

Japan Growth Q2 investment update

July 2025

Investment manager Donald Farquharson gives an update on the Japan Growth Strategy covering Q2 2025.

Your capital is at risk. Past performance is not a guide to future returns.

Donald Farquharson: Welcome to the second quarter 2025 investment update for the Japan Growth Strategy. My name is Donald Farquharson, an investment manager and decision maker for the strategy.

The Japanese economy continues to see modest but positive momentum following a prolonged period of deflation. Prices, wages, and interest rates are trending up, and we're starting to see evidence through pricing of the relative strength of not just the consumer brands in which we invest, but also some of the online businesses, like free and money forward leaders in back-office accounting and HR software. At the same time, the corporate sector is having to think harder about how capital is deployed and the return it generates. While these trends create a supportive backdrop for the strategy, strengthening secular growth drivers offer an additional catalyst for our portfolio of competitively positioned growth businesses.

Second quarter performance was ahead of the index and continues to reflect improving momentum across several of these secular growth themes, with online platforms, AI, and gaming standing out among them this quarter. This was most evident in names such as **SoftBank**, the technology-focused investment company, **SBI Holdings** in online finance, and **CyberAgent**, one of Japan's leading digital media companies.

SoftBank is going all in on AI. Its investment in **Arm**, the UK-based chip design company, is the centerpiece of its strategy here. Arm offers power-light blocks of IP that its customers can mold into bespoke solutions. Combined with its major investment in OpenAI, which has become a category-defining platform with over 800 million weekly active users, and commitments to build out the infrastructure layer. SoftBank has an unmatched collection of AI assets. With a history of bold, forward-looking bets like launching the iPhone in Japan or investing early in China's ecommerce giants, SoftBank is no stranger to anticipating where technology is headed.

SBI Holdings has a number of leading positions in online finance, including Japan's dominant investment savings platform, and is led by an entrepreneurial founder, Yoshi Kitao. Most recently, he secured NTT Docomo as an investor in his online consuming banking business, and sold half of a South Korean savings bank, whilst promising to float a corporate bank, SBI Shinsei, which may have tripled its value since purchase in 2021. These deals are helping to highlight the enormous intrinsic value in the company before even taking into consideration its leading holding in Ripple Labs and its XRP tokens.

Another noteworthy performer was CyberAgent, which continues to show good momentum in its Netflix-style media business. Its Abima platform is nearing 30 million weekly active users who engage in content ranging from sports to anime. This is an important leg of the investment case because it has the potential to deliver high marginal profitability, and it also reinforces the proposition in its advertising business. I think CyberAgent is a good example of a company that has gone through a period of heavy investment with a resolutely long-term mindset. Patience is required here, but with an inflection point in sight, the share price has been reacting accordingly.

In terms of detractors, Unicharm, a leading absorbent consumer product specialist, weighed on performance as its share price declined following softer Asia results. The company, however, signaled for a positive second quarter and presents an appealing opportunity given structurally strong positioning for demographic growth in adult diapers and feminine care across Asia. Mizumi, a supplier of machinery parts, also underperformed on the back of sluggish demand from China. It's now trading on a valuation multiple well below its historic average and back to levels last seen in the global financial crisis. Given longer-term automation themes and its unique service proposition, we continue to see significant upside potential.

Turnover remains low with an indicative holding period of around 10 years. We want to be long-term owners, not short-term speculators. That said, we've made a number of changes in the last quarter, though with no complete sales or new purchases. We reduced the holdings in Nintendo and Sony, though these remain substantial given what we see as compelling IP potential. This is a space where creativity and craftsmanship thrive, and where Japan's global cultural influence continues to grow.

We added to **Unicharm** following its derating, despite emerging as a market leader in India and the Middle East. Skincare company **KOSE**, supported by strong prestige brand performance, and a pivot towards Southeast Asia. factory automation component manufacturer **Omron**, and to semiconductor equipment manufacturer **Tokyo Electron** and **Hamamatsu Photonics**, a high quality player in semiconductor test and medtech with long-term growth optionality. Our optimism cuts across sectors. Japan has industry-shaping companies, not just in gaming, media and AI, but in healthcare, robotics and manufacturing.

These are the companies we're investing in. Faster growing, more profitable, less indebted than the market. Companies with an eye firmly on the future, not the past. As we look ahead, our optimism about Japan's investment landscape remains firmly grounded in structural tailwinds and company-specific dynamism. From AI and gaming to media, healthcare and advanced manufacturing, Japan

is home to a new generation of globally relevant businesses, businesses that combine innovation with strong balance sheets and a long-term perspective. That's what makes Japan so compelling right now and why we remain confident in the long-term return potential of the strategy. Thank you for your continued support and interest in the Japan Growth Strategy. We look forward to updating you again next quarter.

Japanese Equities Growth

Annual past performance to 30 June each year (%)

	2021	2022	2023	2024	2025
Japanese Equities Growth Composite (net)	29.1	-34.2	12.5	5.4	8.7
Japanese Equities Growth Composite (gross)	29.9	-33.8	13.2	6.0	9.3
TOPIX Index	23.8	-19.5	18.1	12.8	15.9

Annualised returns to 30 June 2025 (%)

	1 year	5 years	10 years
Japanese Equities Growth Composite (net)	8.7	1.8	4.4
Japanese Equities Growth Composite (gross)	9.3	2.4	5.1
TOPIX Index	15.9	9.0	6.5

Source: Revolution, Japan Exchange Group. US dollars. Returns have been calculated by reducing the gross return by the highest annual management fee for the composite. 1 year figures are not annualised.

Past performance is not a guide to future returns.

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