

Japan Value Equity SRI

March 2025

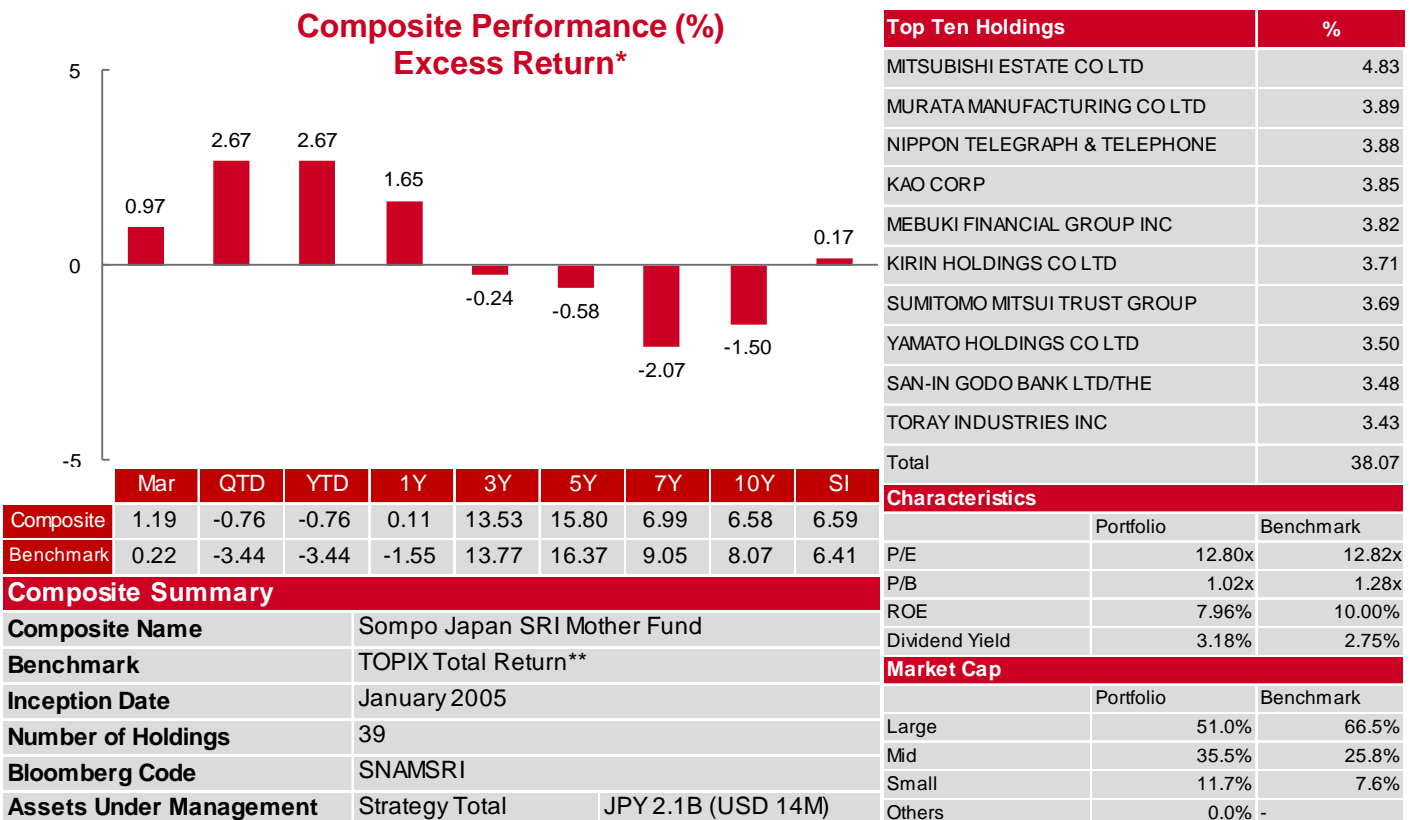
Strategy

SRI Strategy invests in Japanese equities which meet the criteria of ESG (Environmental, Social, Governance) management and investment value, and aims to achieve above benchmark return in the mid- to long-term. 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. ESG research is conducted by Sompo Risk Management, which is a leading company in domestic ESG research.

Market Review

Japanese market prices finished the month almost unchanged as concerns over US President Donald Trump's tariff policy and US stagflation weighed on sentiment. Value stocks outperformed growth stocks because of the increase in long-term US interest rates.

The market was little changed in the first half of the month as although there was a period of growth when US tariff fears receded on delays to tariffs on certain products from Mexico and Canada, falls in US semiconductor stocks weighed on the market. The market then shifted upwards despite investor negativity on Trump refusing to clearly deny the possibility of a US recession as US CPI undershot market expectations, US retail data did not indicate a recession, and JPY stopped appreciating versus USD. The market then dropped through the end of month to come back in line with its previous month-end on increased fears of stagflation following announcements from the Trump administration of 25% additional tariffs on all imported automobiles and economic indicators signalling weak consumer spending and high expected inflation.



* 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).

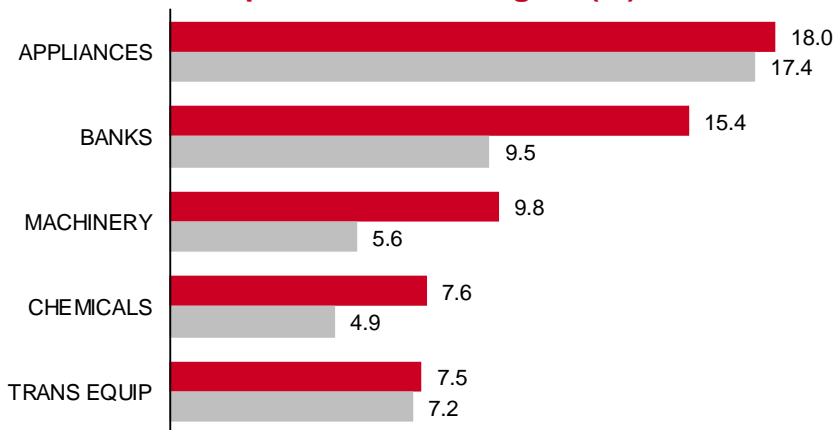
Performance is net of fees.

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 (%)



■ Portfolio ■ Benchmark

Attribution Analysis

Both sector allocation and stock selection contributed to performance. In sector allocation, overweighting (OW) of Banks and Real Estate and underweighting (UW) of Other Prod contributed to performance, while UW of Wholesale and Insurance and OW of Appliances detracted. In stock selection, OW of Mebuki Financial Group, Mitsubishi Estate, and Resona Holdings contributed to performance, while OW of Murata Manufacturing and Sumco and UW of Mitsubishi Heavy Industries detracted. Last month we increased holdings of Lintec, OSG, and Taikisha and decreased holdings of Fujitsu General, Shimizu Corporation, and Toray.

Outlook

We expect the market will face heavy upside resistance over the near term.

Japanese corporate earnings will likely be positively impacted by a recovery in domestic real wages and capital efficiency improvement measures implemented by companies following pressure from the Tokyo Stock Exchange (TSE) but may stagnate because of larger-than-expected negative impacts from additional Trump tariffs. We expect it will take some time before we see a pickup in valuation metrics like forward P/E as market volatility (degree of movement in share prices) will likely increase as long as the full extent of tariffs impacts is unclear. That said, we believe downside will be limited as share prices already reflect drops in earnings forecasts, there is strong equity demand from the high level of large-scale share buybacks seen recently and the BoJ has relatively accommodative monetary policy compared to the US and Europe.



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