

April 2024

Rayliant Sumitomo Mitsui DS (SMDAM) Japan Equity Strategy



Sumitomo Mitsui DS Asset Management

Strategy Overview

- Why Japan and why now?
- Why active management in Japan
- The Rayliant / SMDAM partnership
- Portfolio construction



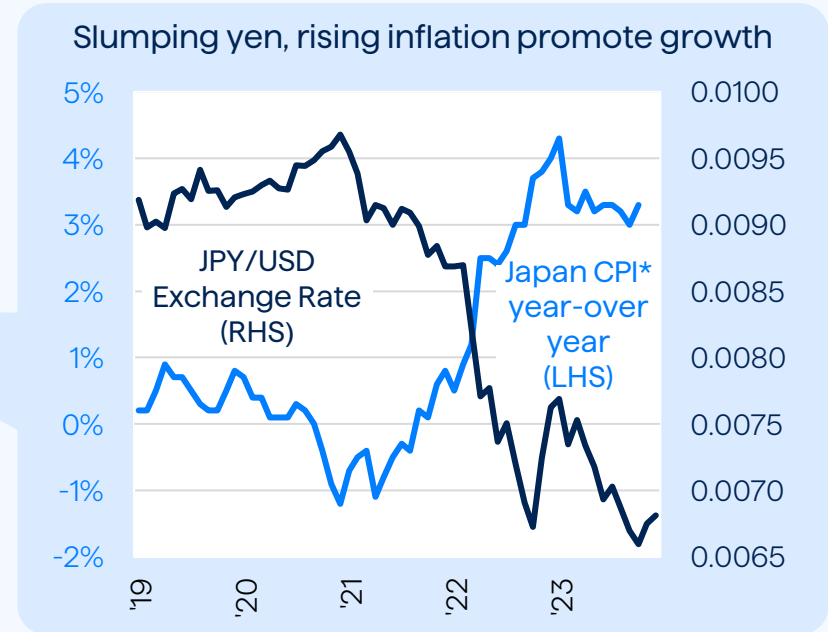
Why have Japanese equities taken off?

Japan's economy poised for major growth as "lost decades" finally giving way

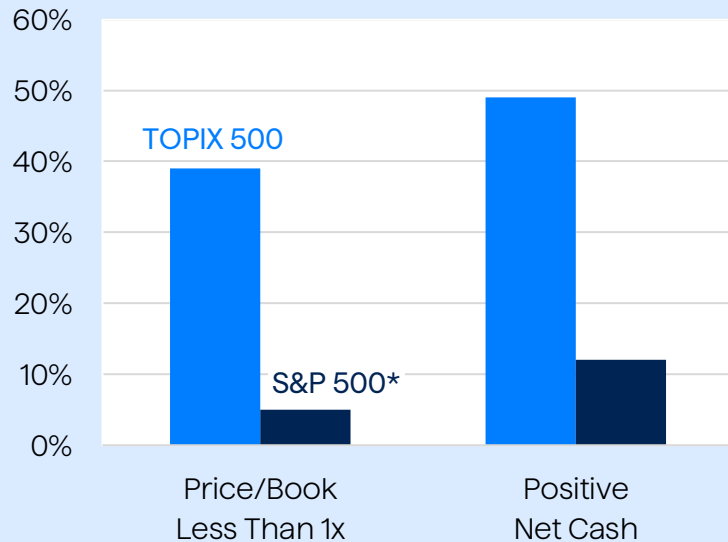
- Moderate inflation and a weak currency have catalyzed a rebound

Corporate governance reform / secular growth could drive long-term stock returns

- Regulators actively encouraging firms to operate efficiently, pursue growth



Nearly 40% of TOPIX* priced at < 1x book value



Low valuations / lack of ownership create big potential upside for Japanese equities

