

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 February.

In early February, stocks gained on expectations that the Liberal Democratic Party (LDP) would hold an advantage ahead of the House of Representatives election and then climbed further following the LDP's historic landslide victory, as investors anticipated strong policy implementation under the Takaichi administration.

Subsequently, the market at times faced resistance on the upside amid concerns over rising geopolitical risks related to the situation in the Middle East. However, supported by expectations for the Takaichi administration's policies and a waning view that the Bank of Japan would deliver additional rate hikes, the market went on to hit new highs toward the end of the month.

By sector, nonferrous metals, real estate, and glass & ceramics products outperformed the market, while services, information & communication, and other products underperformed.

Our fund outperformed TOPIX Total Return Index in February 2026 due to positive stock selection effect.

Main contributors include the following stocks.

1. FURUKAWA ELECTRIC CO LTD

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The share price rose significantly as investors welcomed the latest quarterly results, in which higher revenue and profit were achieved thanks to strong performance in the infrastructure segment and growth in data center-related products, along with an upward revision to the full-year forecast.

2. FUJI ELECTRIC CO LTD

The share price rose sharply on expectations of growing sales of energy storage systems driven by the spread of renewable energy, as well as increased demand for UPS for data centers, given the need for a stable power supply amid the growing adoption of AI.

3. MITSUI FUDOSAN CO LTD

The share price rose as investors welcomed the strong performance in the latest quarterly results, where robust sales in the condominium development segment and favorable contract conditions for investor-oriented units drove earnings, resulting in a substantial increase in both revenue and profit and an upward revision to the full-year forecast.

Main detractors include the following stocks.

1. FUJITSU LIMITED

Software-related stocks fell broadly after U.S. emerging AI developer Anthropic announced an AI-based function to automate the inspection and analysis of existing programs, which was taken negatively by the market.

2. HITACHI LTD

There was no particular stock-specific news. Short-term profit-taking spread, including a target price cut by a major U.S. securities firm.

3. NTT INC

Although the latest quarterly results showed higher revenue and profit, the share price declined after the company revised its full-year net income outlook downward.

Top 3 Contributors

Share Name	MSCI Sector
FURUKAWA ELECTRIC CO LTD	Industrials
FUJI ELECTRIC CO LTD	Industrials
MITSUI FUDOSAN CO LTD	Real Estate

Top 3 Detractors

Share Name	MSCI Sector
FUJITSU LIMITED	Information Technology
HITACHI LTD	Industrials
NTT INC	Communication Services

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Top Buy

ASAHI KASEI CORP: We expect solid earnings growth mainly in the pharmaceutical and life science businesses, driven by business portfolio restructuring.

Top Sell

KAJIMA CORP: We took profit as the share price has risen sharply, driven by improving construction profit margins.

Looking Ahead

We expect Japanese stock market to face upside resistance for the time being. The global economy is on a recovery trend, supported by interest rate cuts in the U.S. and fiscal stimulus in major countries, but attention is required to the risk of surging energy prices and financial market turbulence stemming from heightened tensions in the Middle East.

Domestically, proactive economic measures are expected to support growth, and corporate earnings are projected to continue improving. Progress in corporate governance reform at Japanese companies is also anticipated to be a medium-term driver of higher share prices. However, with concerns mounting over overheated valuations, we believe that factors such as rising geopolitical risks, a rekindling of trade frictions between the U.S. and other major economies, and fears of a deterioration in Japan–China relations are likely to cap the market’s upside.

Source: SMDAM, as of 28/02/2026

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