Opening Keynote:
Changing Investment Environment amid Geopolitical Risks and Challenges Ahead

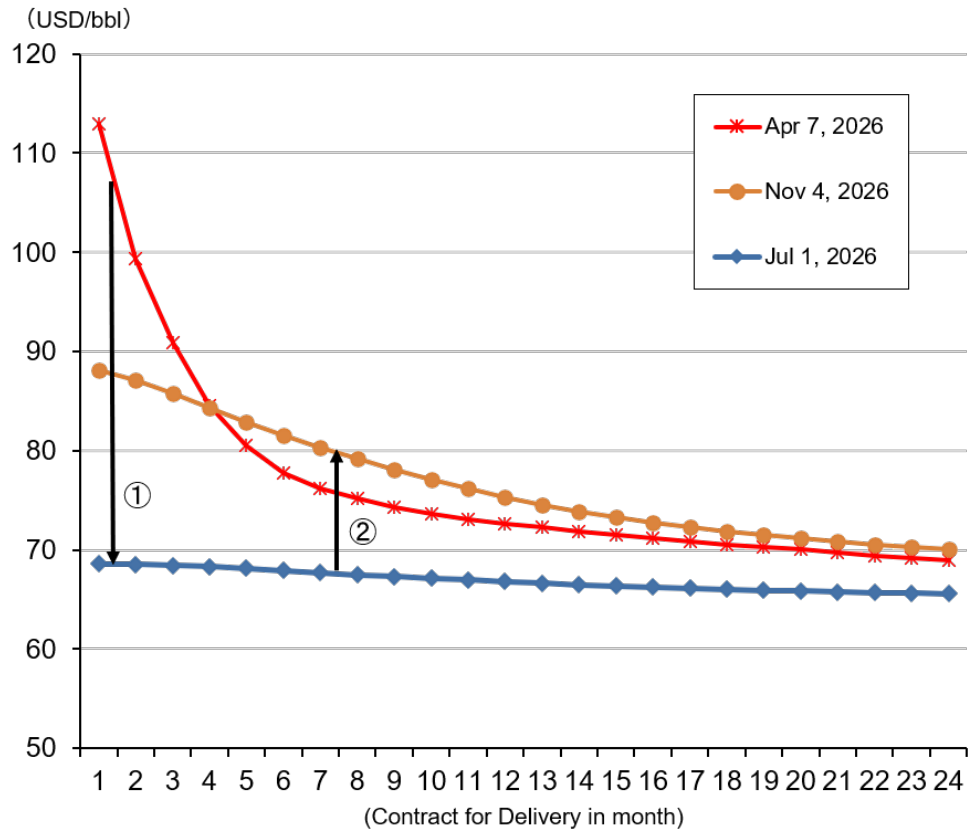
Hiroshi Nakaso
Chairman of FinCity.Tokyo
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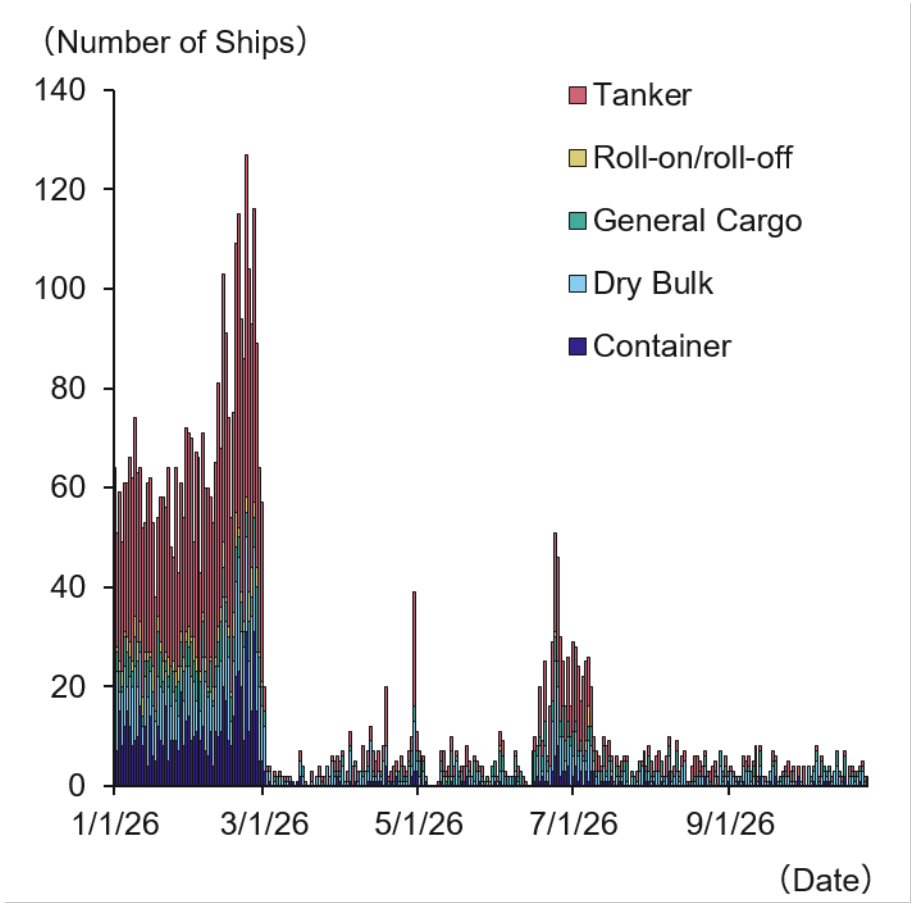
1. Oil Futures Curve and Shipping Activity

