



# Japan Equity High Conviction

Monthly Commentary - October 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 September, the SMD-AM Japan Equity High Conviction Fund Class I2 JPY returned 2.84% versus the TOPIX TR JPY of 2.98%.\*

At the beginning of the month, the market rose due to positive reactions to President Trump's signing of an executive order to reduce automobile tariffs, and expectations for fiscal expansion under the next administration following Prime Minister Ishiba's announcement of his intention to resign. In the middle of the month, while the resumption of rate cuts by the U.S. Federal Reserve was well received, the Bank of Japan's decision to sell ETFs and Japanese REITs was met with disapproval, resulting in a mixed performance. At the end of the month, despite hitting new highs driven by AI-related and high-tech stocks, concerns over high valuations increased. Towards the month's end, caution over a potential U.S. government shutdown and the upcoming Liberal Democratic Party leadership election led to a heightened trading environment with increased selling. By sector, non-ferrous metals, petroleum and coal products, and mining outperformed the market, while air transportation, marine transportation, and other manufacturing underperformed.

Our fund slightly underperformed the market due to the negative contribution of stock selection in Materials, Information Technology and Industrials. We anticipate that the Japanese stock market will remain range-bound from October to December. The Japanese economy and corporate earnings are on a mid-to-long-term upward trend. On the macro level, the Japanese economy is transitioning towards a virtuous cycle driven by rising wages and prices. On the micro level, corporate governance reforms aimed at enhancing capital efficiency are steadily advancing. We believe Japan is structurally well-positioned to see medium-term inflows from investors who recognize and value its unique domestic transformations. However, given the stock price rises seen since the summer, the current valuation of Japanese stocks has already priced in expected earnings improvements to a certain degree.

Therefore, we expect the market to enter a phase of focusing on assessing the strength of corporate earnings improvements over the second half of the fiscal year, based on the July-September 2025 earnings results. Consequently, we expect the stock market to remain range-bound near its highs 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

MITSUBISHI UFJ FINANCIAL GROUP

We favourably evaluate its reasonable valuation and attractive shareholder return policy.

Sell

HITACHI LTD

The expansion of profit margin in its digital business was less impressive compared to industry peers.

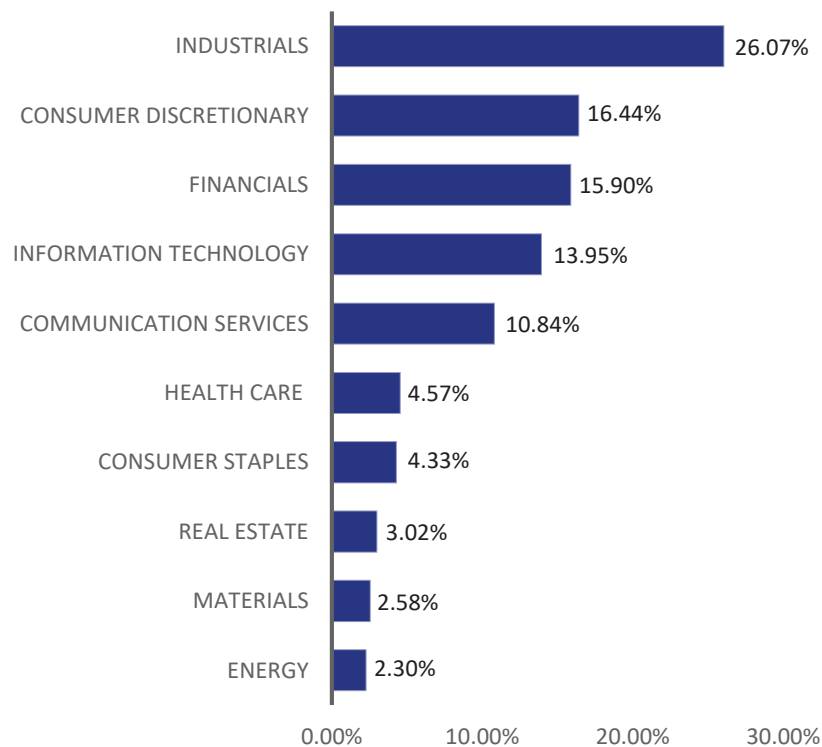
Top Buys

| Share Name                     |
|--------------------------------|
| MITSUBISHI UFJ FINANCIAL GROUP |
| SONY GROUP CORP                |
| SOFTBANK GROUP CORP            |

