Sumitomo Mitsui DS Asset Management

# Japan Equity High Conviction

## Monthly Commentary - July 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 July, the SMD-AM Japan Equity High Conviction Fund Class I2 JPY returned -2.52% versus the TOPIX Total Return JPY return of 0.22%*.

Early in the month, volatility in U.S. technology shares and South Korea's KOSPI led to the instability in AI- and semiconductor-related names in Tokyo, putting the Nikkei 225 under pressure. However, theTOPIX remained resilient, renewing its record closing on the 6th, supported by the buying of value stocks, such as automobiles, and domestic demand-driven companies.

The Nikkei 225 declined sharply mid-month, reflecting a drop in AI- and semiconductor-related names against the backdrop of falling US technology shares and the deteriorating Middle East situation. Towards month-end, AI- and semiconductor-related names were initially being bought in expectation of a technical rebound. However, these stocks then softened due to (1) caution over higher inflation/interest rates against the backdrop of rising crude prices and (2) declines in US technology shares and on KOSPI. Rebounding again from the 30th owing to positive results releases from Advantest and Microsoft. Our fund slightly underperformed the benchmark by 274 bps.

We expect the Japanese equity market to remain range-bound in August 2026. In July, Japanese equities saw the TOPIX edge higher, supported by gains in Banks and domestic demand-related stocks. In contrast, Nikkei 225 posted its largest decline in four months, as concerns over additional rate hikes by the U.S. Federal Reserve intensified and weighed heavily on AI- and semiconductor-related stocks, which had previously led the market higher.

Domestic corporate earnings releases for the April–June quarter have been solid thus far. Provided that the pace of Federal Reserve rate hikes remains gradual, we see no change to our view that both domestic and global economic expansion will continue, together with the earnings growth trend of corporates. Regarding AI, we continue to expect medium- to long-term expansion in practical applications and related demand. However, the market has entered a phase of reassessing power supply constraints, financing burdens, and the visibility of investment returns. Accordingly, we expect Japanese equities to remain range-bound for the time being, as investors assess U.S. inflation trends, U.S. monetary policy, earnings momentum among AI-related companies, and the sustainability of capital expenditure plans.

Japanese corporate earnings for the first quarter have started strongly. As of the 4th, among TOPIX constituents, 45% by number of companies and 66% by market capitalisation had completed their 1Q earnings announcements. For the overall TOPIX universe, recurring profit rose 39.0% YoY and net profit increased 55.3% YoY. Including Kioxia, which is excluded from the continuously tracked data universe, recurring profit increased 49.4% YoY and net profit rose 66.2% YoY. Major sectors contributing to recurring profit growth included Banks, Transportation Equipment, and Electric Appliances. Earnings among AI- and semiconductor-related companies remained strong, while sectors beyond technology also achieved profit growth. By contrast, sectors posting profit declines included Electric Power & Gas.

**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

**FUNUC CORP**

Judging from recent machine tool orders data, we expect order intake to increase, supported by robust global demand for industrial robots.

## Sell

**TOKYO ELECTRON**

We believe that growing order intake and planned product price hikes are already priced in to some extent.

