

# Japan Value Equity Green

**October 2024**

## Strategy

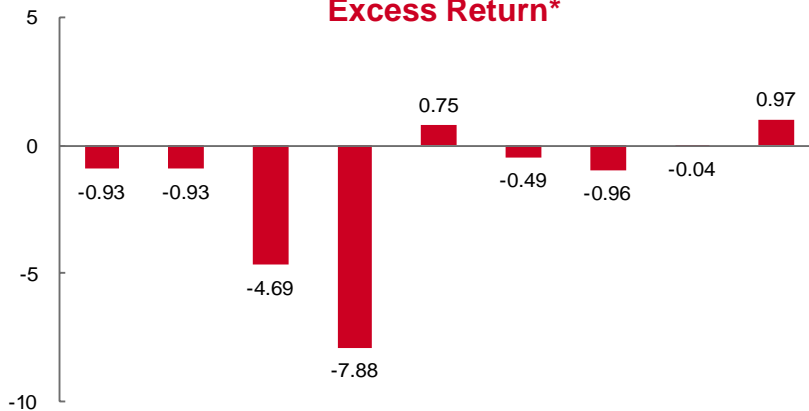
Green Strategy invests in Japanese equities that meet environmental management and investment value criteria, and aims to achieve above-benchmark return in the mid- to long-term. We use a bottom-up approach. The Japanese equity research team analyzes intrinsic value of individual stocks and compares it with market price in order to identify undervalued stocks. Environmental research is conducted by Sompo Risk Management, a leading company in domestic ESG research.

## 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             | %     |
|------------------------------|-------|
| MITSUBISHI UFJ FINANCIAL GRO | 4.85  |
| SUMITOMO MITSUI FINANCIAL GR | 3.19  |
| TOYOTA MOTOR CORP            | 2.84  |
| NIPPON TELEGRAPH & TELEPHONE | 2.57  |
| MURATA MANUFACTURING CO LTD  | 2.04  |
| MAKITA CORP                  | 2.00  |
| ASAHI GROUP HOLDINGS LTD     | 1.99  |
| TAKEDA PHARMACEUTICAL CO LTD | 1.96  |
| DAIKIN INDUSTRIES LTD        | 1.94  |
| ASTELLAS PHARMA INC          | 1.91  |
| Total                        | 25.29 |

|           | Oct  | QTD  | YTD   | 1Y    | 3Y    | 5Y    | 7Y   | 10Y  | SI   |
|-----------|------|------|-------|-------|-------|-------|------|------|------|
| Composite | 0.95 | 0.95 | 11.70 | 14.55 | 13.99 | 12.28 | 7.83 | 9.73 | 6.11 |
| Benchmark | 1.88 | 1.88 | 16.40 | 22.43 | 13.24 | 12.77 | 8.79 | 9.77 | 5.14 |

### Composite Summary

|                         |                               |                      |  |  |  |  |  |  |  |
|-------------------------|-------------------------------|----------------------|--|--|--|--|--|--|--|
| Composite Name          | Sompo Japan Green Mother Fund |                      |  |  |  |  |  |  |  |
| Benchmark               | TOPIX Total Return**          |                      |  |  |  |  |  |  |  |
| Inception Date          | July 2006                     |                      |  |  |  |  |  |  |  |
| Number of Holdings      | 78                            |                      |  |  |  |  |  |  |  |
| Bloomberg Code          | SNAMGRN                       |                      |  |  |  |  |  |  |  |
| Assets Under Management | Strategy Total                | JPY 49.1B (USD 323M) |  |  |  |  |  |  |  |

| Characteristics |           |           |
|-----------------|-----------|-----------|
|                 | Portfolio | Benchmark |
| P/E             | 12.85x    | 13.77x    |
| P/B             | 0.99x     | 1.35x     |
| ROE             | 7.74%     | 9.82%     |
| Dividend Yield  | 3.14%     | 2.54%     |
| Market Cap      |           |           |
|                 | Portfolio | Benchmark |
| Large           | 45.6%     | 67.0%     |
| Mid             | 46.1%     | 25.4%     |
| Small           | 6.7%      | 7.5%      |
| Others          | 0.0%      | -         |

\* 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).

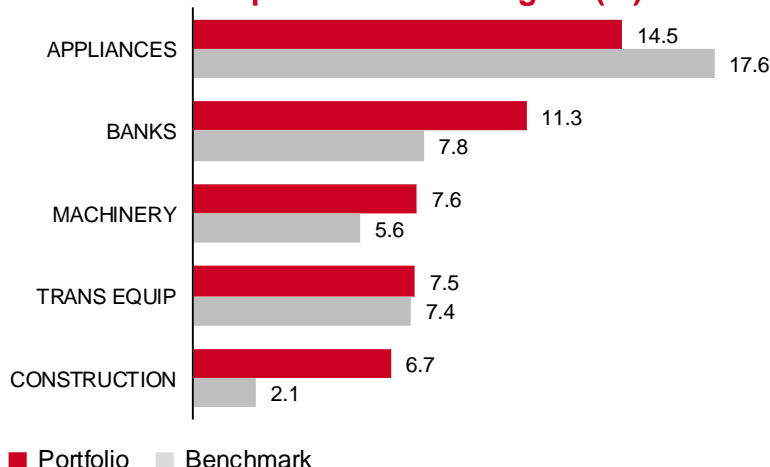
Performance is net of fees.

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 (%)



**Yuya Harashima, CMA, CFA**  
Portfolio Manager  
10 years investment experience  
8 years at Sompo AM

## Attribution Analysis

Both sector allocation and stock selection detracted from performance. In sector allocation, underweighting (UW) of Wholesale and Iron & Steel and overweighting (OW) of Banks contributed to performance, while OW of Construction, Paper, and Chemicals detracted. In stock selection, OW of Mitsubishi UFJ Financial Group and Astellas Pharma and UW of Tokyo Electron contributed to performance, while UW of Advantest and OW of Izumi and Omron detracted. Last month we increased holdings of Kyocera, Hamamatsu Photonics, and Daikin Industries and decreased holdings of Fujifilm Holdings, Net One Systems, and Mitsubishi UFJ Financial Group.

## 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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