UniversalSelect

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Sompo Asset Management

Daniel Robbins and Shigeyoshi Fujiwara

Value Investing meets Japanese Small Caps

Universal Investment

Marketing Communication

Value Investing meets Japanese Small Caps

When markets fluctuate, investors look for stability – and they are increasingly finding it in the value segment. Japan is emerging as a promising candidate for long-term gains. Shigeyoshi Fujiwara, Portfolio Manager of the Sompo Japan Small Cap Value Equity UI fund, explains how he and his team identify undervalued Japanese equities using a proprietary analysis model that has consistently proven itself over the long term.

Could you outline your investment philosophy? How does your proprietary YES model support stock selection?

Shigeyoshi Fujiwara: As fundamental bottom-up investors, we aim to generate alpha for our investors through stock selection. And we do this by targeting the most undervalued stocks that have a clear path to intrinsic value, measured by future dividends – focusing on the sharpest disconnects between price and potential.

We believe that over time, market prices gravitate towards their intrinsic value. While market prices can fluctuate in the short term, medium- to long-term fundamentals exhibit steady trends.

This belief is the foundation of our investment philosophy and is reflected in our proprietary YES model – a unique four-stage dividend discount model honed over three decades that supports disciplined, forward-looking valuations across all ten of our Japanese equity strategies and captures a business' full lifecycle. It also incorporates a company-specific business risk premium into the discount rate, factoring in elements like regulatory risk, earnings uncertainty and industry dynamics. This allows us to avoid value traps and manage downside risk.

Each equity strategy varies only by investable universe and risk controls. Our small cap strategy uses the Russell/Nomura Small Cap Index with a target tracking error of two to six per cent.

Our investment process has three core steps: fundamental research, stock valuation and portfolio construction. We begin with rigorous bottom-up analysis to determine a company's "normal profitability" – a sustainable earnings baseline that strips out short-term distortions like product cycles or macro shocks. Analysts then forecast twelve key inputs across a company's balance sheet and income statement, which are used as inputs for the YES model.[1]

The model outputs intrinsic value based on projected dividend. We compare this value to the market price to identify stocks with high expected alpha. Finally, we build the portfolio from the bottom quintile of stocks with the highest expected alpha and most significant valuation upside.

This provides a robust, long-term lens through which we evaluate companies. It reflects how businesses evolve over time, incorporates a wide range of risk considerations and anchors our process in intrinsic value – ultimately supporting a high-conviction, valuation-driven investment strategy.

[1] As of September 2025.

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Shigeyoshi Fujiwara, Portfolio Manager

Beyond the YES model, what differentiates Sompo's small cap strategy from others in the market?

Most Japanese small cap strategies are growth-focused. We are one of the few managers looking at stocks' intrinsic value over the medium to long term. Our approach gives us access to a wide universe of undervalued and overlooked small caps not typically on the radar of growth investors.

Another differentiator is access. Small caps tend to attract less investor attention, allowing us to engage directly with management. Across the research universe of all our equity strategies we hold approximately 500 individual meetings annually. As a Japanese asset manager we have a deep understanding of Japanese corporate culture and know how to deal with management teams to achieve real improvements.

About Sompo

Sompo Asset Management, founded in 1986, manages 28.5 billion US dollars of assets, including 6.6 billion US dollars in Japanese equities.

Daniel Robbins, CFA
Equity Product Specialist,
Sompo Asset Management

As of September 2025

How do you engage with management teams and how does that influence your investment approach?

Access to management teams is vital to our investment process. We prioritise regular, one-on-one meetings with companies we invest in, and many management teams seek our input on improving corporate value. Through these conversations, we encourage sustainable growth and corporate value improvements, supporting long-term value creation for the companies and our investors.

What type of investor is your small cap strategy best suited to?

As our investment process is heavily reliant on the medium- to long-term forecasts, our approach is best suited for long-term investors. Unlike some value managers who rely on short-term metrics like price-to-earning ratio or price-to-book ratio, we forecast intrinsic value over several years. Our average holding period is 1.5 to two years, but we may hold individual assets for up to five years or more if the market hasn't recognised a company's potential.

Why are Japanese small caps compelling for international investors right now and why hasn't the market caught on yet?

Compared to large caps, Japanese small caps are significantly undervalued and often overlooked, despite offering greater earnings growth potential than the broader market. As capital has flowed into large caps benefitting from corporate governance reform and yen depreciation, many small caps have lagged. This has created a compelling entry point.

Now, we're seeing small caps follow suit, presenting a unique opportunity: over half of the Japanese small caps trade at a price-to-book ratio less than 1x, offering significant room for upside as governance reforms spread.

From a macro perspective, the yen is deeply undervalued due to divergent global monetary policies. As Japan shifts towards monetary tightening while other economies ease, we expect yen appreciation.

