

Japan Value Equity Impact

September 2024

Strategy

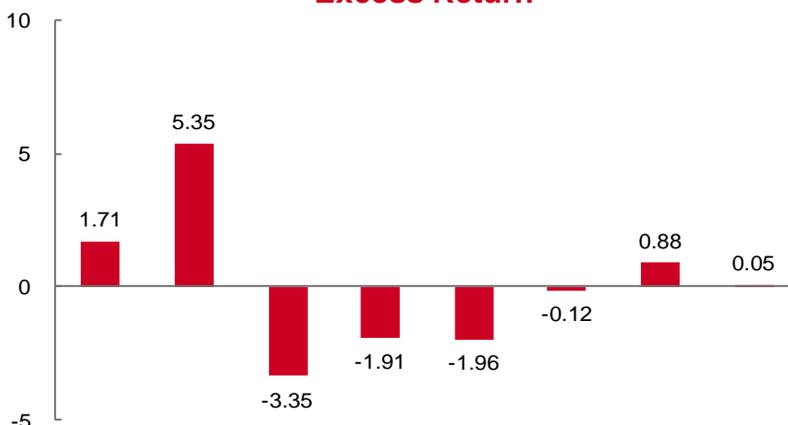
Impact Strategy takes concentrated and long-term positions in Japanese equities proactively rethinking traditional work practices, e.g. through the promotion of female participation in the workforce and diversification, and those with highly stable and profitable businesses top in value-add creation. These are important targets given Japan's declining population. Our equity investment takes a bottom-up approach in which the Japanese equity research team analyzes intrinsic value of individual stocks and compares it with market price in order to identify undervalued stocks.

Market Review

Japanese equities fell as the market was bearish on JPY appreciation versus USD, stemming from a narrowing interest rate differential between Japan and the US and Shigeru Ishiba chosen as the ruling Liberal Democratic Party (LDP)'s new leader, although the market was bullish on China's large-scale economic stimulus measures. Air Transportation and Warehousing & Harbor Transportation Services stocks rose as they are relatively less impacted by the JPY appreciation. However, Mining stocks dropped because of a decline in crude oil prices amid concerns over a recession and increasing oil supply.

The Japanese equity market fell in the first half of the month due to growing concerns of a recession on the back of a weaker-than-expected US ISM Manufacturing Index and JPY appreciation, stemming from the narrowed gap between Japanese and US interest rates. The market subsequently faced an upside resistance as JPY/USD temporarily strengthened to 139 yen, then share prices rose on growing expectations for a soft landing in the US following a 50bps rate cut by the Fed. The market temporarily saw JPY depreciation and higher stock prices towards the end of the month as the market favored China's economic stimulus measures and expectations for Sanae Takaichi, a former Economic Security Minister and supporter of easing monetary policy, to win the LDP leadership race. However, TOPIX ended nearly flat MoM due to rapid JPY appreciation and lower stock prices following Ishiba winning the race as he advocates increasing taxes on financial income and more restrictive fiscal policy.

Composite Performance (%) Excess Return*



	Sep	QTD	YTD	1Y	3Y	5Y	7Y	SI
Composite	0.18	0.45	10.90	14.67	10.05	13.32	10.21	11.09
Benchmark	-1.53	-4.90	14.25	16.57	12.01	13.45	9.33	11.04

Composite Summary

Composite Name	Japan Value Equity Impact
Benchmark	TOPIX Total Return**
Inception Date	October 2016
Number of Holdings	39
Assets Under Management	JPY 9.4B (USD 66M)

* 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 Ten Holdings	%
KDDI CORP	5.44
DAIKIN INDUSTRIES LTD	5.41
SHIN-ETSU CHEMICAL CO LTD	5.31
DENSO CORP	4.69
ITOCHU CORP	4.34
MURATA MANUFACTURING CO LTD	4.23
FANUC CORP	3.84
BRIDGESTONE CORP	3.11
KOMATSU LTD	2.99
ASTELLAS PHARMA INC	2.93
Total	42.30

Characteristics

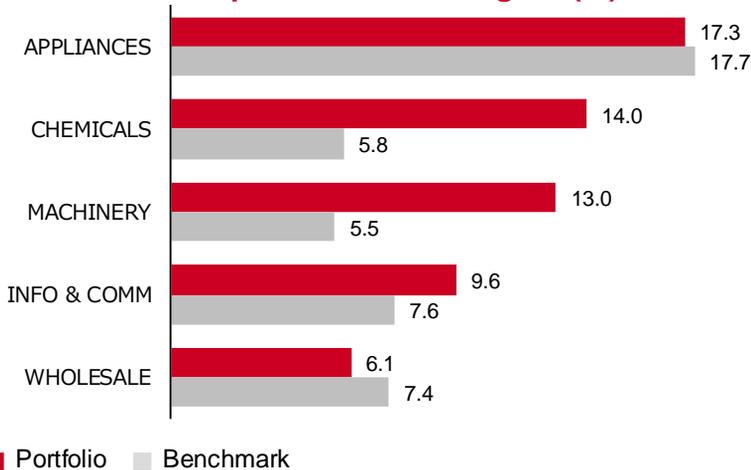
	Portfolio	TOPIX
P/E	15.49x	13.50x
P/B	1.54x	1.28x
ROE	9.96%	9.51%
Dividend Yield	2.63%	2.58%

Market Cap

	Portfolio	TOPIX
Large	56.9%	65.5%
Mid	35.0%	26.3%
Small	6.3%	8.2%
Others	0.0%	-

Japan Value Equity Impact

Top Five Sector Weights (%)



Miho Hanai, CMA, CIAA
 Portfolio Manager
 12 years investment experience
 14 years at Sompo AM

Attribution Analysis

In stock selection, share price increases for Daikin Industries, Toray, and Kao contributed to performance, while share price declines for Shin-Etsu Chemical, KDDI, and Murata Manufacturing detracted.

Outlook

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

FY24 Japanese corporate earnings will likely grow and share prices do not look overvalued given their general valuation metrics such as forward P/E ratio, whilst the Japanese market will unlikely see a full-scaled upward trend as long as fears over a US recession continue to linger. Share prices fell as the market priced in concerns over policies of Ishiba's new administration. We believe that investors will regain a sense of calm as directions of economic policies and fiscal management of the administration become clearer and that the market will show signs of a potential recovery over the near term. We also 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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