

Japan Equity High Conviction

Monthly Commentary - September 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

In September, the SMD-AM Japan Equity High Conviction Fund Class I2 JPY returned -0.34% versus the TOPIX Total Return JPY return of -0.27%*.

The Nikkei 225 closed September up 0.7% m/m at 66,753.72. The market was soft, centering on AI- and semiconductor-related stocks, as risk aversion intensified. It then recovered toward month-end on the back of a rise in US AI- and semiconductor-related shares.

Our fund slightly underperformed the benchmark by 7 bps.

Although volatile oil prices amid the destabilisation of the Middle East situation and rising global interest rates warrant caution, we believe domestic and overseas economic conditions will remain resilient provided that a further sharp surge in oil prices and supply disruptions are avoided. In Japan, although the Bank of Japan (BOJ) is expected to continue raising rates, production is also set to recover going forward, and we expect sentiment in the manufacturing sector to continue improving.

We also see room for upside in Japanese corporate earnings and expect the improving trend to continue toward the next fiscal year. The FY2026 (fiscal year ending March 2027) 2Q earnings season, which gets into full swing from mid-October, is expected to show strong progress against company guidance. We believe the market is entering a phase in which expectations for earnings improvement toward the next fiscal year will build. Uncertainty remains over the monetary policy stance of major central banks and the U.S. midterm elections. However, we expect uncertainty to recede gradually once these events have passed, and a sense that the market has shed its overhang of concerns to emerge in equities. Against this backdrop, we believe the market's focus will shift from the external environment to corporate earnings, and we expect the market to recover toward year-end, discounting sustained earnings improvement.

We maintain our policy rate forecast of 1.50% in January 2027 and 1.75% in June 2027. Going forward, we expect a pace of one rate hike every three meetings or so, with the policy rate being raised to 1.75%, roughly the center of the estimated neutral rate range (1.1%–2.5%).

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.

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Buy

KOMATSU LTD: Demand for general construction equipment remains strong in the United States, supported by robust activity in non-residential construction and civil infrastructure projects. We expect rising copper prices to stimulate mining equipment demand in Latin America.

Sell

KEYENCE CORP: While we expect FA order intake to increase, the stock valuation has become somewhat stretched.

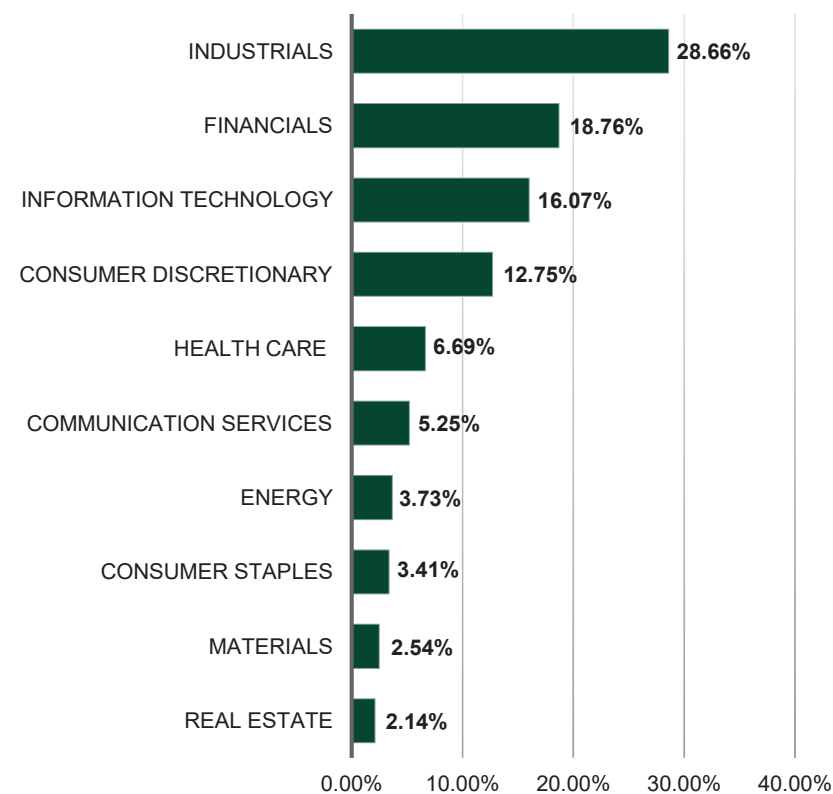
Top Buys

Share Name
KOMATSU LTD
MITSUBISHI UFJ FINANCIAL GROUP
ENEOS HOLDINGS INC

Top Sells

Share Name
KEYENCE CORP
MITSUBISHI UFJ FINANCIAL GROUP
SUMITOMO CORP

Sector Allocation



Source: SMDAM, as at 30 September 2026

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Top Holdings

Share Name	Portfolio Weight	MSCI Sector
MITSUBISHI UFJ FINANCIAL GROUP	8.41%	Financials
SUMITOMO CORP	5.14%	Industrials
TOYOTA MOTOR CORP	4.80%	Consumer Discretionary
ADVANTEST CORP	4.70%	Information Technology
RECRUIT HOLDINGS CO LTD	4.48%	Industrials

1. Mitsubishi UFJ Financial Group: One of Japan's leading financial groups. We favour its reasonable valuation and attractive shareholder return policy.

