SOMPO ASSET MANAGEMENT

Japan Value Equity Income

February 2025

Strategy

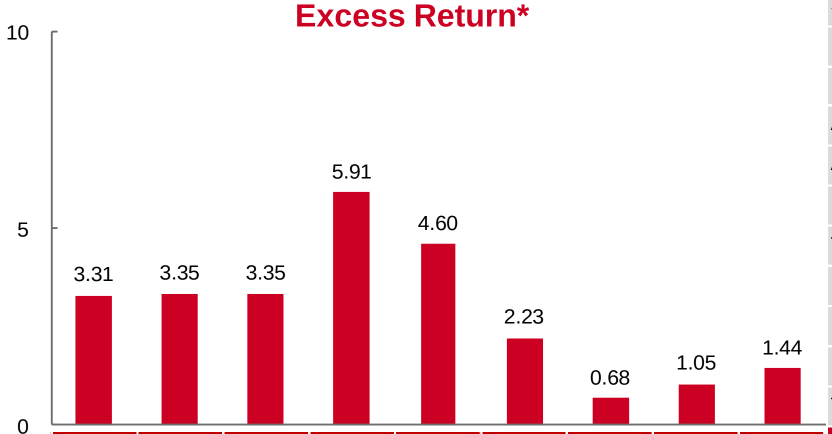
Income Strategy invests in Japanese equities that pay above-market average dividends and aims to beat the benchmark in the mid- to long-term. The portfolio is built by investing in undervalued stocks with careful consideration of risk/return. A bottom-up approach is used. The Japanese equity research 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 fell in February on the back of concerns over US tariffs and economic decline as well as JPY appreciation following the shrinking of the Japan-US interest rate gap. Growth stock were down because of harsher regulations on semiconductor-related sales to China and concerns of a slowdown in investment in AI.

The market fell in the first half of the month on executive orders from US President Donald Trump for further tariffs on Canada, Mexico, and China. The market did rebound after Trump said he would delay the activation of tariffs on Canada and Mexico, but uncertainty concerning tariffs once again spiked when he signed an executive order for 25% tariffs on all steel and aluminium imports. The market then trended sideways. Although strong domestic earnings acted to support the market, preliminary domestic GDP figures coming in higher than expected raised the spectre of further rate increases by the BoJ. Share prices then fell through the end of the month as JPY appreciated (on the shrinking Japan-US interest rate gap) and concerns over the economy grew on the back of US Services PMI falling below 50 (the point between expansion and contraction) for the first time in two years and US consumer confidence also falling significantly.

Composite Performance (%)
Excess Return*



	Feb	QTD	YTD	1Y	3Y	5Y	7Y	10Y	SI
Composite	-0.48	-0.30	-0.30	8.50	19.89	17.12	9.38	9.33	7.87
Benchmark	-3.79	-3.65	-3.65	2.59	15.29	14.89	8.70	8.27	6.43

Composite Summary		
Composite Name	Sompo Japan High Dividend Japanese Equity Mother Fund	
Benchmark	TOPIX Total Return**	
Inception Date	July 2005	
Number of Holdings	94	
Bloomberg Code	SNAMINC	
Assets Under Management	Composite (T9891)	JPY 51.2B (USD 340M)

Top Ten Holdings	%
SUMITOMO MITSUI TRUST GROUP	3.03
NIPPON EXPRESS HOLDINGS INC	2.89
NIPPON TELEGRAPH & TELEPHONE	2.89
AGC INC	2.41
ARE HOLDINGS INC	2.35
MITSUI CHEMICALS INC	2.34
TAIYO YUDEN CO LTD	2.28
HONDA MOTOR CO LTD	2.17
BELLSYSTEM24 HOLDINGS INC	2.11
INFRONEER HOLDINGS INC	2.00
Total	24.48

Characteristics	Portfolio	Benchmark
P/E	10.62x	13.11x
P/B	0.82x	1.29x
ROE	7.71%	9.88%
Dividend Yield	4.16%	2.69%

Market Cap	Portfolio	Benchmark
Large	26.6%	66.8%
Mid	50.7%	25.6%
Small	21.3%	7.6%
Others	0.0%	-

* 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.

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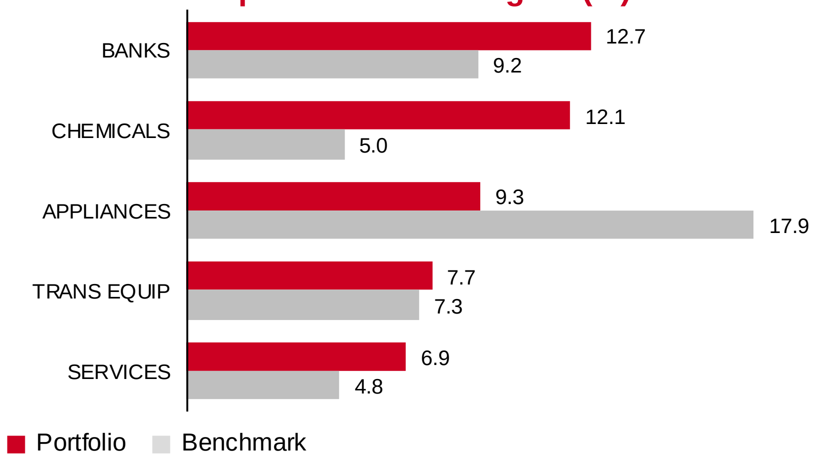
Top Five Sector Weights (%)



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

Attribution Analysis

While sector allocation detracted from performance, stock selection contributed. In sector allocation, underweighting (UW) of Precision Instr and Services and overweighting (OW) of Land Trans contributed to performance, while UW of Other Prod and Insurance, and OW of Machinery detracted. In stock selection, UW of Recruit Holdings and Toyota Motor and OW of Kirin Holdings contributed to performance, while UW of Sony Group and Nintendo and OW of JGC detracted. Last month we increased holdings of Rengo, Keisei Electric Railway, and Nihon M&A Center and decreased holdings of Sumitomo Mitsui Trust Group, Japan Lifeline, and EXEO Group.

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). Valuation metrics like forward PER have fallen on concerns over further tariffs from the US and JPY appreciation caused by divergent monetary policy by the US and Japan. We expect market volatility (degree of movement in share prices) to increase as long as there is not a clear picture on coming tariff policy. As such, we believe it will take some time before valuations return to an upward trajectory. 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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