WTI Crude Oil Futures Term Structure



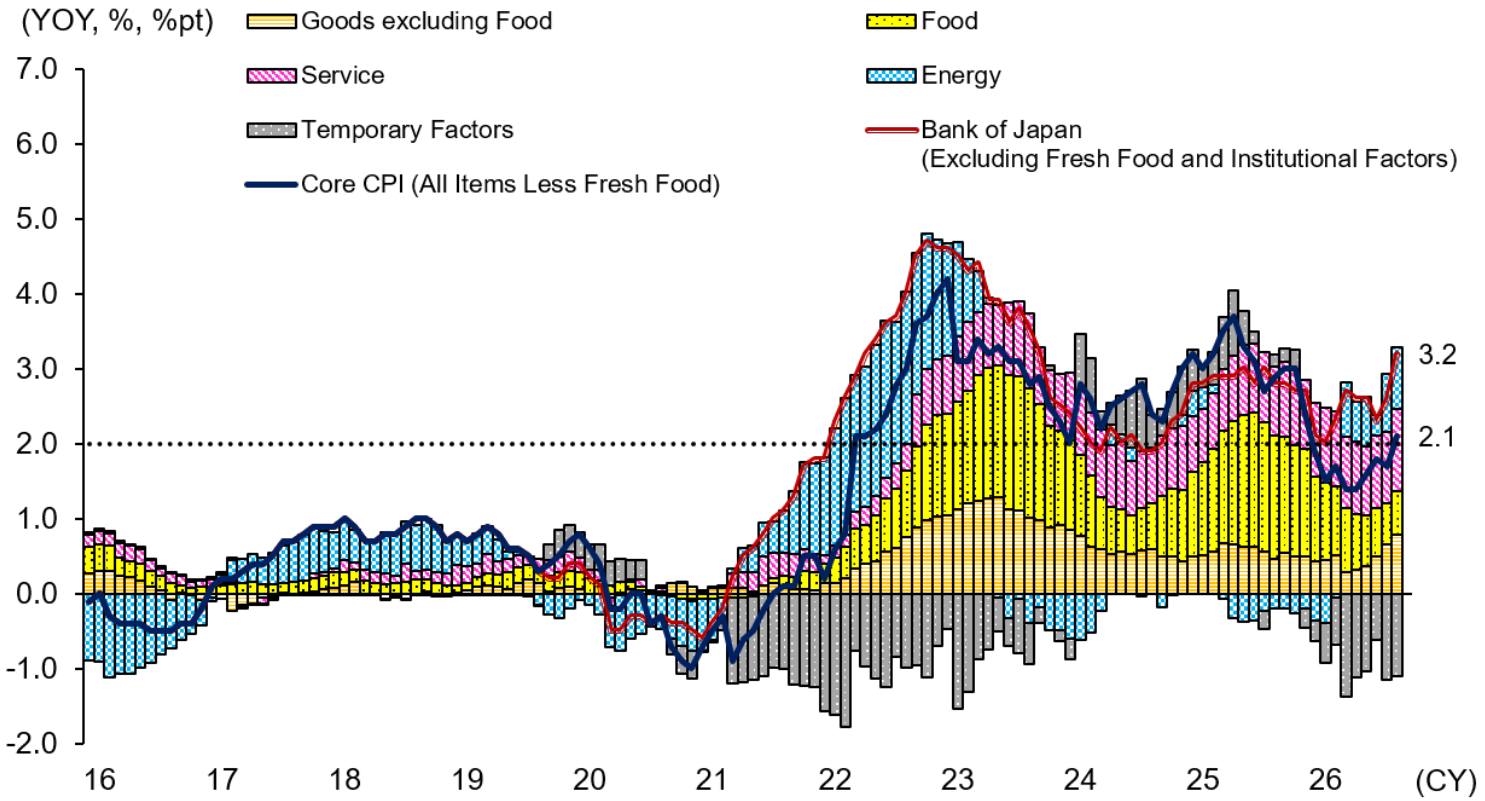
Source: Bloomberg; compiled by DIR.

