



Japan Equity High Conviction

Monthly Commentary - March 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 March, the SMD-AM Japan Equity High Conviction Fund Class I2 JPY returned -10.63% versus the TOPIX Total Return JPY return of -10.33%.*

In reaction to attacks on Iran by the U.S. and Israel, risk-averse selling continued in the Japanese stock market. Japanese shares rebounded temporarily later in the month, when the rise in crude oil prices paused after remarks by U.S. President Donald Trump, but the market remained soft as caution over escalation of the war was not eliminated. In the middle of the month, although both the Fed and the Bank of Japan decided to maintain their policy interest rates, expectations for cuts in the U.S. receded while expectations for hikes in Japan grew.

By style, among large caps, growth names outperformed in the first half of the month, while value names outperformed in the second half, ultimately outperforming for the month overall. By factor, return reversal names outperformed, as did low-beta and high-dividend-yield stocks.

Our fund slightly underperformed the benchmark by 30 bps.

We expect the market to remain volatile and lack clear direction in April–June 2026. Although TOPIX valuation has adjusted to around 16x PER, it does not appear especially cheap given the risk that Middle East tensions and higher energy prices could weigh on the economy and corporate earnings. While fears of further escalation have eased somewhat, the outlook for the region and for energy prices remains uncertain, so markets are likely to stay sensitive to geopolitical headlines and growth expectations.

Still, the medium-term outlook for Japanese stocks remains positive. Structural support from rising wages, moderate inflation, and ongoing corporate governance reform remains in place. If concerns over energy prices ease, the market could gradually stabilize and recover, with policy expectations also offering support later in the summer. Corporate guidance for fiscal 2026 is likely to be cautious, but bottom-up forecasts still point to sales growth and modest profit growth overall.

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

SHIN-ETSU CHEMICAL CO. LTD

Following recent share price underperformance, the stock appears attractively valued. We expect earnings to grow in FY2026, supported by expectations that North American PVC prices have bottomed out.

Sell

TORAY INDUSTRIES INC

A spate of flight cancellations by Middle Eastern airlines has raised concerns over the outlook for carbon fiber demand for Boeing programs.

