

Investment Strategy

We employ a thematic approach to identify attractive small cap stocks:

- Quantitative screening includes market cap and credit risk.
- Research and identify key structural and cyclical themes with the potential for superior long-term growth.
- Select small cap/micro cap companies best positioned to take advantage of these themes: companies that have pioneering business models, strength of position in industry value chain, strong management and attractive valuations.
- We apply a rigorous, ongoing sell discipline – when growth prospects weaken or stock price begins to reflect underlying value.

Strategy Facts

Composite Name: Japan Small Cap Equity Strategy–Small Focus Composite (Japan Small Cap Equity)

Advisor: Clearbrook, LLC.

Sub-Advisor: Mitsubishi UFJ Trust and Banking Corporation

Composite Inception Date: October 1, 2005

Net Assets as of 02/28/2023: \$75.6M USD

Management Fee: 0.75%

Benchmark: Russell/Nomura Small Cap Index

Portfolio Characteristics

	Japan Small Cap Equity*	Russ/Nom Small Cap
Number of Holdings	128	1,196
Wtd. Avg. Mkt. Cap. (\$)	939.1M	1.40B
P/E	17.14	18.16
P/B	3.23	2.05
ROE %	11.53	8.34
Dividend Yield %	2.30	2.51

*Based on representative portfolio

All data as of 02/28/2023 unless noted

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Performance (%) USD as of 02/28/2023

Composite	1 Mon*	3 Mon*	6 Mon*	YTD*	1 Yr	3 Yr	5 Yr	7Yr	10Yr	Since Incept
Japan Small Cap Equity Gross	-3.06	4.58	8.91	2.80	-5.63	9.19	0.58	13.01	13.97	9.30
Japan Small Cap Equity Net	-3.12	4.39	8.51	2.68	-6.33	8.39	-0.17	12.18	13.13	8.49
Russell/Nomura Small Cap	-3.15	3.89	5.18	1.21	-7.01	2.91	-3.03	5.01	5.67	3.448
Excess Ret (Gross-Russ/Nom)	0.09	0.69	3.74	1.59	1.37	6.29	3.60	8.00	8.30	5.82

*Returns for periods under one year are not annualized.

Performance data quoted represents past performance; past performance does not guarantee future results. Performance shown is for the Japan Small Cap Equity. Gross returns are presented before management and custodial fees, but after all trading expenses and reflect the reinvestment of dividends and other income. Net returns are net of investment management fees in effect for the respective time period and are derived using the maximum highest published rate. Fees charged are at the discretion of HighMark. The strategy does not invest to an index. The strategy uses the Russell/Nomura Small Cap Index as a comparative benchmark only. Performance may be attributable to profits from IPO securities. IPO securities have no trading history and the prices may be volatile. There is no guarantee this level of performance will be repeated. Japanese issuers and underwriters prioritize allocations of IPO securities to domestic investors; therefore, overseas investors (not based in Japan) may have less access to small and mid-cap IPO securities allocations than a domestic investor. The investment return and principal value of an investment will change so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance of the strategy may be lower or higher than the performance quoted. Composite data is calculated in JPY and converted to USD using the WM/Reuters Closing Spot Rates 4pm London close. The Russell/Nomura Small Cap Index is also converted from JPY to USD using the same exchange rate source.

Market and Strategy Commentary: February 2023

Japan Markets:

- Japanese small-cap equities declined in February, with the Russell/Nomura Small Cap index returning -3.15% with smaller stocks outperforming larger names. By factor, growth stocks and value stocks moved in line with the entire market, but toward the month-end, value stocks led over growth stocks.
- Early in the month, the Japanese equity market started with a lackluster tone without any specific catalysts. The rate hike of 0.25% was announced by FOMC that had a positive impact on US and Japanese stocks, as the market sentiment temporarily turned, as the rate hike cycle may be coming closer to an end.
- In mid-February, a stronger-than-expected US Jobs report and US CPI weighed on Japanese stocks as inflation once again drove losses. Later in the month, value stocks and smaller names regained ground against growth stocks as US PPI came in over the consensus that eventually ignited another round of rate hikes. Although the market gained in the local currency base, the performance turned negative due to the weaker Japanese yen.

MUFG Japan Small Cap Equity Strategy:

- The Japan Small Cap Strategy returned -3.12% USD, outperforming the Index by 0.03%.
- The top contributor was Outsourcing Inc., a manufacturing staffing and placement agency, led by the firm's solid earnings guidance for FY2023, reflecting a rebound from the previous year's slump in the overseas manufacturing and services operations. In addition, its new medium-term management plan was well received by the market and helped push the share price higher. IRISO Electronics Co., Ltd., a leading manufacturer of high-tech connectors widely used in automobiles, also contributed positively. Strong gains in the share price, were supported by robust Q3 FY3/23 (Apr-Dec) earnings results. Despite the concerns over the negative impacts of soaring raw material costs and Shanghai's lockdown, the firm posted historically high quarterly earnings results led by profit improvement strategies, sales increases and shipping cost reductions.
- The largest detractor was Techmatrix Corp., a system integration company which has strength in IT security and medical systems, with weaker-than-expected Q3 FY3/23 (Apr-Dec) earnings results on the back of weak profit margins due to the yen depreciation against US dollar. Another negative contributor was eRex Co., Ltd., a leading company in the renewable energy industry as a supplier of biomass power technology and a retailer of electric power. Despite the firm's solid Q3 FY3/23 (Apr-Dec) earnings results, uncertainties over the downtrend in wholesale electric power markets and derivative losses weighed on the share price.

