

Japan Value Equity Impact

October 2024

Strategy

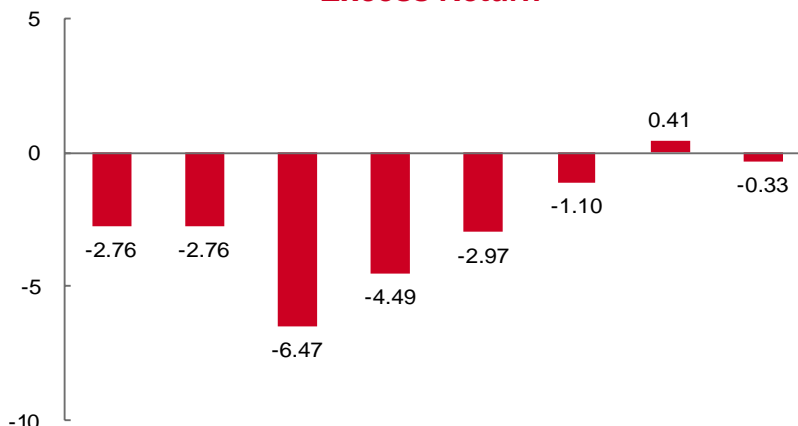
Impact Strategy takes concentrated and long-term positions in Japanese equities proactively rethinking traditional work practices, e.g. through the promotion of female participation in the workforce and diversification, and those with highly stable and profitable businesses top in value-add creation. 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

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	%
KDDI CORP	5.82
SHIN-ETSU CHEMICAL CO LTD	5.10
DENSO CORP	5.03
ITOCHU CORP	4.66
DAIKIN INDUSTRIES LTD	4.65
MURATA MANUFACTURING CO LTD	4.05
FANUC CORP	3.76
KOMATSU LTD	3.11
ASTELLAS PHARMA INC	3.08
BRIDGESTONE CORP	3.04
Total	42.31

Characteristics		
	Portfolio	TOPIX
P/E	15.35x	13.77x
P/B	1.61x	1.35x
ROE	10.47%	9.82%
Dividend Yield	2.67%	2.54%

	Oct	QTD	YTD	1Y	3Y	5Y	7Y	SI
Composite	-0.87	-0.87	9.93	17.94	10.27	11.67	9.20	10.85
Benchmark	1.88	1.88	16.40	22.43	13.24	12.77	8.79	11.18

Composite Summary

Composite Name	Japan Value Equity Impact
Benchmark	TOPIX Total Return**
Inception Date	October 2016
Number of Holdings	39
Assets Under Management	JPY 9.3B (USD 61M)

Market Cap		
	Portfolio	TOPIX
Large	59.3%	67.0%
Mid	32.5%	25.4%
Small	6.5%	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).

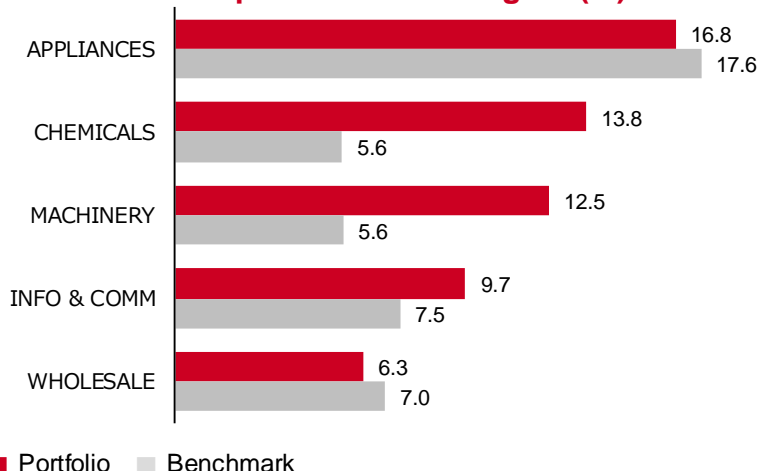
Performance is net of fees.

The data shown is of a representative account. Past performance is not a guarantee of future returns.

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Japan Value Equity Impact

Top Five Sector Weights (%)



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

Attribution Analysis

In stock selection, share price increases for Astellas Pharma, KDDI, and Denso contributed to performance, while share price declines for Toto, Daikin Industries, and Nomura Research Institute detracted.

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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