

Japan Value Equity Sustainable

January 2025

Strategy

Sustainable Strategy is a smart-beta Japanese equity strategy that tracks the proprietary Sompo Sustainability Index. 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 invests in widely diversified stocks high in ESG-quality. ESG research is conducted by Sompo Risk Management, a leading domestic ESG research company.

Market Review

The Japanese market ended January roughly unchanged MoM as positives, like retracted concerns of tariffs as US President Donald Trump did not implement them the moment he took office, and negatives, like concerns of a drop in demand for semiconductors following the release of a low-cost AI model from China, balanced out. The Securities & Commodities Futures and Banks sectors rose on the back of a BoJ rate hike and the Marine Transportation sector fell on a drop in expectations for heightened freight rates after strikes were avoided at US ports.

The market fell in the first half of the month as investors were negative on retreating expectations for rate cuts after both US jobs data and ISM Manufacturing PMI beat expectations. Despite heightened expectations for rate cuts on the back of US CPI not meeting expectations, tighter restrictions on US semiconductor exports to China then weighed on share prices. The market then rose through the rest of the month despite the release of Chinese startup DeepSeek's low-cost AI model temporarily acting as a drag by igniting concerns over the future of demand for semiconductors, concerns over Trump tariffs abated as he did not immediately implement any after taking office.

Composite Performance (%) Excess Return*



	Jan	QTD	YTD	1Y	3Y	5Y	7Y	10Y	SI
Composite	-0.40	-0.40	-0.40	11.34	17.23	13.89	8.73	9.89	14.54
Benchmark	0.14	0.14	0.14	11.88	16.61	13.30	8.71	9.50	13.91

Top Ten Holdings	%
TOYOTA MOTOR CORP	2.28
MITSUBISHI UFJ FINANCIAL GRO	2.10
SUMITOMO MITSUI FINANCIAL GR	1.44
SONY GROUP CORP	1.38
HITACHI LTD	1.34
MIZUHO FINANCIAL GROUP INC	1.16
NIPPON TELEGRAPH & TELEPHONE	1.15
HONDA MOTOR CO LTD	1.11
TOKYO ELECTRON LTD	1.09
MITSUBISHI CORP	1.08
Total	14.14

Characteristics		
	Portfolio	TOPIX
P/E	12.33x	13.86x
P/B	1.09x	1.36x
ROE	8.81%	9.79%
Dividend Yield	3.01%	2.55%

Market Cap		
	Portfolio	TOPIX
Large	46.9%	67.3%
Mid	43.5%	25.2%
Small	9.0%	7.5%
Others	0.0%	-

Composite Summary

Composite Name	SNAM Sustainable Investment Mother Fund		
Benchmark	TOPIX Total Return**		
Inception Date	September 2012		
Number of Holdings	300		
Bloomberg Code	SNAMSUS		
Assets Under Management	Composite (T9915)	JPY 37.3B (USD 241M)	
	Discretionary Mandate	JPY 190.6B (USD 1231M)	
	Strategy Total	JPY 227.9B (USD 1471M)	

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

** 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. Dividends used in calculating the TOPIX Total Return Index are gross (i.e. before tax).

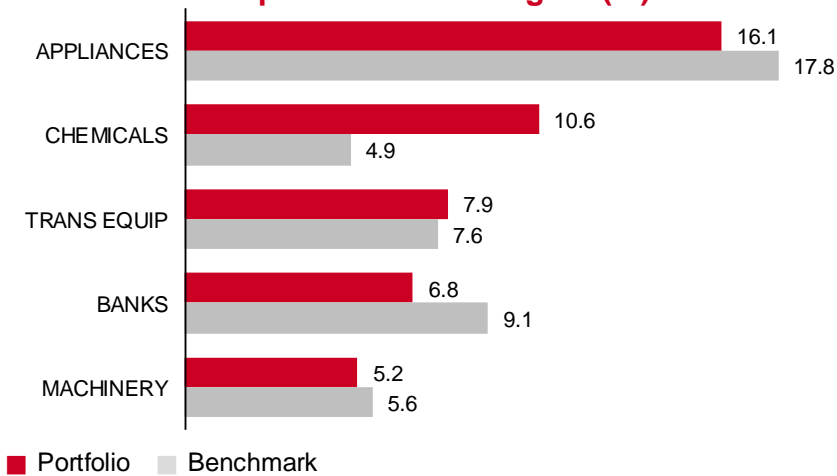
Performance is net of fees.

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 (%)



Masako Chikuma, CMA, CFA
Senior Portfolio Manager
20 years investment experience
9 years at Sompo AM

Attribution Analysis

In stock selection, share price increases for Mitsubishi UFJ Financial Group, Mizuho Financial Group, and Tokyo Electron contributed to performance, while share price declines for Toyota Motor, Itochu Corporation, and Tokio Marine Holdings detracted.

Outlook

We expect the market will face heavy upside resistance over the near term.

Japanese corporate earnings will likely grow on the back of a recovery in domestic real wages, a cyclical recovery to the manufacturing sector, and capital efficiency improvement measures implemented by companies following pressure from the Tokyo Stock Exchange (TSE). Share prices do not look overvalued given current general valuation metrics such as forward P/E. However, downward pressure on share prices will likely increase because of concerns of increased tariffs from the US and worries that JPY will appreciate on the back of divergent monetary policy between the US and Japan. That said, it is difficult to envision a large correction to the Japanese market given strong equity demand from the high level of large-scale share buybacks seen recently and the BoJ's relatively accommodative monetary policy compared to the US and Europe.

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