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Alison Henry: What if the most overlooked growth market today is Japan? Japan has had real momentum this year and for growth investors, three tailwinds matter.

- First, deflation is finally over after thirty years. Prices are increasing, and nominal wage growth is at an all-time high. And this matters, because it supports consumption, which improves profitability and gives companies the confidence to keep raising wages.
- Second, Japan's cash hoarding culture is changing. In an inflationary world, holding cash is costly which is a powerful incentive for capital to move into equities. And it's a similar picture for corporates, where governance reforms are pushing companies to reduce huge cash piles and put balance sheets to work. This is just one of the corporate governance reforms that are detailed in our newly released paper 'The Long Game' written by Head of the team Donald Farquharson (this paper is available on our website and also on request).
- And third, valuations are still attractive. Earnings power is improving, yet Japan continues to trade at a discount to European and US peers.

Put together, this is a powerful setup for a major reappraisal of Japanese equities, and we believe this shift favours quality, growth-focused investors. The last couple of years have seen cyclical companies rallying whereas we have stayed focused on enduring, structural growth. Now that's hurt us short term, but we believe the structural undercurrents we highlighted last year are coming to fruition. And this has contributed to the strategy's outperformance over the quarter and year-to-date. So two themes are worth highlighting: Digitalisations and gaming.

With digitalisation, two significant holdings, SoftBank and SBI Holdings - exemplify how digital solutions are emerging as an overlooked but powerful driver of change in Japan. And both were top contributors over the quarter.

- So SoftBank. It is a major investor in the AI economy. It has a majority stake in ARM Holdings, a chip maker, and notable exposure to Open AI (the company behind Chat GPT). Shares reached an all-time high during the quarter after reporting a record profit but also it acknowledged further commitments to expand its AI exposure, by investing in Intel, the US chipmaker.
- And SBI is a leading financial disruptor that is acting as a savings to investment conduit. So Japan's version of an ISA, a savings account, has pulled millions more households into markets, and SBI's platform is catching those flows, driving up its retail share.

Another exciting portfolio theme that has moved into focus is gaming. It is representative of Japan's unique opportunities.

- Gaming is no longer a niche subculture. It has become mainstream, global entertainment and Japan's most valuable cultural export. Sony was another top contributor and its Demon Slayer anime movie shattered box office records for the genre, surpassing Pokémon's 1999 movie record. So an interesting fact - Anime is actually Netflix's fastest-growing genre. So niche no more.
- Nintendo, another well known name, is another company that sits at the centre of the gaming opportunity. So although it was the main detractor this quarter, its strong year-to-date run reflects the company's ability to evolve. The newly launched Switch 2 has already become its fastest-selling console ever, but where our view differs from the market, is an appreciation of the value in Nintendo's evergreen franchises. Mario, Zelda, Donkey Kong - are increasingly shifting into recurring monetisation mode. And we believe the potential for Nintendo to evolve from a hardware, and a very cycle-bound company, into a more Disney-like IP powerhouse is clear.

In terms of portfolio activity, we have been building positions in Tokyo Electron and Shimano.

- Tokyo Electron makes semiconductor production equipment that is used at various stages throughout the semiconductor manufacturing process. So that would include etching and deposition. So where we believe there will be increased demand for Tokyo Electron's leading-edge equipment, is due to the proliferation of semiconductors and their increasing complexity. They are used in everything.
- And Shimano is the world's leading manufacturer of bike gears and other bike components such as brakes. We believe the company will benefit from growth in China, but also market expansion globally from e-bikes.

So both Tokyo Electron and Shimano positions were funded by reductions to SoftBank following a very strong rally this quarter, there were one or two reductions.

So to conclude, Japan remains one of the most attractive global allocations, with an earnings yield well above Europe and the US. More importantly, we believe that structural drivers - such as digitalisation, and the globalisation of Japanese IP - are beginning to outweigh fading cyclical tailwinds, and power the next wave of long-term returns.

Japan All Cap Strategy

Annual past performance to 30 September each year (%)

	2021	2022	2023	2024	2025
Japanese Equities All Cap Composite (gross)	18.9	-33.6	12.1	22.1	17.7
Japanese Equities All Cap Composite (net)	18.2	-34.0	11.4	21.4	17.0
TOPIX Index	20.6	-28.4	25.9	21.6	17.7

Annualised returns to 30 September 2025 (%)

	1 year	5 years	10 years
Japanese Equities All Cap Composite (gross)	17.7	4.9	9.1
Japanese Equities All Cap Composite (net)	17.0	4.3	8.4
TOPIX Index	17.7	9.2	8.6

Japanese Equities Growth**Annual past performance to 30 September each year (%)**

	2021	2022	2023	2024	2025
Japanese Equities Growth Composite (net)	16.1	-39.7	13.5	21.7	11.6
Japanese Equities Growth Composite (gross)	15.4	-40.1	12.8	21.0	10.9
TOPIX Index	20.6	-28.4	25.9	21.6	17.7

Annualised returns to 30 September 2025 (%)

	1 year	5 years	10 years
Japanese Equities Growth Composite (net)	11.6	1.5	7.5
Japanese Equities Growth Composite (gross)	10.9	0.9	6.8
TOPIX Index	17.7	9.2	8.6

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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