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MUFG Japan Small Cap Equity Strategy

About the Strategy in USD as of 02/28/2023

Returns Based Statistics (vs Russell/Nomura Small Cap)

	One Yr	Three Yr	Five Yr	Ten Yr
Excess Return	1.37	6.29	3.60	8.30
Beta	1.18	1.23	1.18	1.12
Information Ratio	0.19	0.76	0.49	1.21
Sharpe Ratio*	-0.27	0.46	0.03	0.82
Tracking Error %	7.18	8.24	7.34	6.88
Standard Deviation (Portfolio) %	21.04	19.90	19.43	17.03
Standard Deviation (BM) %	16.96	14.99	15.39	14.02

*Sharpe Ratio: the risk free rate is not used in the calculation. The calculation shown here represents Portfolio Return divided by Portfolio Standard Deviation.

Sector Diversification (%)

	Japan Small Cap Equity*	Russ/Nom Small Cap
Industrials	25.10	23.83
Information Technology	22.58	15.07
Consumer Discretionary	12.80	15.98
Materials	10.83	11.85
Financials	10.20	8.95
Health Care	6.16	6.73
Communication Services	2.87	4.11
Consumer Staples	2.15	9.40
Utilities	1.58	1.35
Real Estate	1.16	1.57
Energy	0.00	1.17
Cash & Cash Equivalent	4.58	-

*Based on Representative Portfolio

Top Ten Holdings (%)*

Mitsui High-Tec, Inc.	2.28
Iriso Electronics Co., Ltd.	2.19
JFE Holdings, Inc.	1.69
Konoshima Chemical	1.67
CTS Co., Ltd.	1.65
Towa	1.59
Open House Group Co., Ltd.	1.57
Sanyo Denki Co., Ltd.	1.50
Cyberagent	1.45
Hakudo	1.43
Total	17.02

*Based on Representative Portfolio ex-Cash. Portfolio holdings are subject to change and are not recommendations to buy or sell any security.

Our Small Cap Investment Team



Yoshiro Mizukami, CMA
Chief Portfolio Manager, Head of Japan Small Cap Equities Team
32 years experience



Yoshitaka Nagano, CMA
Small Cap Manager/Analyst
24 years experience



Koichiro Ishii, CMA
Small Cap Analyst
9 years experience



Koichi Kano
Small Cap Analyst
2 years experience

*Clearbrook Investment Consulting is the investment advisor to the MUFG Japan Small Cap Equity Strategy.

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Mitsubishi UFJ Trust and Banking Corporation (MUTB) claims compliance with the Global Investment Performance Standards (GIPS®). A complete list of firm composites and performance can be requested from Natasha Koprivica at nkoprivica@clbrk.com or 857.919.1048. Performance numbers have been provided by MUTB and have not been verified by Clearbrook Investment Consulting.

Please see the GIPS® Compliant Performance Report for further explanation. The comparative benchmark is the Russell/Nomura Small Cap Index. The Russell/Nomura Small Cap Index contains those Russell/Nomura Small Cap securities with less-than-average growth characteristics. The index contains the bottom 15% of the Russell/Nomura Total Market Index in terms of float-adjusted market cap. **One cannot invest directly in an index.** **Beta:** systematic risk of a composite; represents sensitivity to the benchmark. **Excess Return (Gross):** amount that gross returns exceed relative benchmark return. **Information Ratio:** ratio of expected return to risk, as measured by standard deviation. **Price to Book (P/B):** ratio of stock price to book value. **Price to Earnings (P/E):** ratio of stock price to earnings. **Return on Equity (ROE):** net income divided by equity. **Standard Deviation:** measures dispersion of a set of data from its mean. **Tracking Error:** measures the active risk of the composite and the annualized standard deviation of the excess returns between the composite and its benchmark. **Weighted Average Market Cap:** total value of all outstanding shares weighted by market capitalization.

*Clearbrook Investment Consulting, LLC ("CIC") is an SEC-registered investment adviser. CIC primarily provides pensions consulting and family office advisory services for a wide variety of for-profit and nonprofit organizations. All strategy, assets under management and performance data described above refer to professional advisory services which CIC has engaged MUTB to act as subadvisor for the MUFG Japan Small Cap Equity Strategy. Fees charged are at the discretion of CIC; investment advisory fees are described in CIC's Form ADV Part 2, which is available upon request. Past performance does not guarantee future results. Individual account management and construction will vary depending on each client's investment needs and objectives. A complete list of all recommendations in the MUFG Japan Small Cap Equity Strategy, within the past year are available free of charge by contacting CIC. Actual securities held in any individual account will vary and are subject to change. Past performance does not guarantee future results. Individual account management and construction will vary depending on each client's investment needs and objectives. A complete list of all recommendations in the MUFG Japan Small Cap Equity Strategy, within the past year are available free of charge by contacting Clearbrook. Actual securities held in any individual account will vary and are subject to change.

Updated 03/23/2023 Clearbrook 208 Harbor Dr., Shippan Landing, Suite 202, Stamford CT 06902

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