



# Japan Smaller Companies Equity Strategy

## Why invest in Japan Equity

Japan remains a compelling equity market, driven by significant corporate transformation. Over the past decade, companies have optimized operations, enhanced profitability, and increased shareholders returns, yet valuations remain attractive versus global peers, creating a fertile ground for bottom-up investors.

Why investors should consider Small & Mid-Cap Stocks in Japan:

**1. A vast, under-researched opportunity:** Japan's small to mid-cap (SMID) universe is extensive, representing a significant portion of listed stocks in Japan. Yet, many of these stocks are under-researched or dropped from analyst coverage, leading to extreme mispricing. This creates compelling opportunities for active investors like us to capitalise on such persistent behavioural biases.

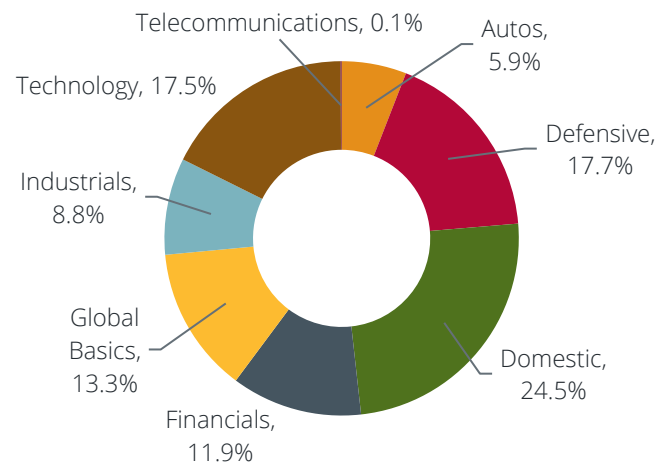
**2. Reflationary tailwind for domestic winners:** With Japan's economy showing signs of sustainable inflation, SMID caps tend to benefit more than large caps given their stronger ties to domestic growth. The SMID space offers a diverse stock universe (Fig. 1), providing investors with exposure to Japan's economic resurgence and valuable diversification benefits.

**3. Valuations, reform, and upside potential:** SMID caps boast attractive valuations, strong net cash positions, and a significant valuation gap versus large caps. Approximately 39% of SMID cap stocks trade below book value (Fig. 2), making them prime beneficiaries of the Tokyo Stock Exchange's push for greater capital efficiency, and offering a rich opportunity set for long-term valuation-driven investors.

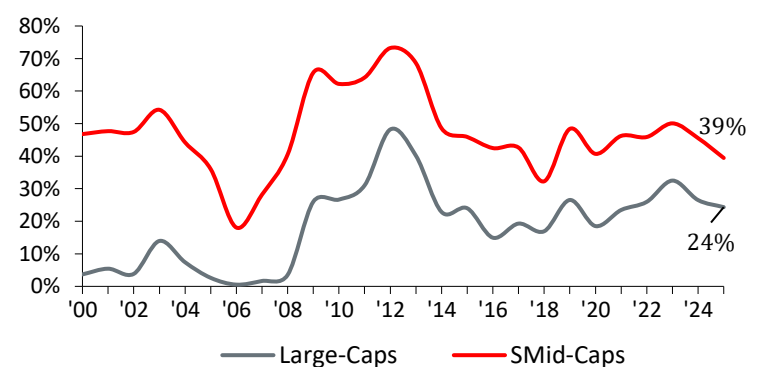


We believe the above backdrop offers us a unique advantage to exploit the opportunity using our differentiated value approach. We continue to identify excellent stock buying opportunities in the current environment, taking advantage of market volatility and periods of mispricing to accumulate attractively priced equities in our Japan portfolios.