Structurally, we're seeing early signs of manufacturing onshoring. Furthermore, Japan is experiencing rising inflation, improving wages and growing domestic demand, all of which create a supportive environment for small cap growth. We're also seeing signs of increased M&A activity as companies reposition in response to structural economic changes, which is particularly attractive for investors.

This disconnect between improving fundamentals and limited investor attention makes Japanese small caps a compelling and underappreciated opportunity.

The strategy looks back on a strong track record of more than 24 years. Can you share more about the strategy's long-term performance and drivers for past and future growth?

Our Japanese small cap strategy has outperformed its benchmark since inception. This outperformance reflects both our disciplined, earnings-driven investment process and favourable structural trends within Japan's small cap market.

Our recent performance has also benefitted from targeted overweight positions in banks and domestic demand sectors such as retail. These sectors profited from cost pass-throughs to consumers, improved earnings from rate normalisation and better consumer sentiment.

In addition, governance reforms and improving shareholder returns supported these gains.

How do you assess risk, including macro factors, financial health and catalysts?

Risk varies by company. We conduct deep, bottom-up analysis to evaluate financial stability and use our proprietary, in-house credit ratings as part of the YES model's discount rate, ensuring we take a conservative approach.

We also integrate macro risks and geopolitical developments into our discount rates. When making portfolio construction decisions, we consider catalysts and catalyst timing. We ensure there is a wide range of catalysts within the portfolio – such as earnings recoveries, capital efficiency improvements, or M&A activity – to minimise exposure to macroeconomic shocks.

Rather than impose top-down controls like sector caps, we diversify bottom-up across many catalysts to maintain portfolio resilience.

> Compared to large caps, Japanese small caps are significantly undervalued and often overlooked, despite offering greater earnings growth potential than the broader market.

Shigeyoshi Fujiwara, Portfolio Manager

How do you apply your selling discipline to manage and mitigate portfolio risk?

We're conservative when entering and scaling positions over time, as small caps can remain mispriced for extended periods. As a stock approaches our estimated intrinsic value, we reduce or exit our position.

If the original investment thesis shifts, we reassess fundamentals and valuation to determine whether to hold, trim or exit. This disciplined, valuation-driven approach allows us to manage both upside potential and downside risk.

Looking ahead, what are the key risks and opportunities for Japanese small caps?

The primary risk is a weakening of the Japanese domestic economy. This could divert management focus away from shareholder-friendly initiatives and slow corporate reform momentum.

The opportunity is equally clear, as progress on corporate governance reform spreads across small caps and structural changes take hold. Companies with improving capital efficiency, high cash reserves and low valuations are well positioned to outperform. We expect M&A activity to further support returns as firms reposition amid economic transformation.

Fund analysis by FondsConsult

Sompo Japan Small Cap Value Equity UI

Sompo Asset Management Co., Ltd. was established in 1986 and is part of Japan's Sompo Holdings Inc. The company is based in Tokyo and has representative offices in London and New York. Its 198 employees, including 61 investment specialists, manage around 28.5 billion US dollars in assets. Of these, some 6.6 billion US dollars are invested in strategies targeting Japanese equities, one of Sompo Asset Management's core areas of expertise. (As of May 2025)

The fund pursues Sompo's Japan Value Equity Small Cap Strategy, first introduced in 2007. The strategy focuses on Japanese small caps listed in the Russell/Nomura Small Cap Index, which serves as the fund's benchmark. The portfolio is constructed exclusively bottom up and follows a value-driven investment strategy.

Investment process:
The fund's investment universe includes around 350 to 400 equities from the Russell/Nomura Small Cap Index, each with a market capitalisation of at least 20 billion Japanese yen and a daily trading volume of at least 20 million JPY. Analysts begin by conducting a fundamental analysis of the relevant companies, focusing in particular on their industry and market positioning. Next, they carry out a valuation analysis to determine the intrinsic value of each company and the alpha gap – the difference between the current share price and its intrinsic value. Portfolio construction is bottom up, based on the ranking of alpha potential, analyst estimates and risk management principles. Shigeyoshi Fujiwara, the lead fund manager, makes the ultimate decision on which equities are selected.

Sompo Japan Small Cap Value Equity UI

Share classes (EUR):
IX ACC (ISIN: IE000H5IQN06)
I ACC (ISIN: IE000NHZCKD2)
R ACC (ISIN: IE000JDN6RG6)

