SMBC SUMITOMO MITSUI DS ASSET MANAGEMENT



Japan Equity High Conviction

Monthly Commentary - October 2026

Marketing communication for clients 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 October, the SMD-AM Japan Equity High Conviction Fund Class I2 JPY returned -3.31% versusthe TOPIX Total Return JPY return of -3.48%*.

The Nikkei 225 closed October down 5.2% month-on-month at 63,290.11 yen, while the TOPIX fell 3.5% to 3,965.07 yen. AI- and semiconductor-related stocks were bought in the early part of the month but declined sharply from mid-month onward, dragging the Nikkei 225 lower.

Our fund outperformed the benchmark by 17 bps.

In the early part of the month, AI- and semiconductor-related stocks advanced on the back of gains in U.S. technology shares, supported by Micron Technology's earnings results and guidance. Meanwhile, profit-taking, caution surrounding the situation in the Middle East, and weakness on Wall Street weighed on the broader market. During the middle part of the month, selling pressure spread, particularly among AI- and semiconductor-related names, driven by declines in U.S. semiconductor stocks, rising tensions in the Middle East, and growing expectations of a U.S. interest rate hike. In the latter part of the month, Japanese equities rebounded following gains in U.S. markets and a strong earnings release from SpaceX, before declining again due to weakness in U.S. semiconductor-related stocks and a worsening situation in the Middle East.

The market later recovered following favourable results from SK Hynix of South Korea and Advantest's upgrade to its earnings guidance. However, at month-end, selling pressure returned to AI-, semiconductor-, and technology-related stocks amid declines in U.S. technology shares and concerns over excessive AI investment. By sector, the best-performing sectors were services, mining, pharmaceuticals, marine transportation, and retail trade. The worst-performing sectors were non-ferrous metals, machinery, banks, electric appliances, and metal products.

We expect the Japanese equity market to consolidate through mid-November 2026. Inflation concerns stemming from elevated oil prices amid turmoil in the Middle East, together with concerns regarding the profitability of AI-related investment, have left investors cautious, particularly toward AI- and semiconductor-related stocks. On the other hand, we believe the global economy will continue to expand, supported by expansionary fiscal policies in major economies. The domestic economy is also expected to remain resilient, underpinned by economic stimulus measures and robust capital expenditure. Against this backdrop, our long-held view that Japanese companies will continue to deliver solid earnings growth remains unchanged. The recent share price correction has also helped alleviate concerns regarding stretched valuations.

We expect uncertainty to gradually recede following major central bank policy meetings and the U.S. midterm elections. As a result, we believe investor focus will shift from the external environment back to corporate earnings. Based on July-September 2026 earnings announcements, we expect the market to recover toward year-end as investors increasingly price in sustained earnings growth among Japanese companies.

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

Buy

FUJITSU: Domestic demand for digital investment remains strong. We expect increasing AI adoption to drive cost reductions and support higher contract values.

Sell

MITSUBISHI UFJ FINANCIAL GROUP: A potential flattening of the JBG yield curve could dampen future earnings growth.

