



# MUFG Japan Small Cap Equity Strategy

May 2024

## 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 05/31/2024:** \$62.6M USD

**Management Fee:** 0.75%

**Benchmark:** Russell/Nomura Small Cap Index

## Portfolio Characteristics

	Japan Small Cap Equity*	Russ/Nom Small Cap
Number of Holdings	123	1,093
Wtd. Avg. Mkt. Cap. (\$)	924.6M	1.57B
P/E	14.60	14.78
P/B	1.16	1.11
ROE %	10.49	10.24
Dividend Yield %	2.48	2.55

\*Based on representative portfolio

All data as of 05/31/2024 unless noted

## Contact Information

**Natasha Koprivica**

nkoprivica@clbrk.com or 857.919.1048

**Clearbrook Investment Consulting**

21 West 46th St, Suite 1507

New York NY, 10036

## Performance (%) USD as of 05/31/2024

Composite	1 Mon*	3 Mon*	6 Mon*	YTD*	1 Yr	3 Yr	5 Yr	7Yr	10Yr	Since Incept
Japan Small Cap Equity Gross	1.48	-3.89	6.29	-0.36	10.98	-1.97	7.83	7.06	11.27	9.26
Japan Small Cap Equity Net	1.42	-4.07	5.90	-0.66	10.17	-2.70	7.03	6.27	10.45	8.45
Russell/Nomura Small Cap	0.19	-2.05	5.07	-0.75	11.91	-0.73	3.46	2.59	5.39	3.94
Excess Ret (Gross-Russ/Nom)	1.29	-1.84	1.21	0.39	-0.93	-1.24	4.37	4.47	5.89	5.32

\*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 Clearbrook. 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: May 2024, USD Net

### Japan Markets:

- Japanese small cap equities moved within a small range and closed slightly up in May, with the Russell/Nomura Small Cap index returning +0.19% USD.
- Early in the month, Japanese equities advanced. U.S. technology stocks' rallied on the back of the opinion that the rise in long-term interest rates had ended for now and encouraged buying on Japanese equities markets. Announcements of higher-than-expected companies' results also supported the Japanese equities, but profit-taking capped further gains.
- In mid-May, Japanese equities declined slightly. Following the rally of U.S. equity markets, sanguine buying spread in the Japanese equities markets, led by high-priced semiconductor-related stocks. However, there were concerns with regard to the impacts of rising long-term interest rates in Japan, which weighed on the market.
- Late in the month, Japanese equities continued to decline. As the long-term interest rate in Japan reached 1.0%, financial stocks supported the market while some higher-priced stocks sold. Japanese equities rebounded at the end of the month while the U.S. long-term interest rate decline eased concerns about the impacts of higher interest rates in Japan.

### MUFG Japan Small Cap Equity Strategy:

- The strategy returned +1.42% USD, outperforming the index by 1.23%.
- The top contributor was TOWA Corp., a leading manufacturer of semiconductor molding equipment. In May, the PHLX Semiconductor Sector Index (SOX) rebounded after a decline caused by a series of major global semiconductor firms' poor earnings results in April. Although robust NVIDIA's earnings results released on May 22nd beat the expectations, share price momentum increased so rapidly that not only TOWA, but the Semiconductors market as a whole gradually declined towards the end of May.
- Another notable contributor was Iyogin Holdings, Inc., a regional bank headquartered in the Shikoku area. Regional bank stocks gained due to the continuation of high long-term interest rates in the U.S. and expectations of improved earnings due to changes in BOJ's monetary policy. The firm announced to raise its FY3/25 total payout ratio target to 37.9%. The actual total payout ratio in FY3/24 was 23.3%. The uptick in shareholder returns drove up the share price.
- Conversely, one of the worst contributors was Kenko Mayonnaise Co., Ltd., a provider of mayonnaise and cooked processed foods, including various kinds of salad and egg-processed products. The share price dropped in the short term as the shareholder return policy was not included in the FY3/25 guidance.
- Kanto Denka Kogyo Co., Ltd., a firm producing and distributing a wide range of chemicals, particularly functional chemicals, specialty gases, and electronic materials used in various industries like semiconductors, electronics, and environmental applications. The firm released its full-year FY3/24 earnings results with JPY -2.0 billion operating profit, which drove the share price down.

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# MUFG Japan Small Cap Equity Strategy

About the Strategy in USD as of 05/31/2024

## Returns Based Statistics (vs Russell/Nomura Small Cap)

	One Yr	Three Yr	Five Yr	Ten Yr
Excess Return %	-0.93	-1.24	4.37	5.89
Beta	1.16	1.16	1.17	1.14
Information Ratio	-0.18	-0.17	0.63	0.85
Sharpe Ratio*	0.72	-0.11	0.42	0.67
Tracking Error %	5.05	7.27	6.95	6.93
Standard Deviation (Portfolio) %	15.17	17.41	18.57	16.89
Standard Deviation (BM) %	12.46	13.81	14.91	13.62

\*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	23.12	26.06
Information Technology	22.84	14.08
Financials	13.36	9.91
Consumer Discretionary	12.54	15.37
Materials	9.73	11.27
Health Care	5.99	5.59
Communication Services	2.94	4.05
Consumer Staples	2.91	9.57
Real Estate	1.57	1.56
Utilities	0.66	2.02
Energy	0.00	0.52
Cash & Cash Equivalent	4.34	-

\*Based on Representative Portfolio

## Top Ten Holdings (%)\*

Towa Corp.	4.26
Monex Group	2.08
Mitsui High-Tec, Inc.	1.92
Jeol	1.76
Tocalo	1.73
The 77 Bank	1.71
Japan Electronic Materials	1.68
MCJ	1.63
Sanyo Denki	1.62
Kyoto Financial Group	1.59
<b>Total</b>	<b>19.98</b>

\*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  
33 years experience



**Yoshitaka Nagano, CMA**  
Small Cap Manager/Analyst  
25 years experience



**Kazunori Yanagimoto**  
Small Cap Analyst  
5 years experience



**Koichi Kano**  
Small Cap Analyst  
4 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.