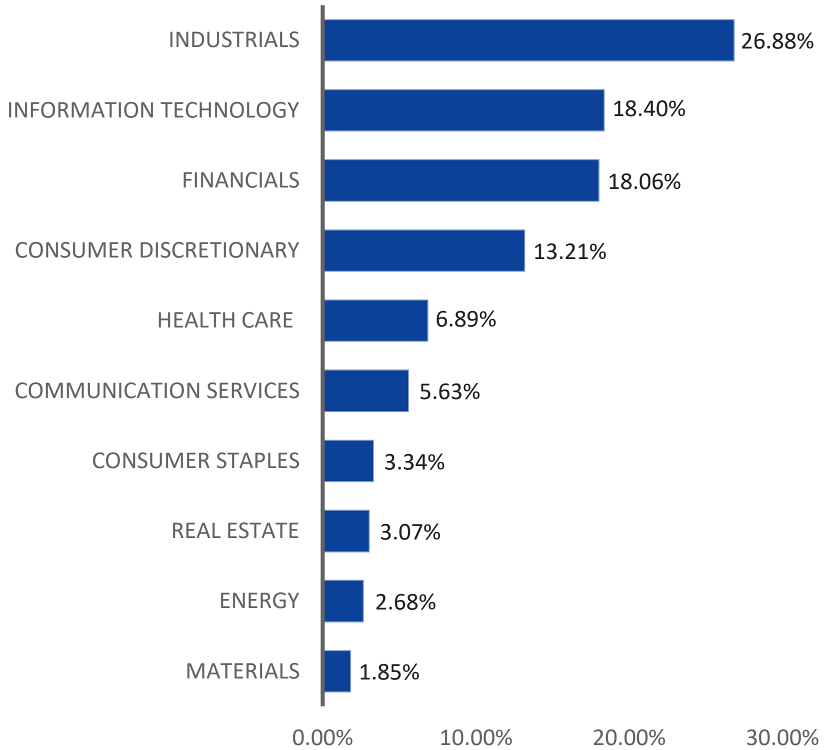
## Top Buys

| Share Name |
|---|
| FANUC CORP |
| MEBUKI FINANCIAL GROUP INC |
| RENESAS ELECTRONICS CORP |

## Top Sells

| Share Name |
|---|
| TOKYO ELECTRON LTD |
| YASKAWA ELECTRIC CORP |
| DISCO CORP |

## Sector Allocation




Source: SMDAM, as at 31 July 2026

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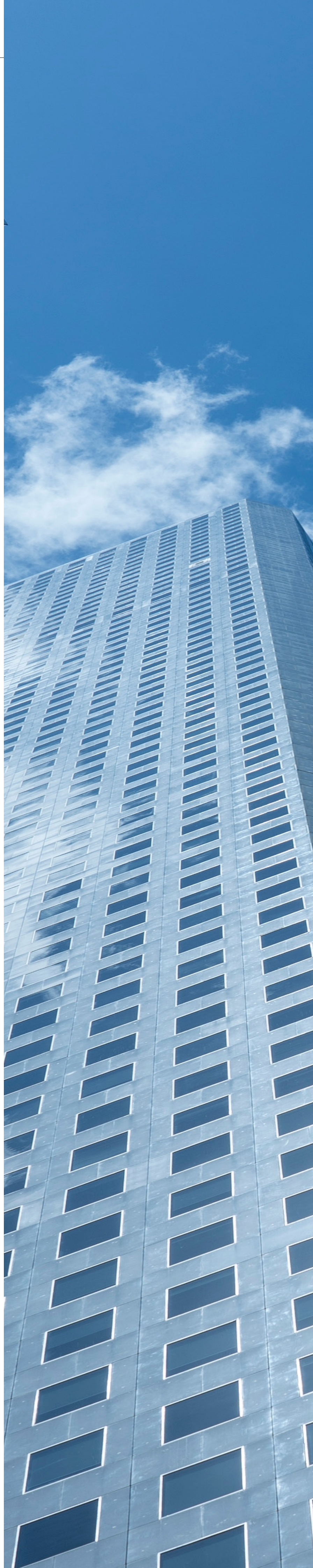



## Top Holdings

| Share Name | Portfolio Weight | MSCI Sector |
|---|---|---|
| MITSUBISHI UFJ FINANCIAL GROUP | 8.14% | Financials |
| TOYOTA MOTOR CORP | 5.11% | Consumer Discretionary |
| SUMITOMO CORP | 4.93% | Industrials |
| TAKEDA PHARMACEUTICAL CO LTD | 4.46% | Health Care |
| SONY GROUP CORP | 4.40% | 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. 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.

**3. 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.

**4. Takeda Pharmaceutical Co Ltd:** it is a global, R&D-driven biopharmaceutical leader headquartered in Japan, focusing on core therapeutic areas including oncology, rare diseases, neuroscience, and gastroenterology.

**5. Sony Group Corp:** A global creative entertainment and technology conglomerate operating across gaming, music, motion pictures, consumer electronics, and imaging sensors. By combining creative content with advanced hardware technologies, the company delivers immersive entertainment experience and leads digital innovation worldwide.

## Top Contributors

| Share Name | Portfolio Weight | MSCI Sector |
|---|---|---|
| CAPCOM CO LTD | 2.71% | Communication Services |
| MITSUBISHI UFJ FINANCIAL GROUP | 8.14% | Financials |
| BANDAI NAMCO HOLDINGS INC | 2.32% | Consumer Discretionary |
| SONY GROUP CORP | 4.40% | Consumer Discretionary |
| SUMITOMO CORP | 4.93% | Industrials |

## Top Detractors

| Share Name | Portfolio Weight | MSCI Sector |
|---|---|---|
| MURATA MANUFACTURING CO LTD | 3.79% | Information Technology |
| KIOXIA HOLDINGS CORP | 2.25% | Information Technology |
| RENESAS ELECTRONICS CORP | 1.23% | Information Technology |
| KAJIMA CORP | 2.00% | Industrials |
| HOYA CORP | 2.42% | Health Care |

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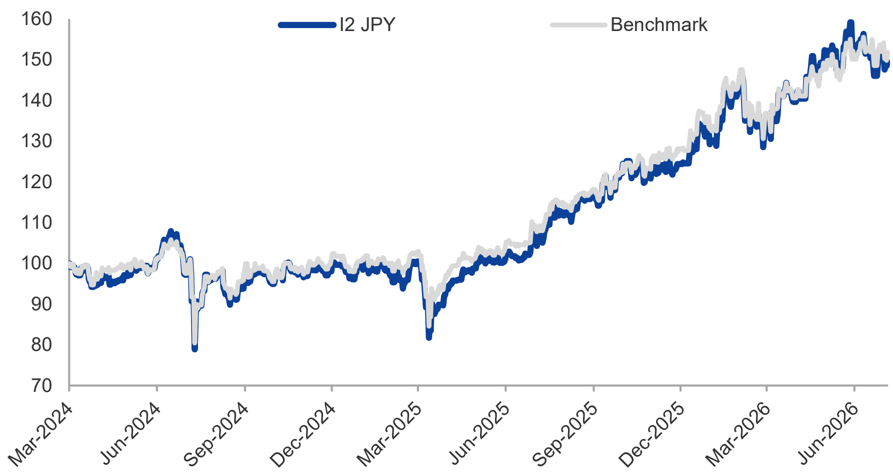
Source: SMDAM, as at 31 July 2026

## Performance




Source: SMDAM and Bloomberg, data as at 31 July 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** | -2.52 | 0.22 |
| **3m** | 6.42 | 7.59 |
| **6m** | 14.73 | 13.57 |
| **12m** | 40.00 | 39.16 |
| **Since Inception p.a. (27/03/24)** | **18.68** | **19.45** |

Source: SMDAM, as at 31 July 2026

| 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 31 July 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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