

Webinar Recap:

Behind Japan's Stock Market Momentum

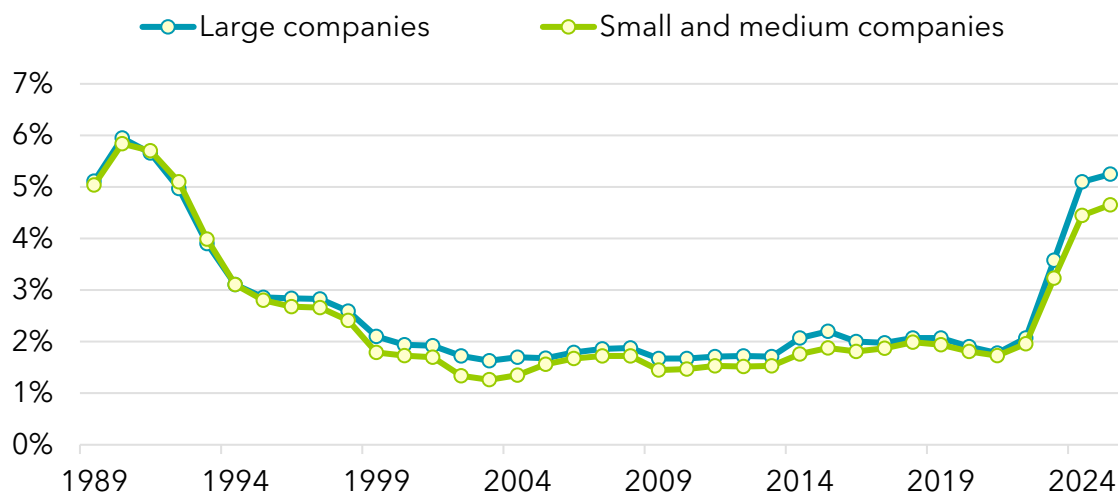
Earlier in 2025 SuMi TRUST AM held a webinar to shine a light on the ongoing corporate governance evolution of Japan. Dr Govinda Finn, Advisor at SuMi TRUST AM, gave a fascinating talk capturing the big picture of Japan's corporate government landscape.

For those of you who missed it please see the recap below. We hope to see you at our next webinar.

The Japanese Economy Enters a Virtuous Cycle

- Shift to cyclical reflation from structural deflation
"We are still quite positive about the shift from a deflationary macroeconomic environment to a more cyclical reflationary one."
- Wage increases have further room to run
"This year's Shunto wage negotiations were extremely strong (See Figure 1), pushing up nominal wages, and we expect real wages to turn positive as well."

Figure 1. Trends in Annual Japanese Spring Wage Negotiations (Shunto)

