



Japan - Debunking the Myths!

Inflation, Earnings Growth, and Supply/Demand

February 2025

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Summary

Structural Factors: Inflation, Earnings Growth and Supply/Demand

- ✓ In Japan, non-regular employment, driven mainly by women, has expanded for two decades but is now reaching its limit, potentially setting the stage for price and wage increases. Productivity gains associated with increased IT investment will support a virtuous circle of wages and prices.
- ✓ Japanese companies have improved their corporate governance, due to the unwinding of cross-shareholdings. A growing number of companies have recently focused on capital efficiency, leading to earnings improvements through business strategy reviews.
- ✓ Since 2015, domestic corporations have offset foreign selling by buying Japanese equities, and new NISA may accelerate the shift of household financial assets from savings to investments.

Immediate Focus: BOJ and Forex, U.S. Equities

- ✓ BOJ revised its CPI outlook upwards from the previous report and is expected to continue to raise the policy rates, albeit cautiously, toward neutral rates.
- ✓ If the U.S. economy worsens, there is a risk that Japanese stocks will also adjust following downward revisions to corporate earnings, a fall in U.S. equities and a weaker U.S. dollar.

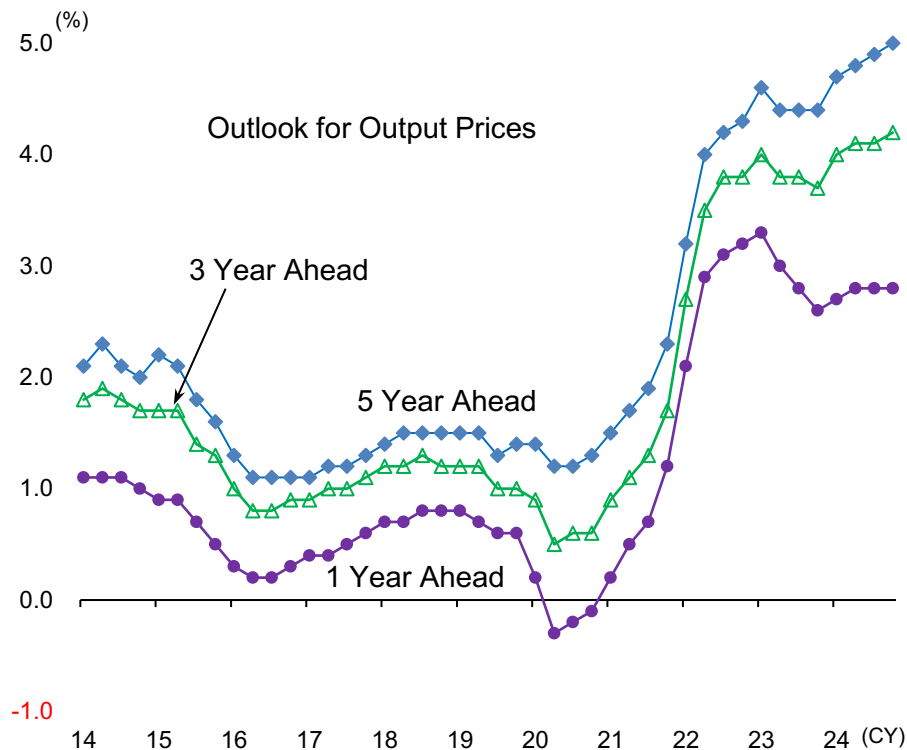
Neglected Stocks: Small-caps, Management Reform Companies

- ✓ Japanese small-cap stocks are attractively valued globally partly due to limited analyst coverage, even though they have strong earnings prospects and sound balance sheets.
- ✓ Investment returns tend to rise over the long term when companies acquiesce to proposals made by activists. Activism can be viewed as a catalyst for promoting corporate management reform.

Inflation: Japanese Companies Revise Pricing Strategies

- Japanese companies are increasingly assuming future price increases.
- Looking at the prices of business services, the prices of services with high labor cost ratio continue to rise. Japanese companies have started to revise their pricing strategies in response to rising raw material and labor costs, because individuals have recently become more tolerant of price increases.

Inflation Outlook of Enterprises



(Source) MUFG: Trust Bank, from BOJ data

(Note) Universe is all industries, all enterprises; data as of December 2024.

Price of Business Services by Labor Cost



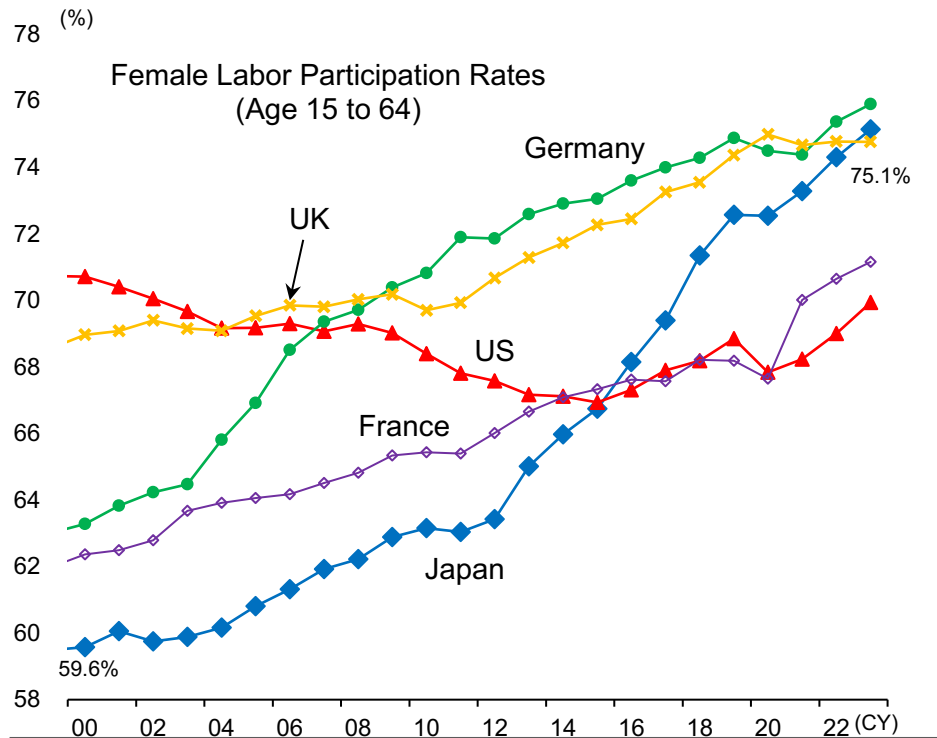
(Source) MUFG: Trust Bank, from BOJ data

(Note) Shaded areas indicate recessions; data as of December 2024.

Inflation: Significant Changes in the Labor Market

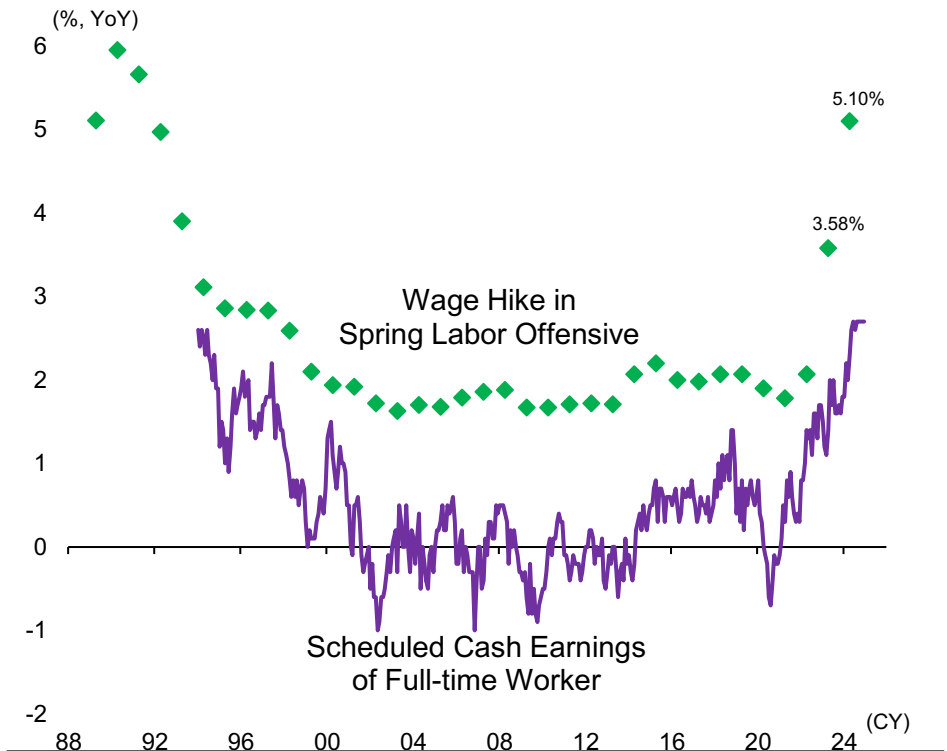
- In Japan, the labor participation rate for women in working-age (ages between 15 to 64) rose from 59.6% in 2000 to 75.2% in 2023. Improved compensation packages appear to be a necessary precondition for a further increase in the participation.
- The wage hike for 2024 in spring labor offensive is 5.10%, its highest level since 1991.

Female Labor Participation Rates in Major Countries



(Source) MUFG: Trust Bank, from OECD data
(Note) Data as of 2023.

Wage Growth of Full-time Worker

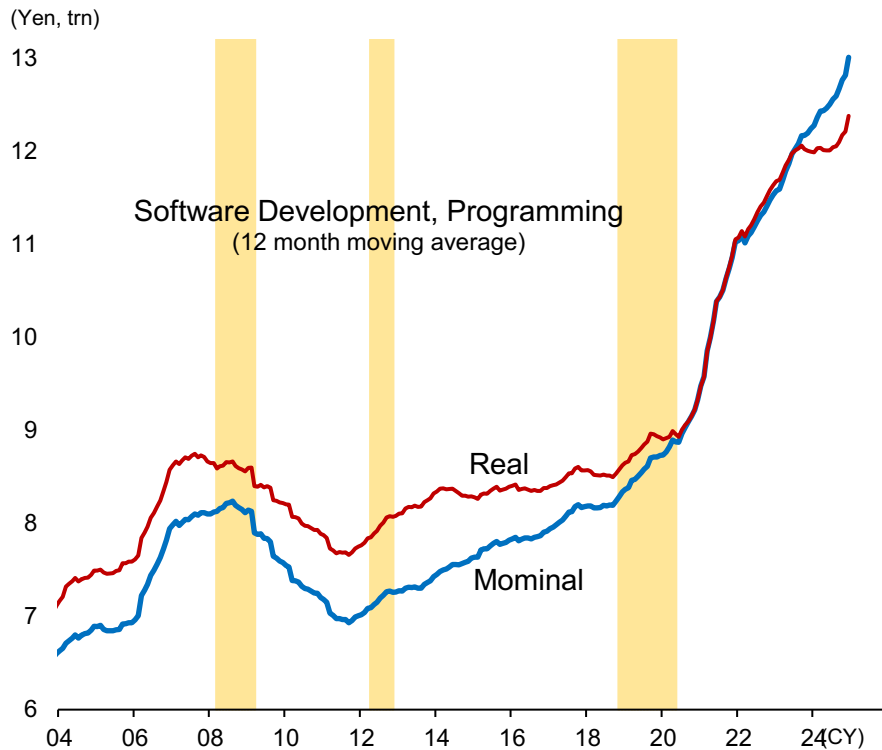


(Source) MUFG: Trust Bank, from JTUC-RENGO, MIC data
(Note) Wage growth includes regular salary increases; data for December 2024

Productivity: Key to Creating a Virtuous Cycle between Wages and Prices

- Sales of software development and programming have started to increase significantly from 2021.
- Over the past few years, software investment has grown faster at small and medium-sized companies than at large companies, partly because of investment aimed at rationalization and labor-saving. Improved productivity should support a “virtuous circle between wages and prices”.

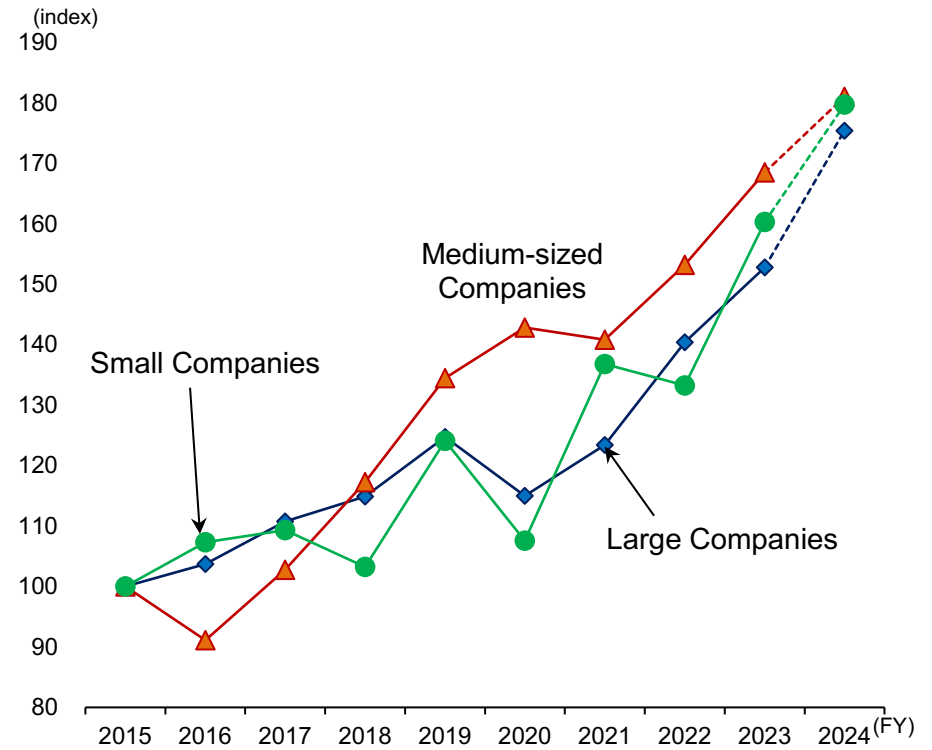
Sales of Software Development



(Source) MUFG: Trust Bank, from METI, BOJ

(Notes) Real value is based on prices for contracted software in the Corporate Services Price Index; shaded areas indicate recessions; data as of December 2024.

Software Investment by Size of Companies



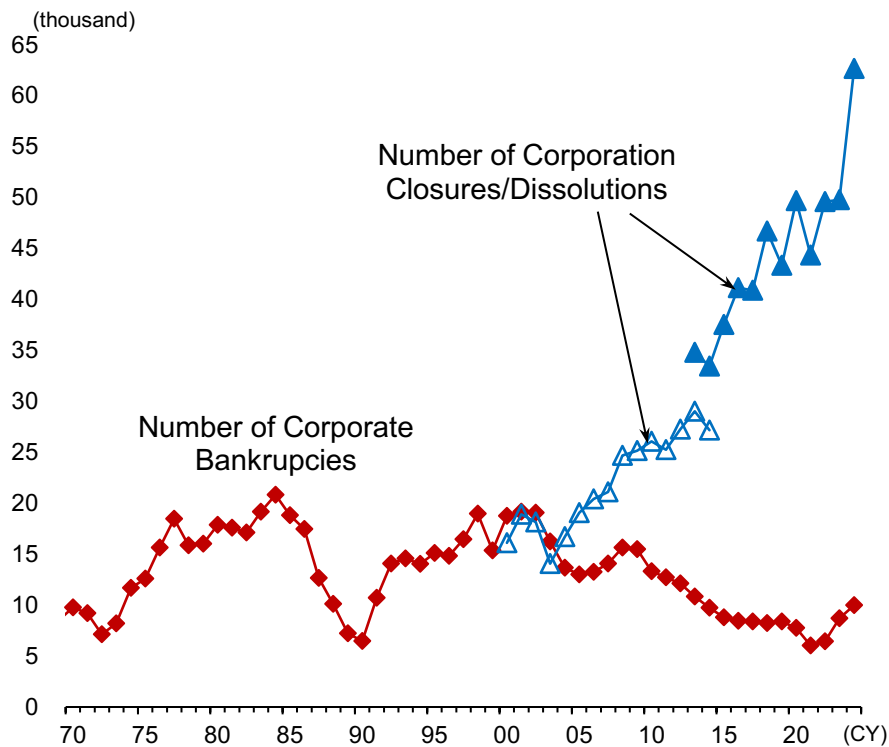
(Source) MUFG: Trust Bank, from BOJ

(Notes) Universe is all industries; figures are re-indexed at value of FY2015 = 100; figures for FY2024 are based on company forecast in December.

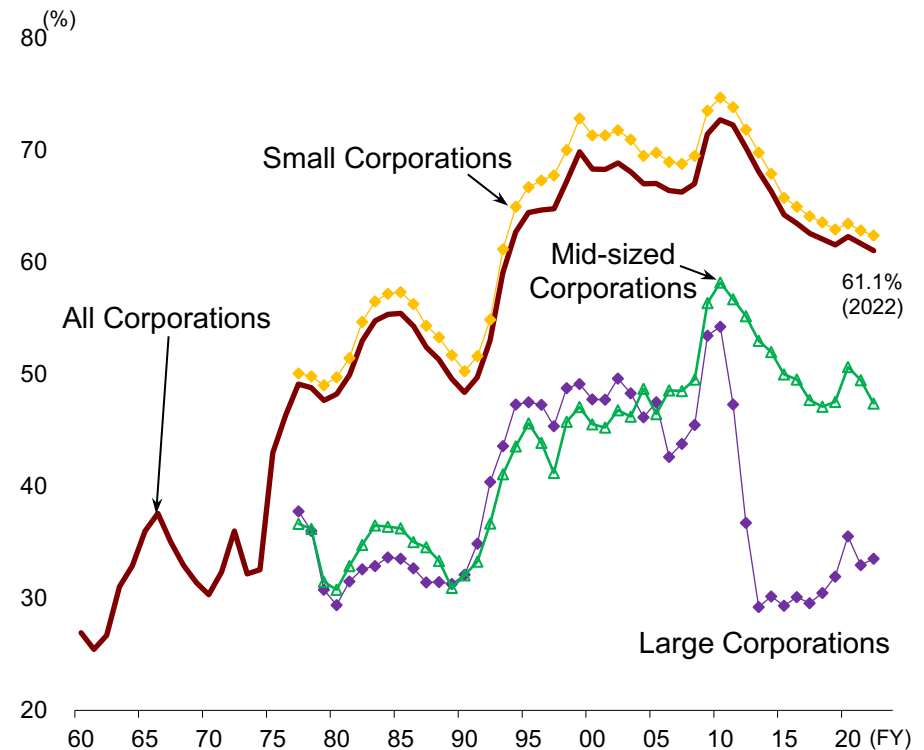
Productivity: Business Closures and Metabolism

- Looking at unlisted SMEs, while the number of corporate bankruptcies has remained at a low level, the number of business closures and dissolutions has significantly increased over the last decade.
- The ratio of loss-making corporation hit its peak in 2010 and has gradually decreased. There is a possibility that metabolism is progressing and excessive competition in domestic industries is corrected.