- Japanese market full of value stocks—but few investors to find them

Changes to retirement accounts likely to increase demand for domestic stocks**

- Update to savings account program should boost investment in risk assets

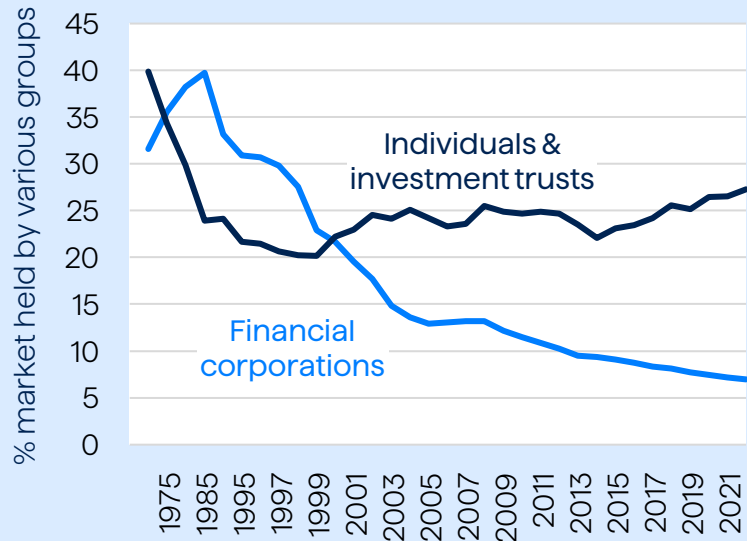


Source: (Left) Rayliant Research, Capital Group as of Aug. 2023. (Right) Rayliant Research, Bloomberg as of Aug. 2023.

*See Appendix for definition of terms **Nippon Investment Savings Account (NISA)

Why a Japan allocation should be actively managed

Ownership structure may favor active approach



Japanese market is large / liquid—but insufficient analyst coverage could create opportunity for fundamental stock pickers

- Over 3,900 stocks with a market cap of US\$6 trillion
- On average, just one analyst covers a small-cap stock (vs. 15 for large-cap)

Behavioral retail trading & frictions created by financial firms' non-investment holdings could lead to mispricing for active investors to exploit (see chart)

- Individual investors / trusts account for nearly 30% of ownership
- Banks & insurance companies have been gradually selling down cross-holdings

Japan's transition from deflationary to inflationary regime, recently started corporate governance reforms to prompt revaluation of quality companies

- We expect high-quality growth stocks to benefit from Japan's economic resurgence
- Corporate reforms should drive more efficient allocation of firms' capital
→ Such trends may provide active managers' investments with clear catalysts



Source: (Figure) SMDAM, Tokyo Stock Exchange as of Mar. 2023. (Market Statistics) World Federation of Exchanges, as of Dec. 2023.

An exceptional quantamental combination

Sumitomo Mitsui DS Asset Management (SMDAM) is the outright global leader in active Japan equities with a bottom-up fundamental philosophy

60+

investment professionals dedicated to Japan equity

50+

years of investment management experience in Japan since 1973



Sumitomo Mitsui DS Asset Management



Takashi Saruta

CEO

\$139+
billion in AUM*

*AUM as of Mar. 31, 2023

Rayliant is a quantitative firm that incorporates fundamental insights into their research and portfolio management into a process they call quantamental.

18 years

running quant strategies in Asia



36

member quant research team

4

US-listed Active ETFs



Jason Hsu, PhD

Founder & CIO

A Closer Look

Rayliant SMDAM Japan Equity Strategy



Sumitomo Mitsui DS Asset Management

Strategy Investment Philosophy

The Strategy seeks to invest in companies that exhibit sustainable earnings growth

- Companies that establish competitive positions in growing markets & segments
- Companies that create markets where competition does not exist, leading to a “winner takes all” business



Strategy Investment Process



SMDAM Portfolio Managers in Focus



Tomoko Yokoyama, CMA¹

Lead Portfolio Manager

After joining SMDAM in 2012, Yokoyama has handled various positions including asset allocation for globally balanced funds, quantitative investments, Japanese equities GARP and growth strategies. She not only has a strong background in quantitative analysis but has also conducted extensive qualitative research with an additional focus on development in China and throughout Asia.

Yokoyama earned a M.Sc. in Mathematics and Computing Science, from Graduate School of Tokyo Institute of Technology in 2012.



Takahiro Uemura, CMA¹

Portfolio Manager

Uemura has been the key investment decision maker for the Japan Growth Strategy at SMDS since 2009 and is the lead on the Rayliant SMDAM Japan Equity strategy. He started his investment career in 1991 with a life insurance company in Japan as a portfolio manager/analyst. As his career developed, he became responsible for major public and corporate pension funds and several investment trust funds. Understanding companies deeply is a hallmark of Uemura's process and he has conducted more than 10,000 company visits across a large number of countries over his tenure at SMDS. He earned a B.Sc. in Engineering from Waseda University in 1991.



