

# Japan Value Equity Income

**October 2024**

## Strategy

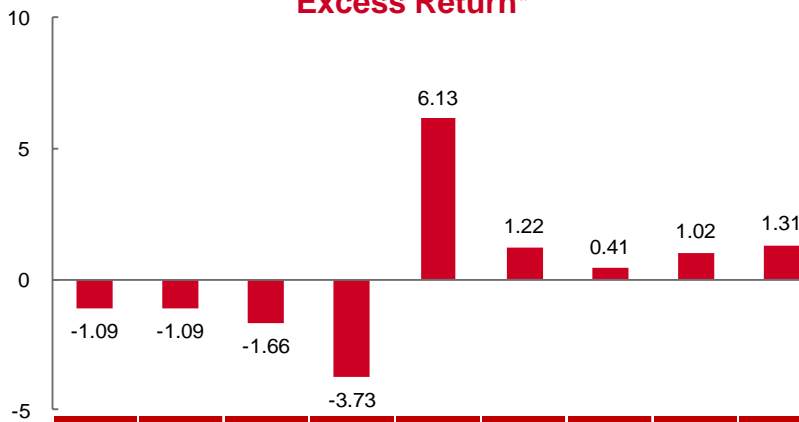
Income Strategy invests in Japanese equities that pay above-market average dividends and aims to beat the benchmark in the mid- to long-term. The portfolio is built by investing in undervalued stocks with careful consideration of risk/return. A bottom-up approach is used. The Japanese equity research team analyzes the intrinsic value of individual stocks and compares it with the market price to identify undervalued stocks. The portfolio is not constrained by sector weights and market caps.

## 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	%
NIPPON EXPRESS HOLDINGS CO L	2.75
SUMITOMO MITSUI TRUST HOLDIN	2.70
NIPPON TELEGRAPH & TELEPHONE	2.65
ASAHI GLASS CO LTD	2.54
HONDA MOTOR CO LTD	2.45
ARE Holdings, Inc.	2.40
NIPPON ELECTRIC GLASS CO LTD	2.39
BELLSYSTEM24 HOLDINGS INC	2.21
mitsui chemicals inc	2.10
TAKEDA PHARMACEUTICAL CO LTD	1.95
Total	24.14

Characteristics		
	Portfolio	Benchmark
P/E	11.02x	13.77x
P/B	0.85x	1.35x
ROE	7.67%	9.82%
Dividend Yield	4.10%	2.54%

Market Cap		
	Portfolio	Benchmark
Large	21.3%	67.0%
Mid	54.7%	25.4%
Small	21.3%	7.5%
Others	0.0%	-

	Oct	QTD	YTD	1Y	3Y	5Y	7Y	10Y	SI
Composite	0.79	0.79	14.74	18.70	19.37	13.99	9.20	10.79	7.88
Benchmark	1.88	1.88	16.40	22.43	13.24	12.77	8.79	9.77	6.56

## Composite Summary

Composite Name	Sompo Japan High Dividend Japanese Equity Mother Fund		
Benchmark	TOPIX Total Return**		
Inception Date	July 2005		
Number of Holdings	92		
Bloomberg Code	SNAMINC		
Assets Under Management	Composite (T9891)	JPY 50.7B (USD 333M)	

\* 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).

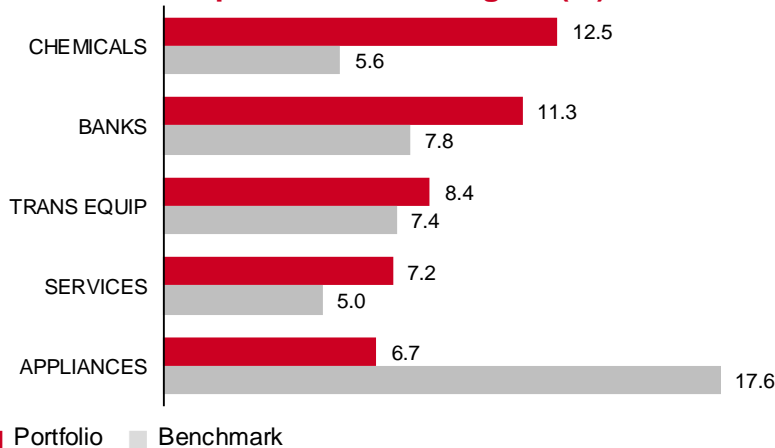
Performance is net of fees.

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

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## Top Five Sector Weights (%)



**Yasuhiro Kano, CMA**  
Senior Portfolio Manager  
31 years investment experience  
27 years at Sompo AM

## Attribution Analysis

Both sector allocation and stock selection detracted from performance. In sector allocation, overweighting (OW) of Banks and underweighting (UW) of Wholesale and Appliances contributed to performance, while OW of Chemicals, Construction, and Glass & Ceramic detracted. In stock selection, UW of Tokyo Electron and Sony Group and OW of Astellas Pharma contributed to performance, while OW of Bellssystem24 Holdings and Mitsui Chemicals and UW of Advantest detracted. Last month we increased holdings of The Hachijuni Bank, Itoham Yonekyu Holdings, and Mitsui Chemicals and decreased holdings of KDDI, Kirin Holdings, and Taiyo Holdings.

## 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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