2. Sumitomo Corp: One of the largest wholesale trading companies in Japan, with a diversified business portfolio including energy, raw materials, media, and IT. We appreciate its proactive restructuring of the business portfolio, which is expected to drive improvements in ROE and ROIC, as well as an expansion in valuation multiples.

3. Toyota Motor Corp: A world-leading automaker renowned for its global manufacturing scale, exceptional vehicle reliability, and pioneering hybrid technology. It advances a multi-pathway mobility strategy by expanding its lineup of electric, hybrid, and fuel-cell vehicles to drive global decarbonisation.

4. Advantest Corp: A semiconductor production equipment manufacturer in Japan with a focus on chip testing equipment. We see potential upside from stronger-than-expected demand for semiconductor testers driven by NVIDIA's Rubin platform and ASICs.

5. Recruit Holdings Co Ltd: It is a Japanese company best known for helping people find jobs and helping businesses hire, mainly through its global job-search platform Indeed. On top of that, it provides business software and tools that small and medium-sized companies use to manage bookings, payments, and day-to-day operations.

Top Contributors

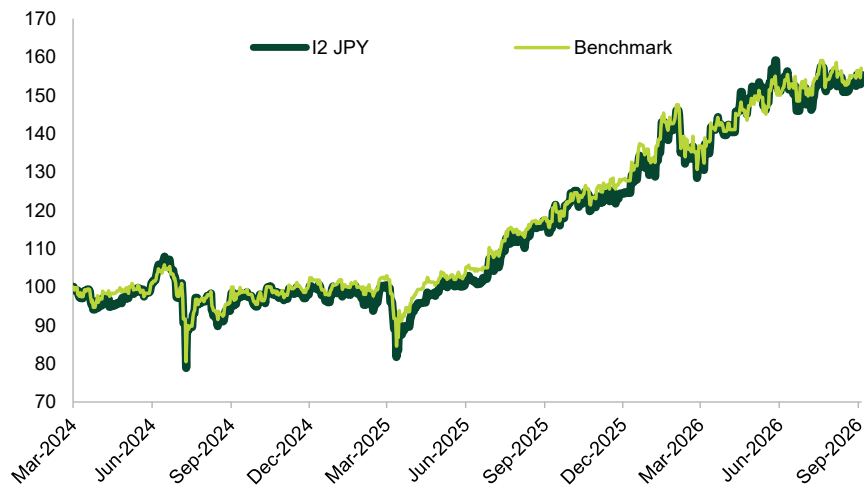
Share Name	Portfolio Weight	MSCI Sector
KIOXIA HOLDINGS CORP	3.57%	Information Technology
IBIDEN CO LTD	3.11%	Information Technology
TOKIO MARINE HOLDINGS INC	3.24%	Financials
MURATA MANUFACTURING CO LTD	2.31%	Information Technology
JAPAN POST BANK CO LTD	4.03%	Financials

Top Detractors

Share Name	Portfolio Weight	MSCI Sector
RECRUIT HOLDINGS CO LTD	4.48%	Industrials
KUSURI NO AOKI HOLDINGS CO LTD	1.59%	Consumer Staples
TOYO SUISAN KAISHA LTD	1.82%	Consumer Staples
TOYOTA MOTOR CORP	4.80%	Consumer Discretionary
SONY GROUP CORP	3.90%	Consumer Discretionary

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Performance



Source: SMDAM and Bloomberg, data as at 30 September 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	-0.34	-0.27
3m	1.38	3.79
6m	19.07	18.74
12m	34.12	33.91
Since Inception p.a. (27/03/24)	19.18	19.71

Investment Information	
Investment Management Fee	Total Expense Ratio
Institutional (I) 0.70% p.a.	Institutional (I) 0.90% p.a.
Institutional (I2) 0.45% p.a.	Institutional (I2) 0.90% p.a.
Wholesale (A) 1.20% p.a.	Wholesale (A) 1.40% p.a.
Dealing Frequency: Daily	

Source: SMDAM, as at 30 September 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

Sumitomo Mitsui DS Asset Management (UK) Limited.
100 Liverpool Street, London
EC2M 2AT, United Kingdom
www.smd-am.co.uk - uksales@smd-am.co.jp



Richard HAXE

Managing Director,
Head of Business Development

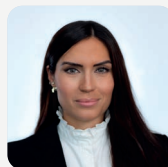
+44 20 7507 6431
richard_haxe@smd-am.co.jp



Alex BARRY

Executive Director,
Head of Sales, UK and Ireland

+44 20 7507 6419
alex_barry@smd-am.co.jp



Chloé CHOQUIN

Director, Business Development

+44 20 7507 6424
chloe_choquin@smd-am.co.jp



Thomas CARTWRIGHT

Director, Business Development

+44 20 7507 6440
thomas_cartwright@smd-am.co.jp

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