOR CO LTD	2.72
Total	35.57

Characteristics	Portfolio	Benchmark
P/E	12.63x	14.01x
P/B	0.90x	1.38x
ROE	7.12%	9.87%
Dividend Yield	3.17%	2.52%

Market Cap	Portfolio	Benchmark
Large	42.8%	67.3%
Mid	45.7%	25.2%
Small	10.2%	7.5%
Others	0.4%	-

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

** TOPIX is a market benchmark with functionality as an investable index, covering an extensive proportion of the Japanese stock market. TOPIX is a free-float adjusted market capitalization-weighted index. TOPIX shows the measure of current market capitalization assuming that market capitalization as of the base date (January 4 ,1968) is 100 points. This is a measure of the overall trend in the stock market, and is used as a benchmark for investment in Japan stocks. Dividends used in calculating the TOPIX Total Return Index are gross (i.e. before tax).

Performance is net of fees.

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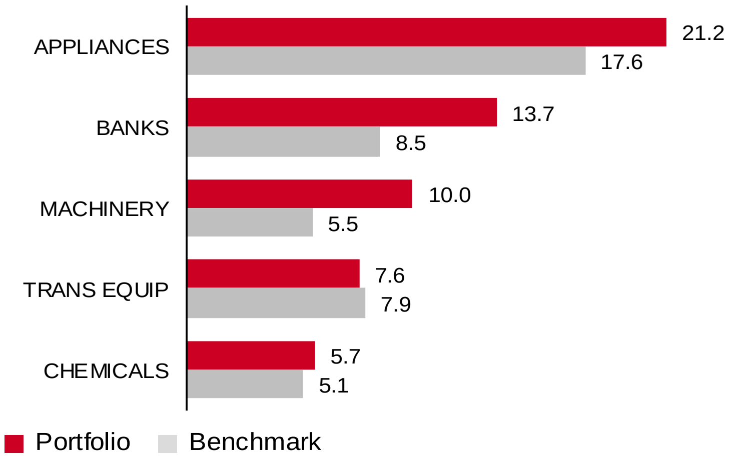
Top Five Sector Weights (%)



Kenji Ueno, CMA
Senior Portfolio Manager
32 years investment experience
27 years at Sompo AM

Attribution Analysis

While sector allocation detracted from performance, stock selection contributed. In sector allocation, underweighting (UW) of Info & Comm and Precision Instr and overweighting (OW) of Appliances contributed to performance, while OW of Banks, Land Trans, and Foods detracted. In stock selection, OW of Honda Motor, Aisin, and Jtekt contributed to performance, while UW of Toyota Motor and Sony Group and OW of Sumitomo Mitsui Trust Group detracted. Last month we increased holdings of Murata Manufacturing, Sumco, and Astellas Pharma and decreased holdings of Kuraray, Makita, and Nippon Shokubai.

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). Share prices do not look overvalued given current general valuation metrics such as forward P/E. However, downward pressure on share prices will likely increase because of concerns of increased tariffs from the US and worries that JPY will appreciate on the back of divergent monetary policy between the US and Japan. 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.

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