



Japan Equity High Conviction

Monthly Commentary - May 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 May, the SMD-AM Japan Equity High Conviction Fund Class I2 JPY returned 8.38% versus the TOPIX Total Return JPY return of 6.24%.*

The three major US stock indices also set new records on expectations that the US and Iran would reach a ceasefire deal soon. On the Tokyo market, too, stocks advanced continuously toward end-month, driven particularly by AI/semiconductor-related names. As a result, both the Nikkei 225 and TOPIX renewed their record closings. Profit-taking weighed on the market at some points during the month, notably in reaction to a plunge in the shares of major electric wire maker Fujikura and a rise in domestic long-term interest rates.

We remain fully committed to an all-weather, core approach to portfolio construction. Looking at the relative performances of the MSCI style indices, among large-caps, growth names outperformed in the early part of the month, but then value names outperformed in the middle part of the month against the backdrop of rising domestic long-term interest rates. In the latter part of the month, growth names outperformed again on expectations that the US and Iran would agree on a peace deal soon.

Our fund slightly outperformed the benchmark by 214 bps.

We expect the Japanese equity market to consolidate within elevated ranges in June 2026. The domestic equity market continued to rise in May. Expectations for a ceasefire agreement between the U.S. and Iran, combined with strong earnings prospects for companies benefiting from AI proliferation and related investment, drove the rally.

However, we expect the upward momentum to take a temporary breather, as near-term overbought conditions stemming from the rapid rally since April are likely to cap further upside. Caution also remains regarding rising long-term interest rates, as well as the set of issues related to higher costs and supply chain disruptions stemming from the closure of the Strait of Hormuz. While these concerns could intensify and exert short-term downward pressure on the market, our view that the favourable environment surrounding the Japanese economy and its corporates will persist over the medium-to-long term remains unchanged. Accordingly, we believe the risk of a sharp sell-off is limited. In the near term, we expect Japanese equities to lack directional conviction while trading within elevated ranges.

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

The company can benefit from long-term yield increases and loan volume growth due to stable economic expansion in Japan and their strong market position.

Sell

FURUKAWA ELECTRIC CO LTD

The share price rose significantly, driven by growing demand for optical devices used in data centres.

