

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 January.

Defense-related shares, buoyed by escalating international geopolitical tensions, and gains in U.S. high-tech stocks helped drive the market higher at the start of the month. Subsequently, expectations for a more stable political foundation and smoother policy implementation grew on the back of speculation about the dissolution of the House of Representatives, pushing the market up further.

From mid-month onward, however, concerns over growing U.S.-European tensions regarding Greenland and a rapid appreciation of the yen—triggered by speculation about rate checks by the Japanese and U.S. monetary authorities (the practice of inquiring with major banks about conditions in the foreign exchange market as a precursor to possible FX intervention)—weighed on sentiment, narrowing the market's gains.

By sector, nonferrous metals, petroleum and coal products, and machinery outperformed the broader market, while services, information and communication, and other products underperformed.

Our fund slightly underperformed TOPIX Total Return Index in January 2026 due to negative stock selection effect.

Main contributors include the following stocks.

1. DISCO CORP

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The share price rose sharply, driven by strong earnings, supported by solid generative AI demand, and an upward revision to its full-year outlook.

2. FURUKAWA ELECTRIC CO LTD

The share price rose on expectations of surging demand for optical fiber and power cables, driven by a data center construction boom fueled by the spread of generative AI.

3. JAPAN POST BANK CO LTD

The share price rose on expectations of improved profits (wider interest margins) driven by higher domestic interest rates.

Main detractors include the following stocks.

1. SONY GROUP CORP

The share price fell, pressured by a decline in game and entertainment stocks overall.

2. KUSURI NO AOKI HOLDINGS CO L

The share price fell, weighed down by the termination of its business alliance with Aeon and concerns raised over its corporate governance.

3. FUJI ELECTRIC CO LTD

The share price fell, as investors were disappointed by a brokerage report cutting its target price and by the lack of an earnings upgrade in the latest quarterly results.

Top 3 Contributors

Share Name	MSCI Sector
DISCO CORP	Information Technology
FURUKAWA ELECTRIC CO LTD	Industrials
JAPAN POST BANK CO LTD	Financials

Top 3 Detractors

Share Name	MSCI Sector
SONY GROUP CORP	Consumer Discretionary
KUSURI NO AOKI HOLDINGS CO L	Consumer Staples
FUJI ELECTRIC CO LTD	Industrials

Top Buy

TOKYO ELECTRON LTD: Capital investment in DRAMs and NAND flash memories is expected to increase in CY2026 due to the growing demand for semiconductors for data centers.



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Top Sell

TDK CORP: Due to rising memory costs and other factors, we believe that downward pressure is mounting on the outlook for the number of end-products using the company's components.

Looking Ahead

We expect the Japanese stock market to move sideways within a high price range. The global economy is projected to recover, supported by interest rate cuts in the United States and fiscal stimulus measures in major countries. Domestically, proactive economic measures are expected to boost economic activity, and corporate earnings are likely to remain on an improving trend. Progress in corporate governance reforms at Japanese companies is also anticipated to be a medium-term factor supporting higher share prices.

However, with valuations increasingly perceived as elevated, we believe a resurgence of trade frictions between the U.S. and other major economies, rising geopolitical risks, and concerns over the outlook for Japan–China relations will act as factors limiting further gains. In addition, depending on the outcome of the House of Representatives election, there may be periods of heightened volatility in the market.

Source: SMDAM, as of 31/01/2026

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