Your capital is at risk. Past performance is not a guide to future returns. The following update is based on a representative portfolio. As such, stock examples may not be held in every client portfolio, and performance may differ.

Alison Henry: Japan has a concept of kaizen (meaning continuous improvement). It is culturally ingrained versus revolutionary change, but every so often, the accumulation of small changes flip into something more visible. As we reflect on 2025 and look ahead, we think Japanese equities are undergoing that kind of inflection.

Inflections rarely arrive in a straight line - and this quarter's difficult performance is a reminder of that. Yet if we step back from the quarter, 2025 (and preceding years) suggests that the drivers of returns are changing. The incentives that shaped consumer and corporate behaviour for decades in Japan are finally normalising. The structural picture has continued to improve, with wages rising, pricing power returning, governance maturing, and productivity gathering pace.

So as we start 2026, we believe that the market will increasingly recognise this change. It is already visible on the ground that Japan is no longer just a leveraged play on exports with beneficiaries being value stocks, cyclicals and 'old world' industrials. It is now being reshaped by domestic secular growth and a more entrepreneurial corporate culture, and this is enabling a more efficient allocation of capital and labour. This is especially so in the overlooked midcap space (which is our natural hunting ground).

The Japanese market is moving towards companies with structural earnings growth, particularly across internet businesses, software, but also select technology-enabled services.

Delving into this a bit further, two themes are worth highlighting: AI and ROBOTICS.

AI was the defining theme of 2025, with SoftBank (the largest holding) rising roughly 90% - it actually outpaced all "Magnificent Seven" stocks individually over the year, which was pretty impressive! This was actually despite SoftBank's de-rating in Q4, which meant it was a detractor for the strategy over the quarter. But we believe the market continues to underappreciate the AI exposure embedded in Softbank's ARM royalty economics, but also its 11% stake in OpenAI, supported by telecoms cash flows.

CyberAgent is another company that extensively uses AI across its internet advertising business, but also in its media, gaming, and digital transformation businesses. It was the largest detractor over the quarter, driven by sustainability concerns and its characteristically conservative guidance. However, our view is that fundamentals remain solid across its leading digital advertising platform, which is also complemented by its growing media business. It has AbemaTV, but also a strong gaming portfolio. November results showed group operating profit was up 79% year-on-year and looking forward, the company will benefit from refreshed leadership with Yamauchi-san stepping in as President.

Now with robotics, Fanuc exemplifies how AI is enabling powerful advancements in an industry dominated by Japan. It was a top contributor over the quarter. And rallied on “physical AI” optimism following an announcement in December that it will collaborate with Nvidia. There is also optimism over evidence of AI-driven productivity gains – but also optimism over its Zero Down Time predictive-maintenance platform, and the scale of that which is now connecting 50,000+ robots.

We have been increasing our exposure to robotics and automation over the quarter. Yaskawa is now owned for both the Growth and All Cap strategies and Harmonic Drive for the All Cap strategy. Both companies operate in cyclical end markets that have been weak but are improving. And we see meaningful upside as onshoring, demographics, but also that “physical AI” drive a step-change in automation demand, and we don’t think this is reflected in current valuations.

Looking at other portfolio activity, we also participated in the IPO of SBI Shinsei Bank. It is a well-managed franchise with a digital-first approach that should enable it to grow much faster than its more established bricks-and-mortar peers. Its’ previous parent SBI Holdings will also be a beneficiary as the newly listed IPO Shinsei Bank will benefit from its ecosystem and deep regional distribution.

These new buys were funded from the sale of Broadleaf, Tokyo Tatemono and Nippon Electric Glass, all from the All Cap strategy and from Amvis and Mercari from the Growth strategy.

Our portfolios are deliberately aligned with the new, improved Japan. We may not time every twist in sentiment, but we are focused on owning the companies most likely to emerge stronger as Japan’s incentives normalise and its productivity improvements accelerate.

Japan All Cap Strategy

Annual past performance to 31 December each year (%)

	2021	2022	2023	2024	2025
Japanese Equities All Cap Composite (gross)	0.8	-22.6	8.3	4.0	23.7
Japanese Equities All Cap Composite (net)	0.2	-23.0	7.7	3.4	23.0
TOPIX Index	1.1	-14.9	20.0	8.1	25.8

Annualised returns to 31 December 2025 (%)

	1 year	5 years	10 years
Japanese Equities All Cap Composite (gross)	23.7	1.7	7.9
Japanese Equities All Cap Composite (net)	23.0	1.1	7.2
TOPIX Index	25.8	7.0	7.9

Japanese Equities Growth

Annual past performance to 31 December each year (%)

	2021	2022	2023	2024	2025
Japanese Equities Growth Composite (gross)	-3.0	-29.4	11.4	0.9	19.9
Japanese Equities Growth Composite (net)	-3.5	-29.8	10.8	0.3	19.1
TOPIX Index	1.1	-14.9	20.0	8.1	25.8

Annualised returns to 31 December 2025 (%)

	1 year	5 years	10 years
Japanese Equities Growth Composite (gross)	19.9	-1.6	6.1
Japanese Equities Growth Composite (net)	19.1	-2.2	5.5
TOPIX Index	25.8	7.0	7.9

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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