¹CMA, Chartered Member of Security Analysts Association of Japan

Rayliant Portfolio Management Team



Jason Hsu, PhD
Chief Investment Officer

Expertise

Asset Allocation, Emerging Market Investing

Experience | 25 years in industry

PM, PIMCO All Asset Fund (2002-2015)
3X Winner of Graham & Dodd Research Award
3X Winner Bernstein-Fabozzi Research Award
4X Winner William Sharpe Award

Education PhD of Finance, UCLA



Phillip Wool, PhD
Senior Managing Director

Expertise

Global Equities, Asset Allocation

Experience | 20 years in industry

PM, Rayliant ETFs (RAYC, RAYD, RAYE)
PM, Rayliant Asset Allocation Portfolios
Professor of Finance, SUNY Buffalo (2013-2017)

Education PhD of Finance, UCLA



Mark Schlarbaum
Managing Director

Expertise

Capital Markets, Trade Execution

Experience | 31 years in industry

PM, Head of Capital Markets, KraneShares (2015-2020)
Senior Equities/Derivatives Trader, TRowe Price (~\$40B)

Education BA, Purdue University



Rayliant's Experienced Capital Markets Team

The Active ETF can be a Powerful Investment Vehicle!

- ▶ Active ETFs offer high-powered alpha* strategies in a convenient chassis.
- ▶ Easier to trade than you think: for active ETFs, volume is **not liquidity!**
- ▶ Our Capital Markets team is available to facilitate large trades.

“Our deep relationships with leading market-makers allow Rayliant to execute large format trades and offer service that clients will be hard-pressed to find with most issuers.”



Mark Schlarbaum
Head of Capital Markets
Industry veteran with over 30
years of trading experience
Asia-based securities



*See Appendix for definition of terms

Portfolio Details

Rayliant SMDAM Japan Equity Strategy



Sumitomo Mitsui DS Asset Management

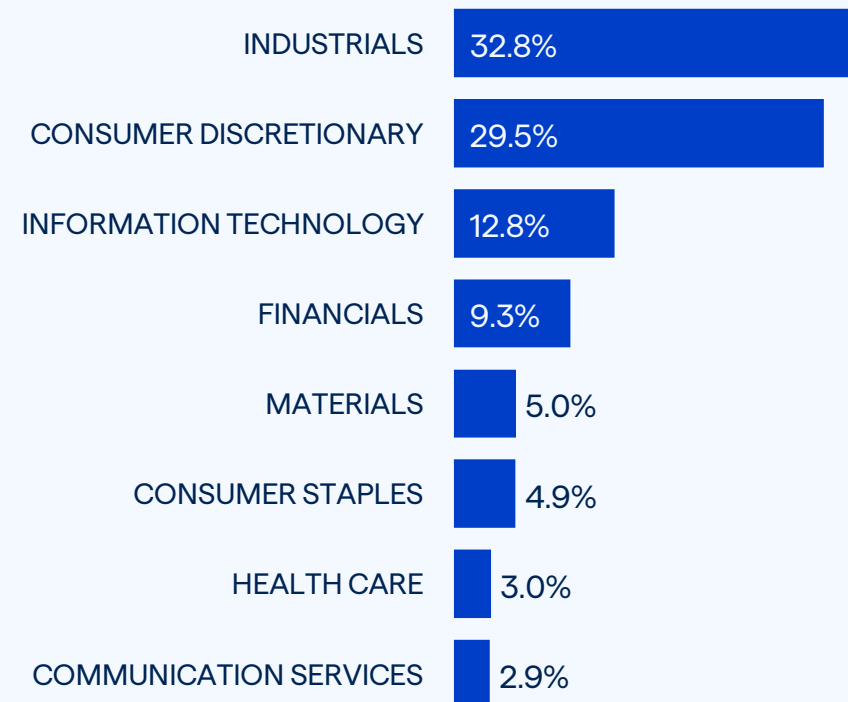
Portfolio Composition

Top 10 Holdings vs Benchmark (as of 4 April 2024)

