SOMPO ASSET MANAGEMENT

Japan Value Equity Small Cap

June 2025

Strategy

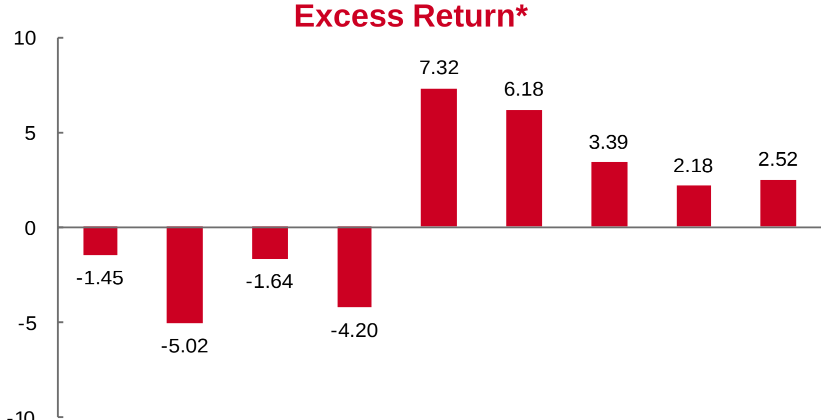
Small Cap Strategy invests in Japanese small cap equities and aims to achieve above-benchmark return in the mid- to long-term. The portfolio manager builds a portfolio by investing in undervalued stocks with careful consideration of risk/return. A bottom-up approach is used. The Japanese equity research 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

Japanese market prices rose on increased expectations for rate cuts in the US following the drop in geopolitical risk in the Middle East. Growth outperformed value as long-term interest rates fell on the increase in expectations for the Fed to cut rates.

The market ended the first half of the month little changed. It was weighed down by concern over harsher tariff policy out of the US but was supported by decreased concerns over a potential recession in the US following better-than-expected US jobs data. For most of the second half of the month the market continued to seesaw back and forth. While investors were negative on increased geopolitical risk in the Middle East following Israeli attacks on Iranian nuclear facilities, they were positive on progress in talks between the US and China to reduce trade tensions. The market then rose at the end of the month despite the US attacking Iran as investors were positive on the ceasefire agreement between Israel and Iran and a Fed official stating support for early rate cuts.

Composite Performance (%)
Excess Return*



	Jun	QTD	YTD	1Y	3Y	5Y	7Y	10Y	SI
Composite	1.36	2.43	4.68	5.70	24.22	19.57	10.39	10.04	9.36
Benchmark	2.81	7.45	6.31	9.90	16.89	13.39	7.00	7.86	6.84

Top Ten Holdings	%
JTEKT CORP	4.04
TOYODA GOSEI CO LTD	3.74
DAISHI HOKUETSU FINANCIAL GR	3.72
NIHON M&A CENTER HOLDINGS IN	3.41
TOYOTA BOSHOKU CORP	3.39
NISHI-NIPPON FINANCIAL HOLDI	3.27
K'S HOLDINGS CORP	2.90
MABUCHI MOTOR CO LTD	2.76
RENGO CO LTD	2.46
SAWAI GROUP HOLDINGS CO LTD	2.45
Total	32.13

Composite Summary

Composite Name	SJAM Small Cap Mother Fund	
Benchmark	Russell/Nomura Small Cap**	
Inception Date	October 2007	
Number of Holdings	83	
Bloomberg Code	SNAMSMC	
Assets Under Management	Domestic	JPY 27.8B (USD 193M)
	Overseas	JPY 8.7B (USD 60M)
	Strategy total	JPY 36.5B (USD 253M)

Characteristics

	Portfolio	Benchmark
P/E	11.17x	12.83x
P/B	0.74x	1.09x
ROE	6.60%	8.46%
Dividend Yield	3.97%	2.96%

Market Cap

	Portfolio	TOPIX***
Large	0.0%	66.4%
Mid	52.4%	25.9%
Small	42.9%	7.6%
Others	2.3%	-

* 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.

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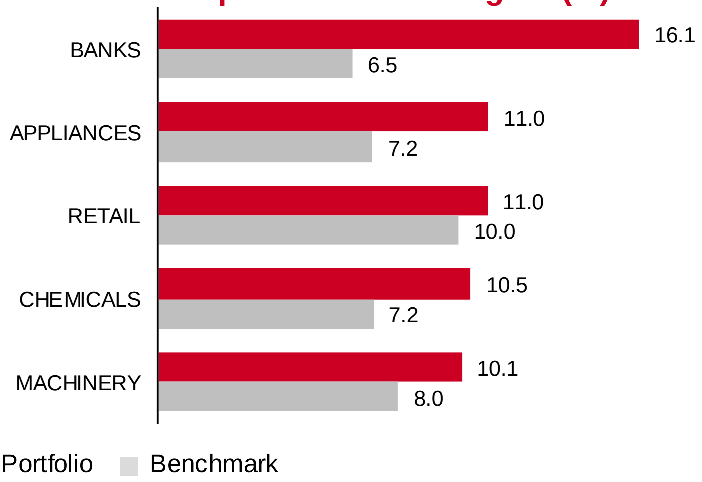
Top Five Sector Weights (%)



Shigeyoshi Fujiwara, CMA
Senior Portfolio Manager
20 years investment experience
20 years at Sompo AM

Attribution Analysis

Both sector allocation and stock selection detracted from performance. In sector allocation, underweighting (UW) of Foods and Real Estate and overweighting (OW) of Appliances contributed to performance, while OW of Banks and Trans Equip and UW of Info & Comm detracted. In stock selection, UW of Rakuten Bank and OW of BML and K's Holdings contributed to performance, while OW of Toyota Boshoku, The San-in Godo Bank, and en Japan detracted. Last month we increased holdings of United Arrows, Tsumura & Co, and Denka Company and decreased holdings of Chugin Financial Group, North Pacific Bank., and Hirogin Holdings.

Outlook

We expect the market will continue to face heavy upside resistance. There is an increasing likelihood that Japanese corporate earnings will enter a period of stagnation as despite positives from a recovery in domestic real wages and capital efficiency improvement measures implemented by companies following pressure from the Tokyo Stock Exchange (TSE), additional Trump tariffs are expected to have a negative impact. Valuation metrics like forward P/E are already above undervalued levels despite there still being no clear outlook on how tariffs will ultimately end up as the overall market has been pushed up by a small number of stocks. We believe caution is needed over the short term as there is a growing opinion amongst investors that the Fed will cut rates early to counter a slowdown in the US economy. That said, we do not foresee any large fall in the Japanese market as 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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