SUMITOMO MITSUI TRUST GROUP

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Asset Management

Japan Equity Series

Inside Japan: Reasons for Optimism

Amova Japan Value Fund
Amova Japan Dividend Equity Fund
Amova Japan Equity Fund



See Japan in new light

Japanese equities have scaled impressive heights in recent times, with the TOPIX and Nikkei 225 reaching their highest levels since the 1990s. Japan is on an upward trajectory that could sustain for the rest of the decade and beyond. We see reasons for confidence in Japan's reflationary outlook, the factors are driving growth and why it is different this time.

01 Time to Invest in Japan

- Macro and structural reforms driving economic transformation
- Valuations remain attractive for long-term investors
- Vital conduit to Asia, Japanese firms offer untapped investment potential

02 A future-proofed economy

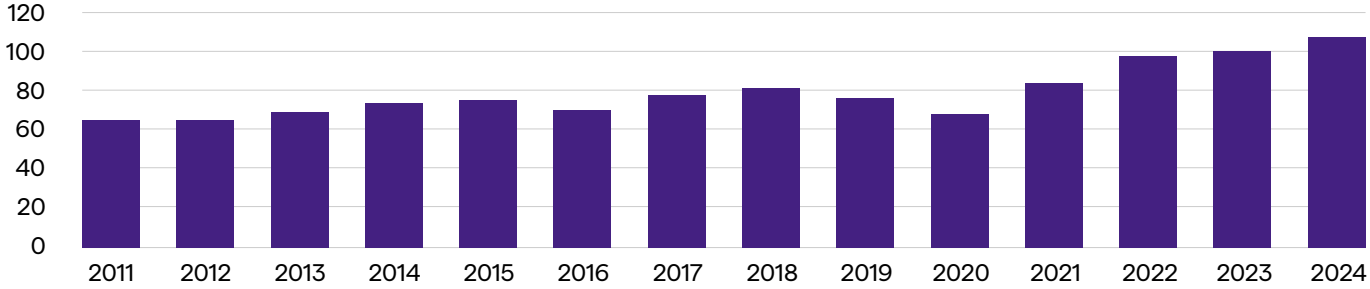
Demographic-driven innovations

An ageing population and low birth rates have spurred innovations in industries such as factory automation, robotics, and healthcare utilising Big Data, Internet of Things and Artificial Intelligence. With corporate profits continuing their strong upward trend, Japan is poised to be the guiding light as other developed economies confront similar demographic concerns in the near future.

Vital conduit to Asia's growth – a bridge between East and West

Japan is the world's 4th largest exporter. It occupies a unique place globally, serving as a bridge between east and west, and between developing and emerging markets. Japan's exports hit a record high in 2024 and increased for the fourth year straight since 2020 due to strong automobile shipments and the effects of the weak yen[1].

Figure 1 Japan's exports (in trillions of yen)

