ALMA CAPITAL

Alma Eikoh Japan Large Cap Fund

Annual Review 2025

The **market** (Topix total return index) rose by 25.46% during 2025 in local currency terms, following on from the strong performance of 20.45% in 2024. Once again, this performance beat the MSCI World index (+22%) and also beat the S&P500 (+18%). In 2025 however, unlike in 2023 and 2024, this performance was not heavily offset by foreign exchange weakness with the Yen finishing the year at Y156.7 to the dollar versus Y157.2 at the beginning of the year.

The Japanese market followed a similar path to other global markets over the year, performing poorly into April upon the announcements of reciprocal tariffs by the new US political administration but then rebounding strongly for the remainder of the year. The US economy remained broadly robust throughout the year with the Chinese economy showing a continuation of the sluggish conditions seen in 2024. In Japan the economy remained robust with GDP growth picking up to 1.1% and core inflation remaining steady at around 3% ex Fresh Food. This economic environment allowed the BOJ to continue on their path of monetary policy normalisation with 25bp hikes at the beginning and end of the year leaving the effective policy rate at 75bps as of December; so far, their approach to normalisation has been successfully accomplished with limited market volatility. In domestic politics the year saw another change of administration with Prime Minister Ishiba’s weak approval ratings, political missteps and loss of upper house majority in July resulting in his resignation in September. Sanae Takaichi was elected as Prime Minister in October branding herself as a conservative reformer and decisive leader with a strong fiscal and defence agenda; so far, she has enjoyed strong poll ratings and a buoyant stock market expectant of her stimulatory policies. The corporate sector continued to perform strongly through 2025 though improvements in profits were not as large as in 2024 due to tariff policy and an overall neutral movement in the currency. The moves towards better corporate governance across the market continued at strength however with M&A activity reaching a record $350bn and share buyback announcements comfortably exceeding 2024’s record of Y17.5tn.

The top performing sector in the market was Semiconductors & Semiconductor Technology with several Japanese manufacturers benefitting from the very strong demand for AI data centres, a prominent theme in global markets in 2025 as well as in Japan. Standout names that benefitted from this were: Advantest, the testing equipment maker and now largest component of the Nikkei 225 Index, Kioxia, the memory maker and Softbank Group, a technology investment company with exposure to several AI-related names including OpenAI. The Banking sector was also very strong again with the rise in BOJ policy rate and 10-year JGB yields boosting the profit outlook. Other sectors that performed well included Energy, Software and Services and Capital Goods which contains several companies geared to data centre construction and defence. The worst performing sectors were Household & Personal Products which were impacted by cost inflation and weak pan-Asian demand, Commercial and Professional Services and Healthcare Equipment & Services which has been impacted by uncertainty around US tariffs and also Chinese policymaking on medical expenditure. For the fifth consecutive year, Topix Value outperformed Topix Growth rising by +34.3% against +16.7%, since December 2020 the total return of Topix Value has outstripped that of Topix Growth by +130%. Foreigners turned net buyers of the market after April and ended up net purchasing around Y4trn with Corporates once again the major buyer in the market after another record-breaking year of buybacks, the major net sellers were Trust Banks and Insurance companies.

The **fund** underperformed the index by -1.32%, rising by +24.14% (JPY share class) against 25.46% for the Topix.

Sector allocation contributed -0.9%* of performance over the year, and this was driven by the underweights in Capital Goods and Telecommunication Services (driven by Softbank Group), and the overweight positions held in Healthcare Equipment & Services, Household & Personal Products and Pharmaceuticals & Biotechnology. The overweight in Semiconductors & Semiconductor Technology helped offset this in part, as did the underweights in Consumer Discretionary and Consumer Services.

Stock selection contributed +1.1%* to annual return. Comfortably the best performing stock in the fund was Ibiden, the electronics component and substrate manufacturer. The company are the lead supplier of advanced packaging substrates to Nvidia and have experienced extremely strong demand for AI GPU applications driven by the wave of demand for AI data centres. Shimizu, the construction company, was also a strong positive contributor thanks to strong order growth and rising profitability amidst the tight construction market in Japan. Other top performers included Visional, the white-collar job matching and HR SaaS business, domestic drugstore operator Sugi Holdings, telecoms player KDDI and Disco, the SPE company. On the other hand, despite being overweight the rising Semiconductor Sector overall, stock selection in this area was weak with companies more directly geared to AI data centre investment performing incredibly strongly compared to those with other or broader exposures. Positions in the wafer maker SUMCO and in Socionext, the SoC designer, detracted as did not holding Advantest, the testing company with arguably the strongest AI gearing of the major Japanese semiconductor companies. The holding in biotechnology platform Peptidream performed poorly especially in the first half of the year as one of the largest holders of the stock sold down their position and dragged on fund performance. Other detractors included chemical company Kuraray, instant noodle maker Nissin Foods and the haematology business Sysmex.

