SOMPO ASSET MANAGEMENT

Japan Value Equity Small Cap

September 2026

Strategy

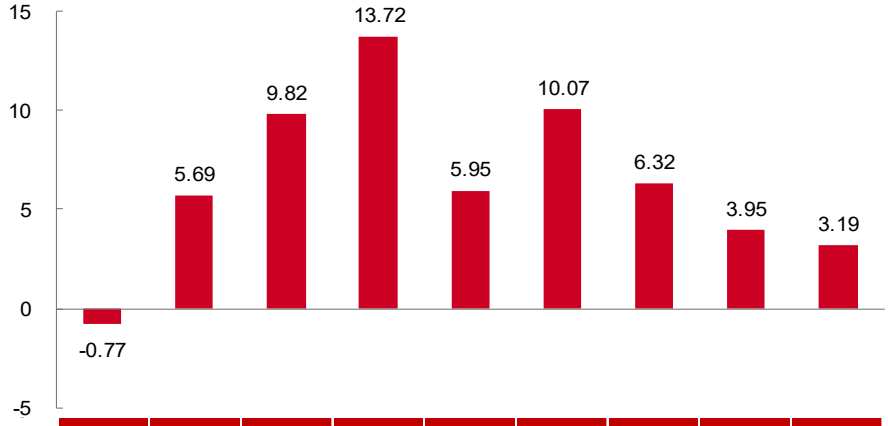
Small Cap Strategy invests in Japanese small cap equities and aims to achieve above-benchmark return in the mid- to long-term. The portfolio manager builds a portfolio by investing in undervalued stocks with careful consideration of risk/return. A bottom-up approach is used. The Japanese equity research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

Rising long-term interest rates and the situation in the Middle East capped the market. The oil and coal products sector gained following underperformance amid elevated crude oil prices. The bank sector also rose on heightened expectations of earnings improvement stemming from rising rates. Meanwhile, the other products sector faced selling, driven by profit-taking on names where expectations for new products and services had already been priced in. The mining sector saw a decline due to perceived overheating from the recent strong performance.

In the first part of the month, the market started lower as surging oil prices triggered by retaliatory strikes between the US and Iran and a subsequent rise in long-term rates globally weighed on the market. Yen appreciation against the US dollar driven by fears over the currency intervention also dragged the market. In the middle of the month, the market rebounded. The FOMC's decision to hike rates and its guidance to signal a prolonged tight monetary policy paused the strong yen, driving buybacks in export-related stocks. Towards the end of the month, the market was mixed. Tech stocks rallied on the back of hopes for continued investments in AI following an announcement of massive capital spending by a US generative AI company. Meanwhile, the gains were capped by concerns over prolonged negotiations between the US and Iran.

Composite Performance (%)
Excess Return*



	Sep	QTD	YTD	1Y	3Y	5Y	7Y	10Y	SI
Composite	-1.06	8.71	29.89	42.50	28.40	26.29	21.31	16.86	11.65
Benchmark	-0.29	3.02	20.07	28.79	22.46	16.22	14.99	12.91	8.46

Top Ten Holdings	%
JTEKT CORP	3.85
SERIA CO LTD	3.58
RENGO CO LTD	3.32
KEISEI ELECTRIC RAILWAY CO	3.27
NIHON M&A CENTER HOLDINGS IN	2.86
EN INC/JAPAN	2.80
MABUCHI MOTOR CO LTD	2.79
SUMITOMO HEAVY INDUSTRIES	2.53
EIZO CORP	2.46
NIPPON KAYAKU CO LTD	2.33
Total	29.79

Composite Summary		
Composite Name	SJAM Small Cap Mother Fund	
Benchmark	Russell/Nomura Small Cap**	
Inception Date	October 2007	
Number of Holdings	90	
Bloomberg Code	SNAMSMC	
Assets Under Management	Domestic	JPY 36.3B (USD 231M)
	Overseas	JPY 17.2B (USD 109M)
	Strategy total	JPY 53.4B (USD 340M)

Characteristics	Portfolio	Benchmark
P/E	12.94x	13.55x
P/B	1.01x	1.33x
ROE	7.79%	9.82%
Dividend Yield	3.26%	2.77%

Market Cap	Portfolio	TOPIX***
Large	0.0%	68.5%
Mid	49.9%	24.4%
Small	45.2%	7.2%
Others	3.6%	-

* 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.

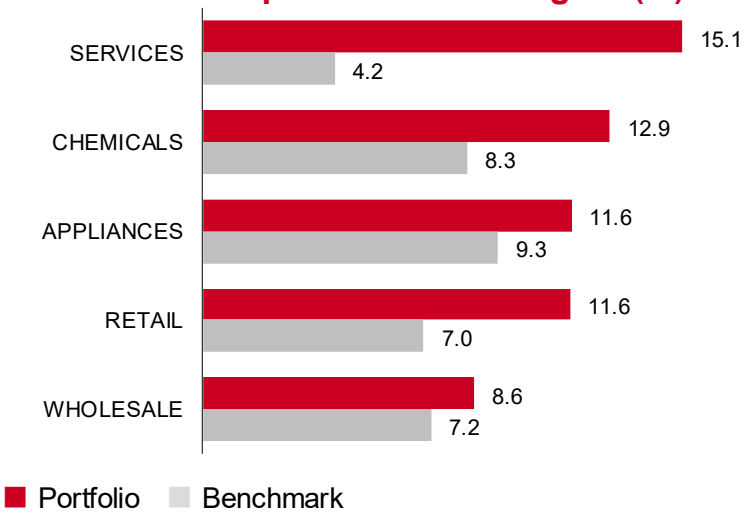
The data shown is of a representative account. Past performance is not a guarantee of future returns.

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Top Five Sector Weights (%)





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

Attribution Analysis

Both sector allocation and stock selection detracted from performance. In sector allocation, underweighting (UW) of Nonferrous and Info & Comm, and overweighting (OW) of Appliances contributed to performance, while UW of Banks, and OW of Services and Retail detracted. In stock selection, OW of Seria, Cosel, and SMS contributed to performance, while OW of Nihon M&A Center, K's Holdings, and Rengo detracted. Last month we increased holdings of Nipro, Life Corporation, and Keihan Holdings and decreased holdings of Kakaku.com, artience, and Toyoda Gosei.

Outlook

We expect the market to remain firm. Valuations (forward P/E) already reflect market expectations to a considerable extent and suggest limited upside potential. FY26 earnings forecasts will likely be less impacted by rising costs driven by the Middle East situation than initially expected. We expect firm, earnings-driven market performance, with improvements expected across a broad range of sectors beyond AI and semiconductors. We believe there is significant room for a re-rating of non-AI related stocks, while AI-related stocks have already priced in considerably high expectations. We should remain vigilant about a potential market correction, given that the recent rise in long-term rates could put downward pressure on valuations. 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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