

JAPAN EQUITIES

WHEN THE YEN MOVES, OUR APPROACH STAYS THE COURSE

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KEY TAKEAWAYS

- This summer's direct U.S. intervention to support the yen – the first since 1998 – triggered a sharp, short-lived, appreciation¹
- We view this, and yen weakness more broadly, as cyclical rather than a reflection of Japan's long-term investment potential
- In our view, foreign exchange markets tend to be a distraction from our goal of identifying quality growth companies
- Our research focuses on companies strengthening corporate governance, reinventing themselves through innovation and benefitting from the return of domestic investors

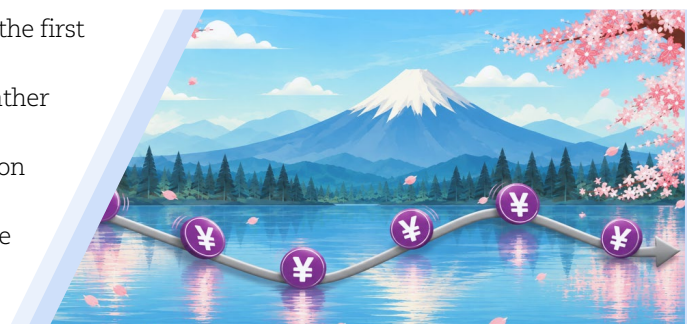


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WHAT IF THE WEAK YEN IS NOT THE STORY?

The Japanese yen has become impossible to ignore since this summer. After falling to its weakest level against the U.S. dollar in four decades, the currency prompted a rare coordinated US-Japan intervention and renewed scrutiny from investors and policymakers.¹ Since the end of the COVID-19 pandemic, the yen has depreciated significantly against the dollar, as shown in Figure 1.² This decline also triggered warnings from U.S. Treasury Secretary Scott Bessent, who declared that “disorderly yen markets can trigger forced unwinds, which could destabilise global markets.”³ For long-term investors, however, the yen may be the loudest part of Japan's current story, but not necessarily the most important.

While the Japanese yen has dominated financial headlines, other non-pegged Asian currencies have fared similarly, weakening against the dollar over the past year. Despite a booming market for semiconductor chips⁴, the South Korean won hit a 17-year low following chipmaker **SK Hynix's** decision to list in the U.S.⁵ Even before the intervention, other Asian currencies, including the Taiwanese dollar, Indonesian rupiah and Korean won all declined against the dollar, reflecting a combination of rising U.S. interest rates, energy-market disruption linked to the Strait of Hormuz and spending on artificial intelligence (AI), as shown in Figure 2. In our view, the yen's weakness is therefore better understood as a cyclical development rather than evidence of something structurally wrong with Japan.

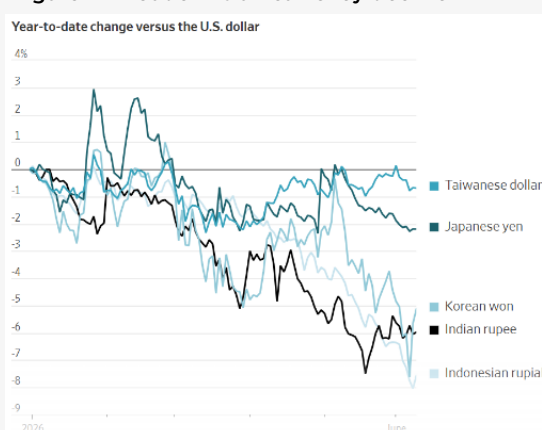
As quality growth investors, movements in the Japanese yen tells us relatively little about the underlying bottom-up fundamentals that we

Figure 1. The yen's post-pandemic weakness



Source: “Why the ‘Dirt Cheap’ Yen Is Proving Hard to Fix,” Financial Times, 14-Aug-2026.

Figure 2. Broader Asian currency decline



Source: “Why Asian Currencies Are Taking a Beating, in Charts,” Wall Street Journal, 13-Jun-2026

¹ Setser, Brad. “Why the U.S. Intervened to Prop up Japan's Yen.” Council on Foreign Relations, 4-Aug-2026.

² Keohane, David, and Ian Smith. “Why the ‘Dirt Cheap’ Yen Is Proving Hard to Fix.” Financial Times, 14-Aug-2026.

³ Gale, Alastair, and Greg Ritchie. “Bessent Says a ‘disorderly Yen’ Would Risk Higher U.S. Rates.” Bloomberg, 29-Aug-2026.

⁴ Douglas, Jason. “Why Asian Currencies Are Taking a Beating, in Charts.” Wall Street Journal, 13-Jun-2026.

