

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 May. TOPIX closed the month up 6.2% at 3,957.17. Driven by AI/semiconductor-related stocks, both indices renewed their all-time highs on a closing basis.

The three major US stock indices 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 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.

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 outperformed TOPIX Total Return Index in May 2026 by 209 bps.

Main contributors include the following stocks.

1. MURATA MANUFACTURING CO LTD

Strong earnings guidance driven by robust demand for AI server components and automotive applications boosted the stock. Improved profitability from higher utilization rates was also well received by the market.

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2. YASKAWA ELECTRIC CORP

The stock was supported by solid global demand in its AC drive and robotics businesses. Investors highly evaluated the company's continuous growth in factory automation, energy efficiency, and decarbonization trends.

3. SUMITOMO CORP

Solid earnings and a proactive investment stance in next-generation energy and digital transformation garnered positive investor sentiment. Key drivers included a new large-scale battery energy storage project in Europe and the promotion of its AI strategy.

Main detractors include the following stocks.

1. MITSUBISHI HEAVY INDUSTRIES

Despite reporting record high profits, the new fiscal year's order intake forecast fell short of the previous year's level. This cautious outlook prompted profit-taking following the stock's recent rally.

2. DISCO CORP

While the robust semiconductor capital expenditure remained strong, the company's conservative guidance triggered profit-taking.

3. MITSUI FUDOSAN CO LTD

Concerns over rising long-term interest rates following the Bank of Japan's policy normalization weighed heavily on the entire real estate sector. Investors grew cautious about the potential impact of higher borrowing costs on property valuations.

Top 3 Contributors

Share Name	MSCI Sector
MURATA MANUFACTURING CO LTD	Information Technology
YASKAWA ELECTRIC CORP	Industrials
SUMITOMO CORP	Industrials

Top 3 Detractors

Share Name	MSCI Sector
MITSUBISHI HEAVY INDUSTRIES	Industrials
DISCO CORP	Information Technology
MITSUI FUDOSAN CO LTD	Real Estate

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Purchase

MITSUBISHI UFJ FINANCIAL GROUP: The company can benefit from long-term yield increases and loan volume growth due to stable economic expansion in Japan.

Sell

FURUKAWA ELECTRIC CO LTD: The share price rose significantly, driven by growing demand for optical devices used in data centers.

Looking Ahead

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, 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 favorable 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.

Source: SMDAM, as of 31/05/2026

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