**Fig 1: Wide & diverse SMID-cap universe – >2,000 stocks<sup>1</sup>**



**Fig 2: Proportion of Companies Trading Below 1x P/B – SMID vs. Large-Cap<sup>2</sup>**



## Why Eastspring Investments for Japan equities

Eastspring Investments, a Prudential plc company, is one of the largest Asia-based global asset managers, with Asia at its core. Since 1994, we have built an unparalleled local investment presence across in 10 Asian markets and distribution offices in North America and Europe. Our headquarters in Singapore places us at the heart of Asia, close to many of the markets in which we invest.

Our Japan Equity team is very experienced with an excellent track record of navigating Japan's equity universe for over 20 years. Our significant scale of operations in Asia allows the team Tier 1 access to management and an ability to leverage counterparty relationships in terms of analysis and effecting transactions. We are also one of the very few true-to-label-based managers of Japan equity.

## Why our differentiated valuation approach is durable over time and market cycles

We target only high impact valuation outliers – stocks that have a significant difference between price and valuation. We screen a wide investment universe of over 2,000 companies applying consistent anchors around valuation and are equipped to rapidly identify valuation outliers which may become investment candidates. Our in-depth research efforts focus on the most mispriced opportunities that offer the greatest potential return.

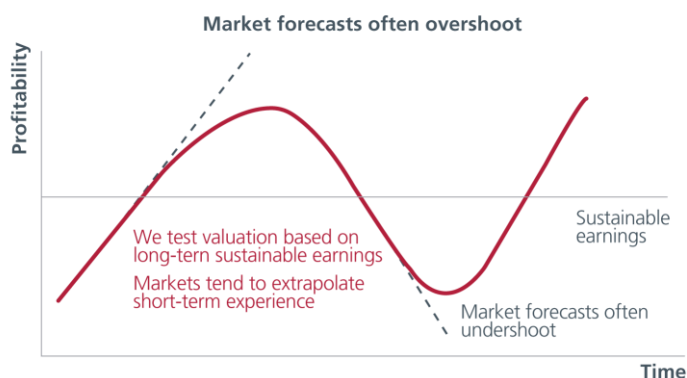
Our value differentiator lies in our detailed analysis and peer review that tests the longer drivers of a company's sustainable earnings using a consistent valuation framework. The focus on sustainable earnings differentiates us from a market that obsesses over recently term reported earnings and shorter-term forecast accuracy.

## In a snapshot: Japan Smaller Companies Equity Strategy

- ▶ We aim to generate superior long-term capital growth for our clients by consistently applying our disciplined valuation approach to identify Japanese equities that look to outperform.
- ▶ The strategy is a concentrated portfolio containing 40-50 of our best ideas across Japan's small and mid-cap equities. We invest in stocks that are often at odds with market consensus. Also, we look for solid valuation signals across the market, choosing stocks that may have fallen out of favour or whose price reflects a significant overreaction by the market.
- ▶ Our Japan equity team is a small, experienced, and cohesive group of five investment professionals with deep financial industry experience.
- ▶ A robust and centralised team framework allows our managers to maximise challenge and debate. These factors are vital to executing our strategy and delivering repeatable performance to investors.
- ▶ We are patient. Rather than follow the herd and be influenced by behavioural biases, we adopt a longer-term mindset that allows us to focus on the best stock opportunities.

This approach delivers unique insights and a clear understanding of a company's valuation drivers. A high conviction around trend fundamentals allows us to remain patient amid market uncertainty as well as exploit shorter term price volatility in a contrarian manner.

**Fig 3: Differentiated concept of valuation relative to sustainable earnings**



## How we build the strategy



### Investment philosophy

We believe that:

- Prices frequently move more than is justified due to shifts in investors' risk perceptions.
- Behavioural biases influence both investor expectations and risk appetites.
- As a result, the actual underlying value is not always reflected in stock prices.
- By detaching ourselves emotionally and with rigorous analysis and discipline over a longer time frame, we can exploit these opportunities.
- Our price-focused process, anchored by a consideration of relative valuation, aims to deliver superior long-term returns.



