



# Japan Equity High Conviction

Monthly Commentary - January 2026

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 January, the SMD-AM Japan Equity High Conviction Fund Class I2 JPY returned 4.58% versus the TOPIX TR JPY of 4.62%.\*

The Japanese stock market rose in January. Defense-related shares led the rally, buoyed by escalating international geopolitical tensions, and gains in U.S. high-tech stocks helped drive the market higher at the start of the month. Subsequently, expectations for a more stable political situation to emerge increased, and this created the impression that smoother policy implementation may be coming after the snap election. The dissolution of the House of Representatives served to support the market in its upward movement as many predicted Takaichi would win a decisive majority and this would give clarity of policy direction. From mid-month onward, however, concerns over growing U.S.-European tensions regarding Greenland and a rapid appreciation of the yen—triggered by speculation about rate checks by the Japanese and U.S. monetary authorities (the practice of inquiring with major banks about conditions in the foreign exchange market as a precursor to possible FX intervention)—weighed on sentiment, narrowing but not removing the market's previous gains.

By sector, nonferrous metals, petroleum and coal products, and machinery outperformed the broader market, while services, information and communication, and other products underperformed. Our fund slightly underperformed the market due to negative stock selection effect. We expect the Japanese stock market to move sideways within a high price range. The global economy is projected to recover, supported by interest rate cuts in the United States and fiscal stimulus measures in several major developed countries. Domestically, proactive economic measures are expected to boost economic activity, and corporate earnings are likely to remain on an improving trend. Ongoing progress in corporate governance reforms at Japanese companies is also anticipated to be a medium-term factor supporting higher share prices.

However, with valuations increasingly perceived as elevated, we believe a resurgence of trade frictions between the U.S. and other major economies, rising geopolitical risks, and concerns over the outlook for Japan–China relations will act as factors limiting further gains. In addition, depending on the outcome of the House of Representatives election, there may be periods of heightened volatility ahead for the market.

**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**

**TOKYO ELECTRON LTD**

Capital investment in DRAMs and NAND flash memories is expected to increase in CY2026 due to the growing demand for semiconductors for data centers.

**Sell**

**TDK CORP**

Due to rising memory costs and other factors, we believe that downward pressure is mounting on the outlook for the number of end-products using the company's components.