Corporate Bankruptcies and Closures



Ratio of Loss-Making Corporations



(Source) MUFG: Trust Bank, from Tokyo Shoko Research

(Note) Number of corporate suspension/dissolution is counted differently up to 2012; data as of 2024.

(Source) MUFG: Trust Bank, from the National Tax Administration Agency

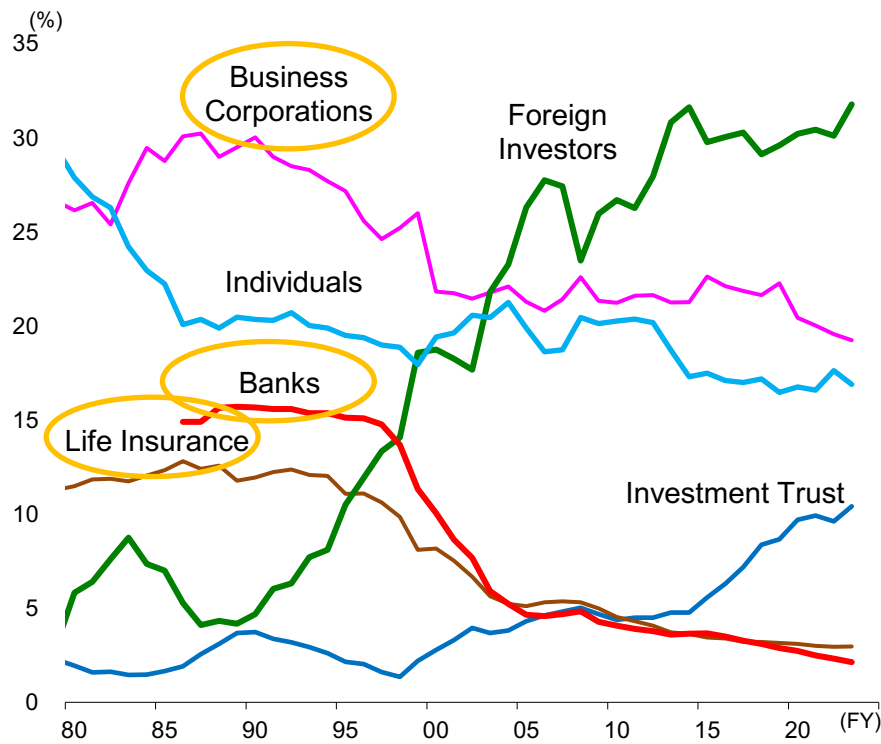
(Note) Total number of corporations is 2.85 million in FY2022.

Corporate Governance: Sound Pressures from Pure Shareholders

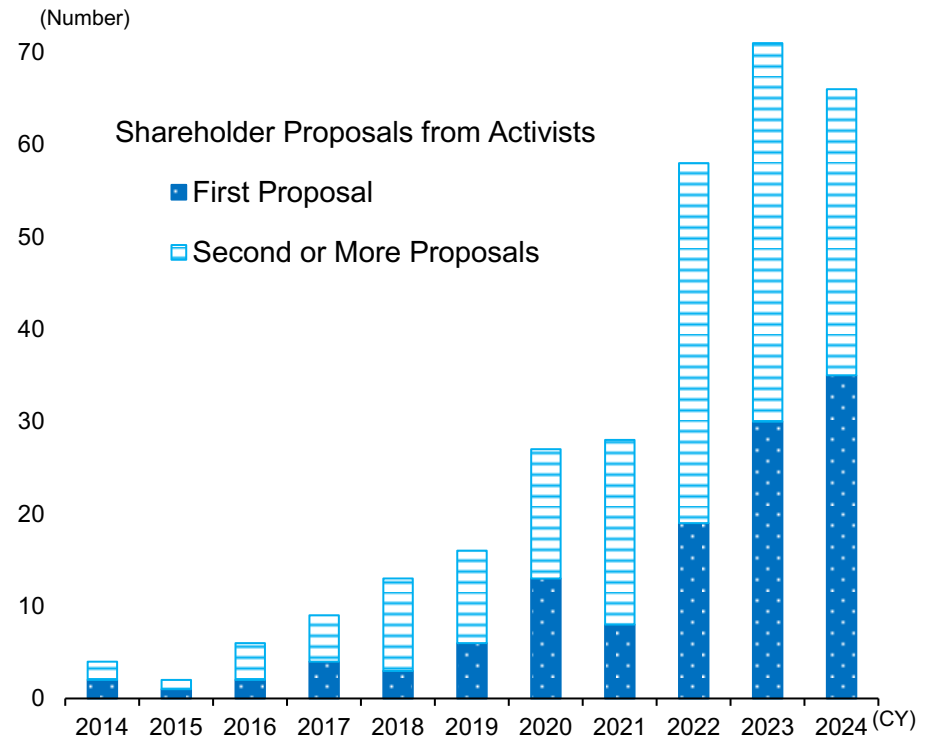
- After the unwinding of cross shareholdings over the last two decades, sound pressures from pure shareholders force management at Japanese companies to pay more attention to the interests of minority shareholders.
- Activist shareholder proposals are no longer unusual occurrences for companies facing problems such as excessive levels of cash or securities.

Cross-shareholding Stockholder and Pure Stockholder

Shareholder Proposals from Activists at AGM



(Source) MUFG: Trust Bank, from TSE data
(Note) Data as of FY2023.

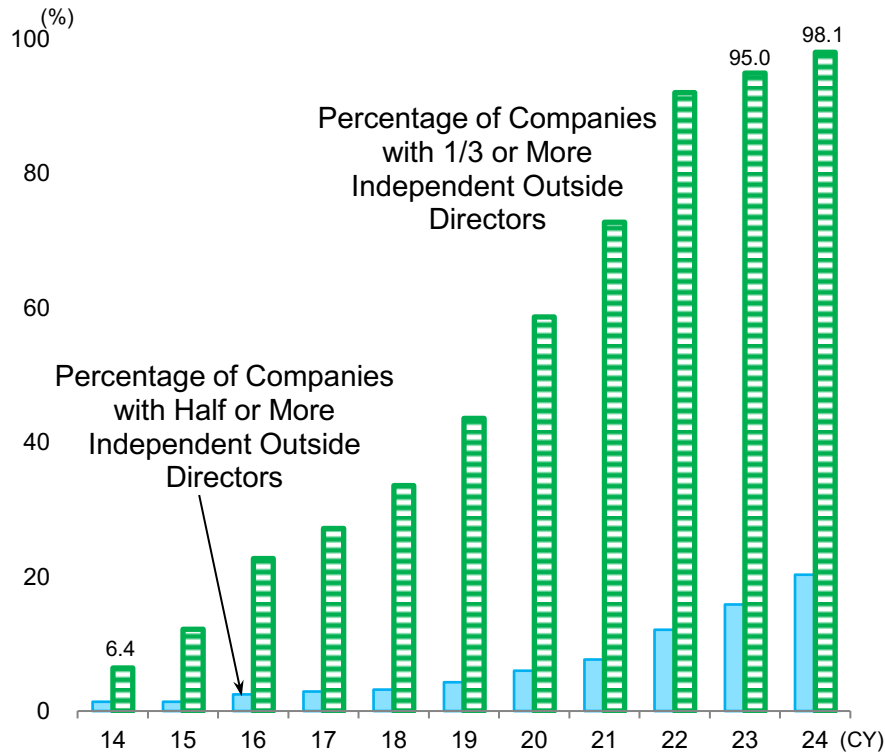


(Source) MUFG: MUFG: Trust Bank, from IR Japan HD data
(Note) Data as of October 2024.

Corporate Governance: Increase in Outside Directors and Share Buybacks

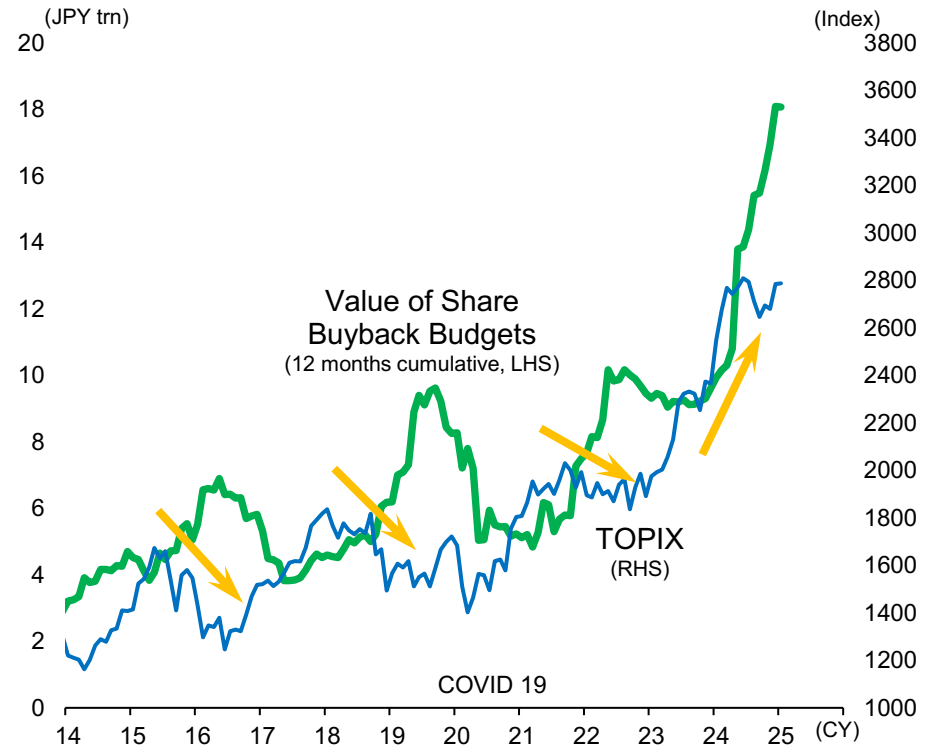
- Proportion of Japanese companies with one third or more independent outside directors have increased from 6.4% in 2014 to 98.1% in 2024.
- Japanese companies used to increase their share buybacks during periods of stock price correction, but they have increased share buybacks proactively to record levels despite the rising stock prices.

Percentage of Companies with Outside Directors



(Source) MUFG: Trust Bank, from TSE data
 (Note) Universe based on TSE Prime and TSE1 listed firms; data as of July 2024.

Value of Share Buybacks and TOPIX

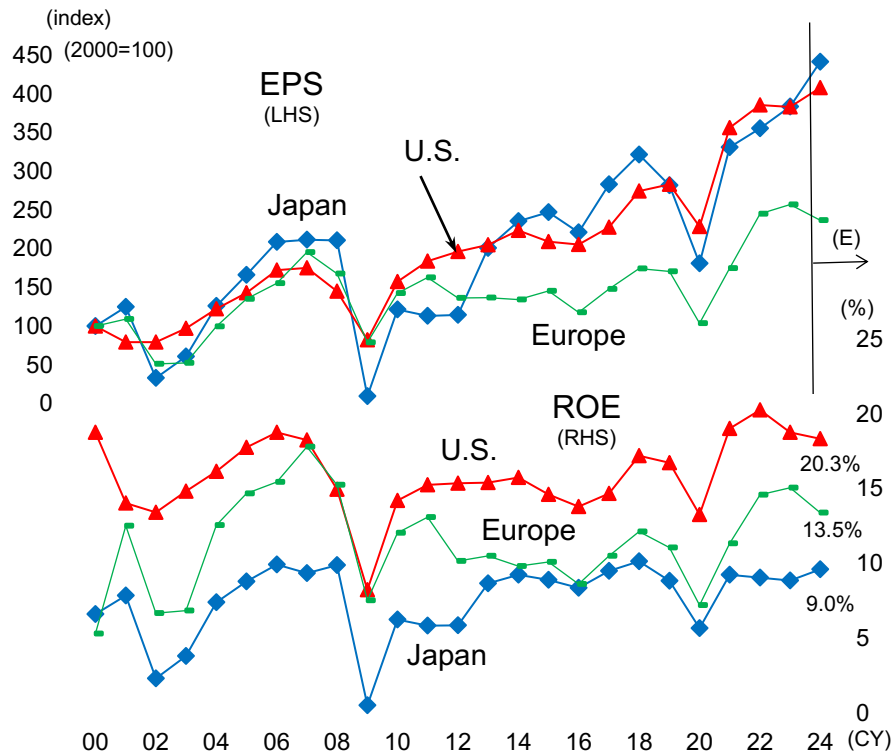


(Source) MUFG: Trust Bank, from TSE, I-N Information Systems data
 (Note) Value of Share Buyback is last 12 months cumulative; based on common shares of all listed firms; data as of January 2025.

Corporate Governance: Reviews of Business Strategies

- Japanese major companies have lower ROE than American and European peers, even after their significant increase in corporate earnings. Especially, companies with diversified businesses have low profit margins.
- However, an increasing number of companies are paying attention to capital efficiency recently, leading to earnings improvements through the reviews of business strategies.

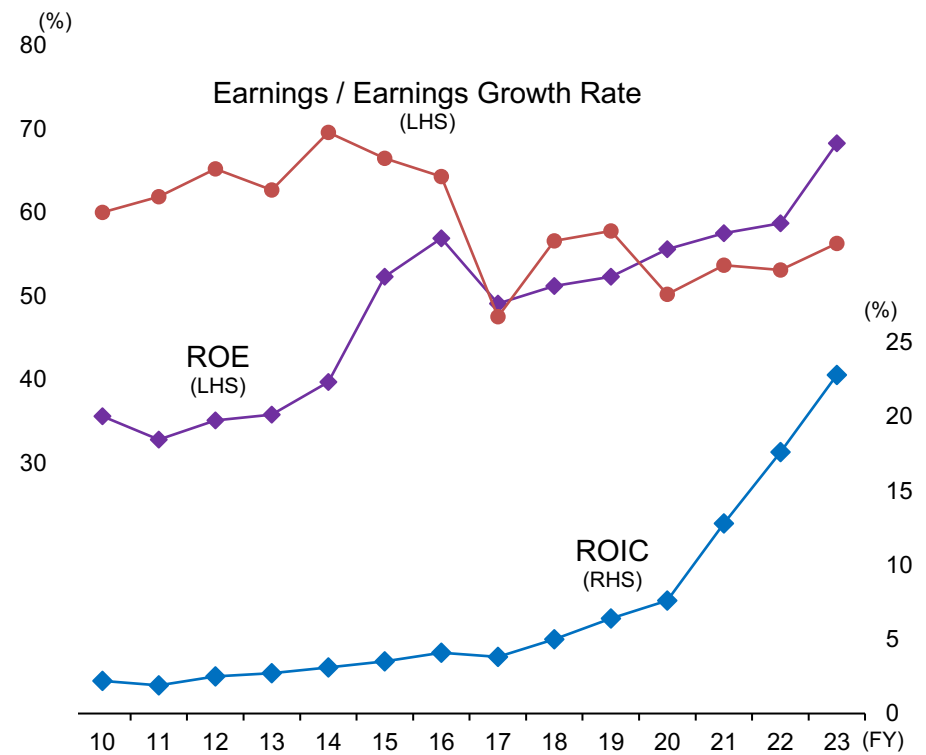
EPS and ROE of Large Companies in Major Region



(Source) MUFG: Trust Bank, from FactSet

(Note) : Universes are TOPIX500 for Japan, S&P500 for the U.S. and STOXX600 for Europe; EPS is indexed as the value at 2000 = 100; data as of 2024.

KPI Listed in the Medium-term Business Plan



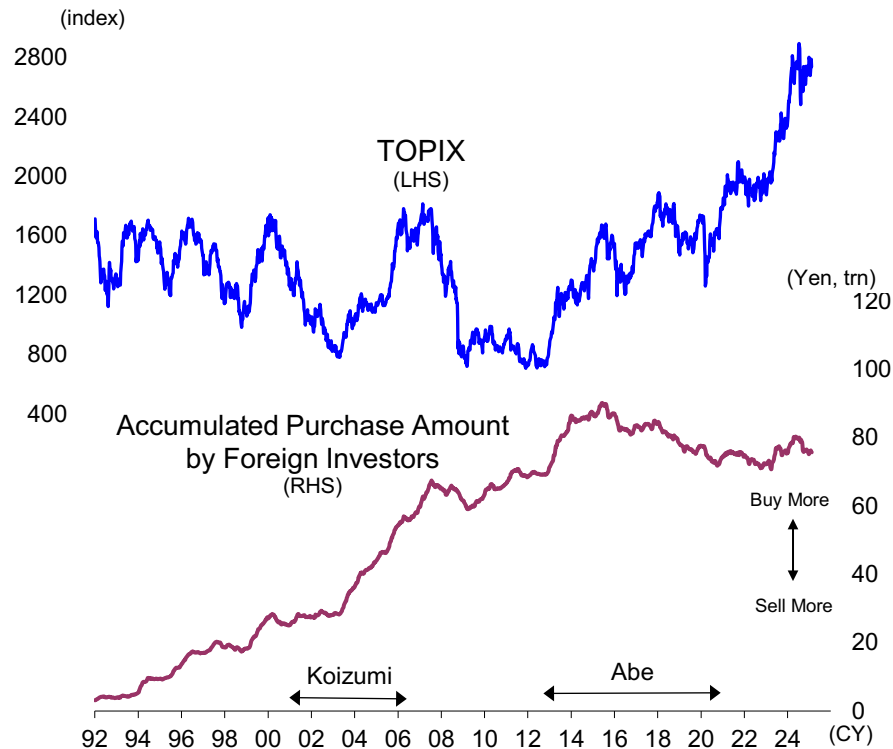
(Source) MUFG: Trust Bank, from Life Insurance Association

(Note) Universe is 1,200 listed companies with largest market caps; data as of FY2023.