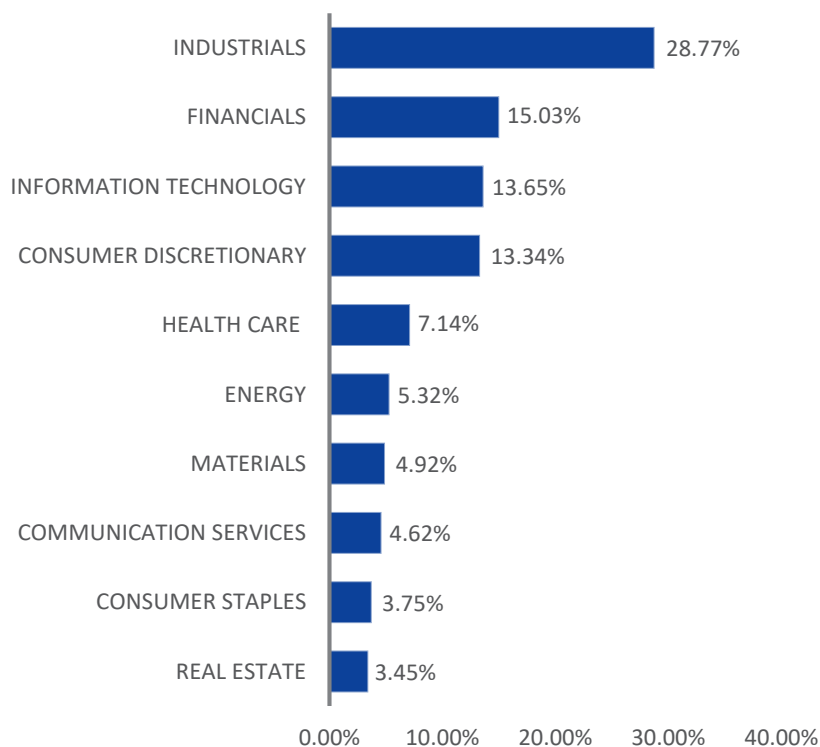
Top Buys

Share Name
SHIN-ETSU CHEMICAL CO LTD
ENEOS HOLDINGS INC
YASKAWA ELECTRIC CORP

Top Sells

Share Name
TORAY INDUSTRIES INC
EAST JAPAN RAILWAY CO
MITSUBISHI UFJ FINANCIAL GROUP

Sector Allocation



Source: SMDAM, as at 31 March 2026

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Top Holdings

Share Name	Portfolio Weight	MSCI Sector
MITSUBISHI UFJ FINANCIAL GROUP	6.39%	Financials
TOYOTA MOTOR CORP	5.06%	Consumer Discretionary
SUMITOMO CORP	4.85%	Industrials
TAKEDA PHARMACEUTICAL CO LTD	4.42%	Health Care
FURUKAWA ELECTRIC CO LTD	4.41%	Industrials

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: 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. Sumitomo Corp: It is 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 one of the largest pharmaceutical companies in Japan and a global biopharma group focused on gastroenterology, rare diseases, plasma-derived therapies, oncology, neuroscience, and vaccines.

5. Furukawa Electric Co Ltd: A materials and components manufacturer producing world-class optical fibre and high-performance copper materials, backed by decades of R&D and high product reliability underpinning its competitive edge.

Top Contributors

Share Name	Portfolio Weight	MSCI Sector
INPEX CORP	2.84%	Energy
TOKIO MARINE HOLDINGS INC	3.82%	Financials
TOHO CO LTD	1.78%	Communication Services
FURUKAWA ELECTRIC CO LTD	4.41%	Industrials
NTT INC	2.84%	Communication Services

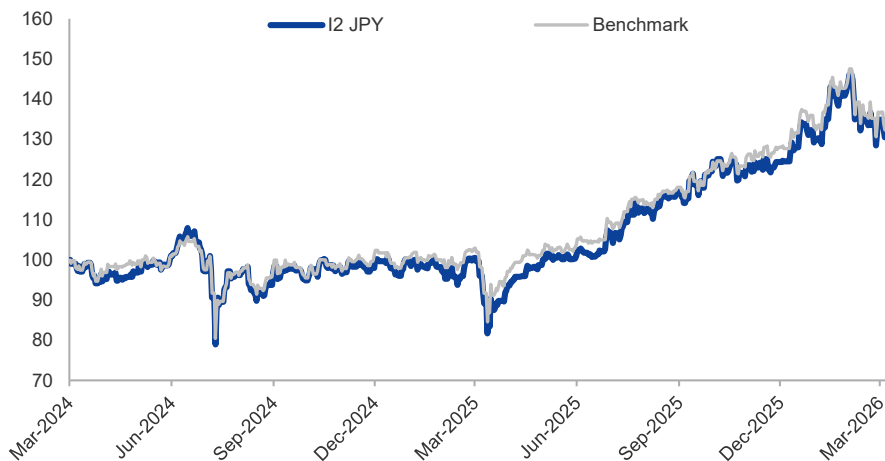
Top Detractors

Share Name	Portfolio Weight	MSCI Sector
FUJI ELECTRIC CO LTD	3.39%	Industrials
YASKAWA ELECTRIC CORP	2.51%	Industrials
MITSUI FUDOSAN CO LTD	3.45%	Real Estate
KAJIMA CORP	3.58%	Industrials
SUMITOMO CORP	4.85%	Industrials

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Source: SMDAM, as at 31 March 2026

Performance



Source: SMDAM and Bloomberg, data as at 31 March 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	-10.63	-10.33
3m	4.80	3.64
6m	12.64	12.78
12m	35.91	34.65
Since Inception p.a. (27/03/24)	14.16	14.95

Source: SMDAM, as at 31 March 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 March 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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