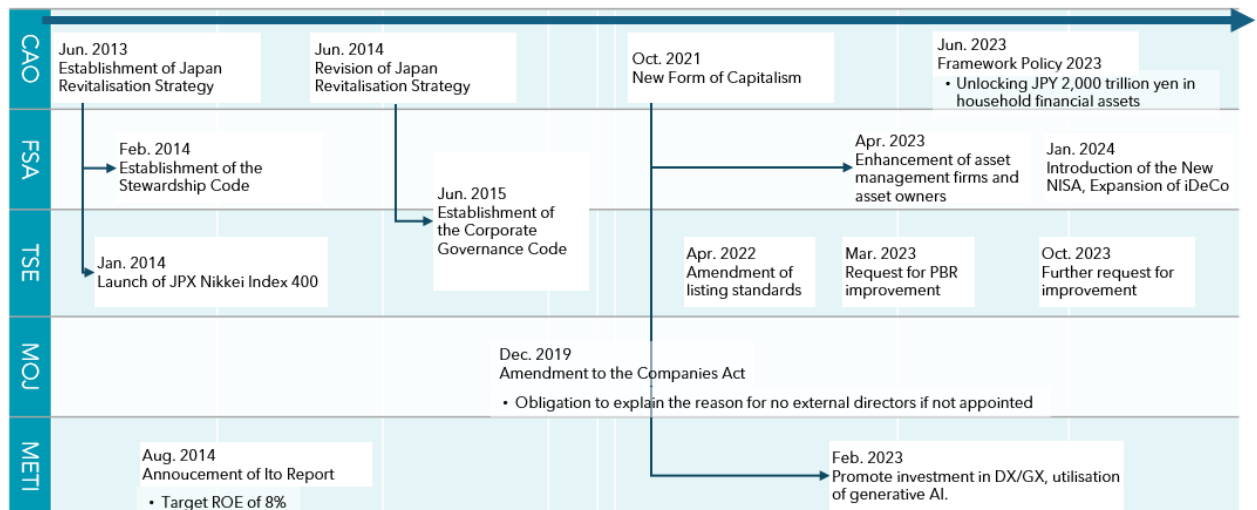


Note: Large companies: companies with over 300 employees. SME's: companies with under 300 employees.

Source: JTUC-RENGO, SuMi TRUST AM (as at the end of July 2025)

Capital Market Reform

Figure 2. In Pursuit of Profitability: Historical Structural Reform Initiatives



CAO: Cabinet Office, FSA: Financial Services Agency, TSE: Tokyo Stock Exchange,

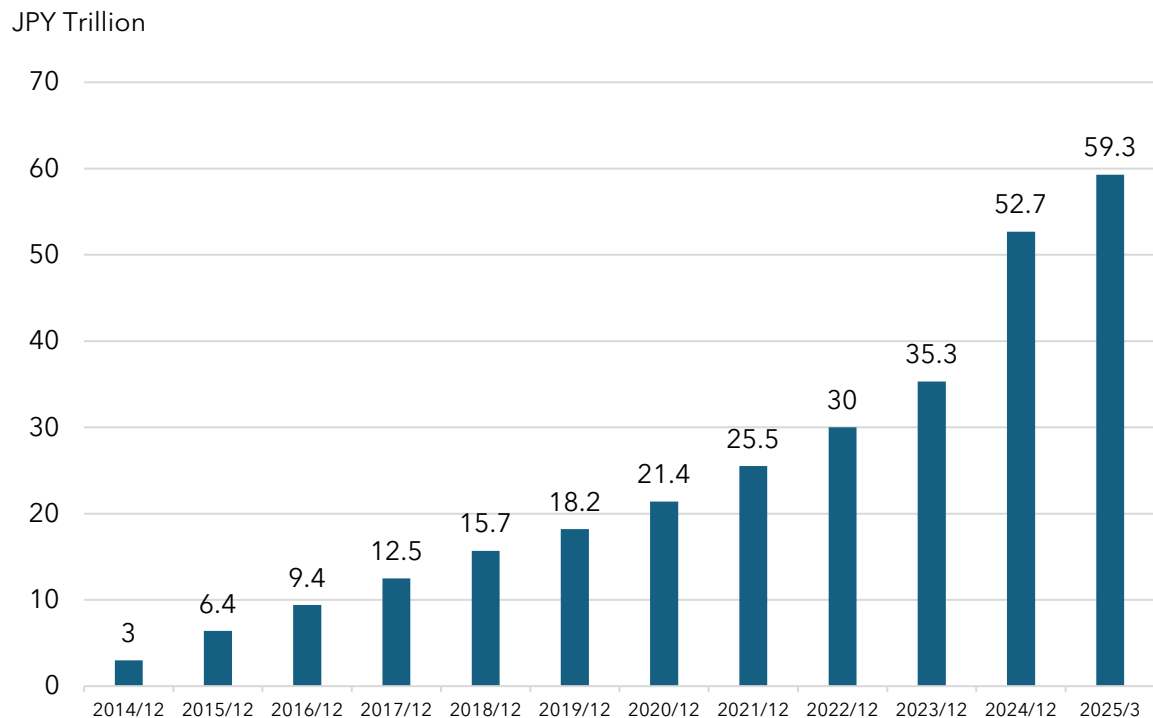
MOJ: Ministry of Justice, METI: Ministry of Economy, Trade and Industry

