

Japan Value Equity Impact

November 2024

Strategy

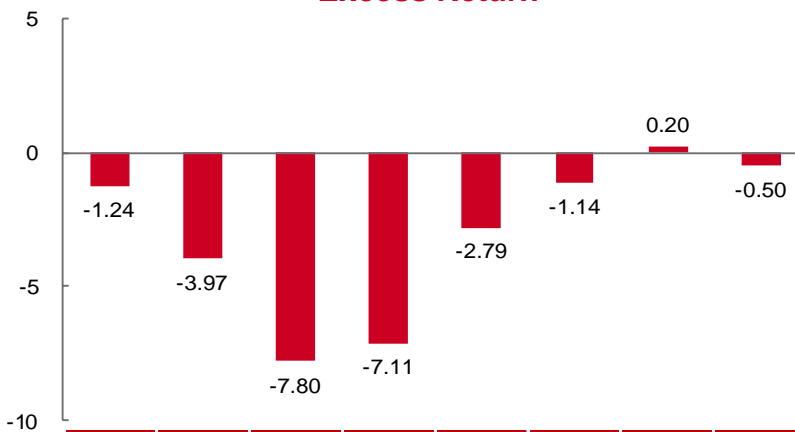
Impact Strategy takes concentrated and long-term positions in Japanese equities proactively rethinking traditional work practices, e.g. through the promotion of female participation in the workforce and diversification, and those with highly stable and profitable businesses top in value-add creation. 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 were dragged on by JPY appreciation versus USD, which was caused by concerns over protectionist policies from President-elect Donald Trump, such as increased tariffs, and the shrinking interest rate gap between the two countries. The Banks, Securities, and Insurance sectors rose as investors were positive on increasing domestic interest rates, while the Transportation Equipment and Chemicals sectors fell as investors were negative on potential increased tariffs from Trump.

Share prices were up in the first half of the month as the market was positive on Trump's victory in the US election given his stimulus policies of lowering corporate and income tax. This was despite a slight downtick caused by concerns of additional rate hikes by the BoJ. Concerns over protectionist policies from Trump, such as increased tariffs, and domestic earnings results coming in below investor expectations then weighed on the market. Share prices continued to fall through the end of the month on the release of actual details of tariffs, the drop in US interest rates after Trump publicly picked fiscal hawk Scott Bessent as next Secretary of the Treasury, and JPY appreciating to below JPY150 to 1USD.

Composite Performance (%) Excess Return*



Top Ten Holdings	%
KDDI CORP	5.86
SHIN-ETSU CHEMICAL CO LTD	5.01
DENSO CORP	4.68
DAIKIN INDUSTRIES LTD	4.59
ITOCHU CORP	4.58
MURATA MANUFACTURING CO LTD	4.17
FANUC CORP	3.29
BRIDGESTONE CORP	3.17
ASTELLAS PHARMA INC	3.08
KOMATSU LTD	2.95
Total	41.37

Characteristics		
	Portfolio	TOPIX
P/E	15.04x	13.56x
P/B	1.57x	1.33x
ROE	10.43%	9.82%
Dividend Yield	2.75%	2.59%

Market Cap		
	Portfolio	TOPIX
Large	56.3%	67.0%
Mid	35.6%	25.4%
Small	6.4%	7.6%
Others	0.0%	-

	Nov	QTD	YTD	1Y	3Y	5Y	7Y	SI
Composite	-1.75	-2.61	8.00	8.43	11.65	11.07	8.68	10.49
Benchmark	-0.51	1.36	15.80	15.54	14.44	12.22	8.48	10.99

Composite Summary

Composite Name	Japan Value Equity Impact
Benchmark	TOPIX Total Return**
Inception Date	October 2016
Number of Holdings	39
Assets Under Management	JPY 9.1B (USD 61M)

* 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).

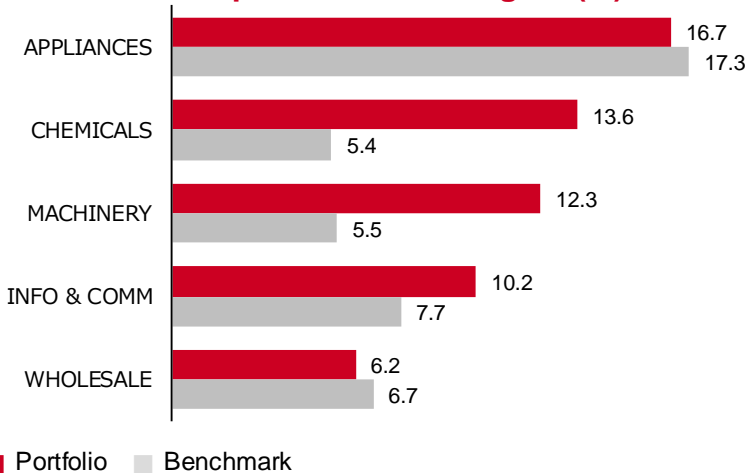
Performance is net of fees.

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 Ryohin Keikaku, Toray, and United Arrows contributed to performance, while share price declines for Omron, Astellas Pharma, and Murata Manufacturing detracted.

Outlook

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

While concerns about the slowing US economy remain, Japanese corporate earnings will likely grow on the back of a recovery in domestic real wages 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 continue to 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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