

Japan Value Equity Small Cap

October 2024

Strategy

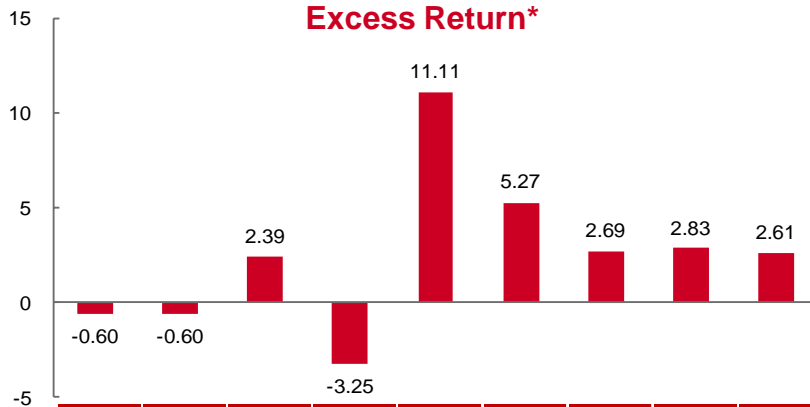
Small Cap Strategy invests in Japanese small cap equities and aims to achieve above-benchmark return in the mid-to long-term. The portfolio manager builds a portfolio by investing in undervalued stocks with careful consideration of risk/return. A bottom-up approach is used. The Japanese equity research team analyzes intrinsic value of individual stocks and compares it with market price in order to identify undervalued stocks. The portfolio is not constrained by sector weights.

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 | % |
|------------------------------|-------|
| JTEKT CORP | 3.96 |
| K'S HOLDINGS CORP | 3.04 |
| SAWAI GROUP HOLDINGS CO LTD | 2.89 |
| DAISHI HOKUETSU FINANCIAL GR | 2.88 |
| TOYOTA BOSHOKU CORP | 2.85 |
| TOYODA GOSEI CO LTD | 2.85 |
| FUJITSU GENERAL LTD | 2.72 |
| MABUCHI MOTOR CO LTD | 2.66 |
| NISHI-NIPPON FINANCIAL HOLDI | 2.64 |
| HOKUHOKU FINANCIAL GROUP INC | 2.64 |
| Total | 29.12 |

| Characteristics | | |
|-----------------|-----------|-----------|
| | Portfolio | Benchmark |
| P/E | 9.58x | 12.30x |
| P/B | 0.67x | 1.06x |
| ROE | 7.04% | 8.61% |
| Dividend Yield | 3.75% | 2.77% |
| Market Cap | | |
| | Portfolio | TOPIX*** |
| Large | 0.0% | 67.0% |
| Mid | 46.2% | 25.4% |
| Small | 45.8% | 7.5% |
| Others | 2.5% | - |

Composite Summary

| | | |
|-------------------------|----------------------------|----------------------|
| Composite Name | SJAM Small Cap Mother Fund | |
| Benchmark | Russell/Nomura Small Cap** | |
| Inception Date | October 2007 | |
| Number of Holdings | 82 | |
| Bloomberg Code | SNAMSMC | |
| Assets Under Management | Domestic | JPY 27.2B (USD 179M) |
| | Overseas | JPY 5B (USD 33M) |
| | Strategy total | JPY 32.2B (USD 211M) |
| | | |

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

** Russell/Nomura Small Cap Index covers small cap stocks listed on Japanese stock exchanges. This index contains the bottom 15% of the Russell/Nomura Total Market Index in terms of adjusted market capitalization.

*** 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.

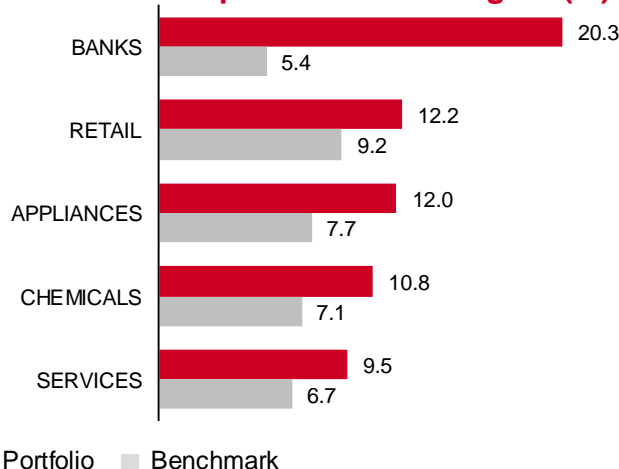
Performance is net of fees.

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 (%)



Shigeyoshi Fujiwara, CMA
Senior Portfolio Manager
18 years investment experience
18 years at Sampo AM

Attribution Analysis

While sector allocation contributed to performance, stock selection detracted. In sector allocation, overweighting (OW) of Banks and Pharms and underweighting (UW) of Construction contributed to performance, while UW of Nonferrous and OW of Retail and Paper detracted. In stock selection, OW of Toyota Boshoku, Toyoda Gosei, and Nippon Shinyaku contributed to performance, while OW of Seria and Fujitsu General and UW of Fujikura detracted. Last month we increased holdings of KH Neochem, Rengo, and BML and decreased holdings of DIC, Nippon Shinyaku, and Park24.

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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