

Japan Value Equity Impact

January 2025

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

The Japanese market ended January roughly unchanged MoM as positives, like retracted concerns of tariffs as US President Donald Trump did not implement them the moment he took office, and negatives, like concerns of a drop in demand for semiconductors following the release of a low-cost AI model from China, balanced out. The Securities & Commodities Futures and Banks sectors rose on the back of a BoJ rate hike and the Marine Transportation sector fell on a drop in expectations for heightened freight rates after strikes were avoided at US ports.

The market fell in the first half of the month as investors were negative on retreating expectations for rate cuts after both US jobs data and ISM Manufacturing PMI beat expectations. Despite heightened expectations for rate cuts on the back of US CPI not meeting expectations, tighter restrictions on US semiconductor exports to China then weighed on share prices. The market then rose through the rest of the month despite the release of Chinese startup DeepSeek's low-cost AI model temporarily acting as a drag by igniting concerns over the future of demand for semiconductors, concerns over Trump tariffs abated as he did not immediately implement any after taking office.

Composite Performance (%) Excess Return*



	Jan	QTD	YTD	1Y	3Y	5Y	7Y	SI
Composite	0.29	0.29	0.29	6.46	12.00	11.98	8.90	10.74
Benchmark	0.14	0.14	0.14	11.88	16.61	13.30	8.71	11.30

Composite Summary

Composite Name	Japan Value Equity Impact
Benchmark	TOPIX Total Return**
Inception Date	October 2016
Number of Holdings	39
Assets Under Management	JPY 11.3B (USD 73M)

* 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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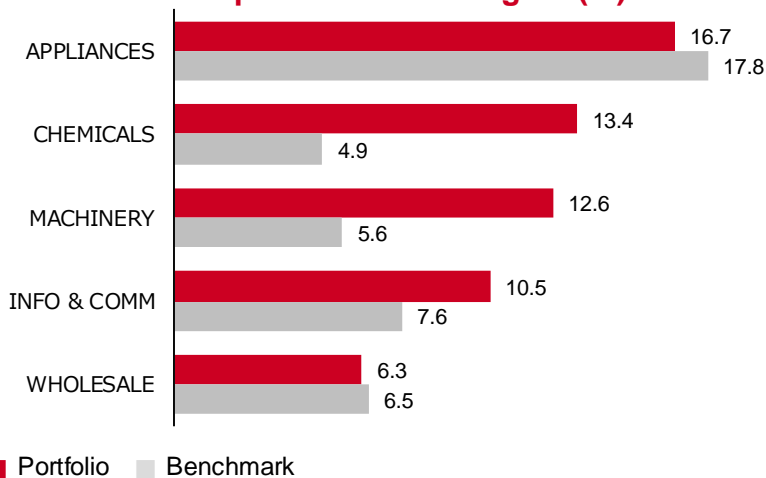
Top Ten Holdings	%
KDDI CORP	5.92
SHIN-ETSU CHEMICAL CO LTD	4.91
DENSO CORP	4.69
ITOCHU CORP	4.69
DAIKIN INDUSTRIES LTD	4.50
MURATA MANUFACTURING CO LTD	3.96
FANUC CORP	3.42
BRIDGESTONE CORP	3.34
KOMATSU LTD	3.22
ASTELLAS PHARMA INC	2.97
Total	41.61

Characteristics	Portfolio	TOPIX
P/E	15.14x	13.86x
P/B	1.56x	1.36x
ROE	10.33%	9.79%
Dividend Yield	2.70%	2.55%

Market Cap	Portfolio	TOPIX
Large	56.9%	67.3%
Mid	35.9%	25.2%
Small	6.2%	7.5%
Others	0.0%	-

Japan Value Equity Impact

Top Five Sector Weights (%)



Hiromasa Tatsuta, CMA
Portfolio Manager
9 years investment experience
8 years at Sompo AM

Attribution Analysis

In stock selection, share price increases for Fanuc, Nomura Research Institute, and Komatsu contributed to performance, while share price declines for Shin-Etsu Chemical, Itochu Corporation, and Fuji Electric detracted..

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.

Contact Information

Daniel Robbins
+81 3 5290 3414

Takuya Orime
+81 3 5290 3406

Group email: global@sompo-am.co.jp

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