⁵ Tudor, Daniel, and William Sandlund. “Traders Braced for Won Volatility after Blockbuster SK Hynix Listing.” Financial Times, 13-Jul-2026.

look for in companies. For us, the more important story is whether companies possess durable competitive advantages, pricing power and structural growth potential – the quality growth characteristics that we believe should help them withstand periods of macroeconomic and market disruption.

REINVENTION THROUGH INNOVATION

Looking beyond Japan's currency narrative, a number of Japanese companies are addressing structural trends that extend well beyond the country's borders. We estimate that around 60 Japanese companies are actively contributing to the design, development and maintenance of semiconductors.⁶ After decades of restructuring, Japan retains important positions in the equipment and materials needed to produce the advanced chips underpinning the growth of AI.

Lasertec

The boom in AI and cloud computing has accelerated investment in data centres, driving demand for increasingly sophisticated semiconductors. **Lasertec**, a Yokohama-based manufacturer of inspection equipment, occupies a particularly specialised part of this supply chain. In 2017, the company launched the world's first inspection system for extreme ultraviolet, or EUV, lithography, helping it establish a near-monopoly in this segment.⁷ Its machines are used by leading chipmakers, including **TSMC**, to detect microscopic defects that can prove extremely costly in advanced semiconductor manufacturing.

Maintaining such a position requires sustained investment. Lasertec typically spends 5–10% of annual revenue on research and development, while engineers account for roughly 70% of its workforce.⁸ For us, this willingness to reinvest is an important characteristic of a quality growth company. Rather than prioritising short-term returns, businesses such as Lasertec invest to maintain their technological edge, reinforce barriers to entry and adapt as their markets evolve.

Innovation is also being applied closer to home, as Japan looks to AI and automation to help address one of its most pressing economic challenges: a shrinking labour force. The Japanese government forecasts that the country will face a shortage of nearly one million foreign workers by 2040, the number needed to meet its economic growth targets.⁹

RECRUIT

Recruit, the group behind Indeed and Glassdoor, is developing solutions for both businesses and jobseekers. The company is increasingly applying AI across job searches, candidate screening and interviews, with the aim of matching workers and employers more efficiently. In our view, these tools can help Japanese companies improve labour efficiency and optimise workflows as demographic pressures intensify.

Technology, however, is only part of the response. Japan is also drawing more heavily on parts of the workforce that have historically been underrepresented, including women and foreign workers. Female employment rose from 60.7% in 2012 to 72.4% in 2022, while the number of foreign workers has also increased in recent years.¹⁰ For Recruit, this broadening of the labour pool creates an opportunity to help employers reach more candidates while using AI to improve how workers and job are matched.

From our perspective, Recruit illustrates a broader investment theme. Japan is not simply exposed to demographic change. Some of its companies are developing technologies that can help the economy adapt to it. As quality growth investors, we look beyond currency fluctuations to identify businesses capable of turning long-term structural challenges into opportunities for sustainable growth.

⁶ Full list of companies available upon request.

⁷ Negishi, Mayumi. "Lasertec Shares Jump After Nvidia Fuels AI Chip Spending Hopes." *Bloomberg*, 31-Oct-2025.

⁸ "Corporate Strategy." Lasertec Corporation. Accessed 31-Aug-2026.

⁹ Komiya, Kantaro. "Japan faces shortage of almost a million foreign workers in 2040, think tank says," *Reuters*, 4-Jul-2024.

¹⁰ Jones, Randall S. "Addressing Demographic Headwinds in Japan: A Long-Term Perspective." OECD, 2024.

CORPORATE GOVERNANCE REFORMS

Corporate governance in Japan has evolved markedly over the past decade. Since the introduction of the Corporate Governance Code in 2015, companies have appointed more independent directors, unwound cross-shareholdings and faced greater pressure to improve capital efficiency and shareholder returns.¹¹ Shareholder activism has also increased, alongside improvements in returns on invested capital.

However, based on our research, the effects have been uneven. Japan has roughly 4,000 listed companies and regulatory pressure alone cannot ensure lasting transformation.¹² In our view, higher dividends, share buybacks and the sale of cross-shareholdings may improve capital efficiency, but these measures have natural limits as excess cash and assets are depleted. For long-term investors, we believe that the important question is whether better capital allocation reflects a deeper shift in how a company is managed.

HITACHI

Hitachi, the Japanese industrial group, offers one example. Over the past five years, the group has sold several profitable but lower-growth businesses, including operations in automotive parts, metals and construction equipment, to concentrate on areas where it believes it has stronger competitive advantages.¹³ The result is a more focused business centred on digital consulting and energy infrastructure.

