



# Japan Equity High Conviction

## Monthly Commentary - December 2025

For professional investors only

### Japan Equity Research Team

SMDAM

*We are one of the largest investment management companies in Japan, offering discretionary investment management, investment trusts and advisory services to a range of institutional investors, pension funds, government agencies and retail investors worldwide.*

### Portfolio Update

Over the month of December, the SMD-AM Japan Equity High Conviction Fund Class I2 JPY returned 0.76% versus the TOPIX TR JPY of 1.03%.\*

The Japanese stock market rose in December. In early December, the market started lower as expectations of a rate hike grew following comments by the Governor of the Bank of Japan. However, it later recovered, supported by expectations of a rate cut by the U.S. Federal Reserve in response to signs of a slowdown in the U.S. labor market.

In mid-December, there was a period of correction in the market after the Federal Reserve's decision to cut rates, as investors viewed the news as largely priced in. However, following the Bank of Japan's rate hike decision, concerns were largely resolved, and the market rebounded. In late December, price movements were limited amid a lack of clear trading cues.

Nevertheless, over the month as a whole, the market rose, supported by expectations for an economic recovery going forward. By sector, insurance, securities, and oil and coal products outperformed the overall market. In contrast, other products, electric power and gas, and mining underperformed.

Our fund underperformed the market due to a negative stock selection effect. We expect the Japanese stock market to move sideways within a high price range in the near term, but it will move up steadily, supported by a favorable investment environment in the medium term.

The global economy is expected to recover after a temporary slowdown caused by higher U.S. tariffs, supported by U.S. interest rate cuts and fiscal stimulus in major economies. In Japan, aggressive economic measures are expected to underpin growth, and corporate earnings are likely to remain on an improving trend. Progress in corporate governance reform among Japanese companies is also expected to be a medium-term driver for higher equity prices.

However, in phases where valuations appear stretched, lingering uncertainty over the pace of U.S. rate cuts, movements in domestic long-term interest rates, and concerns about stronger economic sanctions by China against Japan are expected to act as factors that limit further upside in stock prices in the near term.

**Risk warning:** The organisations and/or financial instruments mentioned are for reference purposes only. Material content should not be construed as a recommendation for their purchase or sale. Past performance is not a reliable indicator of future performance and may not be repeated.

\* For further information on performance please refer to page 4.

**Buy****SUMITOMO CORP**

Compared with other major trading companies, we consider that the company offers greater valuation appeal in terms of dividend yield and PER.

**Sell****MITSUBISHI CORP**

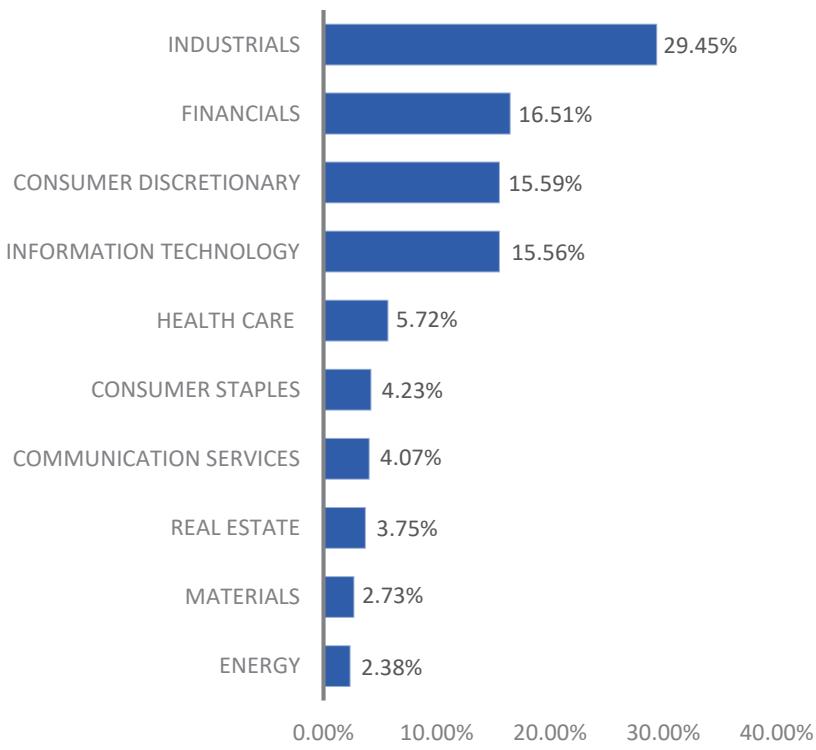
We consider that its valuation has become stretched as the stock price rose on the back of blockbuster movies such as 'Demon Slayer' and 'Kokuhō (National Treasure)'.