Supply/Demand: Domestic Buyers Absorb Foreign Selling

- Foreign investors had been net sellers of Japanese equities from 2015 to the beginning of the last year, and domestic investors had absorbed their net selling.
- The overall value of share buybacks has consistently exceeded equity financing since 2015, as a result of growing pressure from domestic and overseas institutional investors to return profits to shareholders.

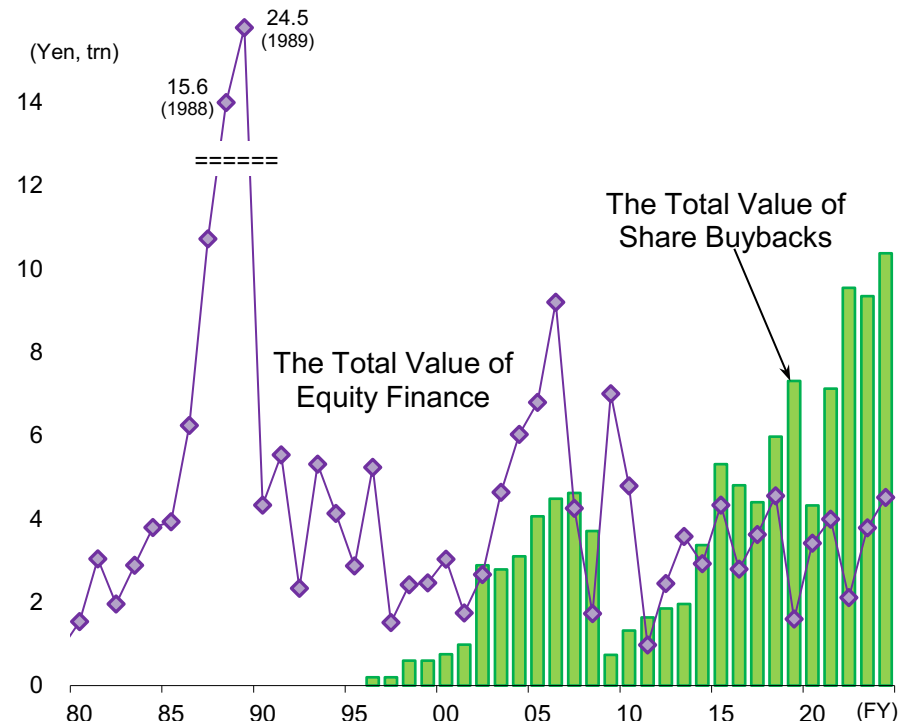
TOPIX and Accumulated Purchase by Foreign Investors



(Source) MUFG: Trust Bank, from TSE data

(Note) Purchase amount is accumulated value since the beginning of 1990; data as of February 7, 2025.

Equity Finance and Share Buybacks in Japan



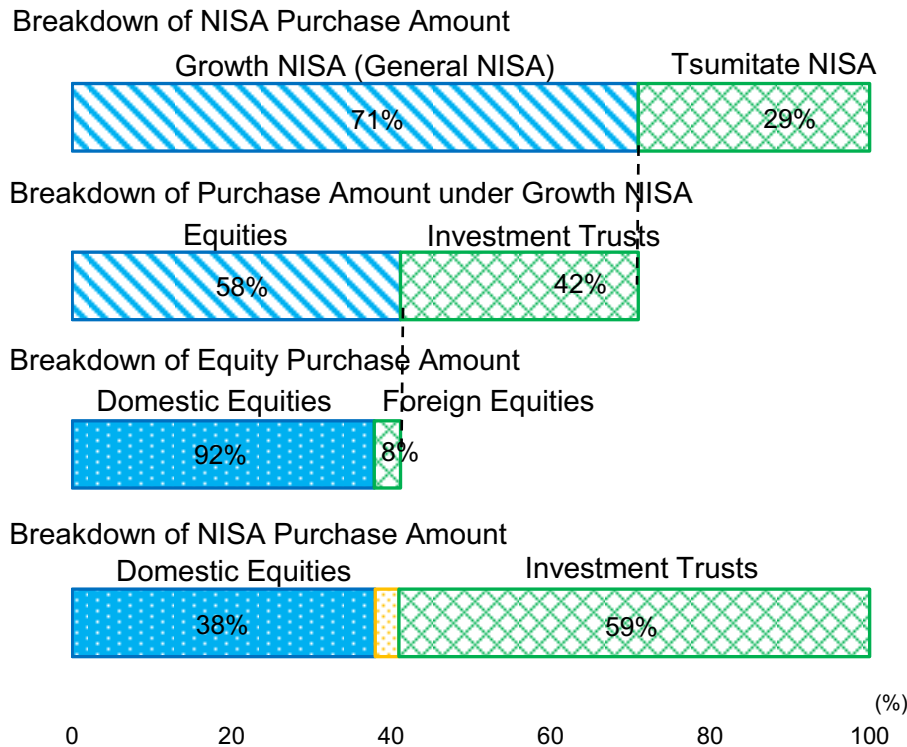
(Source) MUFG: Trust Bank, from Japan Securities Dealers Association, I-N Information Systems

(Note) Equity finance includes secondary public offerings since FY2002; data as of December 2024.

Supply/Demand: Significant Enhancement to NISA

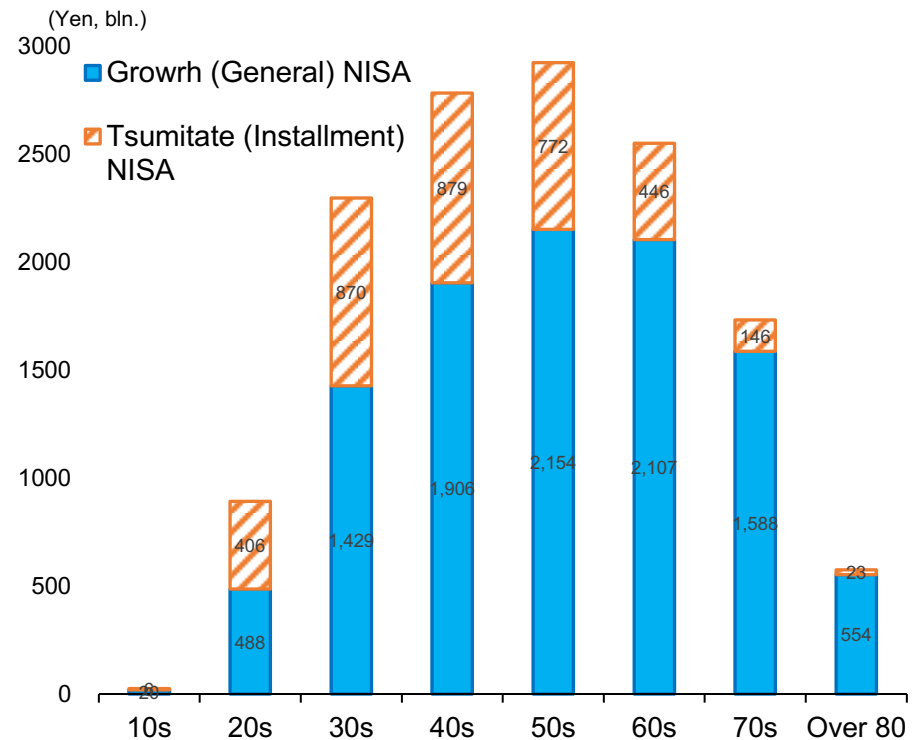
- The purchase amount for 2024 has increased by four times compared to the amount from the previous year. Equities purchased under the Growth (General) NISA were mainly domestic equities.
- The amount of new NISA purchases under the Growth (General) NISA for Jan.- Sept. 2024 centered around those in their 50s and 60s, reaching 2.15 trillion yen and 2.11 trillion yen respectively.

Breakdown of NISA Purchase Amount (Jan. to Dec. 2024)



(Source) MUFG: Trust Bank, from Japan Security Dealers Association
 (Note) "Equities" and "Domestic Equities" include ETFs and REITs; data as of December 2024.

NISA New Purchase Amount by Age (Jan. to Sept. 2024)

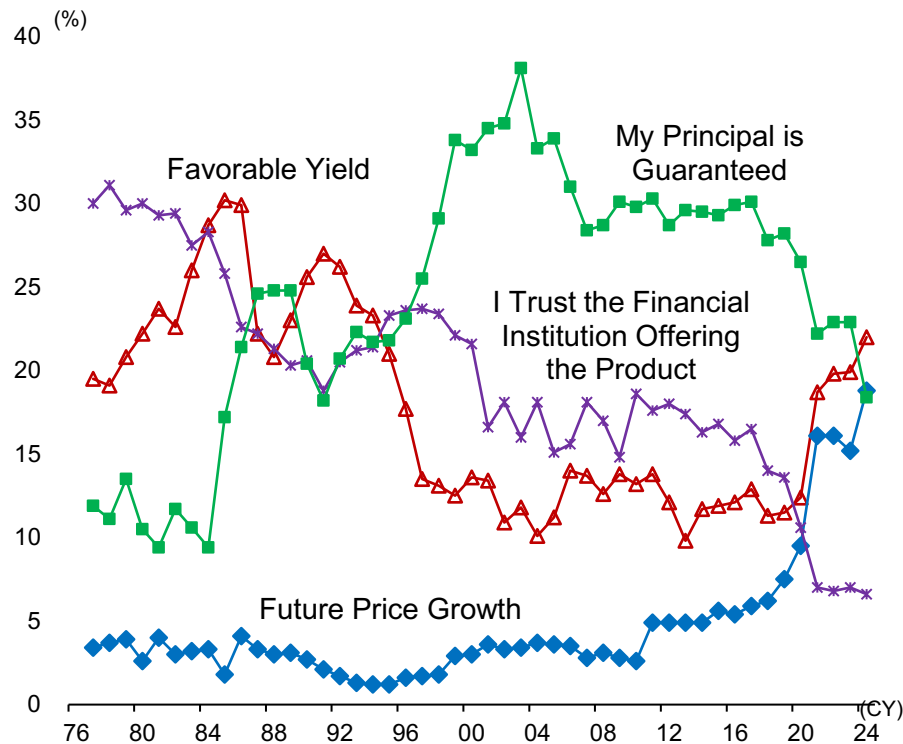


(Source) MUFG: Trust Bank, from FSA
 (Note) Data as of September 2024.

Supply/Demand: Greater Interest in Risk Asset Investment among Individuals

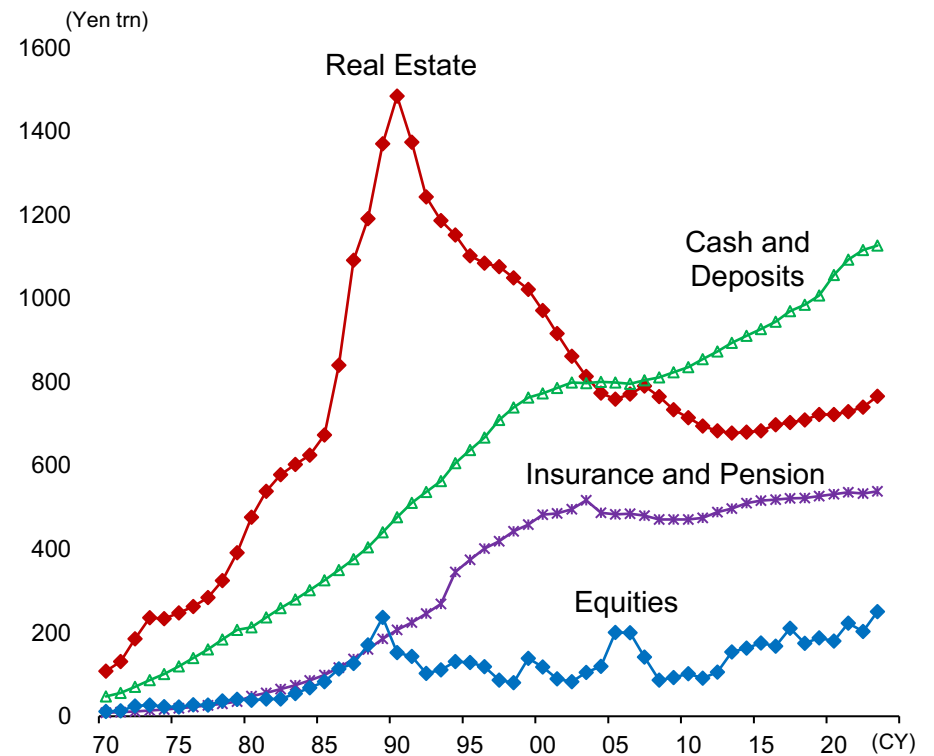
- Since 2019, there has been a clear increase in the number of respondents who would say their priority is on capital gains (“future price growth”) when selecting a financial product. As individuals become more aware of inflation, they have shown greater interest in securities investments for the purpose of asset formation.
- In Japan, individuals took risks and built assets through real estate up until the 1980s.

Financial Product Selection Criteria of Households



(Source) MUFG: Trust Bank, from Central Council for Financial Services Information data
 (Notes) In the survey, there are other choice such as “easy to cash in” and “I can deposit and withdraw small amounts if needed”; data as of 2024.

Major Asset Balance in Household Sector

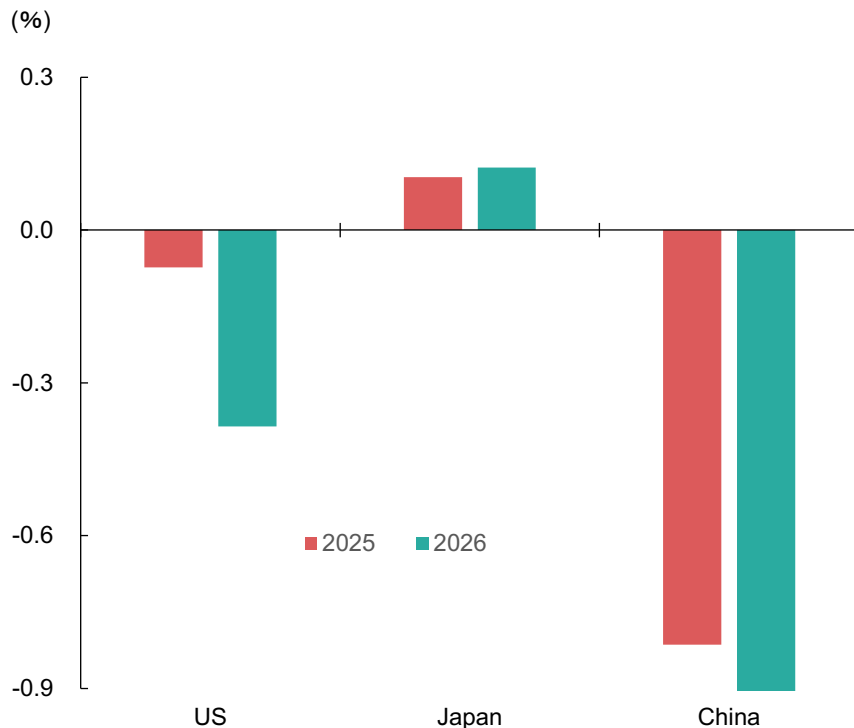


(Source) MUFG: Trust Bank, from Cabinet Office data
 (Note) Equities based on market values; data as of 2023.

Trump 2.0: Threat of Tariffs is likely to Increase Uncertainty

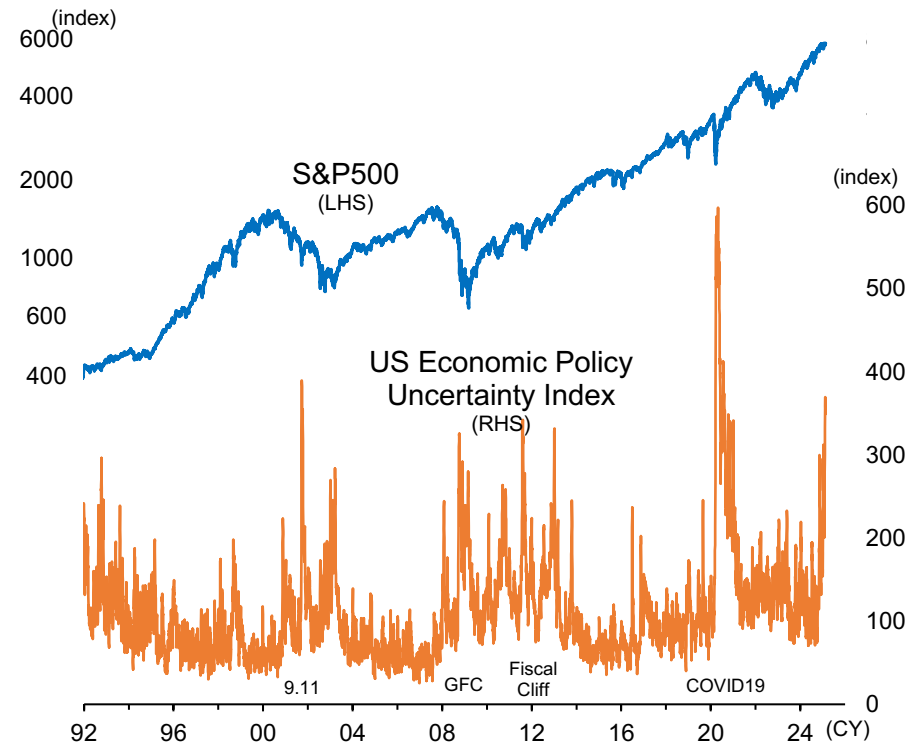
- Tariff hikes on countries other than China will have a significant negative impact on the U.S. economy. Therefore, we expect that they will be for “deal” purposes to extract favorable diplomatic terms.
- Even then, the threat of tariffs is likely to increase uncertainty, which could have a negative impact on investment, consumption, and financial markets.

