

Japan Value Equity Impact

July 2026

Strategy

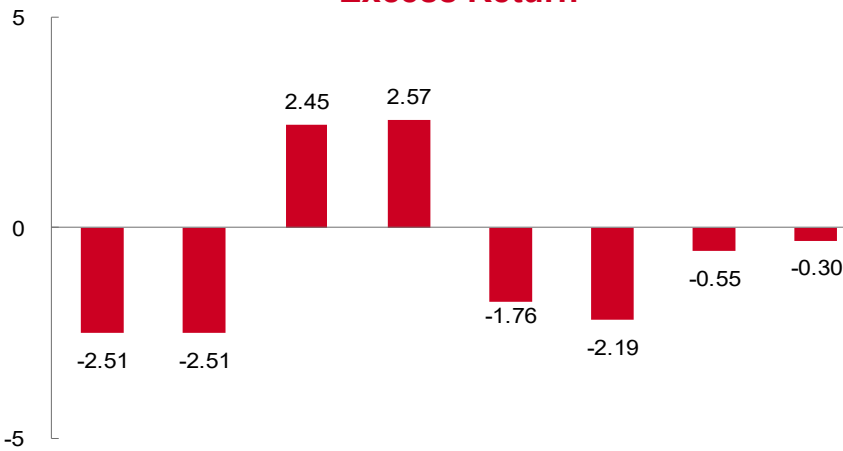
Impact Strategy takes concentrated and long-term positions in Japanese equities proactively rethinking traditional work practices, e.g. through the promotion of female participation in the workforce and diversification, and those with highly stable and profitable businesses top in value-add creation.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

Despite tech names' underperformance due to fears of excessive investments in AI, other names supported the market. Amid the volatile market, the marine transportation and rubber sectors rose as the market responded positively to their high dividend yields. Meanwhile, the nonferrous metal and glass & ceramic sectors fell as they included AI and semiconductor-related names that had undergone a correction.

In the first part of the month, the Japanese market rose due to diminished expectations for early US rate hikes following the worse-than-expected US jobs data. The market was supported by the BoJ's Tankan survey, which indicated an improvement in domestic business sentiment. Subsequently, major Korean semiconductor names plummeted after the release of their financial results, and this selling spilled over into the domestic market. In the middle of the month, the market's upside was capped by remarks from Fed officials about possible rate hikes. Tech stocks experienced a selloff due to the market fears over the new generative AI model developed by a Chinese company and excessive investments in AI by the US tech giants. In the latter part of the month, the market bounced back, driven by solid earnings results in Japan and the US. As the month drew to a close, the market adopted a wait-and-see stance ahead of the monetary policy meetings in Japan and the US, ending the month below the mid-month high.

Composite Performance (%) Excess Return*



Top Ten Holdings	%
TOYOTA MOTOR CORP	6.76
KDDI CORP	4.44
ITOCHU CORP	4.29
TOKYO ELECTRON LTD	4.22
SHIN-ETSU CHEMICAL CO LTD	3.75
MURATA MANUFACTURING CO LTD	3.66
DENSO CORP	3.59
DAIKIN INDUSTRIES LTD	3.54
FANUC CORP	3.52
KOMATSU LTD	2.92
Total	40.68

Characteristics		
	Portfolio	TOPIX
P/E	15.63x	15.98x
P/B	1.73x	1.75x
ROE	11.07%	10.94%
Dividend Yield	2.63%	2.26%

Market Cap		
	Portfolio	TOPIX
Large	64.2%	68.4%
Mid	29.0%	24.6%
Small	4.6%	7.0%
Others	0.0%	-

	Jul	QTD	YTD	1Y	3Y	5Y	7Y	SI
Composite	-2.29	-2.29	21.27	41.74	20.99	16.72	16.58	13.75
Benchmark	0.22	0.22	18.82	39.16	22.75	18.91	17.14	14.04

Composite Summary

Composite Name	Japan Value Equity Impact
Benchmark	TOPIX Total Return**
Inception Date	October 2016
Number of Holdings	40
Assets Under Management	JPY 7.5B (USD 47M)

* Excess return figures are annualized for three years and longer.

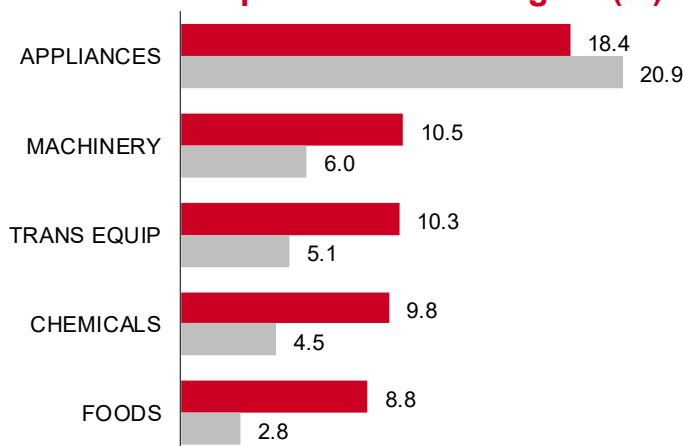
** TOPIX is a market benchmark with functionality as an investable index, covering an extensive proportion of the Japanese stock market. TOPIX is a free-float adjusted market capitalization-weighted index. TOPIX shows the measure of current market capitalization assuming that market capitalization as 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 (%)



■ Portfolio ■ Benchmark



Hiromasa Tatsuta, CMA

Portfolio Manager

11 years investment experience

9 years at Sompo AM

Attribution Analysis

In stock selection, share price increases for Toyota Motor, Bridgestone, and Itochu Corporation contributed to performance, while share price declines for Murata Manufacturing, Tokyo Electron, and Shin-Etsu Chemical detracted.

Outlook

We expect the market to remain firm. Valuations (forward P/E), which reflect overall market expectations, are currently at a high level compared to historical averages, primarily driven by optimism surrounding AI and semiconductor names. This market optimism is likely to be sustained given the outlook for continued strong demand for semiconductors and AI-related investments. However, the market could experience short-term volatility due to uncertainty surrounding the monetization of AI investments. We expect the market to remain robust, led by an improvement in fundamentals, not limited to AI and semiconductor-related names. While FY26 earnings forecasts may see some impact from rising costs, stemming from the Middle East situation, the situation has eased more than initially anticipated. We should remain vigilant about a potential market correction, given that share prices have risen rapidly so far. That said, we don't expect a large market correction as there is strong equity demand from a high level of share buybacks and the BoJ has relatively accommodative monetary policy compared to the US and Europe.

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