**Top Buys**

Share Name
SUMITOMO CORP
HITACHI LTD
JAPAN POST BANK CO LTD

**Top Sells**

Share Name
MITSUBISHI CORP
SOFTBANK GROUP CORP
KOMATSU LTD

**Sector Allocation**

Source: SMDAM, as at 31 December 2025

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## Top Holdings

Share Name	Portfolio Weight	MSCI Sector
MITSUBISHI UFJ FINANCIAL GROUP	7.90%	Financials
SONY GROUP	5.92%	Consumer Discretionary
KAJIMA CORP	5.90%	Industrials
FUJITSU LTD	5.14%	Information Technology
TOYOTA MOTOR CORP	5.14%	Consumer Discretionary

**1. Mitsubishi UFJ Financial Group:** It is one of the leading financial groups in Japan. We evaluate its reasonable valuation and attractive shareholder return policy.

**2. Sony Group:** It operates in various sectors including electronics, entertainment, gaming, and financial services. We positively evaluate the revenue improvement in the company's gaming business.

**3. Kajima Corp:** It is one of Japan's leading general construction companies, engaged in civil engineering, building construction, and real estate development. It is highly regarded for its world-class construction technology, reliability cultivated through diverse projects, and comprehensive capability to handle everything from design to construction and maintenance in-house.

**4. Fujitsu Ltd:** It offers a wide range of products and services, including computing solutions, networking equipment, software, and IT services. The company's profit margin in domestic operations has expanded more than expected, due to the expansion of domestic digital investments and the increase in contract prices.

**5. Toyota Motor Corp:** It is one of the largest automobile manufacturers in the world, producing a wide range of vehicles including passenger cars, trucks, and buses. Due to the US automobile tariffs in Japan being lower than expected, we have revised our performance outlook upward.

## Top Contributors

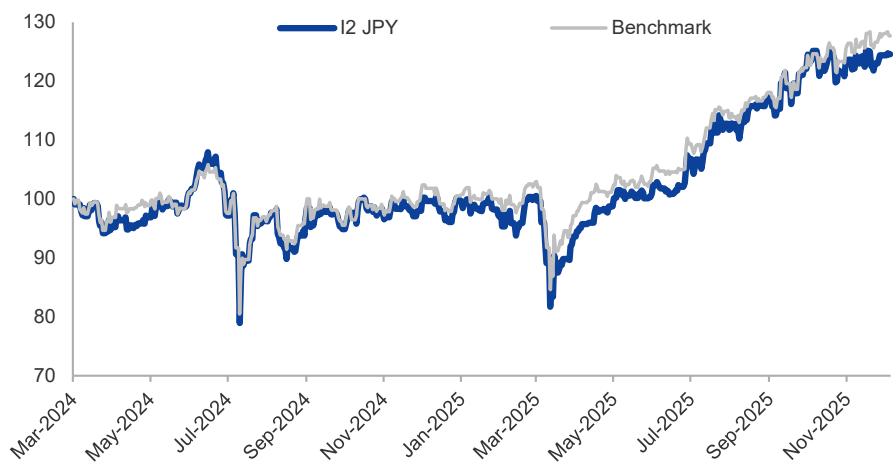
Share Name	Portfolio Weight	MSCI Sector
KUSURI NO AOKI HOLDINGS CO LTD	2.37%	Consumer Staples
JAPAN POST BANK CO LTD	2.47%	Financials
FUJI ELECTRIC CO LTD	3.98%	Industrials
DISCO CORP	3.55%	Information Technology
YASKAWA ELECTRIC CORP	1.85%	Industrials

## Top Detractors

Share Name	Portfolio Weight	MSCI Sector
SONY GROUP CORP	5.92%	Consumer Discretionary
TDK CORP	2.78%	Information Technology
TOHO CO LTD	1.52%	Communication Services
INPEX CORP	2.38%	Energy
BANDAI NAMCO HOLDINGS INC	1.37%	Consumer Discretionary

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## Performance



Source: SMDAM and Bloomberg, data as at 31 December 2025. Rebased to 100 at inception of the share class (27 March 2024). The chart above shows daily performance, in the currency stated for the UCITS Fund (JPY) against the benchmark TOPIX Total Return Index which is shown in JPY. Performance is illustrated net of fees.

### Fund Performance Share Class: (I2) JPY

(Net of fees)	Fund %	Benchmark %
<b>1m</b>	0.76	1.03
<b>3m</b>	7.48	8.82
<b>6m</b>	21.08	20.84
<b>12m</b>	24.94	25.46
<b>Since Inception p.a. (27/03/24)</b>	<b>13.24</b>	<b>14.86</b>

### Investment Information

Investment Management Fee	Total Expense Ratio
Institutional (I) 0.70% p.a.	Institutional (I) 1.00% p.a.
Institutional (I2) 0.70% p.a.	Institutional (I2) 1.00% p.a.
Wholesale (A) 1.20% p.a.	Wholesale (A) 1.50% p.a.

### Dealing Frequency:

Source: SMDAM, as at 31 December 2025

**Risk warning:** Past performance is not a reliable indicator of future performance and may not be repeated. An investment's value and the income deriving from it may fall, as well as rise, due to market fluctuations. Investors may not get back the amount originally invested. Any minor discrepancies are due to rounding. Performance is shown in JPY, the return may increase or decrease as a result of currency fluctuations and is net of fees (after trading expenses).



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