

Japan Value Equity Income

January 2025

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

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*



Top Ten Holdings	%
SUMITOMO MITSUI TRUST GROUP	3.06
NIPPON EXPRESS HOLDINGS INC	2.75
NIPPON TELEGRAPH & TELEPHONE	2.71
ARE HOLDINGS INC	2.43
AGC INC	2.40
mitsui chemicals inc	2.37
HONDA MOTOR CO LTD	2.30
BELLSYSTEM24 HOLDINGS INC	2.08
INFRONEER HOLDINGS INC	2.01
TAIYO YUDEN CO LTD	2.00
Total	24.10

	Jan	QTD	YTD	1Y	3Y	5Y	7Y	10Y	SI
Composite	0.18	0.18	0.18	11.04	20.08	14.76	9.03	10.47	7.93
Benchmark	0.14	0.14	0.14	11.88	16.61	13.30	8.71	9.50	6.67

Characteristics		
	Portfolio	Benchmark
P/E	11.03x	13.86x
P/B	0.83x	1.36x
ROE	7.51%	9.79%
Dividend Yield	4.07%	2.55%

Market Cap		
	Portfolio	Benchmark
Large	26.2%	67.3%
Mid	51.0%	25.2%
Small	21.5%	7.5%
Others	0.0%	-

Composite Summary

Composite Name	Sompo Japan High Dividend Japanese Equity Mother Fund	
Benchmark	TOPIX Total Return**	
Inception Date	July 2005	
Number of Holdings	96	
Bloomberg Code	SNAMINC	
Assets Under Management	Composite (T9891)	JPY 50.9B (USD 329M)

* 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).

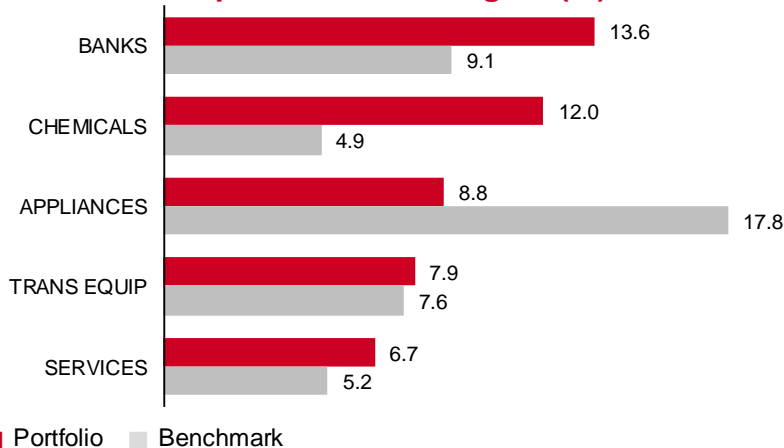
Performance is net of fees.

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 contributed to performance. In sector allocation, overweighting (OW) of Banks and underweighting (UW) of Wholesale and Insurance contributed to performance, while OW of Chemicals and UW of Other Prod and Appliances detracted. In stock selection, OW of ARE Holdings and UW of Toyota Motor and Tokio Marine Holdings contributed to performance, while UW of Nintendo, Mitsubishi UFJ Financial Group, and Tokyo Electron detracted. Last month we increased holdings of Osaka Gas, Orix Corporation, and Asahi Group Holdings and decreased holdings of SoftBank Corporation, United Arrows, and Nippon Electric Glass.

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.

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