Impact of tariff on GDP (60% tariff on China)



(Source) MUFG: Trust Bank, from Peterson Institute for International Economics
 (Note) Additional tariffs will be implemented in 2025 and the impact on real GDP in 2025 and 2026.

S&P500 and Policy Uncertainty Index in the U.S.



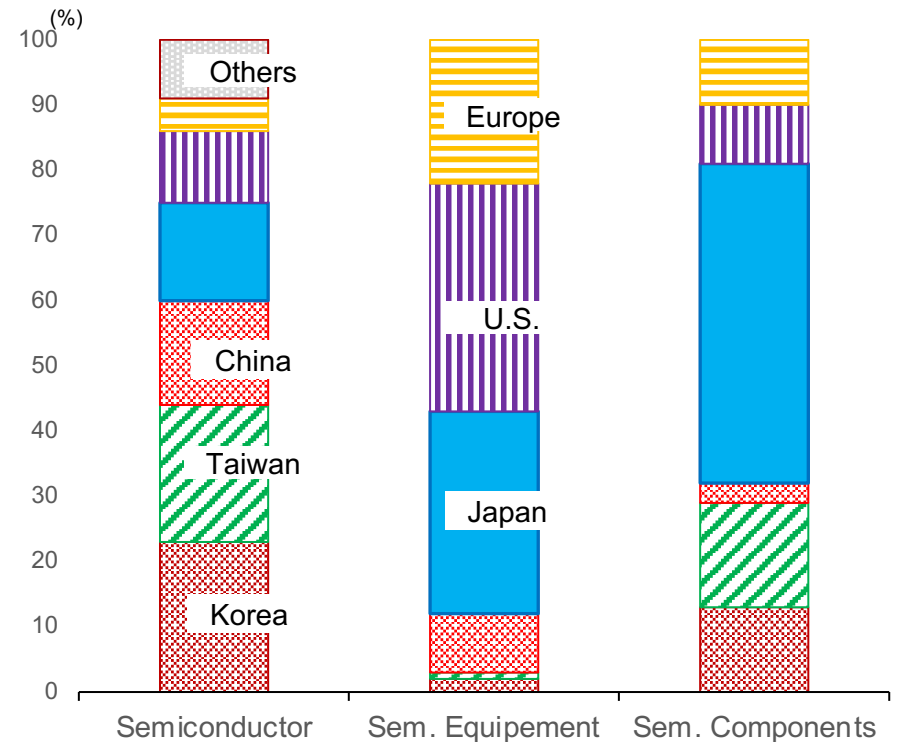
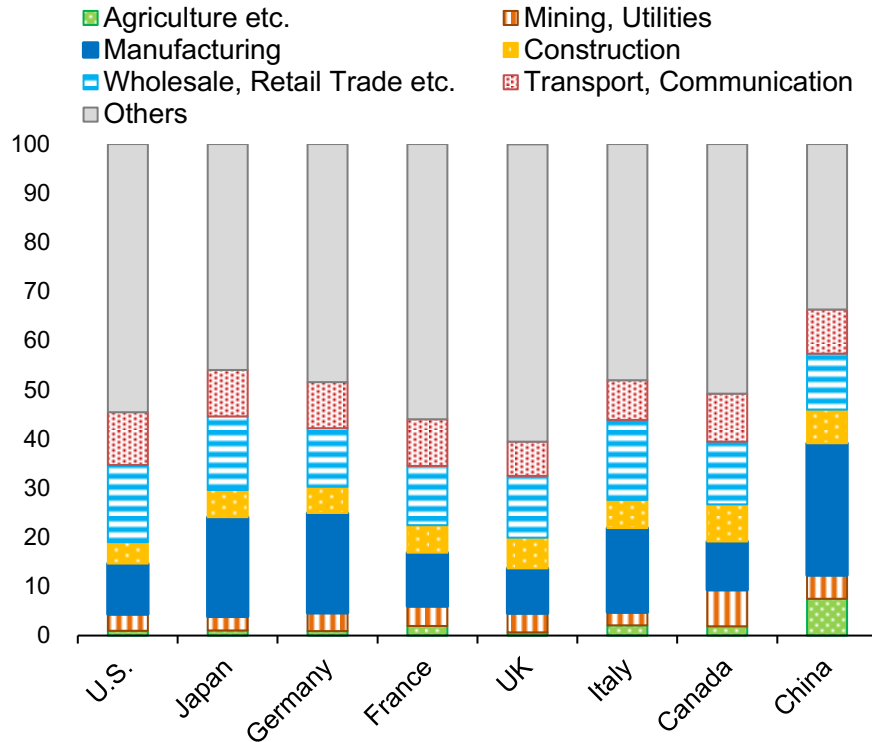
(Source) MUFG: Trust Bank, from Economic Policy Index website, S&P
 (Note) Data as of February 14, 2025.

Trump 2.0: Review of Global Supply Chain may be a Benefit of Japan

- Japan's manufacturing sector accounts for 20.2% of GDP, tied with Germany for the highest share among major economies. Japan is likely to benefit from a review of its supply chain in the context of the US-China conflict.
- Japan has lost its share of semiconductor production over the past 30 years, but remains internationally competitive in manufacturing semiconductor equipment and components.

Composition of GDP by Industry

Share of Semiconductor Production by Country



(Source) MUFG: Trust Bank, from United Nations

(Note) Percentage distribution of value added by economic activity; data as of 2023.

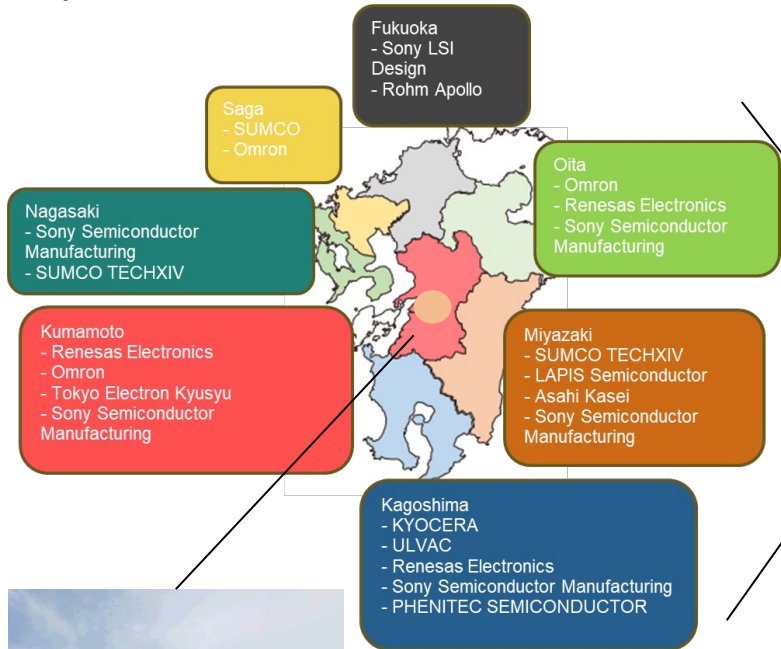
(Source) MUFG: Trust Bank, from MHLW data

(Note) Data as of 2022.

Semiconductor: Kyushu Silicon Island/ Rapidus

- In Kyushu, a Japan Silicon Island, JASM, a joint venture between TSMC, Sony Semiconductor Solutions, Toyota Motors, and Denso started mass production of logic semiconductors in December 2024.
- Japanese government plans to invest JPY 100 billion in Rapidus and accelerate mass production of next-generation semiconductors in 2027 in Hokkaido.

Kyushu Semiconductor Islands



JASM (Japan Advanced Semiconductor Manufacturing)

(Source) : METI, JASM website, MUFG: Trust Bank

Rapidus IIM (Innovative Integration for Manufacturing)

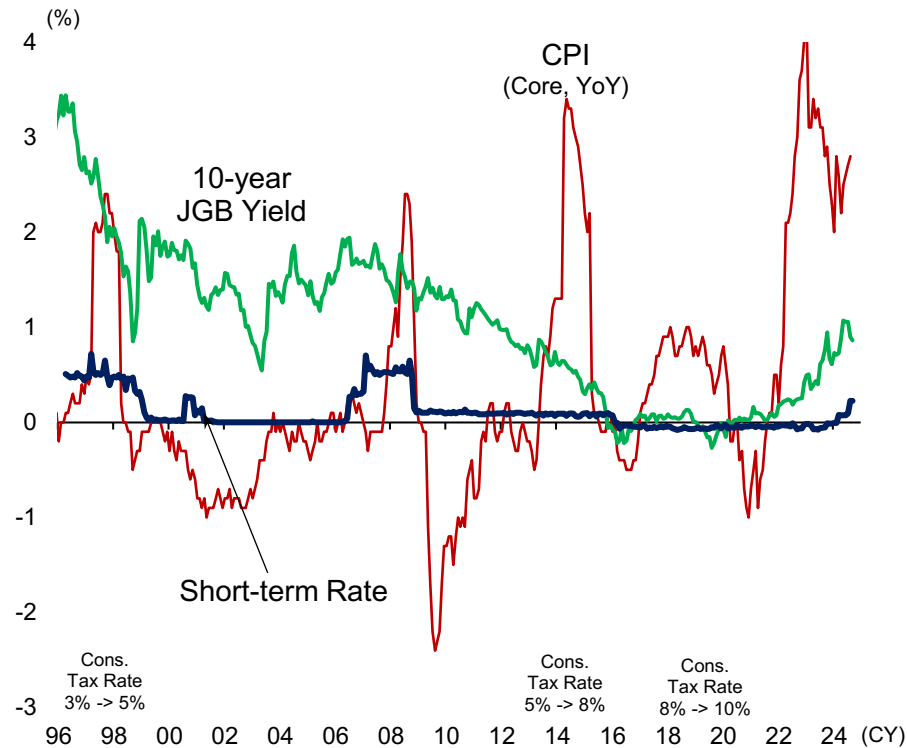


Source: Rapidus website

BOJ : Cautious Revision of Loose Monetary Policy

- The BOJ raised the policy rates from around 0.25% to around 0.5% at its January Monetary Policy Meeting, as the economy and prices have performed well in line with the outlook.
- In its latest Outlook Report, the BOJ revised its price outlook upwards from the previous report and is expected to continue to raise the policy rates, albeit cautiously, toward neutral rates.

Interest Rates and CPI Inflation



(Source) MUFG: Trust Bank, from BOJ, Ministry of Internal Affairs and Communications
 (Note) Date as of December 2024.

BOJ Outlook for Economic Activity and Prices

	Real GDP	CPI (all items less fresh food)	(Reference) CPI (all items less fresh food and energy)
FY24	0.5 < 0.4 ~ 0.6 >	2.7 < 2.6 ~ 2.8 >	2.2 < 2.1 ~ 2.3 >
Oct.	0.6 < 0.5 ~ 0.7 >	2.5 < 2.4 ~ 2.5 >	2.0 < 1.9 ~ 2.1 >
FY25	1.1 < 0.9 ~ 1.1 >	2.4 < 2.2 ~ 2.6 >	2.1 < 2.0 ~ 2.3 >
Oct.	1.1 < 1.0 ~ 1.2 >	1.9 < 1.7 ~ 2.1 >	1.9 < 1.8 ~ 2.0 >
FY26	1.0 < 0.8 ~ 1.0 >	2.0 < 1.8 ~ 2.1 >	2.1 < 1.9 ~ 2.2 >
Oct.	1.0 < 0.8 ~ 1.1 >	1.9 < 1.8 ~ 2.0 >	2.1 < 1.9 ~ 2.2 >

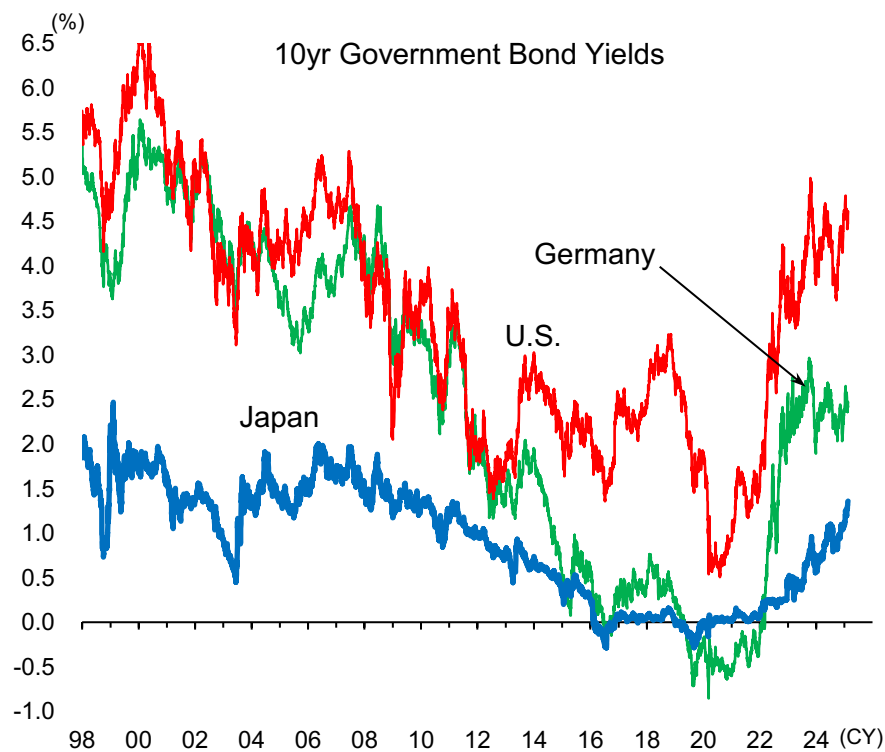
(Source) MUFG: Trust Bank, from Bank of Japan

(Note) Figures indicate median of the Policy Board members' forecasts; the forecast ranges of the majority members are in parentheses; data as of January 2025.

JGB: Will JGB Yields Continue to Rise?

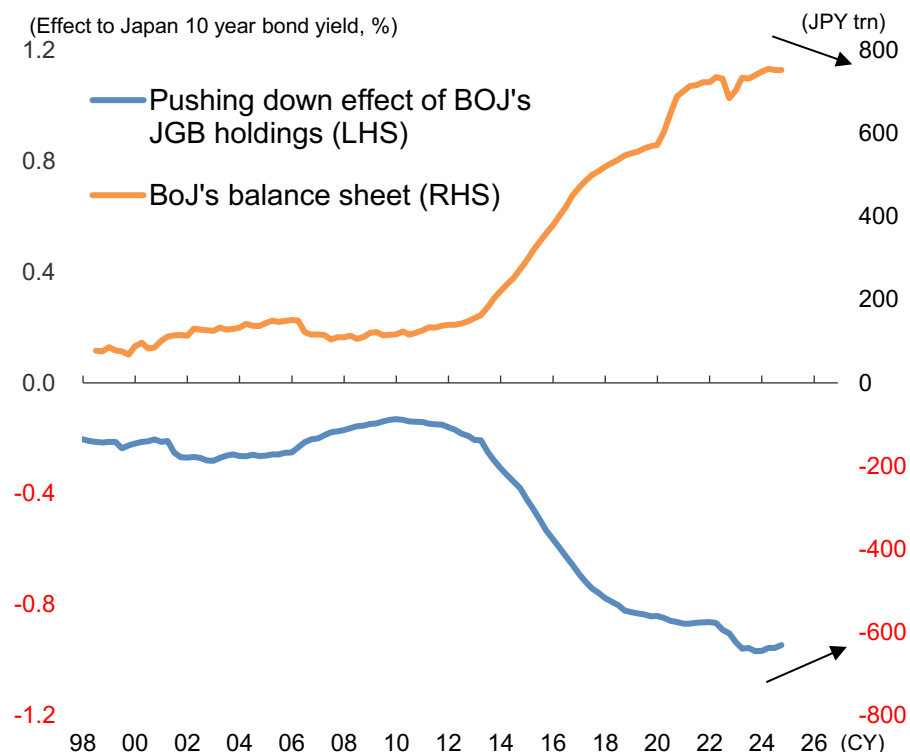
- Long-term interest rates have risen significantly around the world over the past three years.
- The BOJ's gradual reduction in JGB purchases (QT) will also be a factor in a modest rise in long-term interest rates on the supply-demand side. We expect that long-term interest rates in Japan are likely to rise gradually to around 1.5% by the end of FY2025.

Long-term Interest Rates in Major Countries



(Source) MUFG: Trust Bank, from FED, ECB, BOJ data
 (Note) Data as of February 14, 2025.

Interest Rate-Pushing Effect of BOJ Bond Purchases

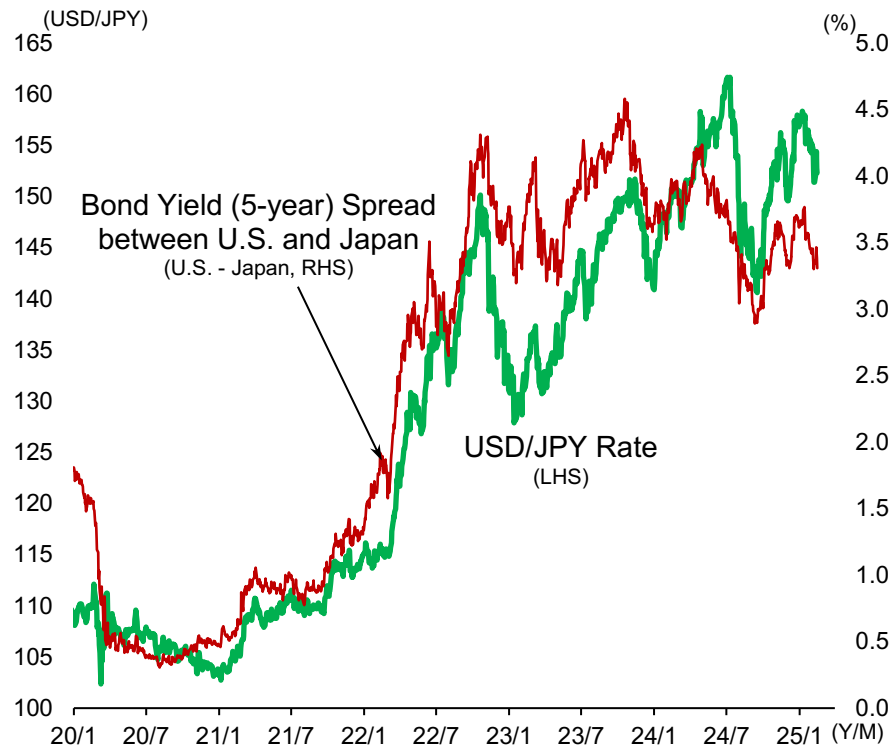


(Source) MUFG: Trust Bank, from BOJ
 (Note) Pushing down effect is calculated on the basis of the BOJ's paper; data as of September 2024.