Top Sells

| Share Name  |
|-------------|
| HITACHI LTD |
| -           |
| -           |

Sector Allocation



Source: SMDAM, as at 30 September 2025

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## Top Holdings

| Share Name                     | Portfolio Weight | MSCI Sector            |
|--------------------------------|------------------|------------------------|
| MITSUBISHI UFJ FINANCIAL GROUP | 8.48%            | Financials             |
| SONY GROUP                     | 6.65%            | Consumer Discretionary |
| SOFTBANK GROUP CORP            | 5.72%            | Communication Services |
| TOYOTA MOTOR CORP              | 4.86%            | Consumer Discretionary |
| KAJIMA CORP                    | 4.64%            | Industrials            |

**1. Mitsubishi UFJ Financial Group:** It is one of the leading financial groups in Japan. We positively 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. Softbank Group Corp:** It is a Japanese multinational conglomerate holding company known for its investments in technology. It operates through several key segments which invests in emerging technologies and startups globally, and its telecommunications business, which provides services primarily in Japan.

**4. 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.

**5. 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.

## Top Contributors

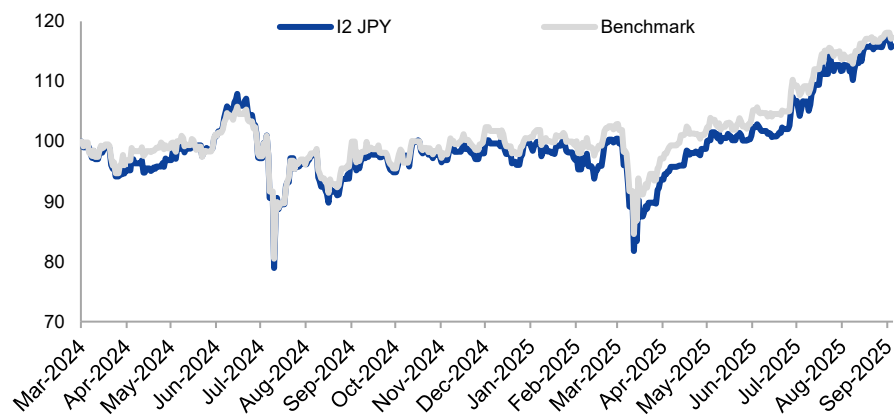
| Share Name                   | Portfolio Weight | MSCI Sector            |
|------------------------------|------------------|------------------------|
| SOFTBANK GROUP CORP          | 5.72%            | Communication Services |
| DISCO CORP                   | 3.78%            | Information Technology |
| TDK CORP                     | 3.54%            | Information Technology |
| SONY GROUP CORP              | 6.65%            | Consumer Discretionary |
| MITSUBISHI UFJ FINANCIAL GRO | 8.48%            | Financials             |

## Top Detractors

| Share Name               | Portfolio Weight | MSCI Sector            |
|--------------------------|------------------|------------------------|
| TORAY INDUSTRIES INC     | 2.58%            | Materials              |
| SCSK CORP                | 2.02%            | Information Technology |
| FUJITSU LIMITED          | 4.61%            | Information Technology |
| KAJIMA CORP              | 4.64%            | Industrials            |
| FURUKAWA ELECTRIC CO LTD | 2.95%            | Industrials            |

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Performance



Source: SMDAM and Bloomberg, data as at 30 September 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. Source for all Sub-Fund data is SMDAM and SMDAM (UK). Basis for (I2) JPY share class performance data: NAV based, total return (net of fees), in JPY.

| Fund Performance Share Class: (I2) JPY |        |                            |
|----------------------------------------|--------|----------------------------|
| (Net of fees)                          | Fund % | TOPIX Total Return Index % |
| 1m                                     | 2.84   | 2.98                       |
| 3m                                     | 12.66  | 11.04                      |
| 6m                                     | 20.66  | 19.39                      |
| 12m                                    | 21.71  | 21.55                      |
| Since Inception p.a.<br>(27/03/24)     | 10.23  | 11.15                      |

| Investment Information          |                              |
|---------------------------------|------------------------------|
| Investment Management Fee       | Total Expense Ratio          |
| Institutional (I) 0.80% p.a.    | Institutional (I) 1.10% p.a. |
| Institutional (P) 0.45% p.a.    | Institutional (P) 0.50% p.a. |
| Wholesale (A) 1.50% p.a.        | Wholesale (A) 1.80% p.a.     |
| Trading Frequency: Daily        |                              |
| Dealing Cut Off Time: 16:00 CET |                              |

Source: SMDAM, as at 30 September 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).





## Contact Details

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