### Our investment process

Our bottom-up, valuation-driven investment process has been designed to target mispriced equities in a disciplined and repeatable manner. It consists of four stages:

**Idea generation:** We systematically look for mispriced assets and identify opportunities that can impact portfolio returns the most.

**Fundamental analysis:** This is the most important part of the investment process - it allows us to confirm whether value exists, helps us deepen our understanding and tests the team's conviction in a particular holding.

**Portfolio construction:** We construct the portfolio with our highest conviction ideas while considering stock correlations and unintended risks. Stocks from this conviction list become the core positions in our strategy.

**Risk control and review:** Ongoing portfolio review helps instill process integrity and sell discipline. Our robust risk framework is conducted by the team, senior management, and our independent risk oversight team.

## Strategy details

**Style:** High conviction, benchmark-unaware

**Inception Date:** 5 July 2006

**Strategy AUM:** USD 351.4 million (as at 30 September 2025)



### An ethical mantle

We believe optimal investment decisions are made when environmental, social, and governance (ESG) factors are incorporated into our investment process.

- Eastspring Investments has an established responsible investing framework which includes stewardship and ESG policies that inform and govern our business and investment teams. Against this overarching framework, we have empowered each investment team to integrate these policies into their distinct investment approach and strategies. We don't believe there is a one size fits all approach to ESG application.
- ESG considerations are factored into company valuations by assessing the material risks to sustainable earnings and monitoring the progress of such risks and opportunities in our "ESG dashboard".
- Engaging with investee companies on ESG issues is essential to understanding and protecting the portfolio from financial and non-financial risks. As such, we vote on all resolutions (except when it is not in the best interests of our clients).
- Third-party ESG resources are utilized to complement our internal assessment of companies and assist with the due diligence and ongoing monitoring processes.

## Investment team lead



**Max Godwin**  
Portfolio Manager

We adopt a team-based approach. As the Portfolio Manager, Max Godwin has the ultimate responsibility for the daily monitoring of the portfolio, overseeing trades and position sizing.

## Strategy characteristics

### Portfolio characteristics<sup>3</sup>

Reference index	Russell/Nomura Mid-Small Cap Index
Typical no. of holdings	40 – 50
Target alpha	2 – 4.5%
Target tracking error	4 – 9%
Country/sector range	Outcome of bottom-up stock selection
Market capitalisation	Small-capitalisation bias
Base currency	JPY

## Sources

<sup>1</sup>Source: Eastspring Investments, as at 30 September 2025. Sector weight for the strategy's benchmark, Russell Nomura Mid-Small Cap, internal classification. For illustration purposes only. Refers to listed Japanese companies. <sup>2</sup>Source: Eastspring Investments, Bloomberg, Datastream, Factset, and J.P. Morgan Calculations, as at 30 June 2025 (latest data available). All yearly values are as of beginning of year. For illustration purposes only. The use of indices as proxies for the past performance of any asset class/sector is limited and should not be construed as being indicative of the future or likely performance of the Fund. <sup>3</sup>\*Subject to changes at the sole discretion of the manager. Targets are based on estimates of prevailing economic conditions. Actual portfolio characteristics or performance could differ materially due to various risks and economic changes beyond the manager's control.

## Important information

The **MSCI Japan Index** is designed to measure the performance of the large and mid cap segments of the Japanese market. With 237 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in Japan.

This Strategy Overview is to complement Eastspring capabilities. This Supplemental information provides additional analysis and summarizes an Eastspring strategy and is not an offer or solicitation for any specific securities or vehicles.

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Upside/downside capture ratio show you whether a given representative account strategy has outperformed-gained more or lost less than-a broad market benchmark during periods of market strength and weakness, and if so, by how much. Upside capture ratios are calculated by taking the representative account strategy monthly return during months when the benchmark had a positive return and dividing it by the benchmark return during that same month. Downside capture ratios are calculated by taking the representative account strategy monthly return during the periods of negative benchmark performance and dividing it by the benchmark return.

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