

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 03/31/2023: \$69.2M USD

Management Fee: 0.75%

Benchmark: Russell/Nomura Small Cap Index

Portfolio Characteristics

	Japan Small Cap Equity*	Russ/Nom Small Cap
Number of Holdings	129	1,195
Wtd. Avg. Mkt. Cap. (\$)	943.2M	1.44B
P/E	17.25	17.88
P/B	3.21	2.09
ROE %	11.17	8.44
Dividend Yield %	2.31	2.54

*Based on representative portfolio

All data as of 03/31/2023 unless noted

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Performance (%) USD as of 03/31/2023

Composite	1 Mon*	3 Mon*	6 Mon*	YTD*	1 Yr	3 Yr	5 Yr	7Yr	10Yr	Since Incept
Japan Small Cap Equity Gross	3.55	6.45	23.52	6.45	-2.53	13.64	1.67	11.60	13.43	9.47
Japan Small Cap Equity Net	3.48	6.25	23.07	6.25	-3.25	12.81	0.91	10.78	12.59	8.66
Russell/Nomura Small Cap	3.46	4.71	17.06	4.71	0.29	5.72	-2.15	4.46	5.35	3.66
Excess Ret (Gross-Russ/Nom)	0.09	1.74	6.46	1.74	-2.82	7.92	3.82	7.14	8.08	5.81

*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: Q1: Jan-March 2023 USD (Net)

Japan Markets:

- Japanese small-cap equities advanced for the quarter, with the Russell/Nomura Small Cap Index returning +4.71% USD.
- Japanese small-cap equities rallied in January +4.51%, supported by soft US wage inflation figure, lowering of US interest rates that reflect the benign US CPI data, which in turn causes US dollar depreciation against the Japanese yen. Additionally, the Bank of Japan maintained its relaxed policy.
- The equity market was down in February -3.15%. A stronger-than-expected US Jobs report and US CPI figures released mid-month, turned investors' attention to inflation again, and weighed on Japanese stocks. Later in the month, smaller names rebounded as US PPI came in over consensus that ignited another round of rate hikes. Although the market gained in the local currency basis, performance turned negative because of the yen weakness against the US dollar.
- The equity market rose in March (+3.46%). The Japanese market started on a positive note due to the improvement in China's PMI and the depreciation of the yen amid speculation of an acceleration of Fed rate hikes. However, Japanese equities dropped due to increasing concerns over the bankruptcy of US regional banks and a Swiss bank Credit Suisse. In the second half of March, Japanese small-cap stocks rebounded as the concerns subsided due to the prompt move by the financial authorities to protect deposits and provide liquidity to financial institutions.

MUFG Japan Small Cap Equity Strategy:

- The Japan Small Cap Equity Strategy returned +6.25% USD, outperforming the index by 1.54%.
- One of the top contributors was Mitsui High-tec, Inc., a manufacturer of integrated circuit leadframes and electric motor cores. The share price rose sharply thanks to robust full-year FY1/23 earnings results and an upward revision for their medium-term plan ending FY1/25, reflecting strong demand for motor cores for EVs supported by solid market growth.
- Another notable contributor was TOWA Corp., a leading semiconductor molding equipment maker. The share price was supported by a round of downward earnings revisions by related companies and a forecast from SEMI that the front-end manufacturing equipment market will recover in 2024 after declining in 2023.
- The biggest detractor was Techmatrix Corp., a systems integration company. The market reacted negatively to their Q3 FY3/23 (Apr-Dec) earnings results announced late January as an increasing revenue mix to less profitable clients dragged down the overall margin in spite of solid sales and operating profit.
- Syuppin Co., Ltd., an operator of online boutiques for high-end used cameras, watches and pens, also detracted from performance. In addition to their Q3 FY3/23 (Apr-Dec) earnings results, negative operating profit and weak sales figures weighed down the share price.

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MUFG Japan Small Cap Equity Strategy

About the Strategy in USD as of 03/31/2023

Returns Based Statistics (vs Russell/Nomura Small Cap)

	One Yr	Three Yr	Five Yr	Ten Yr
Excess Return	-2.82	7.92	3.82	8.08
Beta	1.24	1.20	1.18	1.11
Information Ratio	-0.49	1.00	0.52	1.18
Sharpe Ratio*	-0.12	0.71	0.09	0.80
Tracking Error %	5.75	7.89	7.32	6.87
Standard Deviation (Portfolio) %	21.36	19.23	19.46	16.88
Standard Deviation (BM) %	16.89	14.81	15.47	13.92

*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	26.41	23.91
Information Technology	22.51	15.49
Consumer Discretionary	13.04	16.05
Materials	11.40	11.98
Financials	10.33	8.26
Health Care	6.24	6.70
Communication Services	2.97	4.14
Consumer Staples	2.13	9.37
Real Estate	1.61	1.35
Utilities	1.19	1.58
Energy	0.00	1.17
Others	0.71	-
Cash & Cash Equivalent	1.46	-

*Based on Representative Portfolio

Top Ten Holdings (%)*

Mitsui High-Tec, Inc.	2.79
Iriso Electronics Co., Ltd	2.35
Towa Corp.	1.83
JFE Holdings, Inc.	1.76
CTS Co., Ltd.	1.72
Sanyo Denki Co., Ltd.	1.69
Open House Group Co., Ltd.	1.64
Konoshima Chemical	1.55
Kaga Electronics	1.54
Hakudo	1.50
Total	18.37

*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.