SOMPO ASSET MANAGEMENT

Japan Value Equity Small Cap

June 2026

Strategy

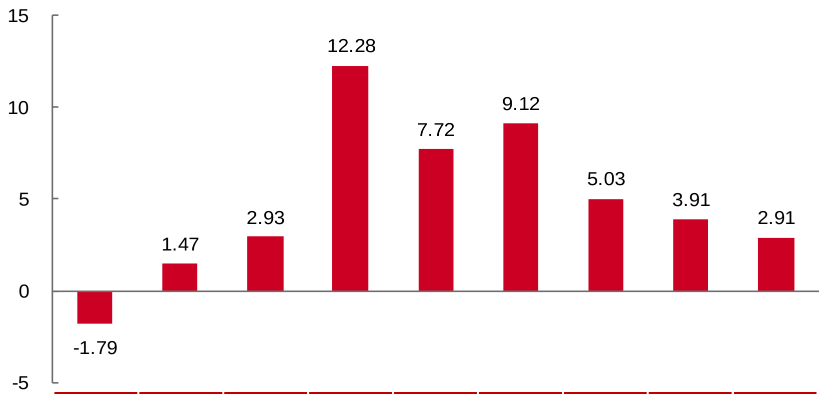
Small Cap Strategy invests in Japanese small cap equities and aims to achieve above-benchmark return in the mid- to long-term. The portfolio manager builds a portfolio by investing in undervalued stocks with careful consideration of risk/return. A bottom-up approach is used. The Japanese equity research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

The market lacked a clear sense of direction with mixed trading influenced by media reports of the Middle East situation and semiconductors for generative AI. The electric appliances sector rose on expectations for demand growth for generative AI, and the bank sector performed well as its profits are poised to improve from rising domestic interest rates. Meanwhile, the wholesale and mining sectors fell on reduced expectations for earnings growth given the eased tension in the Middle East.

In the first part of the month, the Japanese market fell due to heightened fears over the Middle East situation following an Israeli strike on Lebanon and expectations for early rate hikes stemming from the BoJ Governor Ueda’s speech. The market then bounced back, driven by tech stocks as reports of progress in ceasefire negotiations between the US and Iran improved investor sentiment. Subsequently, the market’s upside was capped by increased expectations for US rate hikes within the year after the release of the FOMC’s dot plot. In the latter part of the month, Asian stock markets saw a decline due to concerns over overheating in AI-related stocks, and this selling extended to the domestic market. As the month drew to a close, the market experienced choppy trading, primarily driven by position adjustments ahead of the quarter-end.

Composite Performance (%)
Excess Return*



	Jun	QTD	YTD	1Y	3Y	5Y	7Y	10Y	SI
Composite	-0.70	12.94	19.48	52.57	30.72	25.64	19.92	17.13	11.32
Benchmark	1.09	11.47	16.55	40.29	23.00	16.52	14.89	13.22	8.41

Composite Summary

Composite Name	SJAM Small Cap Mother Fund	
Benchmark	Russell/Nomura Small Cap**	
Inception Date	October 2007	
Number of Holdings	87	
Bloomberg Code	SNAMSMC	
Assets Under Management	Domestic	JPY 35.1B (USD 216M)
	Overseas	JPY 8.7B (USD 53M)
	Strategy total	JPY 43.7B (USD 269M)

Top Ten Holdings	%
KAKAKU.COM INC	3.92
JTEKT CORP	3.88
RENGO CO LTD	3.36
SERIA CO LTD	3.04
NIHON M&A CENTER HOLDINGS IN	2.99
MABUCHI MOTOR CO LTD	2.75
JGC HOLDINGS CORP	2.58
K'S HOLDINGS CORP	2.55
NIPPON KAYAKU CO LTD	2.39
SMS CO LTD	2.37
Total	29.82

Characteristics

	Portfolio	Benchmark
P/E	12.81x	14.50x
P/B	0.99x	1.34x
ROE	7.71%	9.24%
Dividend Yield	3.27%	2.62%

Market Cap

	Portfolio	TOPIX***
Large	0.0%	67.6%
Mid	50.3%	25.4%
Small	45.9%	6.9%
Others	3.0%	-

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

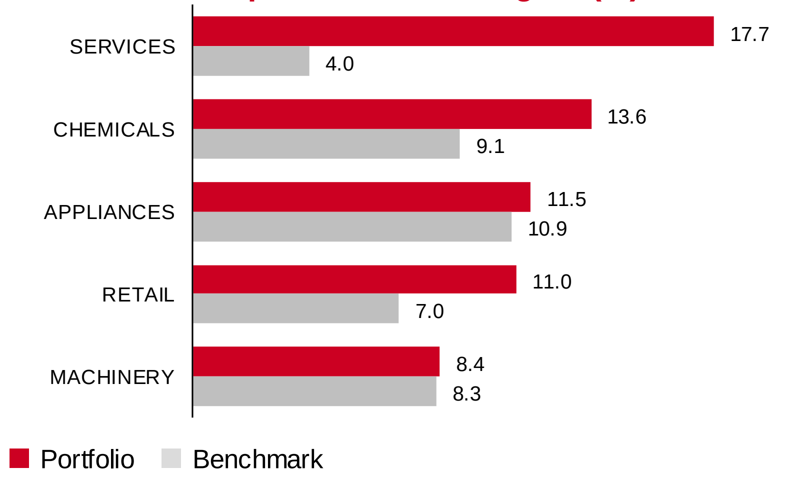
** Russell/Nomura Small Cap Index covers small cap stocks listed on Japanese stock exchanges. This index contains the bottom 15% of the Russell/Nomura Total Market Index in terms of adjusted market capitalization.

*** 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.

Japan Value Equity Small Cap

Top Five Sector Weights (%)



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

Attribution Analysis

Sector allocation contributed to performance, while stock selection detracted. In sector allocation, underweighting (UW) of Info & Comm and Nonferrous, and overweighting (OW) of Appliances contributed to performance, while OW of Trans Equip and Pulp & Paper and UW of Banks detracted. In stock selection, OW of Nichicon and SMS, and UW of SKY Perfect JSAT contributed to performance, while OW of JTEKT, K's Holdings, and JGC detracted. Last month we increased holdings of Japan Aviation Electronics Industry, Kyoei Steel, and DaikyoNishikawa and decreased holdings of Nichicon, Taiyo Yuden and PALTAC.

Outlook

We expect the market to remain firm. Valuation (forward P/E), which reflects overall market expectations, is currently at a high level compared to historical averages, primarily driven by some AI and semiconductor names amid diminishing uncertainty in the Middle East. Although the market has already priced in expectations for AI and semiconductor names to a large extent, these expectations are likely to be sustained as there are no immediate signs of a decline in semiconductor demand and AI-related investments. We expect the market to remain robust, driven by improvement in earnings forecasts for FY26. Crude oil prices have now stabilized, and the situation has eased more than previously, despite likely cost increases stemming from the Middle East. We should remain vigilant about a potential market correction, given that share prices have risen rapidly so far. That said, we don't expect a large market correction as there is strong equity demand from a high level of share buybacks and the BoJ has relatively accommodative monetary policy compared to the US and Europe.

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