

Japan Value Equity Value Focus

December 2024

Strategy

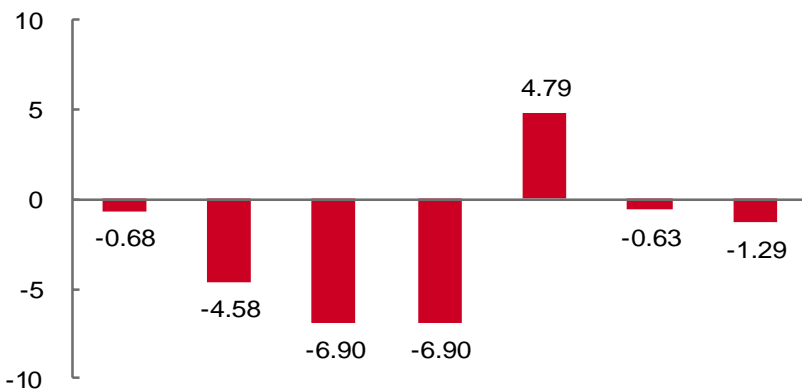
Value Focus Strategy is a focused, Japanese large/mid-cap equity strategy that aims for above-benchmark return in the mid- to long-term. The portfolio managers build the portfolio by investing in undervalued stocks with careful consideration of risk/return. A bottom-up approach is used. The Japanese 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

The Japanese market rose during the month as investors were positive on significant JPY depreciation against USD caused by the expanding interest rate gap between the two countries. Transportation equipment names were a large driver of the growth. They benefited from the significant depreciation of JPY, expectations surrounding the merger of the two domestic automobile majors of Honda and Nissan, and reports that Toyota aims to roughly double its ROE.

The market rose in the first half of the month as China's Caixin PMI beat expectation and hopes grew for the GPIF (Government Pension Investment Fund) to raise its allocation to equity following reports the Ministry of Health, Labour and Welfare will raise the investment return target for the largest pension fund in the country. The market then dropped somewhat as although the BoJ left rates unchanged and the central bank governor Kazuo Ueda stated he would not be rushing into rate hikes, the market was negative on the prospect of slow rate cuts by the Fed in 2025 despite the US central bank lowering rates 25bps during the month. Share prices then picked up again through the end of the month on the retreat of excessive fears of slower Fed rate cuts following weaker-than-expected core PCE inflation numbers and JPY depreciation versus USD.

Composite Performance (%) Excess Return*



	Dec	QTD	YTD	1Y	3Y	5Y	SI
Composite	3.63	1.36	14.25	14.25	19.24	12.62	9.33
Benchmark	4.30	5.94	21.15	21.15	14.45	13.25	10.62

Composite Summary

Composite Name	Japan Value Equity Focus					
Benchmark	MSCI Japan**					
Inception Date	March 2018					
Number of Holdings	52					
Assets Under Management	Domestic		JPY 4.4B (USD 28M)			
	Overseas		JPY 18.6B (USD 118M)			
	Strategy Total		JPY 23B (USD 146M)			

Top Ten Holdings	%
FANUC CORP	4.43
SUMITOMO MITSUI TRUST GROUP	4.37
NIDEC CORP	4.37
KIRIN HOLDINGS CO LTD	4.27
TORAY INDUSTRIES INC	4.07
HONDA MOTOR CO LTD	3.81
KYOCERA CORP	3.70
AISIN CORP	3.60
MURATA MANUFACTURING CO LTD	3.39
OMRON CORP	3.37
Total	39.38

Characteristics

	Portfolio	Benchmark
P/E	12.96x	14.65x
P/B	0.95x	1.51x
ROE	7.37%	10.32%
Dividend Yield	3.11%	2.43%

Market Cap

	Portfolio	Benchmark
Large	53.3%	84.7%
Mid	46.5%	14.9%
Small	0.2%	0.0%
Others	0.0%	0.4%

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

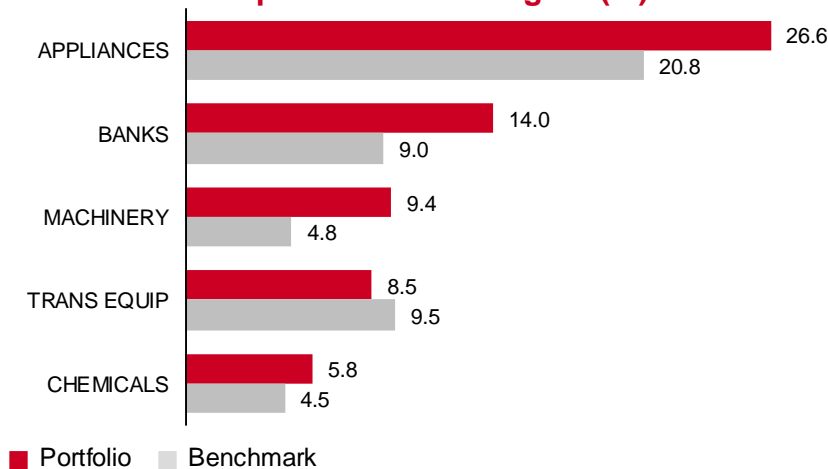
** The MSCI Japan Index is designed to measure the performance of the large and mid cap segments of the Japanese market. With 191 constituents (as of November 29, 2024), the index covers approximately 85% of the free float-adjusted market capitalization in Japan. Performance is net of fees.

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

While sector allocation contributed to performance, stock selection detracted. In sector allocation, overweighting (OW) of Appliances and Trans Equip and underweighting (UW) of Pharms contributed to performance, while OW of Land Trans, Banks, and Foods detracted. In stock selection, OW of Honda Motor, Aisin, and Omron contributed to performance, while UW of Toyota Motor and Sony Group and OW of Sumitomo Mitsui Trust Group detracted. Last month we increased holdings of Keisei Electric Railway, The Hachijuni Bank, and Taiyo Yuden and decreased holdings of Otsuka Corporation, Toray, and Sumitomo Mitsui Financial Group.

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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