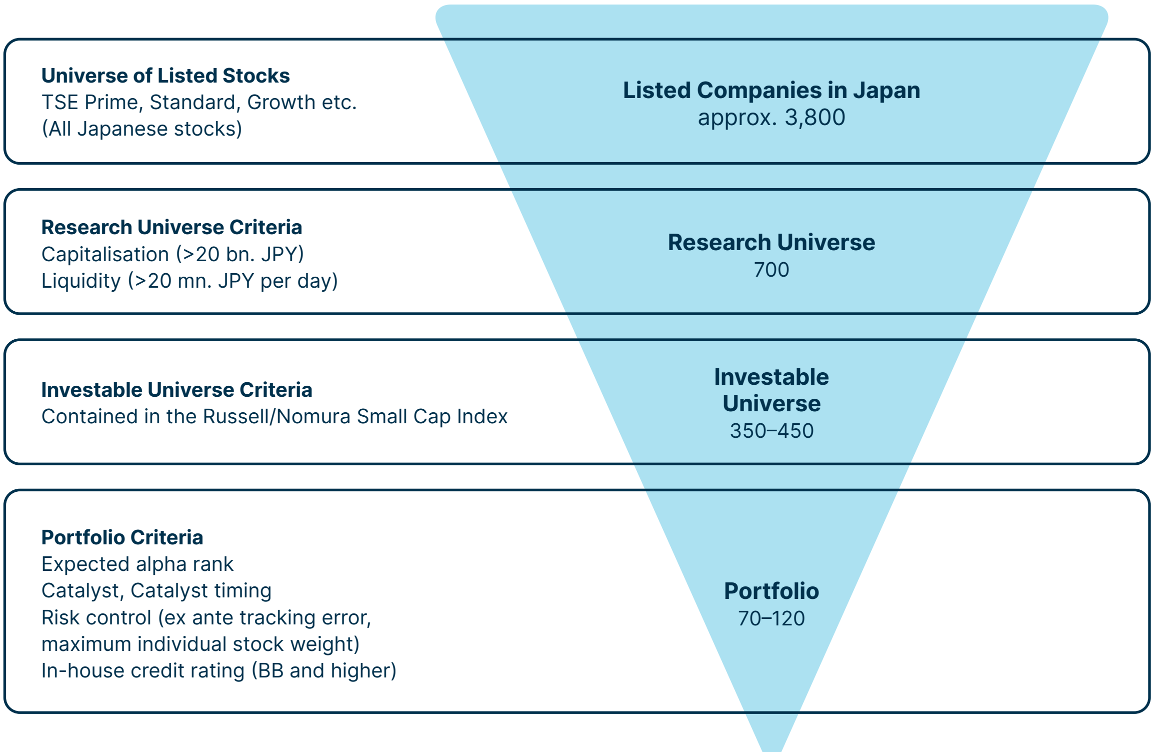
Share classes (JPY):
IX ACC (ISIN: IE000R9M4C17)
E DIV (ISIN: IE0005ZKIU99)

Fund category: equity
Inception date: 22. 4. 2025
Fund currency: EUR
Volume: 31.9 Mio. EUR (all share classes)
Domicile: Ireland

Source: Universal-Investment Ireland Fund Management Limited, as of 31. 7. 2025

From investment universe to portfolio

Following a multi-step stock filtering process, portfolio construction is bottom-up, based on the ranking of alpha potential, analyst recommendations and risk management principles.



Source: Sompo Asset Management, as of May 2025.
For illustration purposes only.

Management:
Shigeyoshi Fujiwara joined Sompo Asset Management in 2006, bringing with him 18 years of industry experience. Besides managing the fund, he also serves as an analyst for precision engineering, other manufacturing industries and the banking sector. The investment team comprises 15 specialists who carry out fundamental company analysis and visit around 500 companies a year. The team is also supported by three sustainability experts.

Portfolio:
The fund pursues an active strategy with a defined tracking error target of between two to six per cent, giving managers considerable flexibility for targeted positioning in individual equities. The maximum weighting of any single share is five per cent, and the portfolio comprises between 70 to 120 titles (currently 82). Compared with the benchmark, the value-driven investment approach results in significantly lower valuation metrics – in terms of price-to-earnings and price-to-book ratios. The portfolio is currently significantly overweight in the financial and cyclical consumer sectors, which together account for almost half of the portfolio. The sector allocation shifts dynamically over time based on the companies' relative investment appeal. Annual portfolio turnover in the past typically averaged 60 per cent.

Summary:
Sompo Asset Management Co., Ltd. has a strong track record in Japanese equity investment. Fund manager Shigeyoshi Fujiwara has overseen the fund since its inception, supported by a large team of experienced portfolio managers and analysts specialised in Japanese equities. The proven, value-driven investment process allows Fujiwara ample room to shape the portfolio according to his investment convictions. The fund portfolio deviates significantly from its benchmark and is clearly focused on individual stocks and sectors. The strategy has an excellent overall track record.

Risk factors

Investors' attention is drawn to the risk factors set out in the prospectus that will have relevance for the sub-fund, including, but not limited to, risk factors relating to equities, currency risk, currency hedging, derivative risk. Investors' attention is also drawn to more general risk factors set out in the prospectus and sub-fund-specific supplement, including, but not limited to, leverage risk, broker credit risk, liquidity risk, transaction timing risk, valuation risk and title/custody risk.

Please refer to the prospectus (page 5 ff.) and sub-fund-specific supplement (page 9 ff.) for a detailed list of the risk information for this product.

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