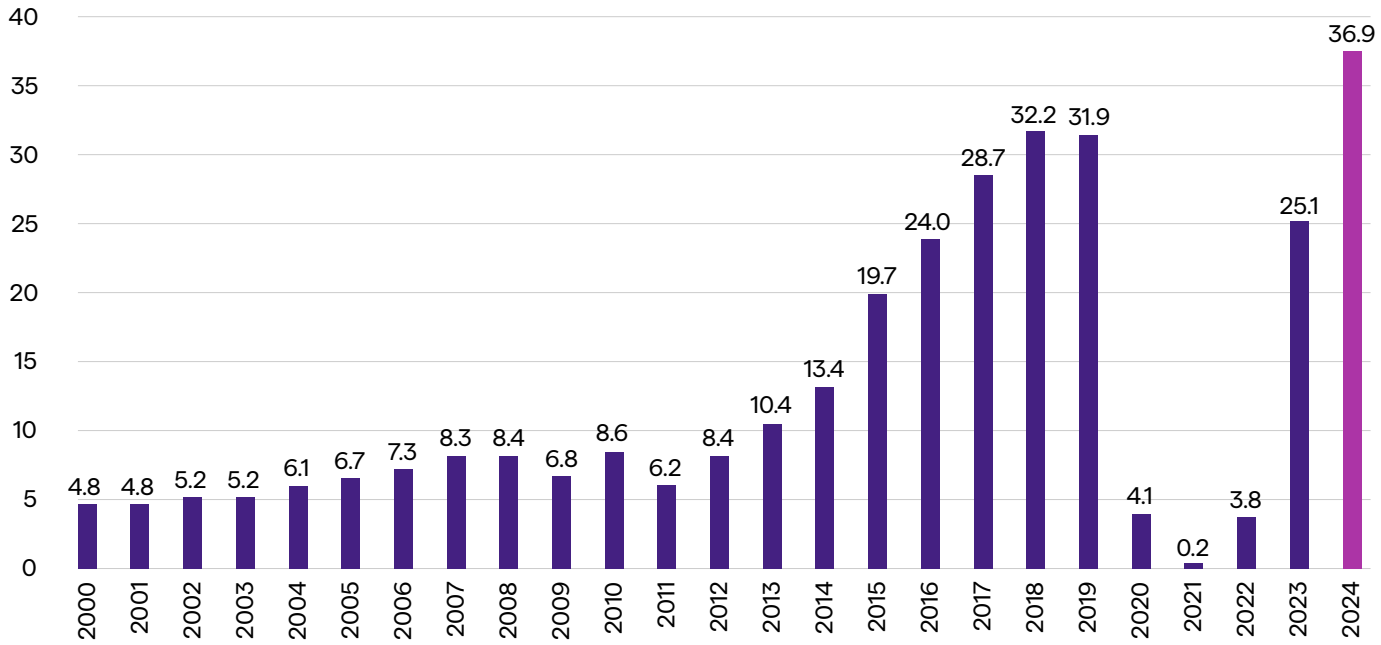


[1] Source: Japan's Ministry of Finance, 24 January 2025

Tourism continues to drive economic growth

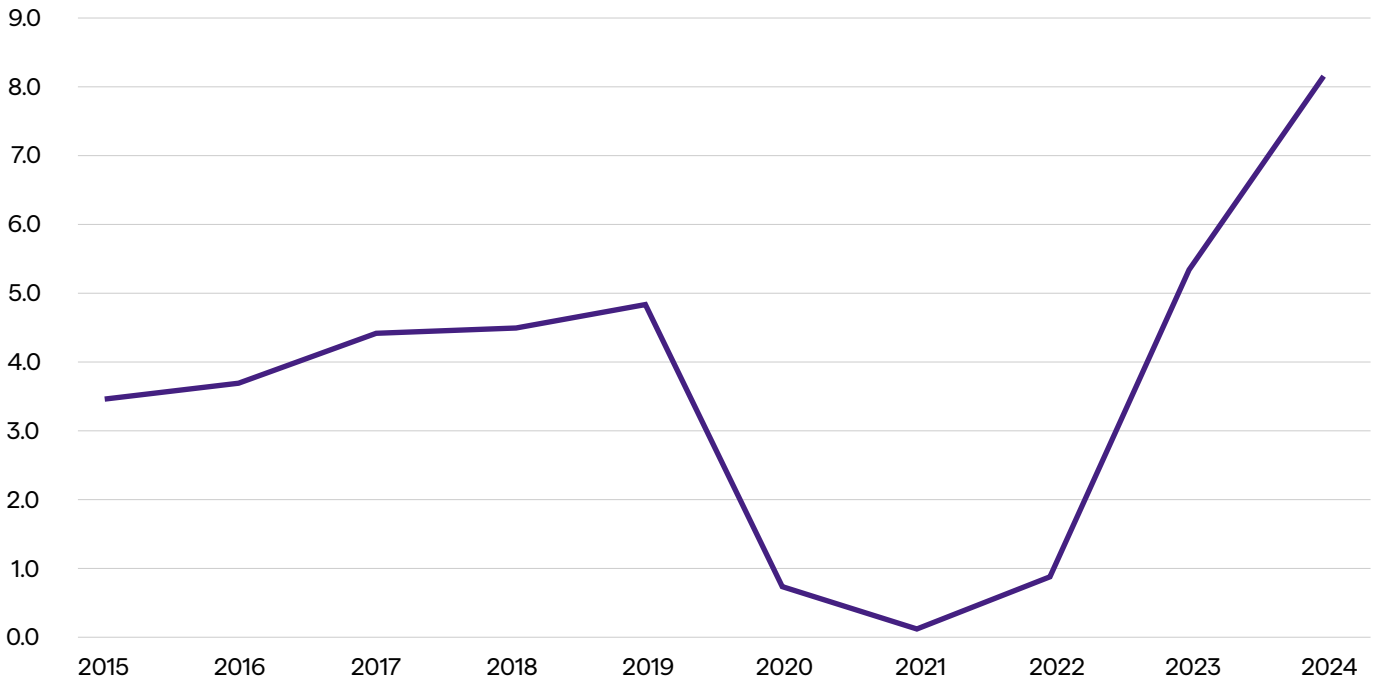
The weak yen is boosting tourism in Japan and the country has attracted over 36.9 million tourists in 2024. Tourism accounts for almost 1% of Japan's GDP and tourism spending has surpassed pre-pandemic levels and reached a record high in 2024 with an amount to 8.14 trillion yen.