FOREX: Will the Yen Continue to Weaken?

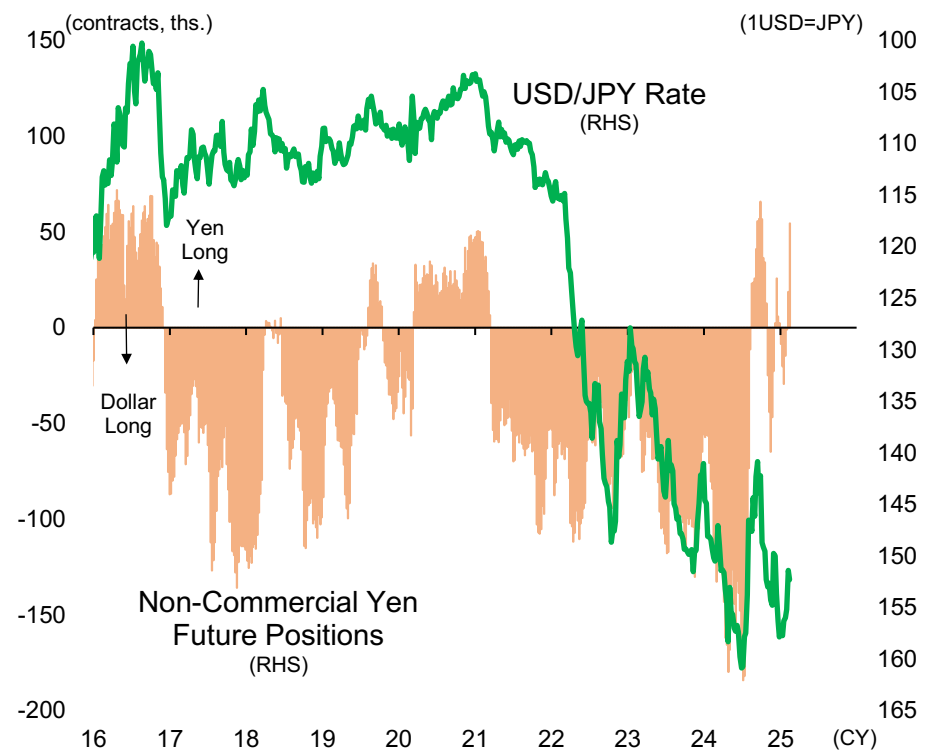
- Since 2021, the main reason for sharp yen's depreciation has been the interest rate spread between Japan and the U.S. and the deterioration of Japan's trade balance. Currently, the BOJ is expected to raise interest rates cautiously and the Fed to cut rates, while Japan's trade deficit will remain at a modest level.
- Non-commercial Yen positions in the Chicago futures market have turned net long since mid-August.

Dollar / Yen Rate and Bond Yield Spread



(Source) MUFG: Trust Bank, from FED, BOJ data
 (Note) Data as of February 14, 2025.

USD/JPY Rate and Speculative Future Positions

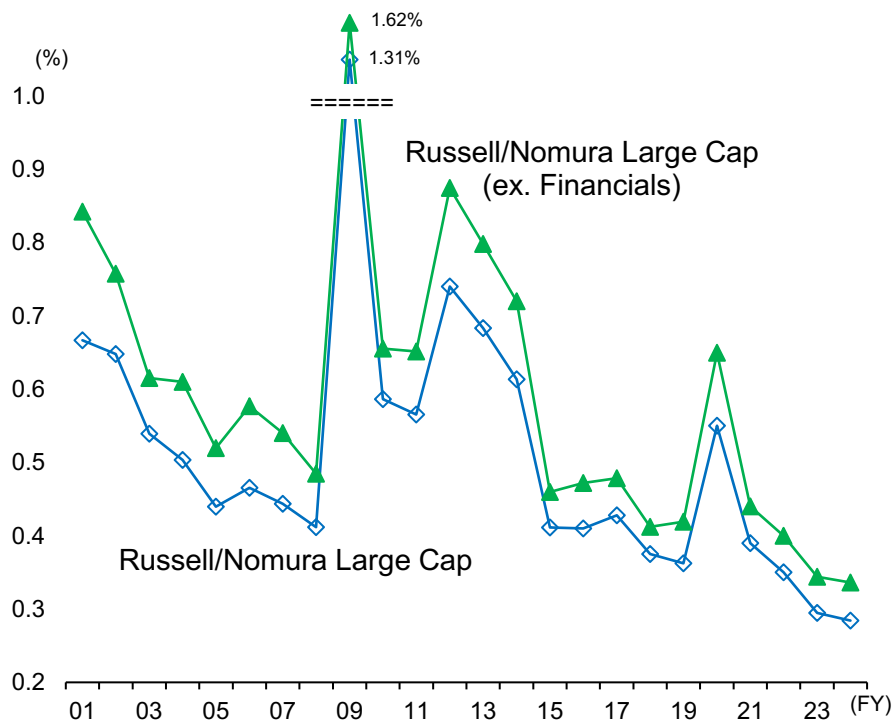


(Source) MUFG: Trust Bank, from CME, BOJ data
 (Note) Data as of February 11, 2025.

FOREX: Strong Yen is still a Drag on Profits, but ...

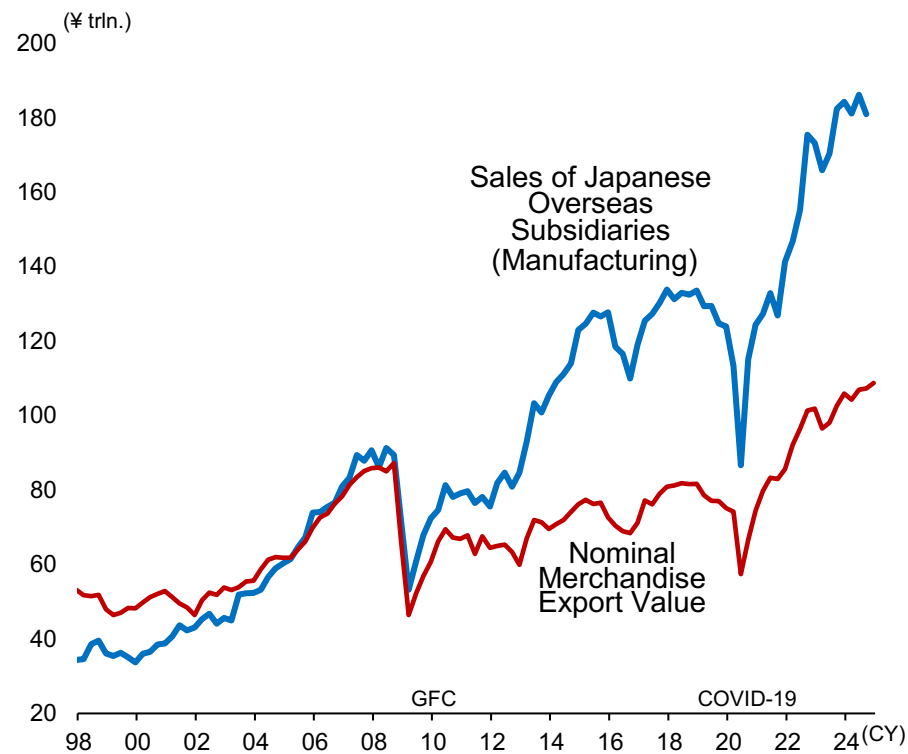
- As many Japanese companies have expanded their overseas operations, the strong yen continues to be a drag on their profits, although its impact is decreasing. The assumed dollar-yen rates for FY2024 is 145.15 yen.
- Japanese manufactures have increased the ratio of overseas production consistently since 1990 in order to reduce the impact of exchange rate fluctuation on their earnings.

Dollar/Yen Rate Sensitivity of Recurring Profits



(Source) MUFG: Trust Bank, from Nomura Securities data
 (Note) Changes in recurring profits of major companies when the dollar/yen rate fluctuates by 1 yen, based on interviews with analysts; data as of FY2024.

Exports and Sales of Overseas Subsidiaries

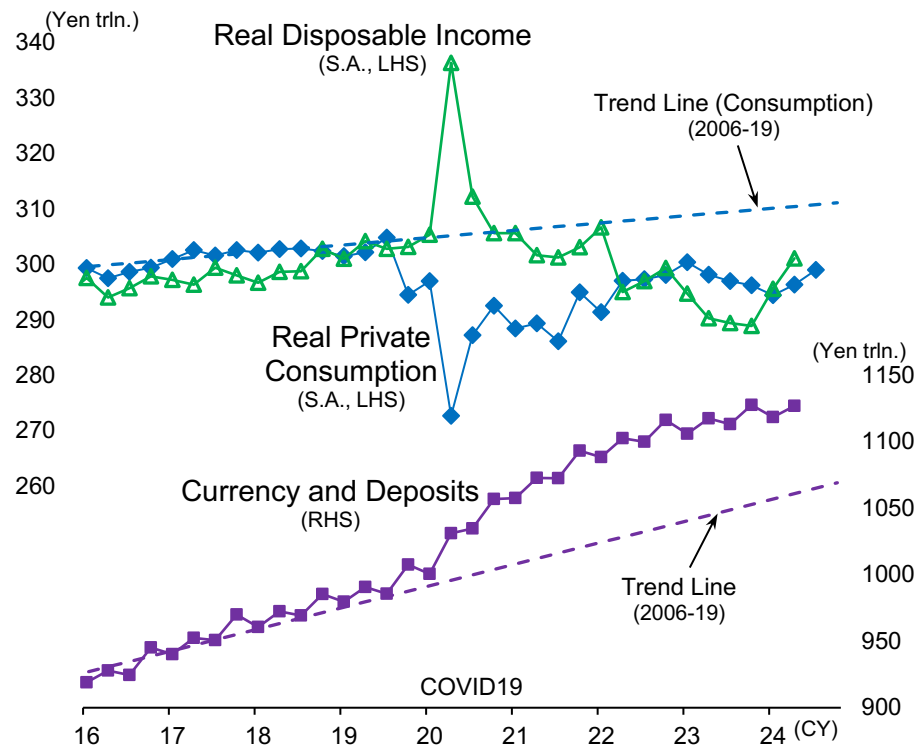


(Source) MUFG: Trust Bank, from METI, MOF data
 (Note) Annualized quarterly data; data as of September 2024.

Japanese Economy: Slow Recovery in Personal Consumption

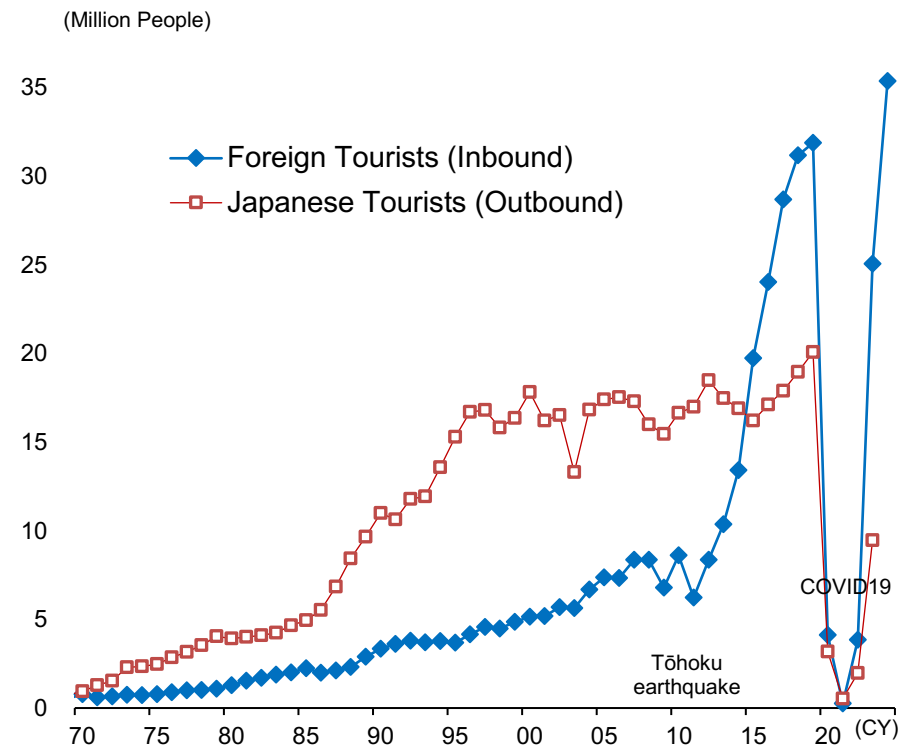
- The Japanese economy lacks strength, but it is seen as resilient in 2024. Revenge spending was anticipated after the COVID-19 pandemic, but the recovery in personal consumption has been weak.
- Foreign visitors to Japan and their spending have surpassed the peak before the spread of COVID-19 and are at an all-time high.

Consumption, Disposable Income and Deposits



(Source) MUFG: Trust Bank, from Cabinet Office and Bank of Japan
 (Notes) Trend lines are based on 2006-19 data; data as of September 2024.

Inbound and Outbound Tourists

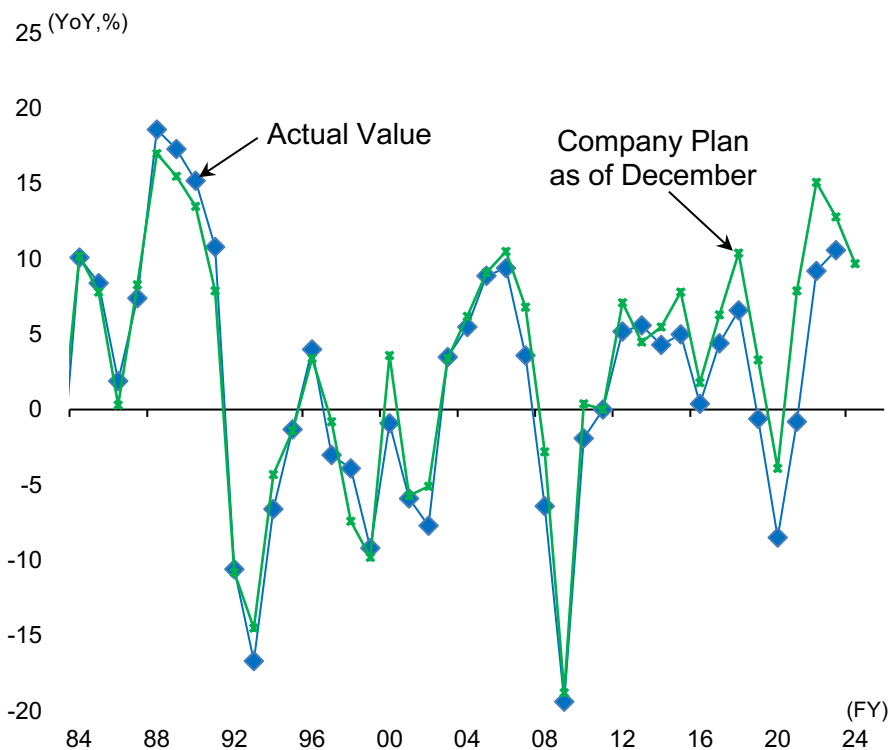


(Source) MUFG: Trust Bank, from MOJ
 (Notes) Data as of 2024.

Japanese Economy: Room to Increase Domestic Capital Investments

- Japanese companies are planning a near double-digit increase in capital investment this fiscal year to save labor and improve efficiency, supported by strong corporate earnings.
- Large companies in Japan have not changed their macroeconomic outlook, but they are becoming more aggressive in capital investment. They are keeping capital spending within their cash flow.

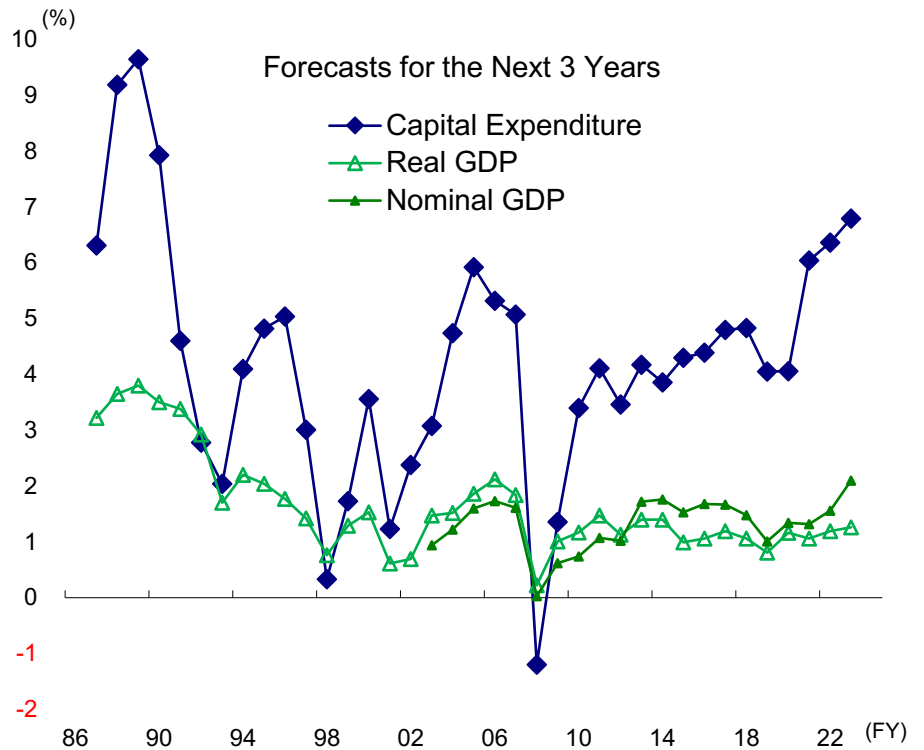
Investment Plan and Actual Value of Japanese Companies



(Source) MUFG: Trust Bank, from BOJ

(Notes) Universe is all industries; company plan data as of FY2024; actual value data as of FY2023.