Rayliant SMDAM Japan Equity	Weight	TOPIX	Weight
Disco	5.94%	Toyota Motor	5.19%
Toyota Motor	5.74%	Sony Group	2.40%
Mitsubishi	5.45%	Mitsubishi UFJ Financial Group	2.37%
Mitsubishi UFJ Financial Group	4.95%	Tokyo Electron	2.19%
Fast Retailing	4.80%	Mitsubishi	1.82%
Shin-Etsu Chemical	3.99%	Keyence	1.79%
Fujikura	3.55%	Hitachi	1.71%
Denso	3.53%	Sumitomo Mitsui Financial Group	1.60%
SIGMAXYZ Holdings	3.51%	Shin-Etsu Chemical	1.48%
Kawasaki Heavy Industries	3.50%	Mitsui & Co	1.43%
TOTAL 44.98%		TOTAL 22.00%	

Note: Holdings are subject to change.

Sector Breakdown (as of 4 April 2024)



Source: The TOPIX is designed to broadly measure the performance of the Japanese stock market. The free-float adjusted market capitalization-weighted index covers all stocks listed on the First Section of the Tokyo Stock Exchange. It is not possible to invest directly in an index.

Rayliant Quantamental ETF Series

Rayliant's quantamental ETFs provide advisers and investors with a suite of AI-driven, active alpha strategies to diversify their global equities exposure.

RAYE

Rayliant
Quantamental
Emerging Market
ex-China
Equity ETF

In EM ex-China, Rayliant embraces novel data, differences in accounting, regulation, and market structure, to build an active portfolio that seeks to outperform a passive approach by exploiting behavioral mispricings.

RAYC

Rayliant
Quantamental
China Equity ETF

Mainland China A Shares present a unique opportunity for investors to pursue growth, diversification, and alpha. With 'boots-on-the-ground' at its onshore research hub, Rayliant's models are tailored to Chinese stocks.

RAYD

Rayliant
Quantitative
Developed
Market Equity ETF

In efficient Developed Markets, Rayliant seeks to outperform a passive exposure based on the quality of its research and the sophistication of its approach, using big data, machine learning, and portfolio optimization.

RAYJ

Rayliant SMDAM
Japan
Equity ETF

As Japan's economy returns to expansion, Rayliant has partnered with Sumitomo Mitsui DS Asset Management (SMDAM) to deliver a growth strategy combining quant insights with a seasoned team of local fundamental experts.



Appendix

Definition of Terms

Alpha

An investment's "alpha" measures an investment's performance in excess of fair compensation for risk, controlling for, e.g., size, valuation, and beta.

Beta

An investment's "beta" measures the expected movement in its stock price relative to movements of the market, as a whole.

CPI

The Consumer Price Index (CPI) is a widely accepted measure of inflation, seeking to capture the change over time in prices paid by consumers for a representative basket of goods and services in a particular region.

S&P 500

The S&P 500 is an index designed to broadly measure the performance of the U.S. stock market. The free-float adjusted market capitalization-weighted index covers the 500 largest companies listed on stock exchanges in the United States.

TOPX

The TOPIX is an index designed to broadly measure the performance of the Japanese stock market. The free-float adjusted market capitalization-weighted index covers all stocks listed on the First Section of the Tokyo Stock Exchange.

Important Information

Before investing, carefully consider the fund's investment objectives, risks, charges and expenses. This and additional information can be found in the funds' summary or full prospectus, which may be obtained by visiting funds.rayliant.com. Please read the Prospectus carefully before investing.

Informational Purposes

This document is for informational purposes only. It is not a recommendation to buy or sell any financial instrument and should not be construed as investment advice. No offer may be made without also providing the Prospectus, and the information in the Prospectus is controlling.

Risk of Investing

Investing involves risk, including the risk of total loss of principal. Please consider the following risks before investing in the ETF or any other investment strategy or product.

Investment Objectives

There can be no assurance that any investment will achieve its stated objectives.

Quantitative Investments

Investments that are managed according to a quantitative model can perform differently from the market as a whole.

International and Geographic Focus Risk

International investments may involve risk of capital loss from unfavorable fluctuation in currency values, from differences in generally accepted accounting principles or from social, economic or political instability in other nations. The Fund focuses its investments in a single country and as a result, it may be subject to greater price volatility and risk of loss.

Smaller Companies

Investments in smaller companies typically exhibit higher volatility.

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