In terms of fund positioning over the course of the year, the biggest sector overweight remains in Financial Services. However, the addition of a large position in Fujifilm means that the second largest overweight is in Technology Hardware and Equipment, where the fund was underweight a year ago. The fund retains small overweights in both Semiconductors and Banks and no longer has an overweight in Food, Beverage & Tobacco or in Energy unlike at the start of the year. The biggest underweight positions remain in Capital Goods and in Insurance where the fund continues to have no position. However, unlike at the end of 2024, the fund now has positions in Media & Entertainment and in Telecommunication Services with the purchases of Nintendo made at the end of the year and KDDI earlier in the year. Overall, the fund continues to seek a balance of stocks which are geared to the economy and those more defensive in nature and over the course of the year this has remained the case.

The number of stocks held in the portfolio was a little over 30 during the year and finished December at 33. The aggregate average beta (ex-ante) of the portfolio was 1.02x over the period and finished the year at this level, in line with 2024 figures.

Ex-ante **Tracking error** averaged 4.4% over the year, only modestly higher than the 4.3% figure recorded in 2024 and well within its normal historical range. Stock-specific risk remained high and accounted for approximately 78% of the tracking error over the year, style factors were a little lower at 9% and industry exposure up slightly at 7%. Ex-post tracking error since inception is 5.7%. The fund retains a mild growth tilt and a bias to mid-cap stocks compared to the market driven by the bottom-up stock selection process. A negative exposure to momentum is also retained within factor exposures.

Turnover in 2025 was 95%, staying within the tight 91%- 95% range recorded from 2022-2024.

Assets rose the course of the year from $804m at Dec 2024 to $1,038m at Dec 2025 with modest fund net fund flows and the majority of the growth in assets derived from performance.

***** NB Source Bloomberg - the stock selection and sector attribution combined together are +0.2% compared to actual net underperformance of -1.3%.

2026 Outlook

Looking out to 2026, the economic background appears positive with corporate Japan having weathered the impact of tariffs well and set to benefit from growth in demand driven by the pro-growth policies of the Takaichi administration. Key to maintaining the current positive political drive will be whether Takaichi and her administration can retain their current high approval ratings of between 67% and 75%, well above those achieved by the other post Abe successors. Takaichi has proved adroit in agreeing policy to form a stable coalition with the Japan Innovation Party and negotiating with the DPP to pass the annual budget. While it has not damaged her domestic popularity, the one clear misstep so far has been her ill-judged comments concerning a potential attack on Taiwan. This has severely damaged relations with China, and a rapprochement will not be easy to achieve. Preventing any further escalation and working to improve relations will be a key foreign policy aim in 2026 and the potential failure to achieve this is a clear risk factor. Domestically, the BOJ appears set to continue the process of interest rate normalisation. Governor Ueda's first speech of 2026 clearly indicated the intention to keep raising rates in line with the improvement in the economy and inflation; this slightly more hawkish message was perhaps delivered with one eye on currency markets and the risks of imported inflation as well as indications of 5% wage growth in the forthcoming spring Shunto. Key to the stock market is the health and behaviour of the corporate sector and the news here remains good. Interim results revealed solid growth in net earnings and moves to improve capital efficiency, ROE and shareholder returns continue apace. Aggregate dividends for listed firms are expected to rise 8% in fiscal 2025 to Y20.9trn and will have more than doubled in 10 years. The payout ratio is set to rise by 3% to 39%. Share buybacks rose to a record Y16.4trn in fiscal 2024 and will likely exceed this in fiscal 2025.

The fund has a broadly balanced economic exposure with overweight positions in Technology, Semiconductors and Consumer Durables, offset by an underweight in Capital Goods. It is overweight Banks and Financial Services but underweight Insurance. The continuation or indeed reversal of the AI and defence themes which dominated markets in 2025 are likely to remain strong drivers of performance. Whilst it is clear that AI capex, driven by the hyperscalers and mega-cap US technology firms, will continue to run at very high levels and sovereign defence spending will continue to grow, the extent to which this is under or over reflected in share prices is less clear. The fund retains a modest exposure to both of these themes; in defence through Mitsubishi Electric and KHI, and in AI primarily through the semiconductor and technology holdings in Screen, Ibiden and Resonac. We have strong confidence in the strength of fundamentals of our portfolio companies that encompass a wide range of industries and business models and look forward to their strong performance in 2026. Stock specific risk accounts for a high 82% of tracking error and within factor risk, the fund retains a mild growth tilt and a slight bias to mid-cap stocks compared to the market driven by the bottom-up stock selection process. A negative exposure to momentum is retained within factor exposures.