Forecasts of Capex and Economy by Major Companies



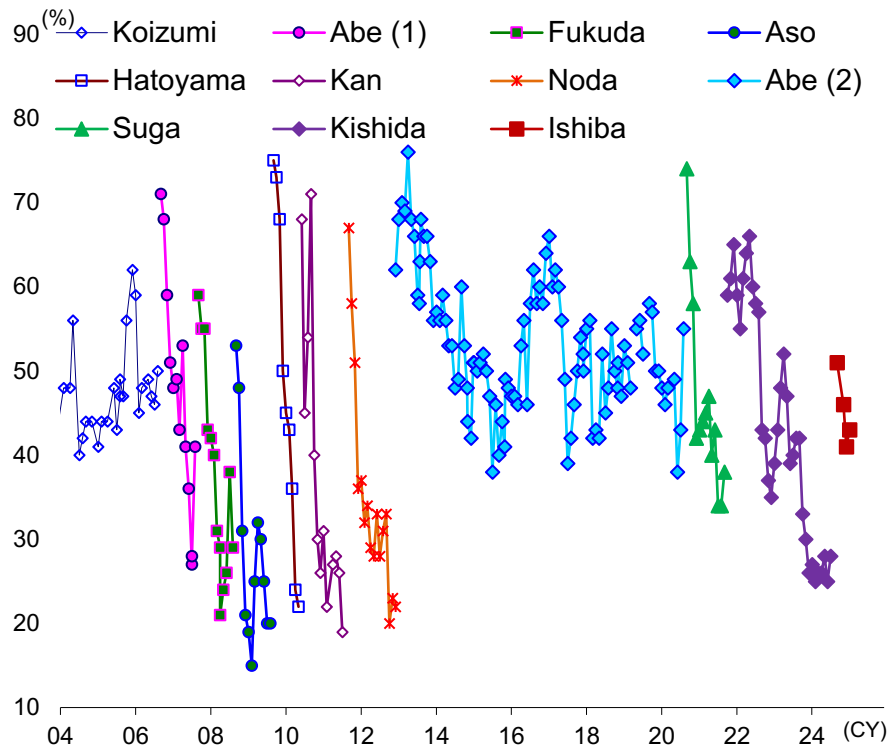
(Source) MUFG: Trust Bank, from Cabinet Office

(Notes) Universe is listed companies; data as of FY2023.

Politics in Japan: Approval Ratings of Cabinet and LDP

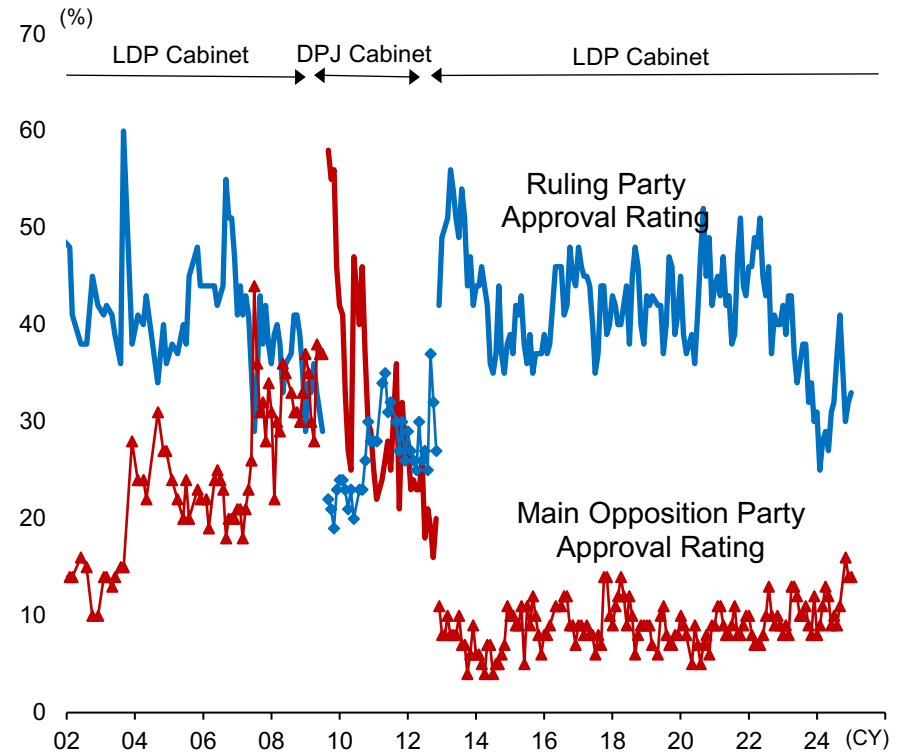
- The Ishiba Cabinet's approval rating was 43% at the end of January.
- The Liberal Democratic Party's approval rating had fallen sharply but has been recovering gradually since last spring. The opposition parties have remained fractured with low support.

Cabinet Approval Ratings



(Source) MUFG: Trust Bank, from TV Tokyo and Nikkei
 (Notes) Data as of January 2025.

Approval Ratings of Ruling and Main Opposition Parties

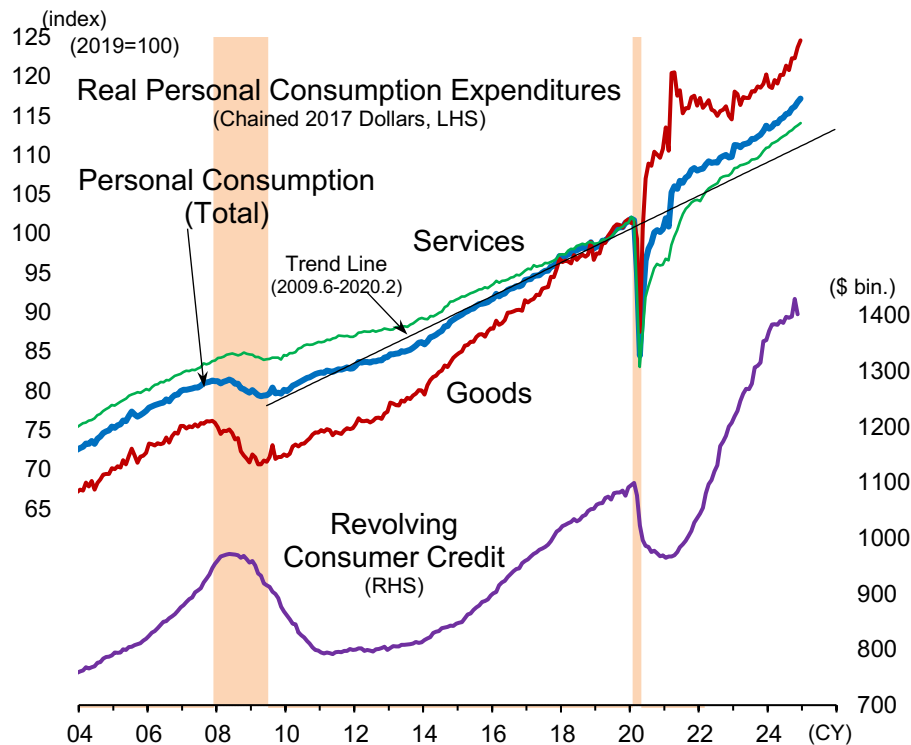


(Source) MUFG: Trust Bank, from TV Tokyo and Nikkei
 (Notes) Data as of January 2025.

U.S. Equities: Will Economic Expansion Continue?

- In the U.S., consumer spending has continued to expand with the increase in consumer loans after a strong recovery supported by huge benefits paid during COVID19 period in 2020-2021.
- The U.S. labor market remains strong, but there are signs of a slowdown. On the other hand, if stronger than expected, wage growth could pick up again amid tighter immigration restrictions.

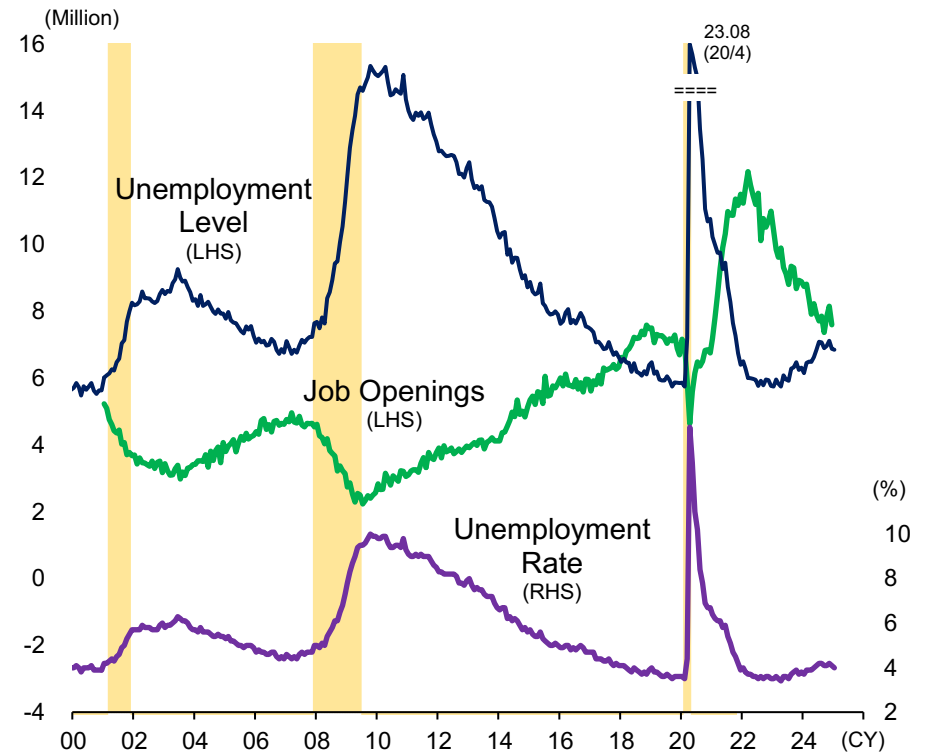
Personal Consumption and Consumer Credit in the U.S.



(Source) MUFG: Trust Bank, from FRB and Dept. of Commerce

(Notes) Figures for personal consumption are indexed as 2019 average = 100; shaded areas indicate recessions; data as of December 2024.

Labor Market Conditions in the U.S.



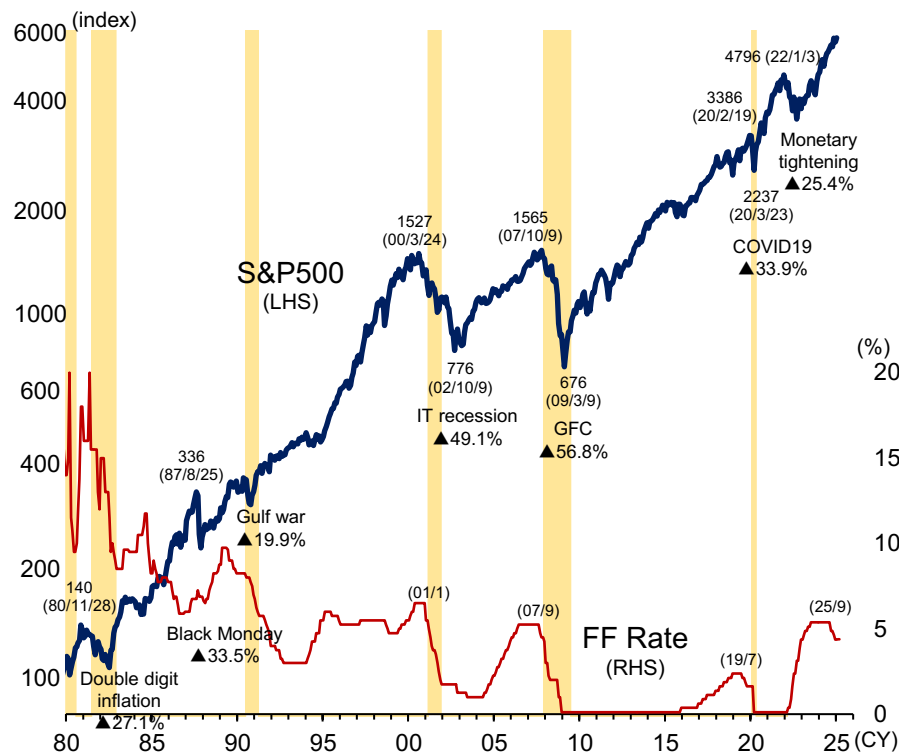
(Source) MUFG: Trust Bank, from Dept. of Commerce

(Notes) Shaded areas indicate recessions; data as of December 2024.

U.S. Equities: Companies Kept High Profit Margins

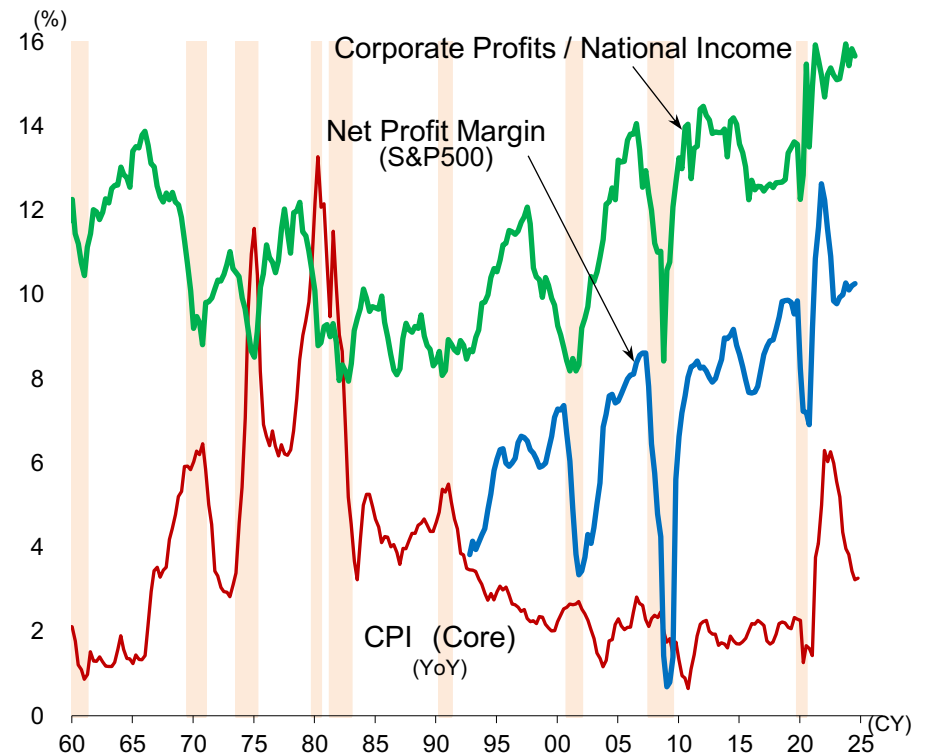
- The Fed's monetary easing is said to support equity prices, but even after the Fed's monetary easing, US equities continued to fall during the IT recession (2000-2002) and GFC (2007-2009) periods.
- After the spread of COVID-19, many companies increased product prices to a greater extent than the cost increase in an environment where supply constraints continued, increasing profit margins. "Greedflation".

Equity Market and Policy Rate in the U.S.



((Source) MUFG: Trust Bank, from FRB and NFIB
 (Notes) Rate of decline of S&P January 2025.

Corporate Profit Margins and CPI Inflation in the U.S.

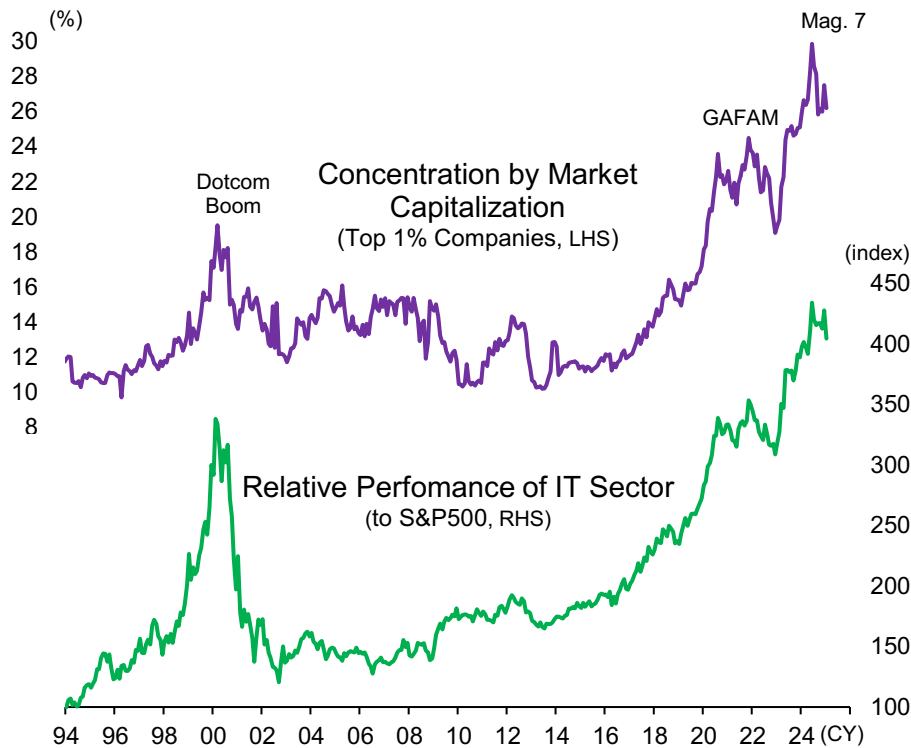


((Source) MUFG: Trust Bank, from Bureau of Labor Statistics, Cox Automotive
 (Notes) Shaded areas indicate recessions; data as of September 2024.

U.S. Equities: Similarities to the Market during Dot.com Bubble Era

- The dot-com bubble of the late 1990s saw the market bidding up IT majors' share prices as tech companies garnered a reputation for future earnings growth amid economic uncertainty, leading to an increase in market capitalization concentration.
- The cash ratio of U.S. equity mutual funds has fallen to an all-time low.

