Sumitomo Mitsui DS Asset Management

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 performance diverged in July. Nikkei 225 closed July down 8.1% m/m at 64,362.02 and TOPIX was up 0.2% at 4,003.30.

AI- and semiconductor-related stocks dropped, pushing down the Nikkei 225. Meanwhile, TOPIX was solid as value and domestic demand-oriented names were bought. In the early part of the month, amid sharp fluctuations by US technology shares and on KOSPI, the volatility of AI- and semiconductor-related names increased on the Tokyo market, too. Meanwhile, due to buying of undervalued stocks such as automobiles and domestic demand-oriented names, TOPIX renewed its record closing on the 6th. In the middle part of the month, the Nikkei 225 declined sharply, reflecting a drop in AI and semiconductor names against the backdrop of falling US technology shares and the deteriorating Middle East situation. In the latter part of the month, buying in expectation of a technical rebound was predominant initially, centering on AI- and semiconductor-related names. However, these names then softened due to (1) caution over higher inflation/interest rates against the backdrop of rising crude prices and (2) declines in US technology shares and on KOSPI. AI- and semiconductor-related names then rebounded from the 30th owing to positive results releases from Advantest and Microsoft.

Our fund slightly underperformed the benchmark.

Main contributors include the following stocks.

1. CAPCOM CO LTD

The share price rose sharply following first-quarter earnings that significantly exceeded market expectations. Strong global sales of flagship titles and high profitability driven by digital distribution boosted investor confidence.

2. MITSUBISHI UFJ FINANCIAL GROUP

The stock traded strongly and reached new highs, driven by expectations of expanding net interest margins alongside rising domestic interest rates. Positive earnings momentum from major US financial institutions and growth in fee income also supported the share price.

3. BANDAI NAMCO HOLDINGS INC

The share price performed solidly, supported by potential strong performance in the toy and hobby division and a recovery in amusement facilities. Continued commercial success across key global entertainment franchises provided sustained upward momentum.

Main detractors include the following stocks.

1. MURATA MANUFACTURING CO LTD

Although the share price faced temporary pressure from market rotation away from AI and technology stocks mid-month, it recovered strongly after quarterly results showed a surge in demand for components used in AI servers and data centers.

2. KIOXIA HOLDINGS CORP

The share price encountered short-term volatility stemming from a sector-wide market rotation in semiconductor stocks. Nevertheless, underlying performance remained solid, supported by recovering demand for memory and SSDs in AI data centers.

3. RENESAS ELECTRONICS CORP

While the stock was impacted by market rotation within technology and semiconductor equities, it rebounded after quarterly results beat market estimates. Strong demand across data centers and automotive applications sustained high profit margins.

Top 3 Contributors

Share Name	MSCI Sector
CAPCOM CO LTD	Communication Services
MITSUBISHI UFJ FINANCIAL GRO	Financials
BANDAI NAMCO HOLDINGS INC	Consumer Discretionary

Top 3 Detractors

Share Name	MSCI Sector
MURATA MANUFACTURING CO LTD	Information Technology
KIOXIA HOLDINGS CORP	Information Technology
RENESAS ELECTRONICS CORP	Information Technology

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Purchase

FANUC CORP： Judging from recent machine tool orders data, we expect order intake to increase, supported by robust global demand for industrial robots.

Sales

TOKYO ELECTRON： We believe that growing order intake and planned product price hikes are already priced in to some extent.

Looking Ahead

We expect the Japanese equity market to remain range-bound in August 2026. In July, Japanese equities saw the TOPIX edge higher, supported by gains in Banks and domestic demand-related stocks. In contrast, Nikkei 225 posted its largest decline in four months, as concerns over additional rate hikes by the U.S. Federal Reserve intensified and weighed heavily on AI- and semiconductor-related stocks, which had previously led the market higher.

Domestic corporate earnings releases for the April–June quarter have been solid thus far. Provided that the pace of Federal Reserve rate hikes remains gradual, we see no change to our view that both domestic and global economic expansion, as well as the earnings growth trend of corporates, will continue.

Regarding AI, we continue to expect medium- to long-term expansion in practical applications and related demand. However, the market has entered a phase of reassessing power supply constraints, financing burdens, and the visibility of investment returns.

Accordingly, we expect Japanese equities to remain range-bound for the time being, as investors assess U.S. inflation trends, U.S. monetary policy, earnings momentum among AI-related companies, and the sustainability of capital expenditures.

Lastly, Japanese corporate earnings for the first quarter have started strongly. Among TOPIX constituent companies, as of August 4, 45% by number of companies and 66% by market capitalization had completed their 1Q earnings announcements. For the overall TOPIX universe, recurring profit rose 39.0% YoY and net profit increased 55.3% YoY. Including Kioxia, which is excluded from the continuously tracked data universe, recurring profit increased 49.4% YoY and net profit rose 66.2% YoY. Major sectors contributing to recurring profit growth included Banks, Transportation Equipment, and Electric Appliances. Earnings among AI- and semiconductor-related companies remained strong, while sectors beyond technology are also increasingly achieving profit growth. On the other hand, sectors posting profit declines included Electric Power & Gas.

Source: SMDAM, as of 31/07/2026

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