

Japan Value Equity Value Focus

September 2024

Strategy

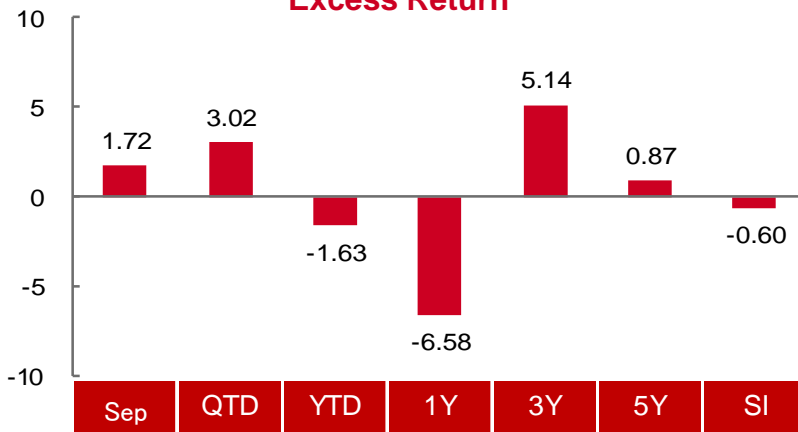
Value Focus Strategy is a focused, Japanese large/mid-cap equity strategy that aims for above-benchmark return in the mid- to long-term. The portfolio managers build the portfolio by investing in undervalued stocks with careful consideration of risk/return. A bottom-up approach is used. The Japanese equity research team analyzes the intrinsic value of individual stocks and compares it with market price to identify undervalued stocks. The portfolio is not constrained by sector weights.

Market Review

Japanese equities fell as the market was bearish on JPY appreciation versus USD, stemming from a narrowing interest rate differential between Japan and the US and Shigeru Ishiba chosen as the ruling Liberal Democratic Party (LDP)'s new leader, although the market was bullish on China's large-scale economic stimulus measures. Air Transportation and Warehousing & Harbor Transportation Services stocks rose as they are relatively less impacted by the JPY appreciation. However, Mining stocks dropped because of a decline in crude oil prices amid concerns over a recession and increasing oil supply.

The Japanese equity market fell in the first half of the month due to growing concerns of a recession on the back of a weaker-than-expected US ISM Manufacturing Index and JPY appreciation, stemming from the narrowed gap between Japanese and US interest rates. The market subsequently faced an upside resistance as JPY/USD temporarily strengthened to 139 yen, then share prices rose on growing expectations for a soft landing in the US following a 50bps rate cut by the Fed. The market temporarily saw JPY depreciation and higher stock prices towards the end of the month as the market favored China's economic stimulus measures and expectations for Sanae Takaichi, a former Economic Security Minister and supporter of easing monetary policy, to win the LDP leadership race. However, TOPIX ended nearly flat MoM due to rapid JPY appreciation and lower stock prices following Ishiba winning the race as he advocates increasing taxes on financial income and more restrictive fiscal policy.

Composite Performance (%) Excess Return*



Top Ten Holdings	%
TORAY INDUSTRIES INC	5.69
OMRON CORP	5.17
NIDEC CORP	5.01
KIRIN HOLDINGS CO LTD	4.67
SUMITOMO MITSUI TRUST HOLDIN	4.61
FANUC CORP	4.56
MURATA MANUFACTURING CO LTD	4.07
ASAHI KASEI CORP	4.06
SUMITOMO MITSUI FINANCIAL GR	4.00
KYOCERA CORP	3.92
Total	45.76

	Sep	QTD	YTD	1Y	3Y	5Y	SI
Composite	-0.47	-2.83	12.72	10.33	17.09	14.61	9.47
Benchmark	-2.19	-5.85	14.35	16.92	11.95	13.74	10.07

Composite Summary

Composite Name	Japan Value Equity Focus	
Benchmark	MSCI Japan**	
Inception Date	March 2018	
Number of Holdings	40	
Assets Under Management	Domestic	JPY 4.3B (USD 30M)
	Overseas	JPY 28.7B (USD 200M)
	Strategy Total	JPY 33B (USD 231M)

Characteristics		
	Portfolio	Benchmark
P/E	13.45x	14.15x
P/B	0.98x	1.39x
ROE	7.30%	9.83%
Dividend Yield	2.93%	2.49%

Market Cap		
	Portfolio	Benchmark
Large	62.1%	82.7%
Mid	37.9%	16.7%
Small	0.0%	0.1%
Others	0.0%	0.5%

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

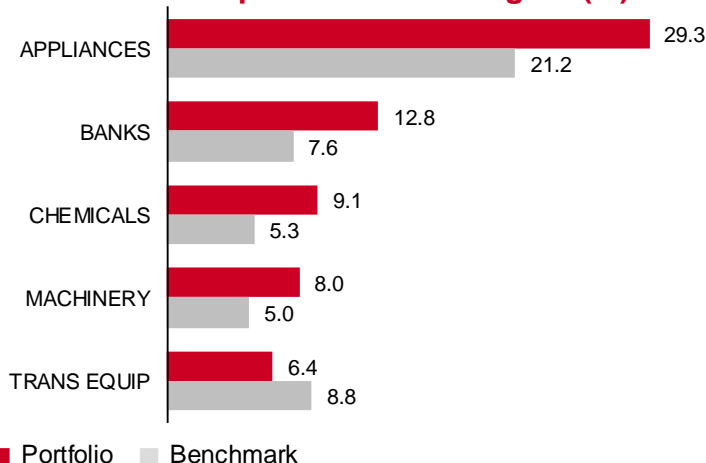
** The MSCI Japan Index is designed to measure the performance of the large and mid cap segments of the Japanese market. With 198 constituents (as of September 30, 2024), the index covers approximately 85% of the free float-adjusted market capitalization in Japan. Performance is net of fees.

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 (%)



Eitaro Tanaka, CMA

Japanese Equity Group Head
Senior Portfolio Manager
20 years investment experience
9 years at Sompo AM

Attribution Analysis

Both sector allocation and stock selection contributed to performance. In sector allocation, overweighting (OW) of Textiles and Chemicals and underweighting (UW) of Pharms contributed to performance, while UW of Retail and Wholesale and OW of Banks detracted. In stock selection, OW of Toray, Omron, and Kao contributed to performance, while OW of Mitsubishi Estate, Osaka Gas, and Murata Manufacturing detracted. Last month we increased holdings of Shizuoka Financial Group, East Japan Railway, and Sumitomo Metal Mining and decreased holdings of Makita, Kao, and Dai-ichi Life Holdings.

Outlook

We expect the market will fluctuate around the recent bottom but show signs of a potential recovery.

FY24 Japanese corporate earnings will likely grow and share prices do not look overvalued given their general valuation metrics such as forward P/E ratio, whilst the Japanese market will unlikely see a full-scaled upward trend as long as fears over a US recession continue to linger. Share prices fell as the market priced in concerns over policies of Ishiba's new administration. We believe that investors will regain a sense of calm as directions of economic policies and fiscal management of the administration become clearer and that the market will show signs of a potential recovery over the near term. We also believe that it is difficult to envision a large correction to the Japanese market given strong equity demand from the high level of large scale share buyback seen recently and the BoJ's relatively accommodative monetary policy compared to the US and Europe.

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