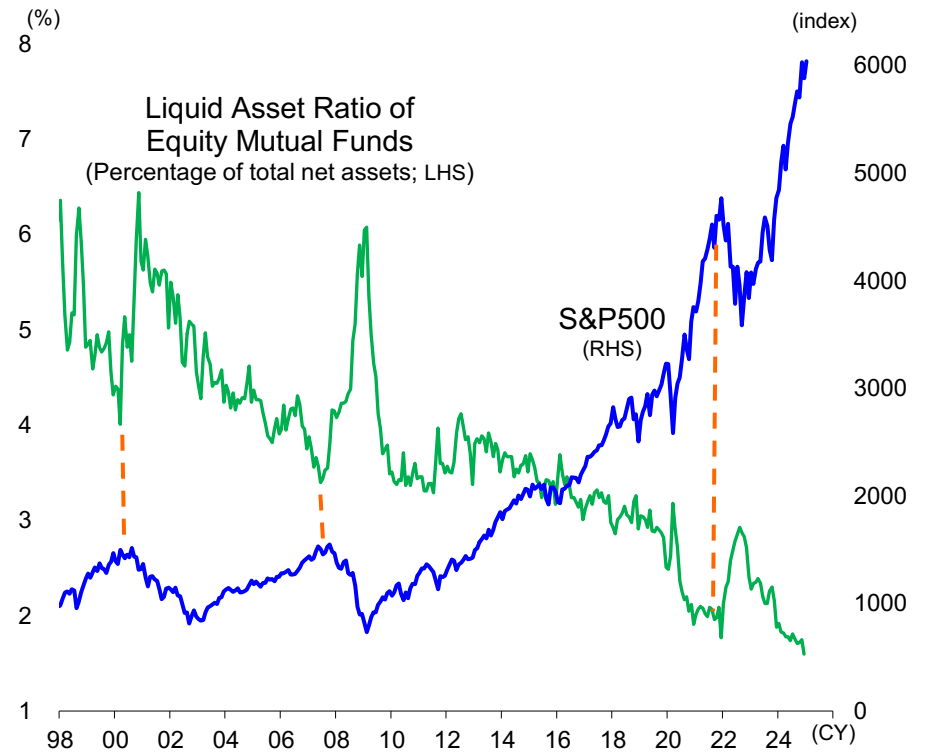
Concentration by Market Cap. in the U.S.



(Source) MUFG: Trust Bank, from FactSet

(Notes) Concentration shows the proportion of top 1% companies in the term of market capitalization, based on MSCI US Index companies; Relative performance is re-indexed to 100 at the end of 1989; data as of January 2025.

Liquid Asset Ratio of Equity Funds in the U.S.



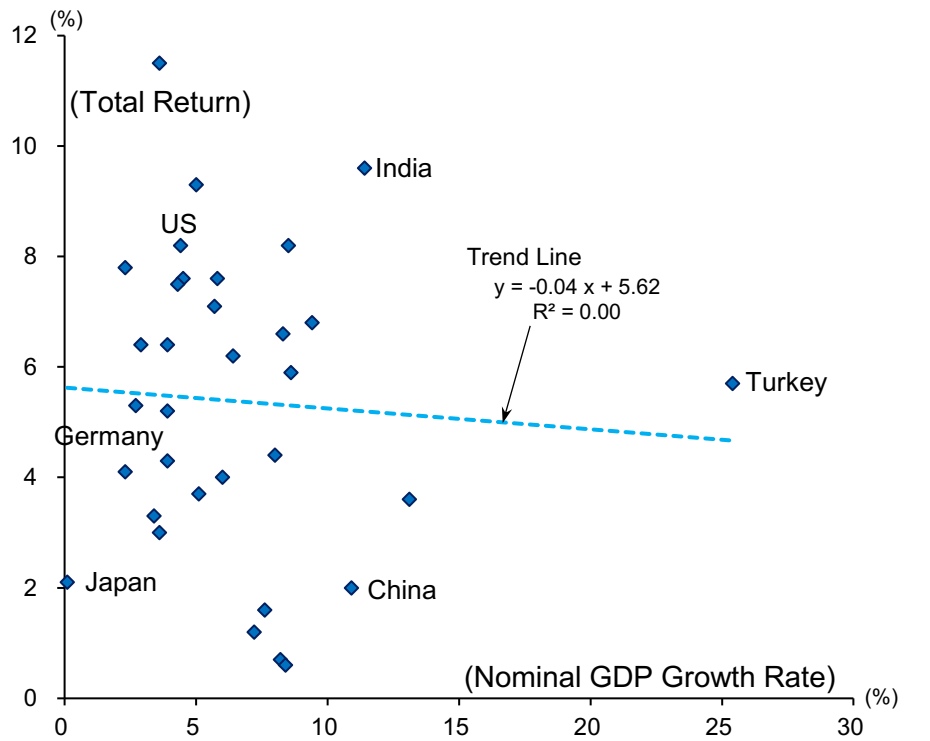
(Source) MUFG: Trust Bank, from ICI

(Notes) Data as of December 2024.

Equity Investment: Does Macro Economic Growth Matter?

- According to BCA Research, share buybacks are the most important of seven factors for total stock returns among 33 major countries, and the impact of nominal GDP growth is limited (1997 to 2022).
- In China and Poland, nominal GDP growth was high, but returns were low because of the large scale of equity financing (i.e., net share buybacks were in significant negative territory).

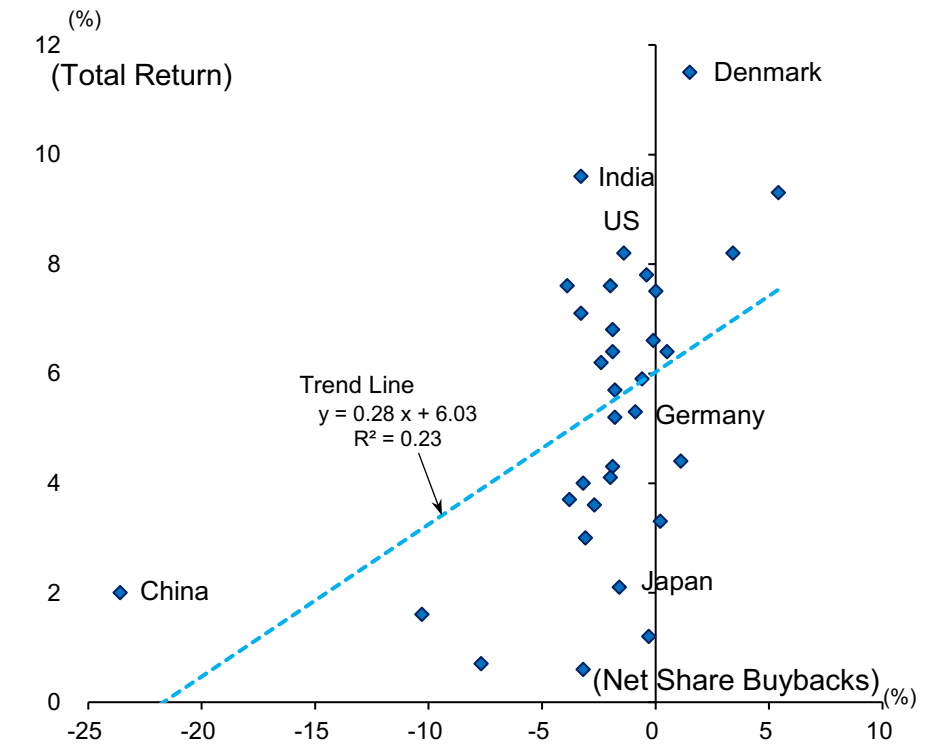
Economic Growth Rates are Not Relevant to Stock Returns



(Source) BCA Research

(Notes) Universe is MSCI Index of 33 countries, including the US, China, Japan, Germany, and the UK; based on data from 1997 to 2022; annualized total return including dividends; annualized nominal GDP growth rate.

Net Share Buybacks Influence Stock Returns



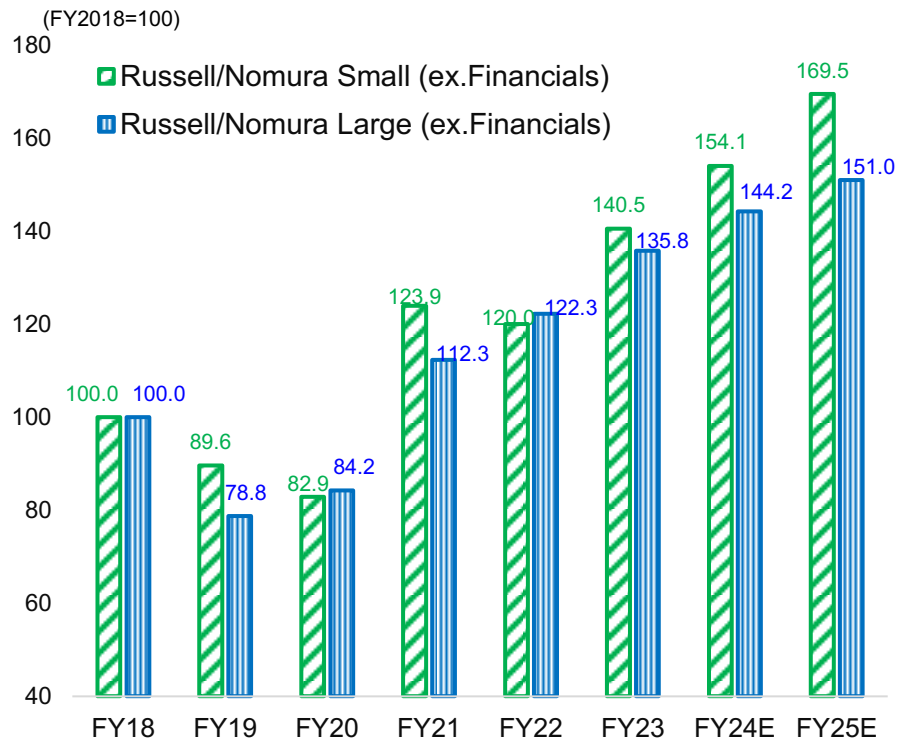
(Source) BCA Research

(Notes) Universe is MSCI Index of 33 countries, including the US, China, Japan, Germany, and the UK; based on data from 1997 to 2022; annualized total return including dividends; share buybacks less equity financing.

Small Caps: Strong Earnings Growth Potential

- Small caps have provided stronger earnings growth than large caps in Japan, because of their unique business models, dominant positions in niche growing industries, and flexible decision making by visionary entrepreneur.
- Since 2000, IPOs of tech-related and service industry companies have increased, and more small-caps belong to industries where earnings are likely to grow, such as information & communication, retail trade and services.

Recurring Profits of Large Caps and Small Caps



(Source) MUFG: Trust Bank, from Nomura Securities

(Notes) Universe are Russell/Nomura Large-cap and Small-cap index; data as of December 2024

Industry Composition of Japanese Small Caps

Industry	Dec. 1995		Dec. 2010		Jul. 2024	
	No. of Stocks (%)	Market Cap. (%)	No. of Stocks (%)	Market Cap. (%)	No. of Stocks (%)	Market Cap. (%)
Construction	10.1	10.5	6.8	5.9	4.6	5.5
Foods	4.5	4.2	3.4	3.3	3.5	3.2
Textiles & apparels	4.8	3.5	2.8	1.8	2.1	1.6
Chemicals	8.4	7.5	6.7	7.2	6.3	5.8
Iron & Steel	3.4	3.9	1.9	1.8	1.5	1.4
Machinery	9.6	9.2	7.5	6.8	6.6	7.2
Electric appliances	9.7	10.0	8.6	9.7	6.2	6.7
Information & comm.	0.0	0.0	6.2	6.3	11.9	11.2
Wholesale trade	6.7	5.2	10.2	7.7	9.0	8.2
Retail trade	4.7	4.8	10.1	10.9	9.7	10.2
Banks	5.6	9.8	3.4	5.0	3.4	5.4
Real estate	1.8	1.8	2.9	3.4	3.8	3.2
Services	2.6	3.0	7.1	6.1	11.9	8.6

(Source) MUFG: Trust Bank, from Astra Manager

(Notes) Universes are stocks in TOPIX Small Index; industry categorizations are

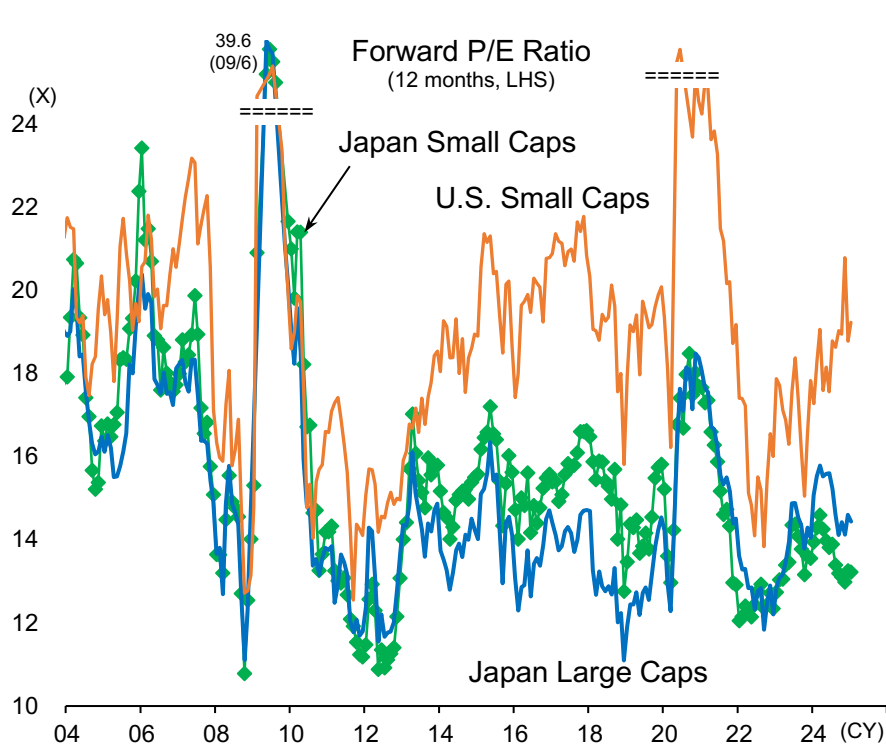
TSE 33 sectors; figures are calculated based on the number of companies and market capitalization.



Small Caps: Attractive Valuation from Global Viewpoints

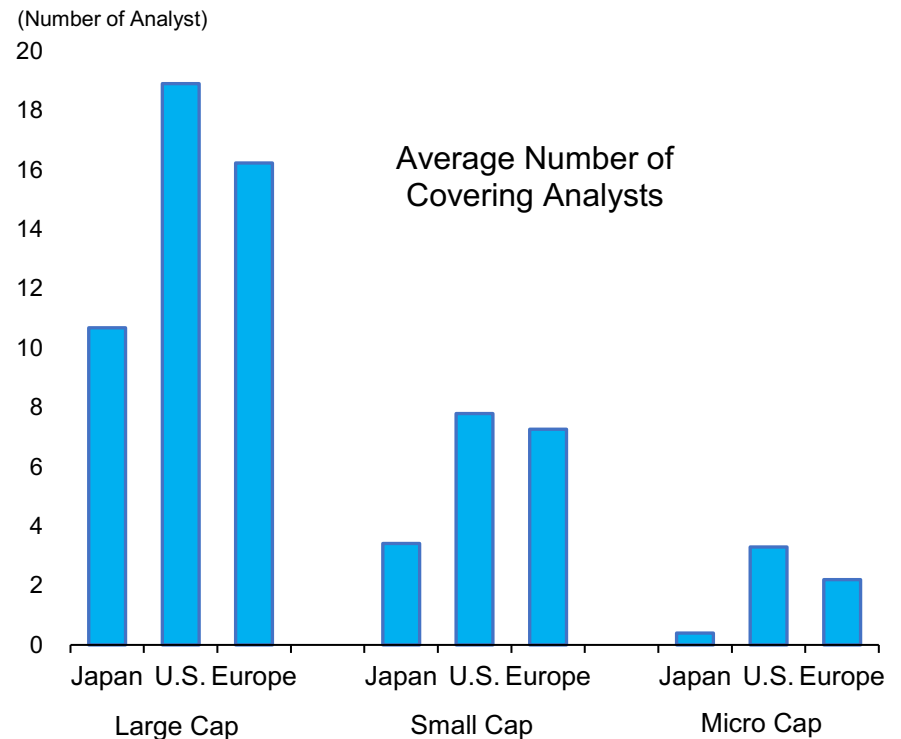
- Japanese small caps are cheaper than Japanese large caps and U.S. small caps based on P/E and P/B ratios.
- High information gathering costs due to limited sell-side analyst coverage hide away lots of attractively valued Japanese small caps.

P/E Ratios at Japan Large/Small Caps and US Small Caps



(Source) MUFG: Trust Bank, from FactSet
 (Notes) MSCI Japan Index, Japan Small Cap Index and USA Index; data as of January 2025.

Number of Covering Analysts by Size in Major Region



(Source) MUFG: Trust Bank, from FactSet
 (Notes) Universes are companies in MSCI USA Index, MSCI Europe Index and MSCI Japan Index; data as of June 2024.

Small Caps: Benefits of Diversification

- Many Japanese small caps are in domestic-demand industries, whose earnings are less affected by overseas economic conditions relative to large caps in Japan.
- Small caps tend to have lower correlation with US equities, partly because they are not included in major equity indices and not heavily held by foreign investors. They are traded by more domestic individual investors.

