

Japan Value Equity Value Focus

January 2025

Strategy

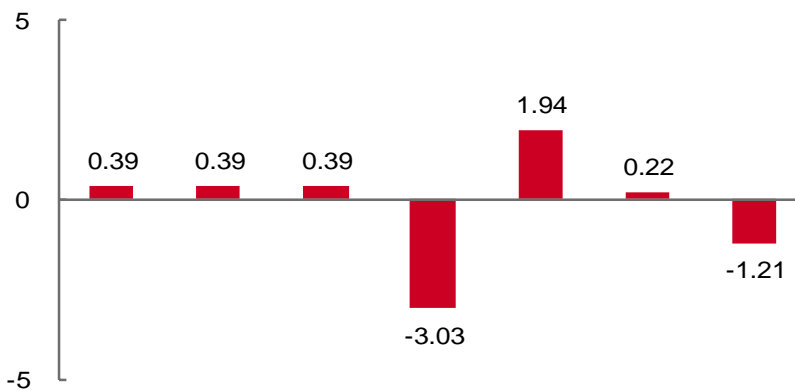
Value Focus Strategy is a focused, Japanese large/mid-cap equity strategy that aims for above-benchmark return in the mid- to long-term. The portfolio managers build the portfolio by investing in undervalued stocks with careful consideration of risk/return. A bottom-up approach is used. The Japanese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



Top Ten Holdings	%
FANUC CORP	4.92
SUMITOMO MITSUI TRUST GROUP	4.57
NIDEC CORP	4.09
KIRIN HOLDINGS CO LTD	4.07
KYOCERA CORP	3.78
HONDA MOTOR CO LTD	3.65
ASIN CORP	3.55
TORAY INDUSTRIES INC	3.50
SUMITOMO MITSUI FINANCIAL GR	3.29
MURATA MANUFACTURING CO LTD	3.25
Total	38.68

	Jan	QTD	YTD	1Y	3Y	5Y	SI
Composite	0.47	0.47	0.47	8.73	18.39	13.86	9.28
Benchmark	0.07	0.07	0.07	11.77	16.46	13.63	10.49

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 29M)	
	Overseas	JPY 18.5B (USD 119M)	
	Strategy Total	JPY 22.9B (USD 148M)	

Characteristics		
	Portfolio	Benchmark
P/E	12.50x	14.50x
P/B	0.92x	1.48x
ROE	7.37%	10.18%
Dividend Yield	3.12%	2.46%

Market Cap		
	Portfolio	Benchmark
Large	53.2%	84.7%
Mid	46.6%	14.9%
Small	0.2%	0.0%
Others	0.0%	0.4%

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

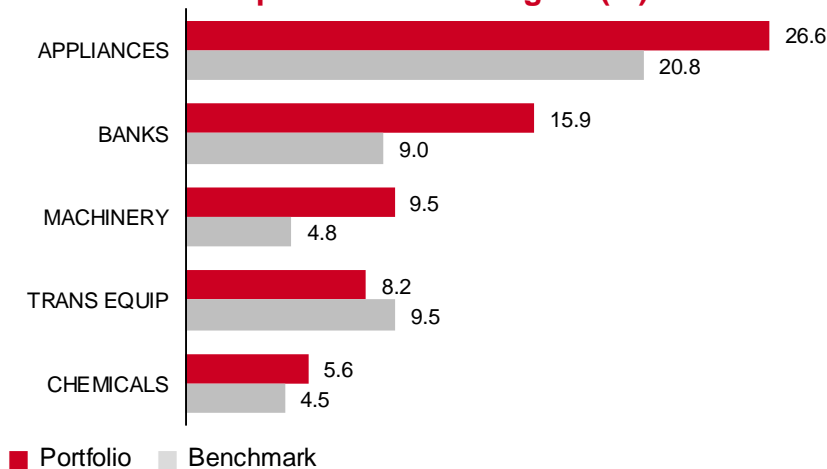
** The MSCI Japan Index is designed to measure the performance of the large and mid cap segments of the Japanese market. With 191 constituents (as of November 29, 2024), the index covers approximately 85% of the free float-adjusted market capitalization in Japan. Performance is net of fees.

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 Banks and underweighting (UW) of Wholesale and Insurance contributed to performance, while UW of Other Prod and Securities and OW of Foods detracted. In stock selection, OW of Fanuc and Toray and UW of Toyota Motor contributed to performance, while OW of Nidec and Osaka Gas and UW of Mitsubishi UFJ Financial Group detracted. Last month we increased holdings of The Hachijuni Bank and Shizuoka Financial Group and decreased holdings of Toray and Exeo 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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