Source: SuMi TRUST AM (as at the end of January 2024)

- Tokyo Stock Exchange (TSE) has called on companies to improve capital efficiency (See Figure 2, Mar 2023)
"A 2025 study by Professor Yamada at Kyoto University looked at the new listing requirements adopted by the Tokyo Stock Exchange... the key date is March 2023, when listing requirements changed to emphasize a price-to-book ratio above 1 and higher ROE performance."
- More companies divesting from cross-shareholdings
"There's been a big shift from bank ownership to overseas and professional investor ownership... Bank ownership had a significant negative effect on shareholders, and that's clear in empirical analysis. This shift is therefore highly significant."
- NISA scheme is driving individuals to shift from savings to investment to benefit from capital gains tax exemption (See Figure 2, Jan 2024)
"Japanese retail investors have embraced this equity rally. Flows into

new tax-efficient accounts have been significant and far exceeded expectations.”(See Figure 3)

Figure 3. Cumulative Investment Flow from NISA accounts

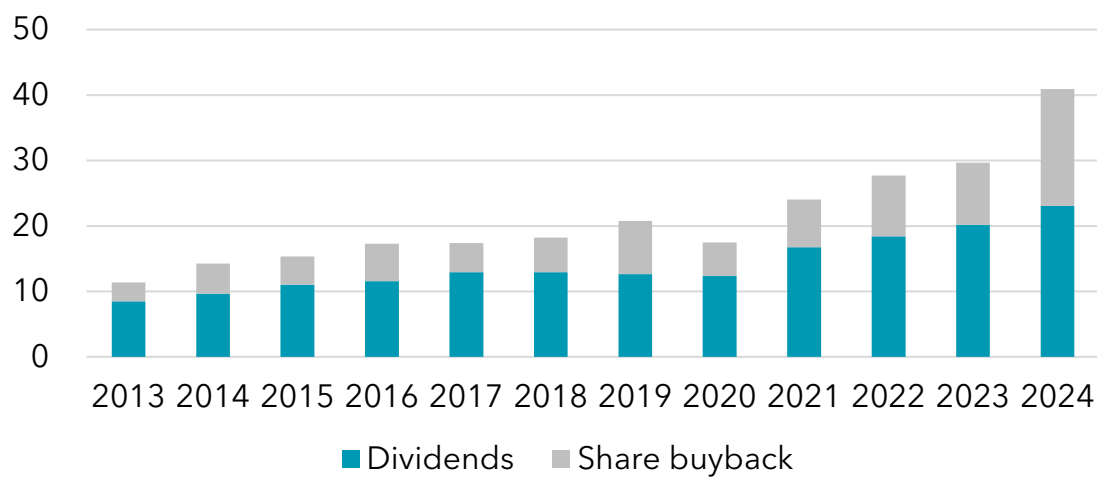


Source: Financial Services Agency of Japan, SuMi TRUST AM (as at the end of March 2025)

What Does it Mean for Investors?

- The Japan discount is fading (but still has some way to go)
“Valuations are still quite modest – Japan is around 15 times earnings, much cheaper than international peers, and not stretched historically.”
- More investors are being attracted – are retail the next engine?
“This time, overseas investors are investing with Japanese investors... Japanese retail investors have embraced this equity rally.”
- Companies are rewarding shareholders more for their capital (See Figure 4)
“Dividend payouts and buybacks have steadily improved, and momentum remains strong. Last year was a record year, and we expect this to continue.”

Figure 4. Total Dividend Payouts by All Listed Companies in Japan (JPY, trillion)



Source: Astra Manager, SuMi TRUST AM (as of the end of August 2025)

About the Author:

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Dr Govinda Finn, PhD is an Advisor at Sumitomo Mitsui Trust Asset Management and an expert in Corporate Governance and Institutional Stewardship. Govinda is a "Next-Gen Pioneering Research Programme" scholar under the Japan Science and Technology Agency based at the University of Kobe, Graduate School of Economics.