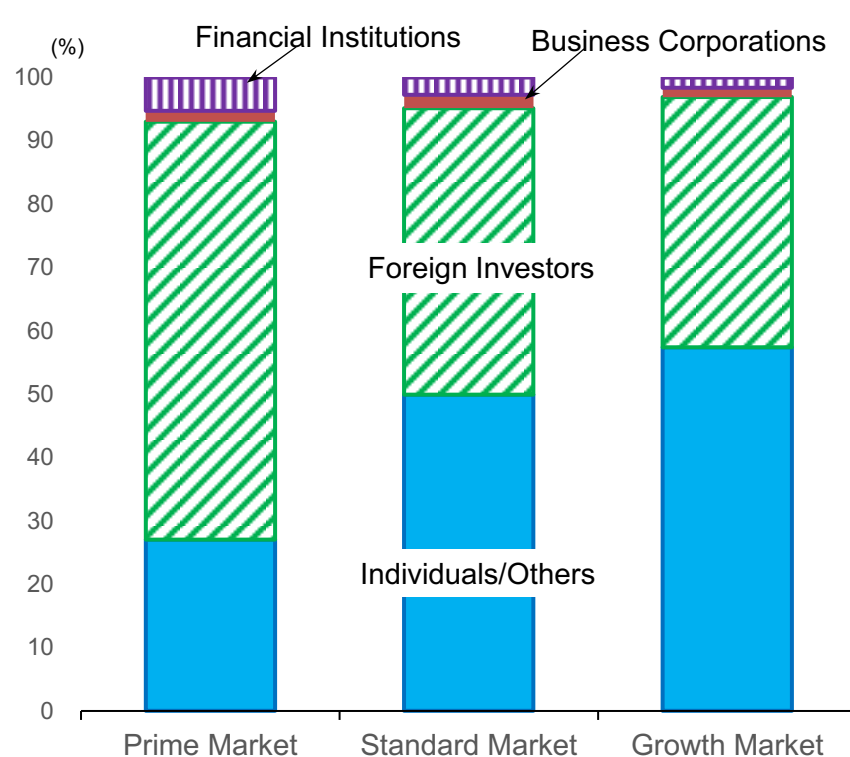
Revenue Exposure by Country/Region of Major Indexes

Country \ Index	(%)					
	Small Cap			Large Cap		
	Japan	U.S.	Europe	Japan	U.S.	Europe
United States	6.4	76.6	12.8	17.2	59.2	23.7
Japan	73.9	1.1	-	46.9	2.7	2.9
China	5.7	3.0	3.3	9.1	7.1	6.5
U.K.	0.6	1.7	18.8	1.4	2.3	7.8
Germany	0.9	1.2	8.2	1.7	2.2	6.3
France	--	0.8	4.4	--	--	5.2
Italy	--	--	6.0	--	--	3.6
Spain	--	--	--	--	--	2.9
Sweden	--	--	4.4	--	--	--
Switzerland	--	--	3.7	--	--	--
Canada	--	2.0	--	--	1.9	--
India	1.2	--	--	2.2	1.4	--
South Korea	1.2	--	--	1.9	--	--
Taiwan	1.0	--	--	1.3	1.5	--

(Source) MUFG: Trust Bank, from FactSet

(Notes) Universes are stocks in MSCI Large Cap Index and MSCI Mid Cap Index for Large Cap, MSCI Small Cap Index for Small Cap in Japan, the U.S. and Europe; revenue exposures are based on FactSet estimate; data as of September 2023.

Breakdown of Trading by Investor by Market



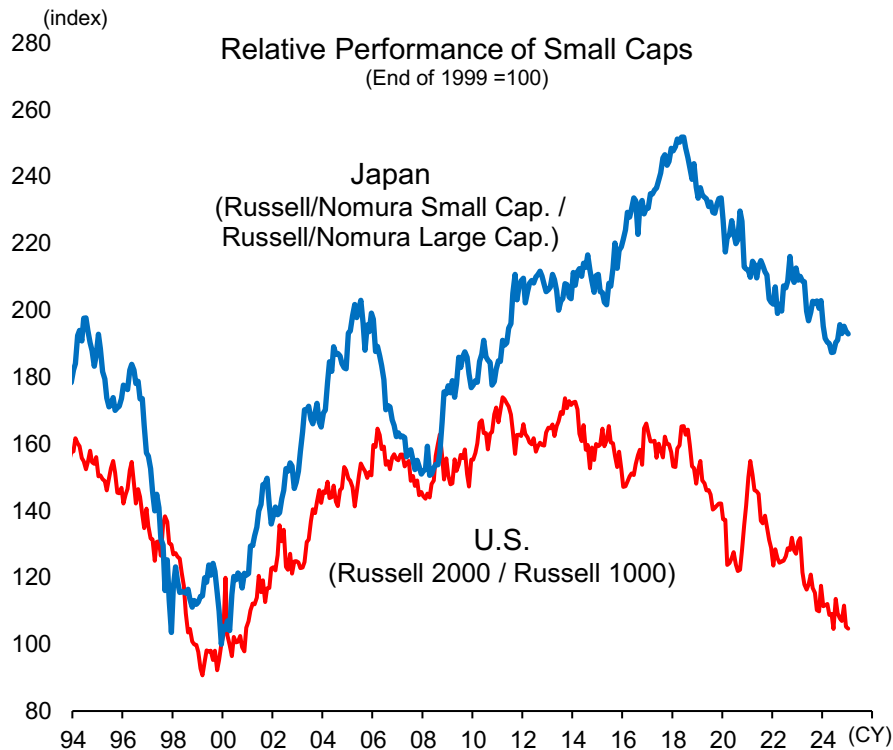
(Source) MUFG: Trust Bank, from TSE

(Notes) Financial institutions include regular banks, trust banks, life insurance companies, investment trusts and securities firms; data as of 2024.

Small Caps: U.S. Small Caps are Key

- Over the past 30 years, the relative performance of U.S. and Japanese small-cap stocks have been correlated. The expansion of index funds has driven the large-cap rally, and it will be important to see if this trend changes.
- Japanese small caps have a certain global presence and offer a wide range of options for stock selection.

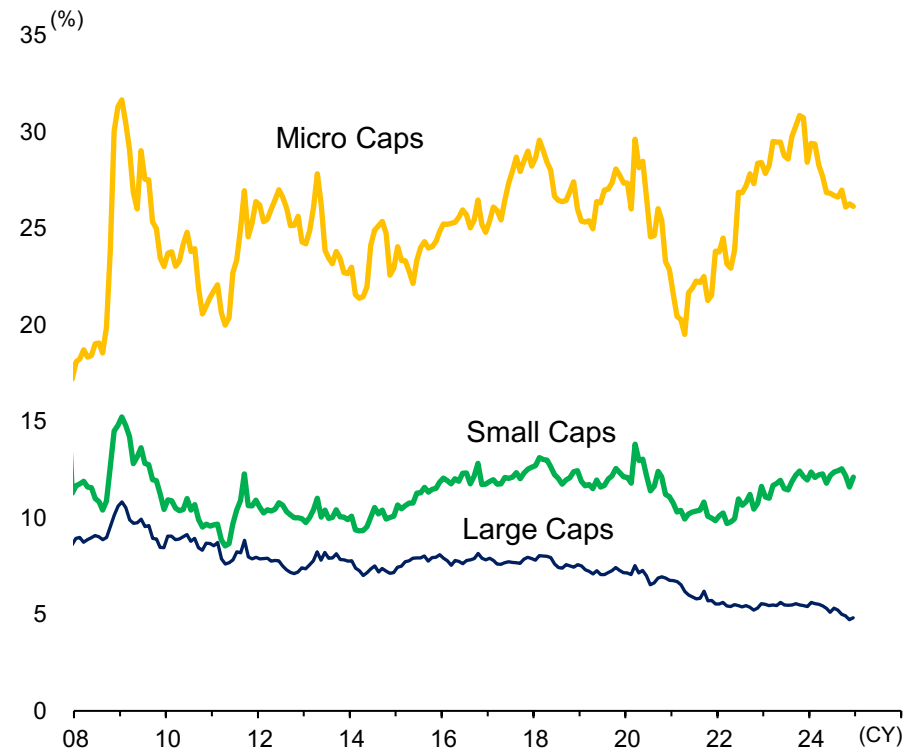
Relative Performance of Small Caps in U.S. and Japan



(Source) MUFG: Trust Bank, from Bloomberg

(Note) Relative performance is indexed to 100 at the end of 1999; data as of January 2025.

Composition of Japanese Stocks in the Global Market



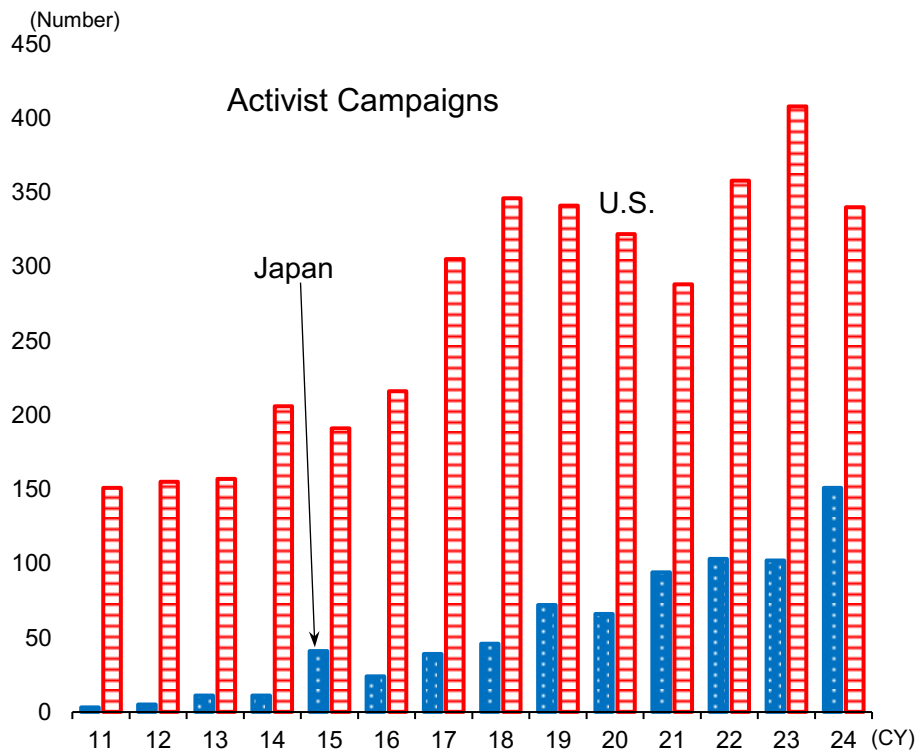
(Source) MUFG: Trust Bank, from MSCI

(Notes) Figures are calculated based on market capitalization; data as of December 2024.

Japan Open to Activist Investors

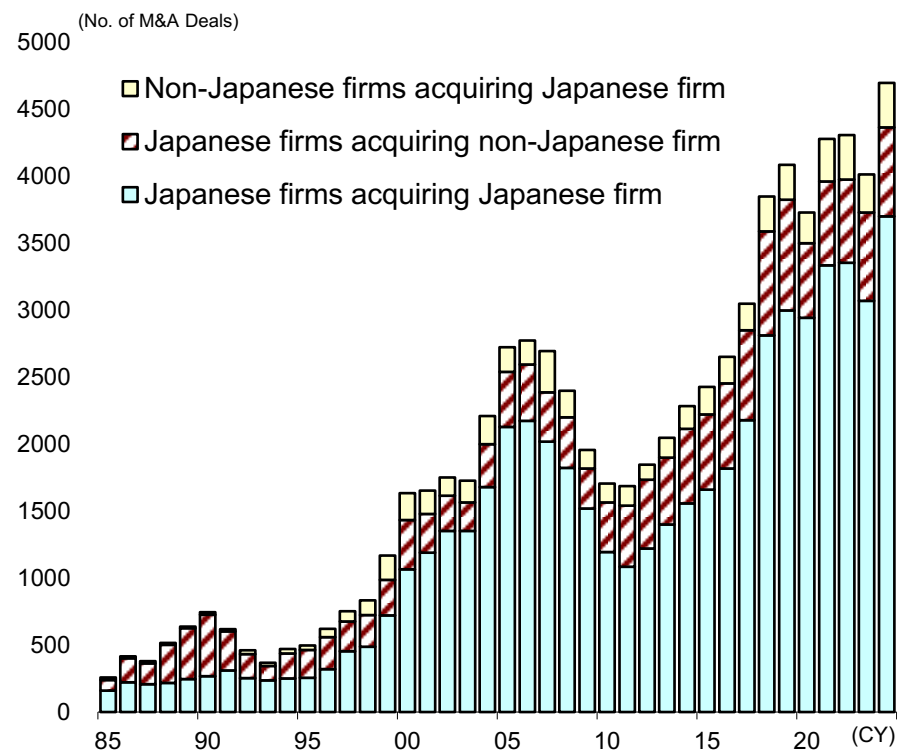
- After a boom in the 2000s, the number of activist campaigns against listed companies began to increase again in the late 2010s and will exceed 150 campaigns per year in 2024.
- The interest of Japanese institutional investors in improving asset efficiency, such as reducing policy shareholdings, and diversifying the board of directors is similar to the demands of activists.

Activist Campaigns in the U.S. and Japan



(Source) MUFG: Trust Bank, from Bloomberg
(Note) Data as of 2024.

M&A Deals Involving Japanese Companies

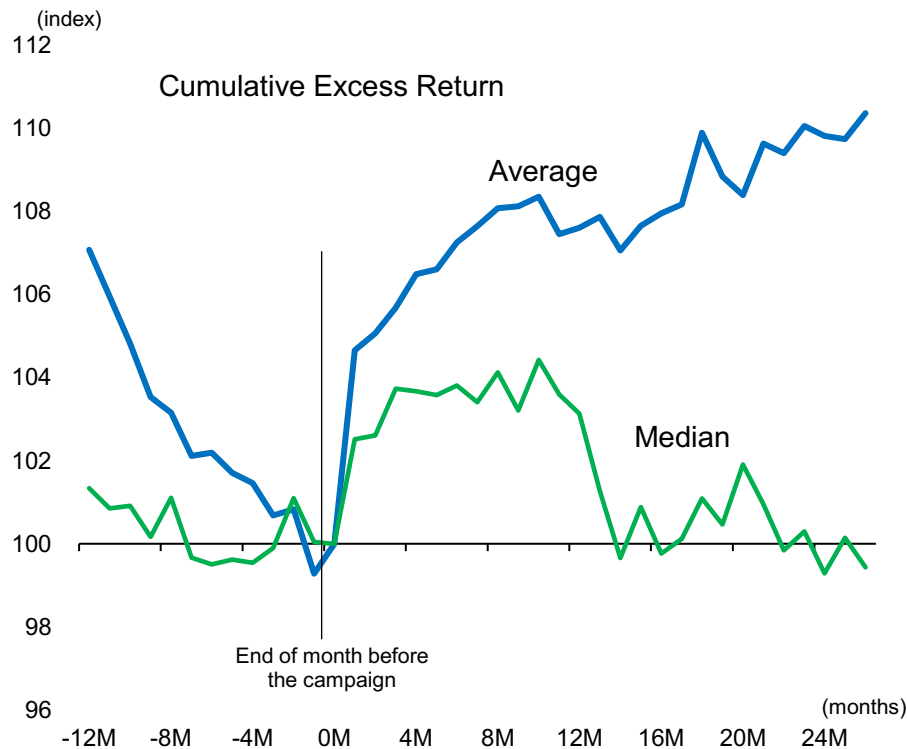


(Source) MUFG: Trust Bank, from RECOF data
(Note) Data as of 2024.

Successful Activist Campaigns bring on High Returns

- Activists tend to target the companies with decent profits and ample cash reserves, but scarce investment opportunities.
- Activists' encouragements and suggestions are important catalysts for the companies' managements, and "managements' willingness" are essential to the investment returns over time.

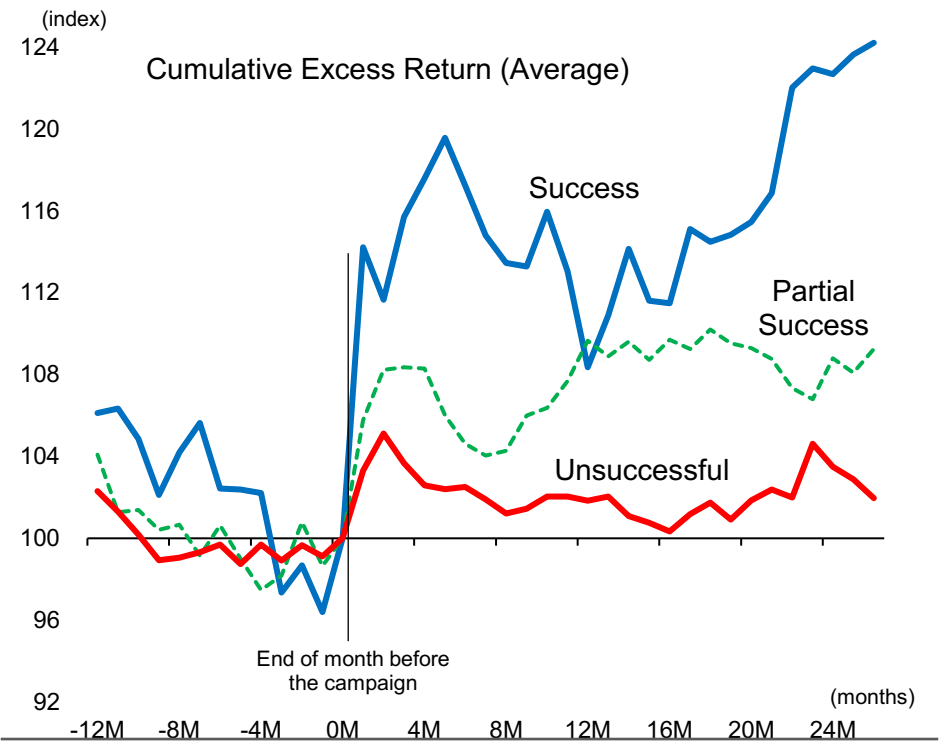
Returns of Companies Experiencing Activist Campaigns (1)



(Source) MUFG: Trust Bank, from Bloomberg

(Note) Universe is companies that have experienced activist campaigns since 2015; if multiple campaigns were received within a year, the returns are calculated based on the date of the first one; data as of May 2024.

Returns of Companies Experiencing Activist Campaigns (2)



(Source) MUFG: Trust Bank, from Bloomberg

(Note) Universe is companies that have experienced activist campaigns since 2015; if multiple campaigns were received within a year, the returns are calculated based on the date of the first one; success, partial success and unsuccessful criteria are from Bloomberg; data as of May 2024.

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