Figure 2 Number of Inbound Tourists (mn)



Source: Japan National Tourism Organization (JNTO) as of end-December 2024

Figure 3 Inbound Tourism Spending (JPYtn)



Source: Japan Tourism Agency, Ministry of Land, Infrastructure, Transport and Tourism as of January 15, 2025

03 Key investment drivers

Improved corporate governance

TSE-led Improvements: The Tokyo Stock Exchange is driving stronger governance standards to boost transparency and shareholder value.

2023 Guidance: Encourages Prime Market companies to adopt sustainable, investor-friendly practices.

Public Compliance Lists: Since Jan 2024, TSE publishes lists of compliant and non-compliant firms, creating reputational incentives.

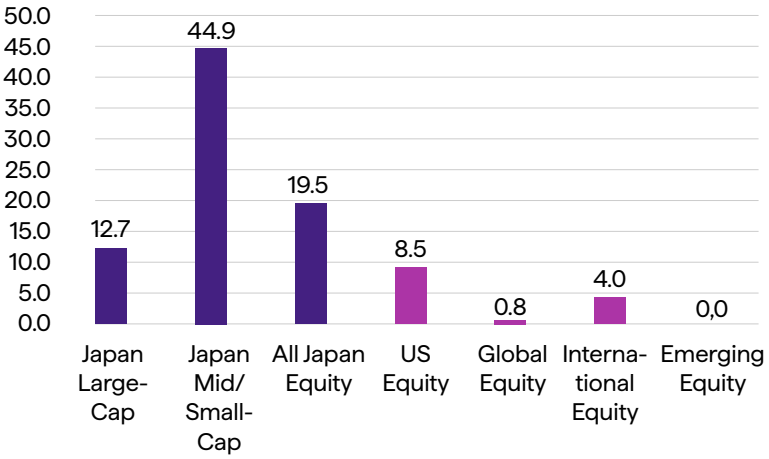
Investor Impact: These reforms aim to make Japanese companies more attractive and accountable to investors.

Significant value remains to be unlocked

47%[2] of the holdings in the TOPIX Index are not covered by researchers from research houses. This offers potential to uncover opportunities that may be overlooked. We see a trend of Japanese active funds outperforming funds that invests into other regions in the long term. This is highly visible for Japan's mid and small cap funds which invests into small and medium-sized companies in Japan.

[2] Source: Bloomberg as of end-December 2023

Figure 4 % Japan Funds Outperforming Their Benchmarks (10yr)



Source: Amova Asset Management based on S&P Dow Jones Indices SPIVA® Japan Scorecard June 2024

Japan domestic spending to be unleashed

The combination of extended pent-up demand and the highest wage hikes in decades, **following the 2023 "Shunto" spring wage negotiations, is likely to lead to higher consumer spending in Japan in 2024 and beyond.**

Record Wage Growth

The 2023 “Shunto” spring wage negotiations resulted in the highest wage increases in decades. Strengthened consumer confidence and purchasing power, supporting domestic demand.

Pent-Up Demand Unleashed

Years of cautious spending have led to significant pent-up demand. Expected to translate into increased consumption across key sectors in 2024 and beyond.

