Japan Value Equity Small Cap

SOMPO ASSET MANAGEMENT

July 2026

Strategy

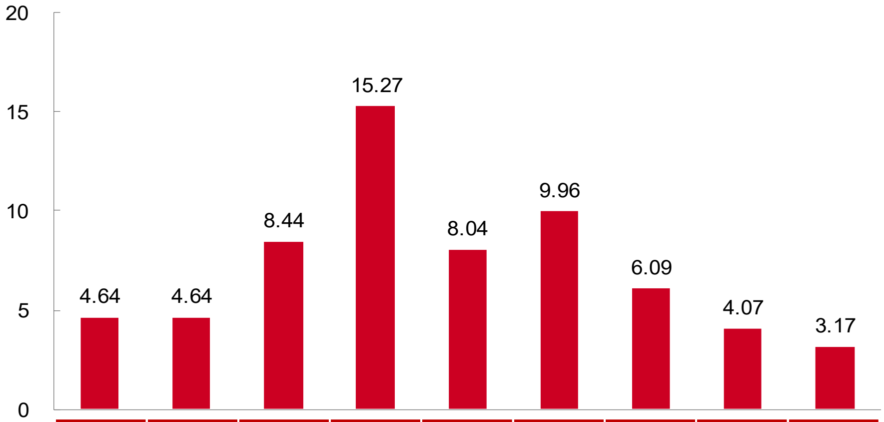
Small Cap Strategy invests in Japanese small cap equities and aims to achieve above-benchmark return in the mid- to long-term. The portfolio manager builds a portfolio by investing in undervalued stocks with careful consideration of risk/return. A bottom-up approach is used. The Japanese equity research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

Despite tech names' underperformance due to fears of excessive investments in AI, other names supported the market. Amid the volatile market, the marine transportation and rubber sectors rose as the market responded positively to their high dividend yields. Meanwhile, the nonferrous metal and glass & ceramic sectors fell as they included AI and semiconductor-related names that had undergone a correction.

In the first part of the month, the Japanese market rose due to diminished expectations for early US rate hikes following the worse-than-expected US jobs data. The market was supported by the BoJ's Tankan survey, which indicated an improvement in domestic business sentiment. Subsequently, major Korean semiconductor names plummeted after the release of their financial results, and this selling spilled over into the domestic market. In the middle of the month, the market's upside was capped by remarks from Fed officials about possible rate hikes. Tech stocks experienced a selloff due to the market fears over the new generative AI model developed by a Chinese company and excessive investments in AI by the US tech giants. In the latter part of the month, the market bounced back, driven by solid earnings results in Japan and the US. As the month drew to a close, the market adopted a wait-and-see stance ahead of the monetary policy meetings in Japan and the US, ending the month below the mid-month high.

Composite Performance (%)
Excess Return*



	Jul	QTD	YTD	1Y	3Y	5Y	7Y	10Y	SI
Composite	3.67	3.67	23.87	47.62	29.58	26.66	20.57	16.55	11.48
Benchmark	-0.97	-0.97	15.42	32.36	21.54	16.69	14.48	12.48	8.31

Composite Summary

Composite Name	SJAM Small Cap Mother Fund	
Benchmark	Russell/Nomura Small Cap**	
Inception Date	October 2007	
Number of Holdings	91	
Bloomberg Code	SNAMSMC	
Assets Under Management	Domestic	JPY 35.7B (USD 224M)
	Overseas	JPY 9B (USD 56M)
	Strategy total	JPY 44.7B (USD 281M)

Top Ten Holdings	%
JTEKT CORP	4.14
RENGO CO LTD	3.39
KEISEI ELECTRIC RAILWAY CO	3.26
SERIA CO LTD	3.08
NIHON M&A CENTER HOLDINGS IN	2.87
MABUCHI MOTOR CO LTD	2.80
KAKAKU.COM INC	2.71
JGC HOLDINGS CORP	2.46
EIZO CORP	2.45
K'S HOLDINGS CORP	2.42
Total	29.58

Characteristics

	Portfolio	Benchmark
P/E	13.38x	14.02x
P/B	1.01x	1.33x
ROE	7.55%	9.51%
Dividend Yield	3.16%	2.70%

Market Cap

	Portfolio	TOPIX***
Large	0.0%	68.4%
Mid	50.6%	24.6%
Small	45.4%	7.0%
Others	3.1%	-

* 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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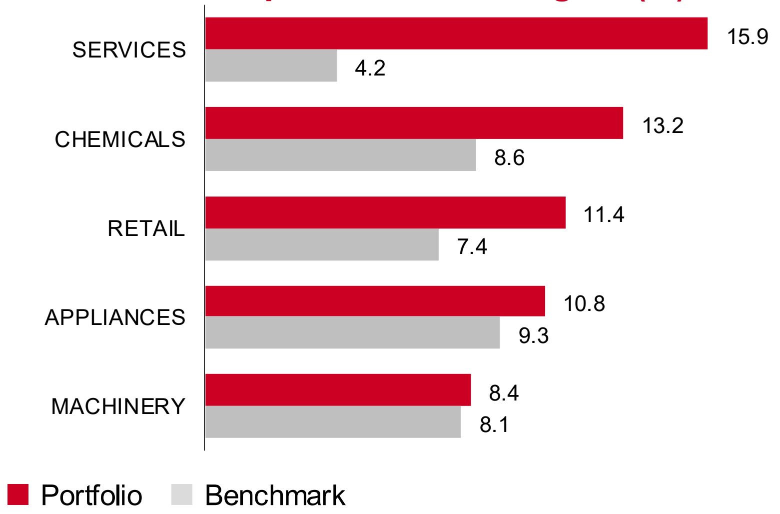
Top Five Sector Weights (%)



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

Attribution Analysis

Both sector allocation and stock selection contributed to performance. In sector allocation, overweighting (OW) of Services and Pulp & Paper, underweighting (UW) of Glass & Ceramic contributed to performance, while UW of Info & Comm and Banks, and OW of Chemicals detracted. In stock selection, UW of Taiyo Yuden, OW of JTEKT and Japan Lifeline contributed to performance, while OW of Denka, JGC, and COSEL detracted. Last month we increased holdings of Keisei Electric Railway, Sundrug, and Rinnai and decreased holdings of Kakaku.com, Iriso Electronics, and SMS.

Outlook

We expect the market to remain firm. Valuations (forward P/E), which reflect overall market expectations, are currently at a high level compared to historical averages, primarily driven by optimism surrounding AI and semiconductor names. This market optimism is likely to be sustained given the outlook for continued strong demand for semiconductors and AI-related investments. However, the market could experience short-term volatility due to uncertainty surrounding the monetization of AI investments. We expect the market to remain robust, led by an improvement in fundamentals, not limited to AI and semiconductor-related names. While FY26 earnings forecasts may see some impact from rising costs, stemming from the Middle East situation, the situation has eased more than initially anticipated. 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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