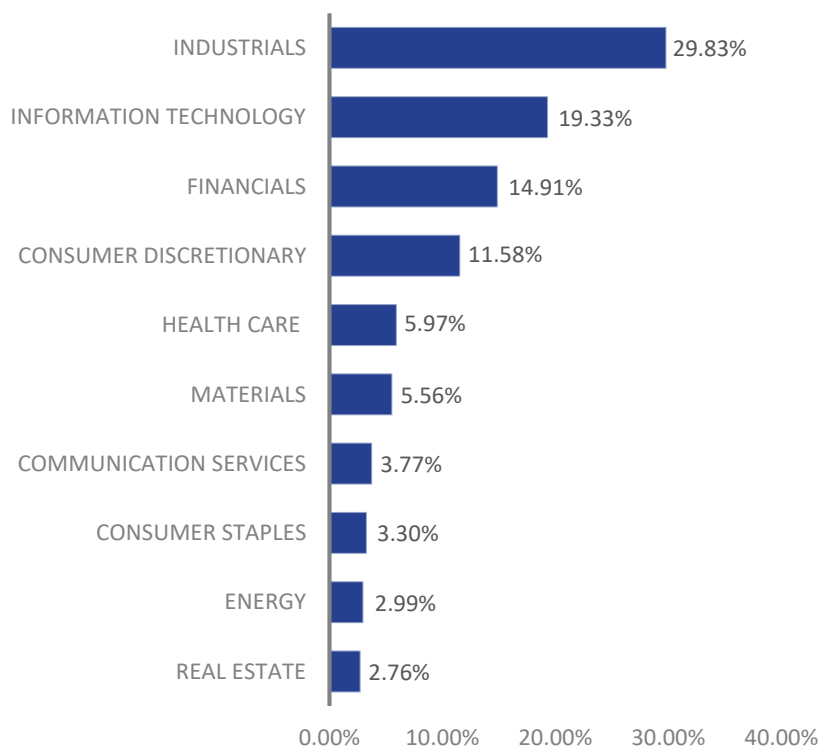
Top Buys

Share Name
MITSUBISHI UFJ FINANCIAL GROUP
SONY GROUP CORP
MITSUBISHI HEAVY INDUSTRIES

Top Sells

Share Name
FURUKAWA ELECTRIC CO LTD
MURATA MANUFACTURING CO LTD
ENEOS HOLDINGS INC

Sector Allocation



Source: SMDAM, as at 31 May 2026

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Top Holdings

Share Name	Portfolio Weight	MSCI Sector
MURATA MANUFACTURING CO LTD	7.21%	Information Technology
MITSUBISHI UFJ FINANCIAL GRO	6.95%	Financials
SUMITOMO CORP	5.07%	Industrials
FUJI ELECTRIC CO LTD	4.94%	Industrials
TOKYO ELECTRON LTD	3.94%	Information Technology

1. Murata Manufacturing Co Ltd: The company is a leading global manufacturer of electronic components, including capacitors, inductors, and wireless communication modules. Murata benefits from strong demand in smartphones, automotive electronics, and industrial applications,.

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

3. 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. Fuji Electric Co Ltd It specialises in the manufacture and sale of electrical equipment and systems. The company operates in several key sectors, including power electronics systems, industrial equipment, energy, and environmental solutions. Strong order growth in the energy sector and the expansion of profit margins have raised expectations for further earnings growth.

5. Tokyo Electron: It is one of the world's leading suppliers of semiconductor production equipment. Tokyo Electron is well positioned to benefit from the long-term growth in semiconductor investment, driven by advanced logic, memory, and AI-related demand. Lower than expected, we have revised our performance outlook upward.

Top Contributors

Share Name	Portfolio Weight	MSCI Sector
MURATA MANUFACTURING CO LTD	7.21%	Information Technology
YASKAWA ELECTRIC CORP	3.61%	Industrials
SUMITOMO CORP	5.07%	Industrials
FUJI ELECTRIC CO LTD	4.94%	Industrials
FURUKAWA ELECTRIC CO LTD	3.62%	Industrials

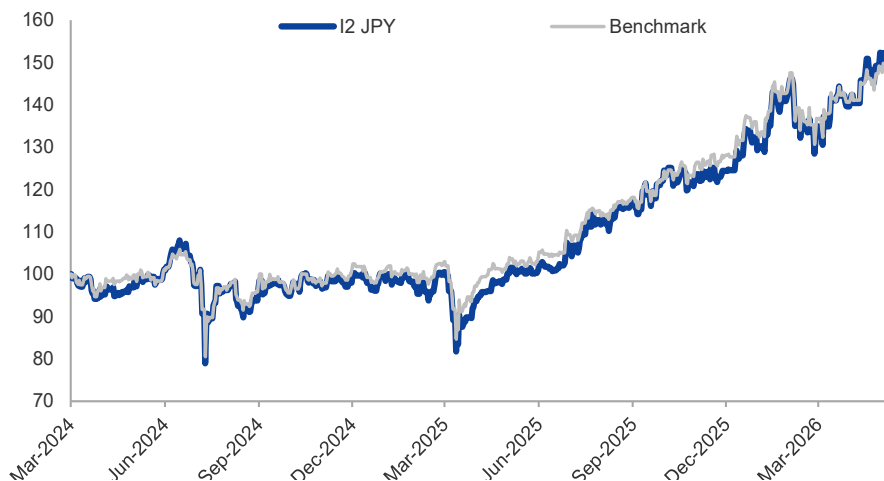
Top Detractors

Share Name	Portfolio Weight	MSCI Sector
MITSUBISHI HEAVY INDUSTRIES	3.55%	Industrials
DISCO CORP	3.04%	Information Technology
MITSUI FUDOSAN CO LTD	2.76%	Real Estate
INPEX CORP	1.42%	Energy
CAPCOM CO LTD	1.38%	Communication Services

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Source: SMDAM, as at 31 May 2026

Performance



Source: SMDAM and Bloomberg, data as at 31 May 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	8.38	6.24
3m	4.20	1.52
6m	23.12	18.54
12m	49.90	44.55
Since Inception p.a. (27/03/24)	21.26	20.39

Source: SMDAM, as at 31 May 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 May 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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