

## SMD-AM Funds

### SMD-AM Japan Equity High Conviction Fund

For Professional Investors Only

#### Important Information

SMD-AM Japan Equity High Conviction Fund's (the "Fund") invests in Japanese equity securities (i.e. equities issued by companies which are established or have significant operations in Japan). The Fund will be unrestricted in its choice of companies by sector or by size (including micro-capitalisation, small-capitalisation, mid-capitalisation and large-capitalisation companies). The investment portfolio may fall in value due to any of the key risk factors below and therefore your investment in the Fund may suffer losses. There is no guarantee of the repayment of principal.

A class of shares may be designated in a currency other than the base currency of the Fund. The net asset value of the Fund may be affected unfavorably by fluctuations in the exchange rates between these currencies and the base currency and by changes in exchange rate controls.

The Fund's investment in equity securities is subject to general market risks, whose value may fluctuate due to various factors, such as changes in investment sentiment, political and economic conditions and issuer-specific factors.

The stock of micro-capitalisation / small-capitalisation / mid-capitalisation companies may have lower liquidity and their prices are more volatile to adverse economic developments than those of larger capitalisation companies in general.

The high conviction strategy may not achieve the desired results under all circumstances and market conditions.

The Fund's investments are concentrated in Japanese equity securities and may be concentrated in a specific industry sector. The value of the Fund may be more volatile than that of a fund having a more diverse portfolio of investments. The value of the Fund may be more susceptible to adverse economic, political, policy, foreign exchange, liquidity, tax, legal or regulatory event affecting the Japanese market.

The Fund may use financial derivative instruments for hedging and/or efficient portfolio management purposes and/or to manage foreign exchange risks. There is however no guarantee that the financial derivative instruments employed by the manager will be successful. In an adverse situation, the Fund may suffer significant losses from its use of financial derivative instruments. Investors should refer to the Fund's offering document in order to fully understand the associated risk factors. Investors should not base any of their investment decisions solely on this marketing material alone.

Sumitomo Mitsui DS Asset Management Company, Limited hereinafter referred to as "SMDAM". And Sumitomo Mitsui DS Asset Management (UK) Limited hereinafter referred to as "SMDAM (UK)".

## Monthly Review

### The Japanese stock market rose in October.

In the early part of the month, the market increased on heightened expectations for expansionary fiscal policies following the election of Ms. Takaichi as the president of the Liberal Democratic Party.

In the middle of the month, although there were moments of concern due to the withdrawal of the Komeito Party from the coalition and the rekindling of U.S.-China trade friction worries, the market was supported by the establishment of a coalition between the Liberal Democratic Party and the Japan Innovation Party, leading to further gains.

In the latter part of the month, the market gained momentum as it navigated the monetary policy meetings in both Japan and the U.S., as well as summit meetings between Japan and the U.S., and between the U.S. and China, without any major disruptions.

Additionally, strong earnings reports from overseas tech companies bolstered AI-related stocks.

By industry, non-ferrous metals, electrical equipment, and information & communication outperformed the market, while insurance, services, and pulp & paper underperformed.

### Our fund slightly outperformed TOPIX Total Return Index in October 2025 entirely attributable to stock selection.

Main contributors include the following stocks.

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**SOFTBANK GROUP CORP:** The rise in asset values of subsidiaries, including UK-based ARM, along with expectations that the U.S. Federal Reserve might halt quantitative tightening, boosted investment inflows into AI and high-tech stocks, driving up stock prices.

**TDK CORP:** Expectations of increased demand for EV and renewable energy components, along with the depreciation of the yen, provide a tailwind.

**KAJIMA CORP:** Stock prices rose due to expectations of large orders for national resilience and urban redevelopment projects from the government's supplementary budget, as well as improved profitability of overseas operations due to the weaker yen.

Main detractors include the following stocks.

**TOKIO MARINE HOLDINGS:** Stock prices fell due to the worsened outlook for unexpected large insurance payouts from natural disasters primarily in the U.S., and concerns over increased payment amounts due to the weaker yen.

**ABC-MART INC:** Stock prices fell due to concerns over a weak autumn/winter sales season predicted by a warm winter forecast, combined with worries about increased procurement costs due to the weaker yen.

**MITSUBISHI UFJ FINANCIAL GROUP:** The stock price experienced only a small decline, and there are no significant news events to report.

#### Top 3 Contributors

Share Name	MSCI Sector
SOFTBANK GROUP CORP	Communication Services
TDK CORP	Information Technology
KAJIMA CORP	Industrials

#### Top 3 Detractors

Share Name	MSCI Sector
TOKIO MARINE HOLDINGS INC	Financials
ABC-MART INC	Consumer Discretionary
MITSUBISHI UFJ FINANCIAL GRO	Financials

Our top purchase is MITSUBISHI UFJ FINANCIAL GROUP. We evaluate its reasonable valuation and attractive shareholder return policy.

Our top sale is TOHO CORP. We evaluate its valuation has become stretched as the stock price rose on the back of blockbuster movies such as 'Demon Slayer' and 'Kokuho (National Treasure)'.

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## **Looking Ahead**

We anticipate that the Japanese stock market will continue to elevate its levels.

Although there are impacts from the U.S. administration's tariff hikes, the global economy remains resilient.

We expect the global economy to recover after a temporary slowdown, supported by U.S. interest rate cuts and fiscal stimulus from major countries.

Domestically, aggressive fiscal policies are anticipated under the new Prime Minister Takaichi, and corporate earnings are expected to improve against the backdrop of a robust domestic and global economy.

Additionally, the progress in governance reforms (corporate governance) undertaken by domestic companies is expected to be a medium-term factor contributing to higher stock prices.

However, with the rise in stock prices, valuations are reaching levels where overheating concerns may come into play, potentially acting as a factor that could cap further increases in stock prices.

Source: SMDAM, as of 31/10/2025

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