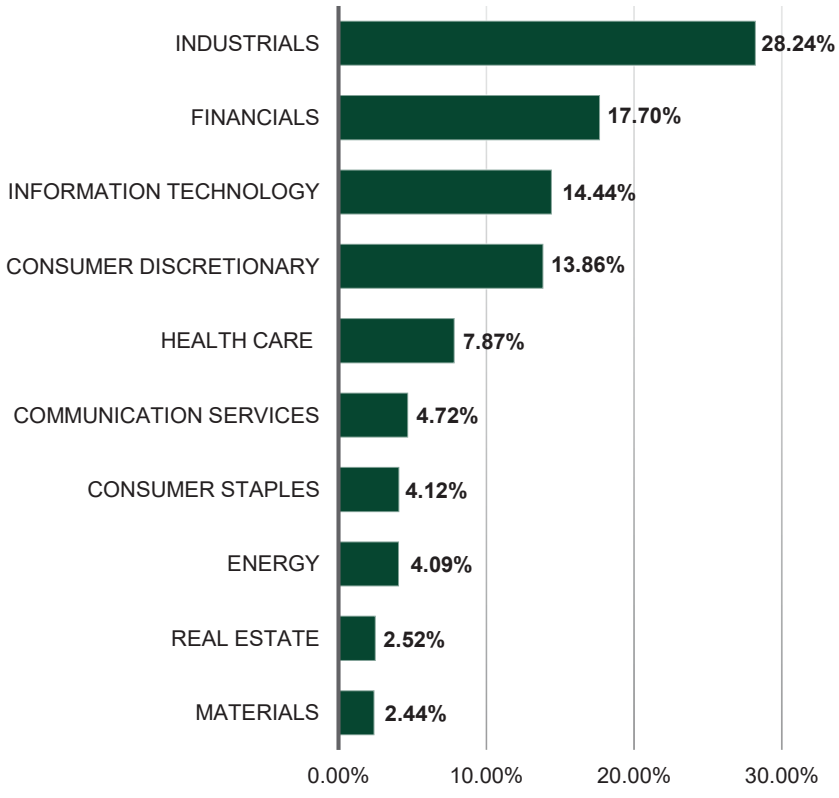
Top Buys

Share Name
FUJITSU LIMITED
TOKIO MARINE HOLDINGS INC
RESONAC HOLDINGS CORP

Top Sells

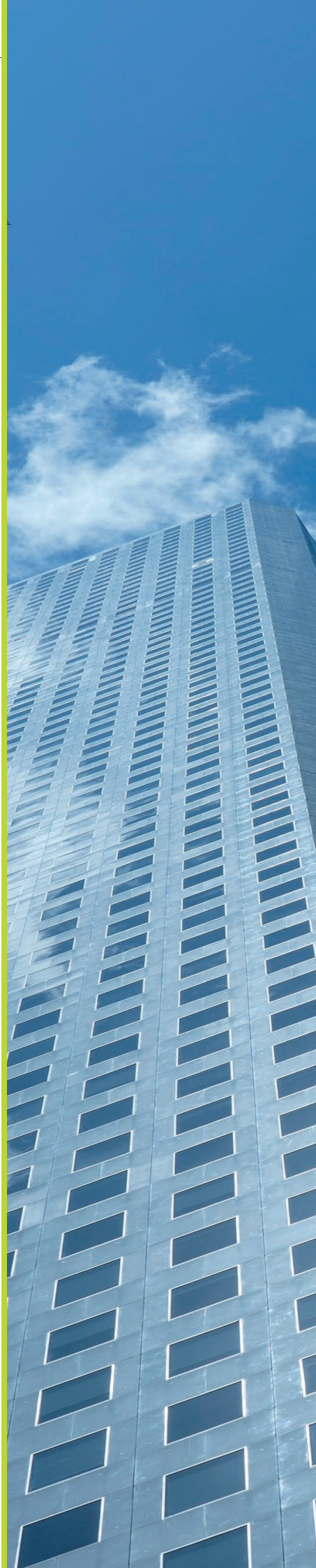
Share Name
MITSUBISHI UFJ FINANCIAL GROUP
ADVANTEST CORP
TOYOTA MOTOR CORP

Sector Allocation



Source: SMDAM, as at 31 October 2026

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Top Holdings

Share Name	Portfolio Weight	MSCI Sector
MITSUBISHI UFJ FINANCIAL GROUP	7.60%	Financials
TAKEDA PHARMACEUTICAL CO LTD	5.26%	Health Care
RECRUIT HOLDINGS CO LTD	5.12%	Industrials
SUMITOMO CORP	5.06%	Industrials
TOYOTA MOTOR CORP	4.80%	Consumer Discretionary

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

2. Takeda Pharmaceutical Co Ltd: A global, research-driven biopharmaceutical leader headquartered in Japan, with core therapeutic areas including oncology, rare diseases, neuroscience, and gastroenterology. Through advanced research and global partnerships, the company develops innovative medicines and vaccines that improve patient care across more than 80 countries.

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

4. 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.

5. 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.

Top Contributors

Share Name	Portfolio Weight	MSCI Sector
TAKEDA PHARMACEUTICAL CO LTD	5.26%	Health Care
RECRUIT HOLDINGS CO LTD	5.12%	Industrials
KUSURI NO AOKI HOLDINGS CO LTD	1.95%	Consumer Staples
TOYO SUISAN KAISHA LTD	2.17%	Consumer Staples
BANDAI NAMCO HOLDINGS INC	3.16%	Consumer Discretionary

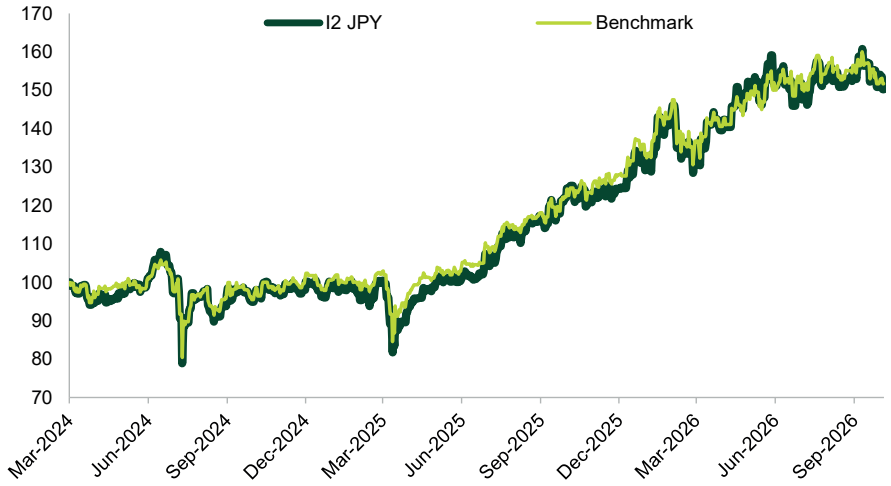
Top Detractors

Share Name	Portfolio Weight	MSCI Sector
IBIDEN CO LTD	2.44%	Information Technology
KIOXIA HOLDINGS CORP	2.91%	Information Technology
JAPAN POST BANK CO LTD	3.60%	Financials
FUJI ELECTRIC CO LTD	3.39%	Industrials
KOMATSU LTD	2.21%	Industrials

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Source: SMDAM, as at 31 October 2026

Performance



Source: SMDAM and Bloomberg, data as at 31 October 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	-3.31	-3.48
3m	0.56	-0.04
6m	7.01	7.54
12m	20.11	21.71
Since Inception p.a. (27/03/24)	**16.97**	**17.39**

Investment Information	
Investment Management Fee	**Total Expense Ratio**
Institutional (I, I2) 0.70% p.a.	Institutional (I, I2) 0.90% p.a.
Institutional (P) 0.45% p.a.	Institutional (P) 0.50% p.a.
Institutional (Y) 0.55% p.a.	Institutional (Y) 0.75% p.a.
Wholesale (A) 1.20% p.a.	Wholesale (A) 1.40% p.a.
Dealing Frequency: Daily	

Source: SMDAM, as at 31 October 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).





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