This distinction matters for investors. Japan's governance reforms may provide a valuable catalyst, but buybacks and improved governance metrics do not necessarily create stronger businesses. We therefore assess companies individually, looking for management teams that can allocate capital effectively, sharpen strategic focus and generate sustainable growth over time.

THE JAPANESE INVESTOR HOMECOMING

One of the more consequential changes in Japan may be taking place not inside its companies, but among its investors. For much of the past three decades, Japanese households and institutions have maintained relatively low allocations to their domestic equity market.¹⁴ Japanese households hold enormous pools of financial wealth, yet their exposure to domestic equities remains comparatively limited.¹⁵ In our view, even a modest increase in that allocation could therefore represent a significant new source of demand for Japanese shares.

Part of the shift reflects changes in how Japanese people save for retirement. The gradual move from defined-benefit to defined-contribution pensions places greater responsibility on individuals to provide for their own retirement, potentially encouraging a longer-term investment mindset.¹⁶ Tax-exempt investment schemes, most notably the Nippon Individual Savings Account (NISA), reinforce this trend by making it easier for households to direct savings towards equities.¹⁷

The potential extends to institutional investors. Japanese pension funds and other large institutions have historically maintained relatively low allocations to their home equity market, favouring fixed income instead. We believe that this is starting to change as institutions reconsider the balance between bonds and equities. From a low base, even relatively small shifts in allocation could translate into substantial flows into the domestic market.

¹¹ Financial Services Agency, *Corporate Governance Reform: Initiatives to Date and Future Issues*, June 2025

¹² Japan Exchange Group (JPX), "Number of Listed Companies," 18-Sept-2026. JPX reported 3,897 companies listed across the Prime, Standard, Growth and TOKYO PRO markets.

¹³ Dormer Alistair, "Focus Is the Key to a Net Zero Future," *Hitachi*, accessed 31-Aug-2026.

¹⁴ Fujikawa, Megumi. "Why Japan's Mom-and-Pop Investors Are Stepping Back Into the Market." *Wall Street Journal*, 10-Oct-2025.

¹⁵ Japan Financial Services Agency, "Composition of Household Assets," May 2025

¹⁶ Cabinet Secretariat of Japan, *New Form of Capitalism: Revised 2024 Action Plan*, 2024

¹⁷ Inagaki, Kana, and Leo Lewis. "Is Japan Finally Becoming a 'Normal' Economy?" *Financial Times*, 8-Apr-2024.

For quality growth investors, however, the significance of this homecoming goes beyond additional demand for Japanese equities. We believe a deeper domestic investor base could encourage greater attention to companies capable of compounding earnings over the long term, particularly as pension investors seek long-duration investments that can help match long-term liabilities. That dynamic would reinforce our focus on businesses exposed to structural trends such as digitalisation, demographic change and the growth of Asia's middle class.

SEARCHING FOR CHANGE THAT OUTLASTS THE YEN

The U.S. Treasury's sudden intervention that jolted the yen this summer was a reminder of how quickly currency markets can move – and how readily they can dominate the investment narrative around Japan. But exchange rates fluctuate, while the changes taking place within some Japanese companies unfold over years.

From semiconductor equipment and AI to solutions for a shrinking workforce, we believe the more enduring investment story lies in businesses that are adapting, innovating and strengthening their competitive positions. The return of Japanese investors adds another dimension. After decades of relatively low domestic equity allocations, changes in retirement savings and institutional portfolios could gradually bring more Japanese capital back to its home market.

For long-term investors, the key is to distinguish between what is cyclical and what can compound. A stronger yen, greater domestic participation or further governance reform may all provide a more supportive backdrop, but none is sufficient on its own. What matters most, in our view, is identifying companies with durable competitive advantages, disciplined capital allocation and the ability to reinvest at attractive rates over many years.

That is why Japan's investment case is less about predicting the next move in the yen than recognising which businesses are using today's structural changes to build tomorrow's growth. In a market of thousands of companies, our three decades of on-the-ground experience have reinforced the value of deep market knowledge, patience and the agility to act when opportunities emerge.



Richard Kaye joined Comgest in 2009 and is a Paris-based Analyst and Portfolio Manager specialising in Japanese equities. He is also a member of the Comgest Group's Investment Committee. Richard brings deep, long-standing expertise in Japan, having lived in Tokyo for over 30 years before relocating to Paris in 2025. Prior to joining Comgest, Richard worked at Wellington Management Company in Boston from 2005 as a Portfolio Manager specialising in Japanese TMT stocks. Before that, he worked in Japan as an Analyst at Merrill Lynch from 1996. He began in 1994 as an Analyst with the Industrial Bank of Japan. Richard holds a Bachelor's degree in Oriental Studies from Oxford University (UK).

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