

## SMD-AM Funds

### SMD-AM Japan Mid Small Cap Value

For Professional Investors Only

#### Important Information

SMD-AM Japan Mid Small Cap Value's (the "Fund") investments are concentrated in Japanese equity securities of small and mid-cap companies (i.e. equities issued by small and mid-cap companies which are established or have significant operations in Japan). The Fund will be unrestricted in its choice of companies by sector. 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 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 PBR-ROE approach may not achieve the desired results under all circumstances and market conditions.

The Fund's investments are concentrated in Japanese equity securities of small and mid-cap companies 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 December.

In early December, the market started lower as expectations of a rate hike grew following comments by the Governor of the Bank of Japan. However, it later recovered, supported by expectations of a rate cut by the U.S. Federal Reserve (FRB) in response to signs of a slowdown in the U.S. labor market.

In mid-December, there was a period of correction after the FRB's decision to cut rates, as investors viewed the news as largely priced in. However, following the Bank of Japan's rate hike decision, concerns were seen as largely resolved, and the market rebounded.

In late December, price movements were limited amid a lack of clear trading cues. Nevertheless, over the month as a whole, the market rose, supported by expectations for an economic recovery going forward.

By sector, insurance, securities, and oil and coal products outperformed the overall market. In contrast, other products, electric power and gas, and mining underperformed.

**In Dec 2025, our fund underperformed Russell/Nomura Mid-Small Cap Index due to the negative stock selection effect.**



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Main contributors include the following stocks.

- CCI GROUP INC

The share price rose on the back of expectations for wider interest margins due to the Bank of Japan's rate hike, as well as the positive impact of the share buyback announcement.

- FUJI ELECTRIC CO LTD

The share price rose, as there is a growing view that the company is highly likely to continue benefiting from overseas data center and process automation-related projects, and its upward trend has persisted.

- NIHON DENGI CO LTD

The share price continued its upward trend on expectations that demand for the company's core "air-conditioning instrumentation work" will remain firm, supported by construction demand for data centers and semiconductor plants.

Main detractors include the following stocks.

- MODEC INC

The share price declined due to profit-taking following the previous sharp rally in the stock and the steep drop in crude oil prices toward mid-December.

- EBARA CORP

The downward revision to the order outlook for the precision and electronics business announced in the previous month's quarterly results acted as a negative factor, and the share price remained on a declining trend.

- JAPAN ENGINE CORP

In the previous month, the government's economic measures, including reports of "public-private investment of around 1 trillion yen in the shipbuilding industry," led to a sharp rise in the company's share price. Since then, profit-taking has become dominant.



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#### Top 3 Contributors

Share Name	MSCI Sector
CCI GROUP INC	Financials
FUJI ELECTRIC CO LTD	Industrials
NIHON DENGI CO LTD	Industrials

#### Top 3 Detractors

Share Name	MSCI Sector
MODEC INC	Energy
EBARA CORP	Industrials
JAPAN ENGINE CORP	Industrials

#### < Focus Stock >

Aisin Corp. (7259) : The company has been facing the challenge of low profitability, but it is currently vigorously pursuing balance sheet reforms. Specifically, the company is focusing on business assets reduction through business transfer and restructuring of surplus assets, as well as inventory reduction. We believe these efforts will steadily improve ROE.

#### Looking Ahead

We will pay attention to the companies that have increased or are likely to increase the market share of their products in Japan without resorting to a low-price strategy.

We will also maintain our focus on the companies that have increased shareholder returns as well as names with high free cash flow (FCF) yields.

Source: SMDAM, as of 31/12/2025

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