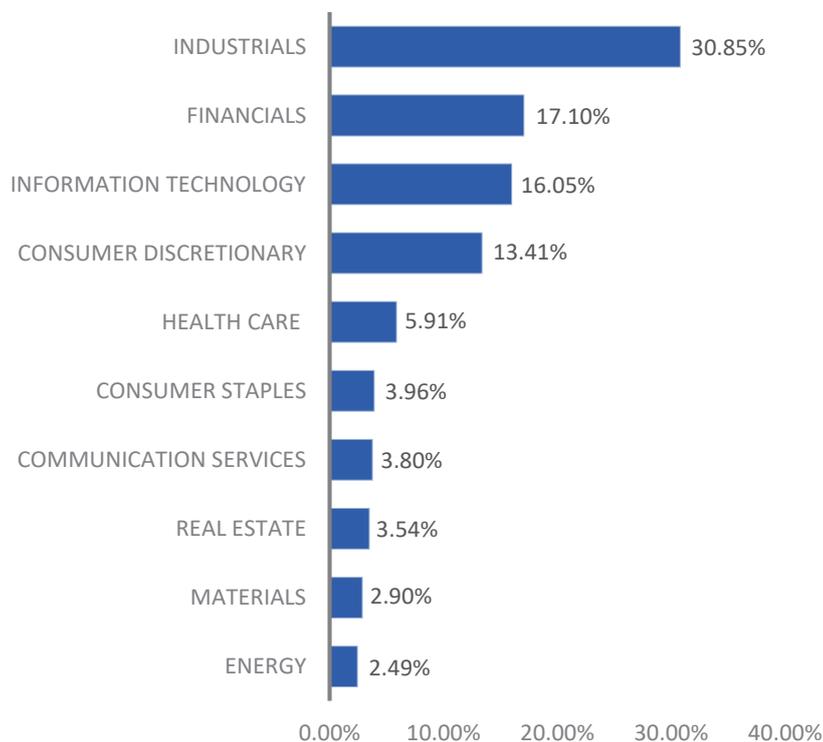
**Top Buys**

Share Name
TOKYO ELECTRON LTD
SUMITOMO CORP
JAPAN POST BANK CO LTD

**Top Sells**

Share Name
TDK CORP
SONY GROUP CORP
DISCO CORP

**Sector Allocation**



Source: SMDAM, as at 31 January 2026

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## Top Holdings

Share Name	Portfolio Weight	MSCI Sector
MITSUBISHI UFJ FINANCIAL GROUP	8.24%	Financials
KAJIMA CORP	5.90%	Industrials
TOYOTA MOTOR CORP	5.39%	Consumer Discretionary
FUJITSU LTD	4.83%	Information Technology
MITSUBISHI HEAVY INDUSTRIES	4.59%	Industrials

**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. 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.

**3. 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.

**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. Mitsubishi Heavy Industries:** It is a diversified Japanese multinational conglomerate known for its broad range of industrial and engineering activities. We expect a growth in orders in its defence business and its energy business.

## Top Contributors

Share Name	Portfolio Weight	MSCI Sector
DISCO CORP	4.15%	Information Technology
FURUKAWA ELECTRIC CO LTD	3.30%	Industrials
JAPAN POST BANK CO LTD	3.33%	Financials
MITSUBISHI UFJ FINANCIAL GRO	8.24%	Financials
SUMITOMO CORP	4.30%	Industrials

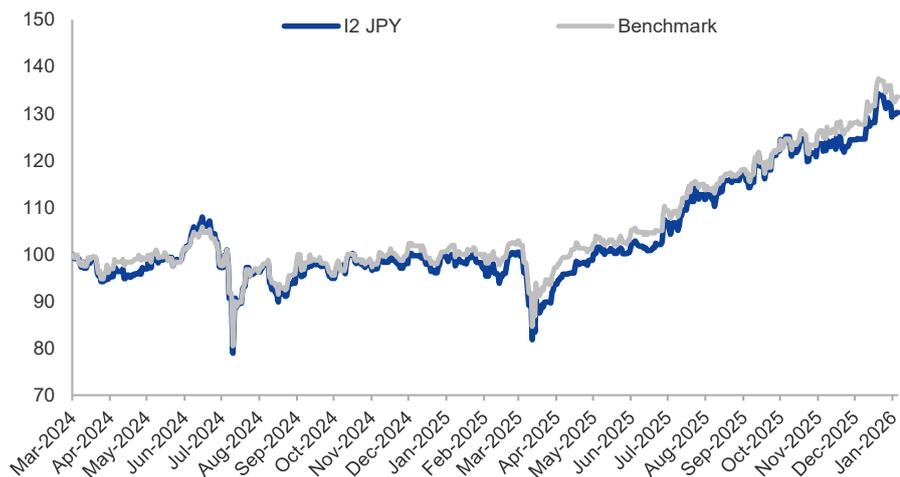
## Top Detractors

Share Name	Portfolio Weight	MSCI Sector
SONY GROUP CORP	4.23%	Consumer Discretionary
KUSURI NO AOKI HOLDINGS CO L	1.95%	Consumer Staples
FUJI ELECTRIC CO LTD	3.64%	Industrials
NOMURA RESEARCH INSTITUTE LT	1.23%	Information Technology
SUZUKI MOTOR CORP	1.30%	Consumer Discretionary

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Source: SMDAM, as at 31 January 2026

Performance



Source: SMDAM and Bloomberg, data as at 31 January 2026. 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 %
1m	4.58	4.62
3m	4.10	7.21
6m	22.03	22.54
12m	30.28	31.07
Since Inception p.a. (27/03/24)	15.35	16.95

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: Daily

Source: SMDAM, as at 31 January 2026

**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).



## Contact Details

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