



# MUFG Japan Small Cap Equity Strategy

October 2023

## 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 10/31/2023:** \$64.3M USD

**Management Fee:** 0.75%

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

## Portfolio Characteristics

	Japan Small Cap Equity*	Russ/Nom Small Cap
Number of Holdings	127	1,186
Wtd. Avg. Mkt. Cap. (\$)	946.9M	1.42B
P/E	15.78	17.37
P/B	1.95	1.83
ROE %	10.94	7.99
Dividend Yield %	2.38	2.52

\*Based on representative portfolio

All data as of 10/31/2023 unless noted

## Contact Information

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## Performance (%) USD as of 10/31/2023

Composite	1 Mon*	3 Mon*	6 Mon*	YTD*	1 Yr	3 Yr	5 Yr	7Yr	10Yr	Since Incept
Japan Small Cap Equity Gross	-5.64	-10.05	-5.94	-0.01	13.57	-0.24	3.64	8.32	10.63	8.77
Japan Small Cap Equity Net	-5.70	-10.22	-6.29	-0.62	12.73	-0.98	2.87	7.52	9.81	7.97
Russell/Nomura Small Cap	-4.09	-7.13	-2.92	1.96	13.94	-1.34	0.01	2.26	4.09	3.39
Excess Ret (Gross-Russ/Nom)	-1.55	-2.93	-3.03	-1.97	-0.37	1.10	3.63	6.06	6.54	5.38

\*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 (Q4: Oct 2023, USD Net)

### Japan Markets:

– Japanese small-cap equities were down in October, with the Russell/Nomura Small Cap index returning -4.09% USD.

– Japanese equities fell early in the month as rising U.S. long-term interest rates and higher energy prices weighed on the market, but as the rise in U.S. long-term interest rates paused, Japanese equities recovered slightly with growth shares regaining momentum as semiconductor-related shares rebounded sharply. Thereafter, value shares attracted much attention as automotive and resource-related shares were repurchased on the strength of the U.S. equity market.

– In mid-October, Japanese equities declined due to tensions erupting in the Middle East and a rumor circulating that the Bank of Japan (BOJ) will amend its monetary policy. The resource-related shares, which would benefit from higher energy prices, partly supported the market.

– Later in the month, Japanese equities were flat. U.S. tech stocks were dragged down due to higher U.S. long-term interest rates topping 5% for the first time in 16 years, which consequently weighed on the Japanese high-priced blue chips. Thereafter, the BOJ's announcement of setting 1.0% as a new reference point for the 10-year Japanese government bond yield drew considerable buying into the financial sector.

### MUFG Japan Small Cap Equity Strategy:

– The strategy returned -5.70% USD, underperforming the index by 1.61%.

– The top contributor was TOWA Corp., a leading maker in the semiconductor molding equipment industry. Although the share prices of semiconductor-related names had been sluggish due to poor earnings results and the tightening of U.S.-China semiconductor regulations, the firm performed well amid heightened expectations for its molding equipment, mainly used for the generative Ais' memory units.

– Another notable contributor was Monex Group, Inc., a global financial services firm focused on online securities. In October, the firm released a capital and business alliance agreement with NTT DOCOMO. The firm will accelerate growth investments in their asset management business by utilizing NTT DOCOMO's database of 96 million members. Moreover, the announcement of the dividend increases added momentum to the share price.

– Detractors included Mitsui High-tec, Inc., a manufacturer of integrated circuit lead frames and electric motor cores. The share price has declined since September as the firm released a downward revision of its FY1/24 earnings outlook. The slowdown of the semiconductor value chain and concerns over the affairs in the Middle East both weighed on the share price.

– Another detractor was Sanyo Denki Co., Ltd., a manufacturer and seller of small precision motors, cooling, and power systems used for a wide range of products such as solar power generation, industrial machines, and robots. The firm released Q2 FY3/24 (Apr-Sep) earnings results with operating profit. However, the share price reacted negatively as new orders decreased considerably.

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# MUFG Japan Small Cap Equity Strategy

About the Strategy in USD as of 10/31/2023

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

	One Yr	Three Yr	Five Yr	Ten Yr
Excess Return %	-0.37	1.10	3.63	6.54
Beta	1.23	1.18	1.18	1.14
Information Ratio	-0.07	0.14	0.52	0.94
Sharpe Ratio*	0.83	-0.01	0.19	0.64
Tracking Error %	5.05	7.60	7.02	6.95
Standard Deviation (Portfolio) %	16.41	17.13	19.02	16.54
Standard Deviation (BM) %	12.92	13.18	15.11	13.30

\*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	25.31	23.88
Information Technology	21.93	13.83
Consumer Discretionary	13.48	15.99
Financials	12.22	9.78
Materials	11.03	12.36
Health Care	5.59	6.13
Consumer Staples	3.32	10.10
Communication Services	2.66	3.69
Real Estate	1.27	1.26
Utilities	0.73	1.66
Energy	0.00	1.32
Cash & Cash Equivalent	2.45	-

\*Based on Representative Portfolio

## Top Ten Holdings (%)\*

Towa Corp.	3.29
JFE Holdings, Inc.	2.08
Mitsui High-Tec, Inc.	1.97
Kusuri No Aoki Holdings	1.79
Kaga Electronics	1.72
Monex Group	1.65
The 77 Bank	1.60
Sec Carbon	1.60
The Hachijuni Bank	1.58
Iriso Electronics Co., Ltd	1.58
<b>Total</b>	<b>18.86</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  
27 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.