

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 Investment Consulting, LLC.

Sub-Advisor: Mitsubishi UFJ Trust and Banking Corporation

Composite Inception Date: October 1, 2005

Net Assets as of 06/30/2023: \$69.9M 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	1,191
Wtd. Avg. Mkt. Cap. (\$)	993.0M	1.49B
P/E	18.22	18.56
P/B	2.94	2.14
ROE %	11.46	8.00
Dividend Yield %	2.21	2.41

*Based on representative portfolio

All data as of 06/30/2023 unless noted

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Performance (%) USD as of 06/30/2023

Composite	1 Mon*	3 Mon*	6 Mon*	YTD*	1 Yr	3 Yr	5 Yr	7Yr	10Yr	Since Incept
Japan Small Cap Equity Gross	5.17	1.59	8.14	8.14	18.96	7.42	2.18	10.61	13.33	9.43
Japan Small Cap Equity Net	5.11	1.41	7.75	7.75	18.09	6.63	1.42	9.79	12.49	8.61
Russell/Nomura Small Cap	2.58	0.40	5.13	5.13	13.19	1.79	-1.49	4.05	5.47	3.63
Excess Ret (Gross-Russ/Nom)	2.60	1.19	3.01	3.01	5.78	5.63	3.66	6.56	7.85	5.79

*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 in 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: Q2: April– June 2023, USD (Net)

Japan Markets:

- Japanese small-cap equities were up for the quarter, with the Russell/Nomura Small Cap index returning (+0.40%) USD.
- Japanese small-cap equities gained in April (+0.30%). The market rallied early following the U.S. equity markets and expectations of a slowdown of interest rate hikes. However, Japanese equities dropped amid concerns over a U.S. economic slowdown after weaker-than-expected U.S. jobs data was released. In mid-April, the market rebounded, rising due to the new Bank of Japan (BOJ) Governor Kazuo Ueda, signaling to maintain the easing monetary policy, U.S. steady statistical data and solid Japanese corporate earnings.
- In May, the equity market declined (-2.41%). In early June, a series of decent earnings results and the weak Japanese yen led the market higher despite the news flow of uncertainty about the debt ceiling issue in the U.S. Later in the month, Japanese equities pulled back as uncertainty surrounding the continuing debt ceiling issue in the U.S. increased a broader risk-off sentiment. Although the market gained in the local currency base, the performance turned negative due to the weaker Japanese yen.
- The equity market rose in June (+2.58%). The month started on a positive note, reflecting a resolution of the U.S. debt ceiling issue, as exporters did especially well due to yen depreciation. In mid-June, Japanese shares continued to rally led by semiconductor and high-tech names which were greatly affected by the strong gains of Generative AI and semiconductor related U.S. large caps. Market gains continued supported by the BOJ's large-scale monetary easing, and a prevailing sentiment that the FOMC would not raise interest rates. The stock market ultimately retreated in late June due to an oversold market after the rapid rise.

MUFG Japan Small Cap Equity Strategy:

- The strategy returned (+1.41%) USD for the quarter, outperforming the index by 1.01%.
- The best contributor was DD Group, Co., Ltd., an operator of restaurant and amusement facilities located mainly in Tokyo. The share price rallied steeply in April due to its strong FY2/22 full-year earnings results and mid-term management plan from FY2023 to FY2025.
- Another notable contributor was Fujimi Incorporated, a manufacturer of high-precision polishing and mirror finishing materials. The share price jumped in the wake of the announcement in May that a Japanese government-backed fund planned a tender offer of the shares of JSR Corp., a semiconductor materials manufacturer, for about JPY 1 trillion.
- Iriso Electronics Co., Ltd., a leading manufacturer of high-tech connectors used widely in automobiles led the portfolio lower. The market reacted negatively to the weaker-than expected earnings guidance for FY3/24 released in early May.
- Another detractor was eReX Co., Ltd., a leading company in the renewable energy industry. They are a supplier using biomass power technology and retailer of electric power. Despite robust full-year FY3/23 earnings results, the share price dropped after the release of sluggish Q4 FY3/23 earnings results in May, affected by a large rise in the JEPX (Japan Electric Power Exchange) price.

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MUFG Japan Small Cap Equity Strategy

About the Strategy in USD as of 06/30/2023

Returns Based Statistics (vs Russell/Nomura Small Cap)

	One Yr	Three Yr	Five Yr	Ten Yr
Excess Return %	5.78	5.63	3.66	7.85
Beta	1.20	1.21	1.19	1.14
Information Ratio	1.18	0.72	0.52	1.14
Sharpe Ratio*	1.08	0.40	0.11	0.80
Tracking Error %	4.88	7.84	7.05	6.88
Standard Deviation (Portfolio) %	17.60	18.38	19.49	16.74
Standard Deviation (BM) %	14.30	13.92	15.50	13.54

*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	26.07	24.21
Information Technology	22.35	15.36
Consumer Discretionary	13.13	15.94
Materials	11.21	12.11
Financials	10.36	8.36
Health Care	6.22	6.39
Communication Services	2.68	4.14
Consumer Staples	2.26	9.39
Real Estate	1.42	1.29
Utilities	0.88	1.64
Energy	0.00	1.17
Others	0.31	-
Cash & Cash Equivalent	3.11	-

*Based on Representative Portfolio

Top Ten Holdings (%)*

Mitsui High-Tec, Inc.	2.95
Towa Corp.	2.00
JFE Holdings, Inc.	1.92
Sanyo Denki Co., Ltd.	1.92
Iriso Electronics Co., Ltd.	1.79
Kaga Electronics	1.74
Techmatrix	1.68
DD Group	1.54
Open House Group Co., Ltd.	1.54
Quick	1.49
Total	18.57

*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
10 years experience



Kazunori Yanagimoto
Small Cap Analyst
5 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.