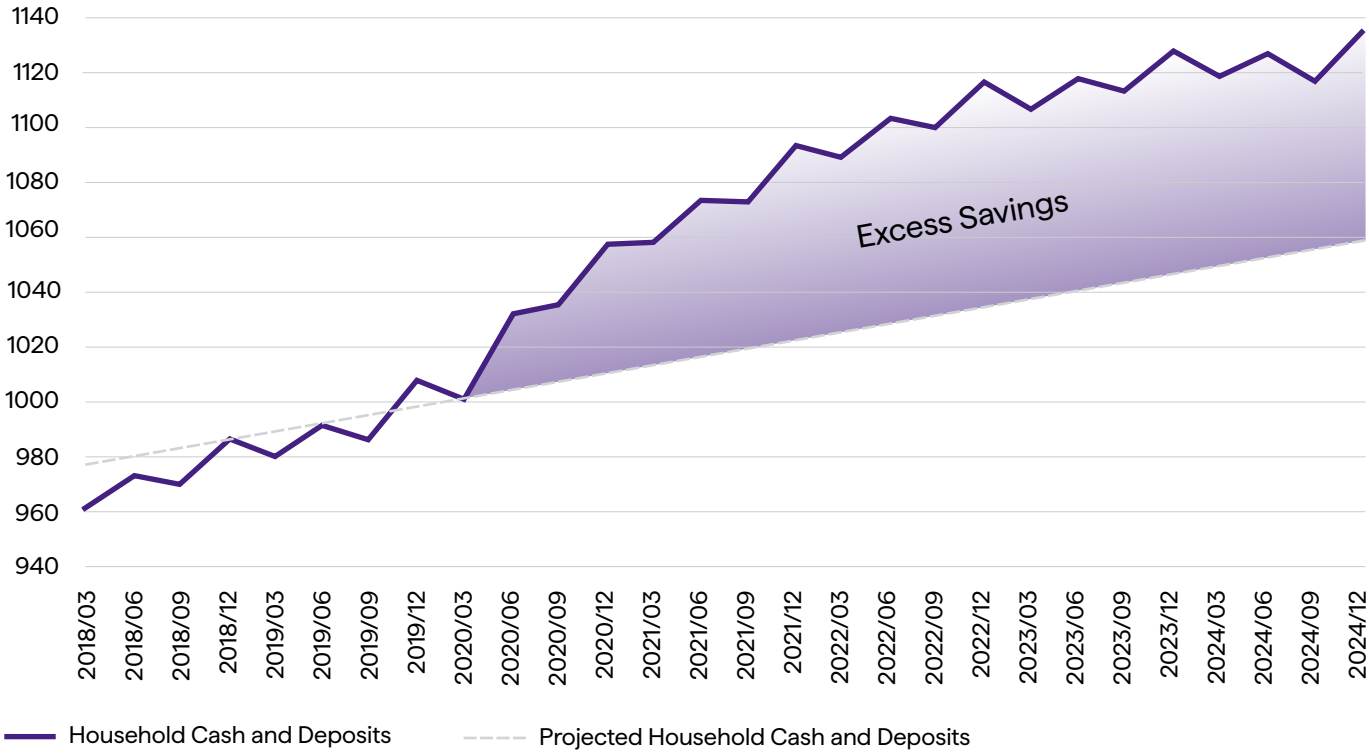
Household Savings as Growth Catalyst

Japanese households hold an estimated ¥50 trillion in “forced savings.”[3] These funds are now being deployed, potentially fuelling sustained economic expansion.

NISA Reforms to Encourage Investment

Enhancements to the Nippon Individual Savings Account (NISA)[4] offer tax incentives for small-scale, long-term investments. Designed to support individual asset accumulation and channel capital into promising domestic businesses.

Figure 5 Household Cash and Deposit (JPY trillion)



Source: Bank of Japan as at end-February 2025

[3] Forced savings refers to income that households could not spend because of restrictions on activities and movements imposed after the novel coronavirus pandemic hit in early 2020.

[4] NISA is a tax-exempt savings account scheme that was created in 2014 to encourage residents in Japan to save and invest.

Find out more about
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The value of the funds and its distributions (if any) may rise or fall. The following are key risk factors that may cause you to lose some or all of your investment:

- Market and credit risks
- Liquidity risks
- Product-specific risks

You should be aware that your investment in any of the funds may be exposed to other risks of an exceptional nature from time to time. Please refer to the respective fund prospectus and product highlights sheet for further information on risks of the funds and on product suitability.

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