Strait of Hormuz Transit Calls



Source: UN Global Platform, PortWatch; compiled by DIR.

2. Japan's CPI and its Decomposition



Potential Drivers of Future Inflation

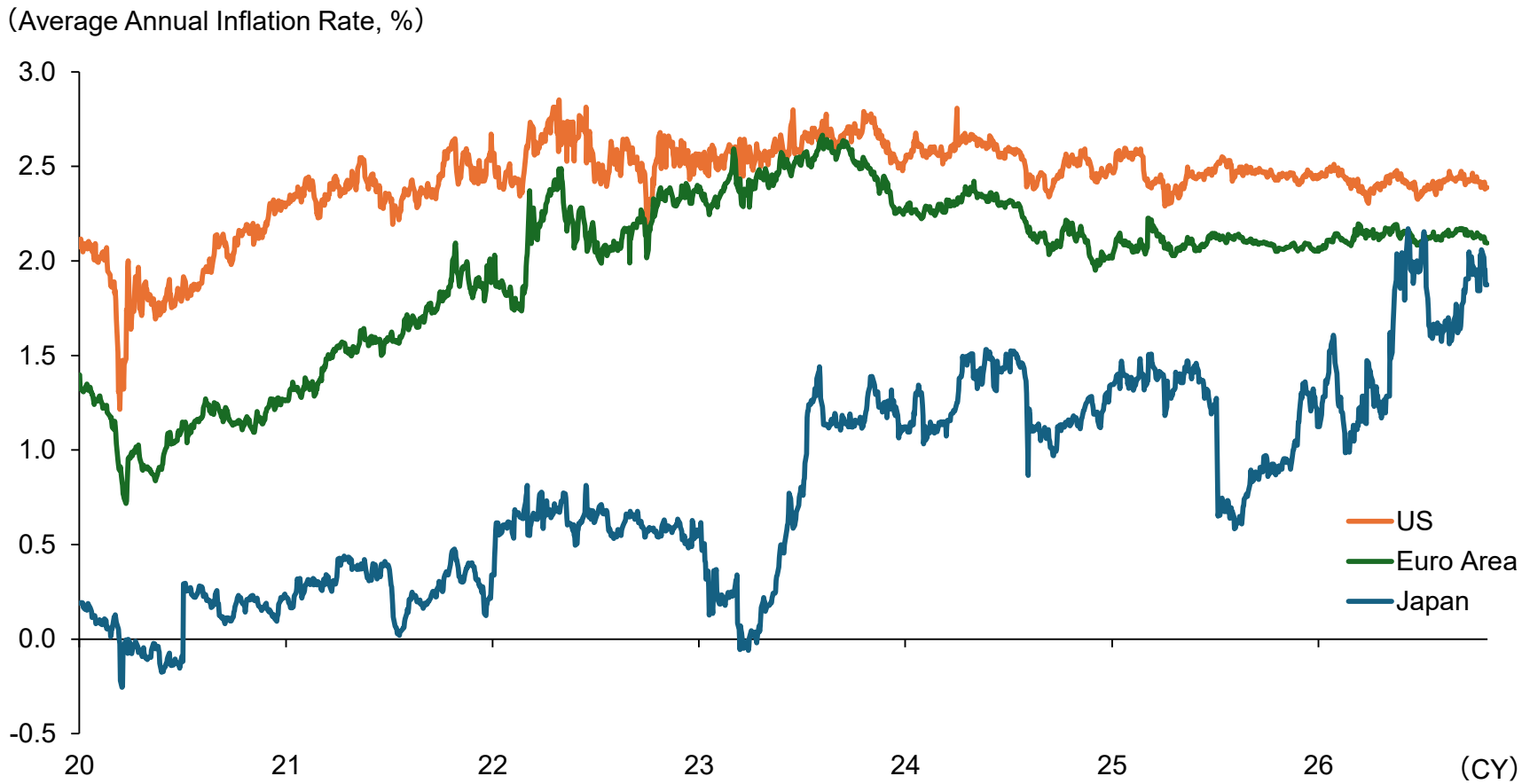
1. Rising crude oil prices
2. AI-related demand
3. Yen depreciation

Note 1: Temporary factors include the effects of the increase in consumption tax, free education (incl. free school lunches at public elementary and junior high schools), travel support measures, and the decrease in mobile phone fees, measures to ease the burden of gasoline, electricity, gas, and other costs, and reductions in or exemptions from water charges. The latest data are for September 2026.

Note 2: The Bank of Japan data are estimates by the Bank's Research and Statistics Department, calculated by excluding from the figures published by the Ministry of Internal Affairs and Communications the effects of: (1) changes in the consumption tax rate; (2) free education policies, including the provision of free school lunches at public elementary and junior high schools; (3) the reduction in mobile phone charges in 2021; (4) travel support programs; and (5) measures to ease the burden of gasoline, electricity, gas, and other costs.

Source: Ministry of Internal Affairs and Communications, Bank of Japan; compiled by DIR.

3. 5-Year & 5-Year Forward Inflation Expectations: US, Euro Area & Japan



Note: US and Euro Area figures are based on inflation swap rates. Japan's figures are estimated from inflation-indexed government bonds.
Source: Bloomberg; compiled by DIR.

4. Contribution of AI-Related Goods to Nikkei 225 Gains

1. AI-related goods are defined as products that fall into either category (1) or (2) below.
   (1) Products included in the list of AI-related goods published by the World Trade Organization (WTO)
   (2) Products whose export growth shows a high correlation with the growth in global semiconductor exports
2. Twenty-five Nikkei 225 constituent companies associated with AI-related goods were selected for analysis.
3. The year-to-date stock price gains of these 25 companies (adjusted using Nikkei's stock adjustment factors) were compared with the increase in the Nikkei 225 over the same period.

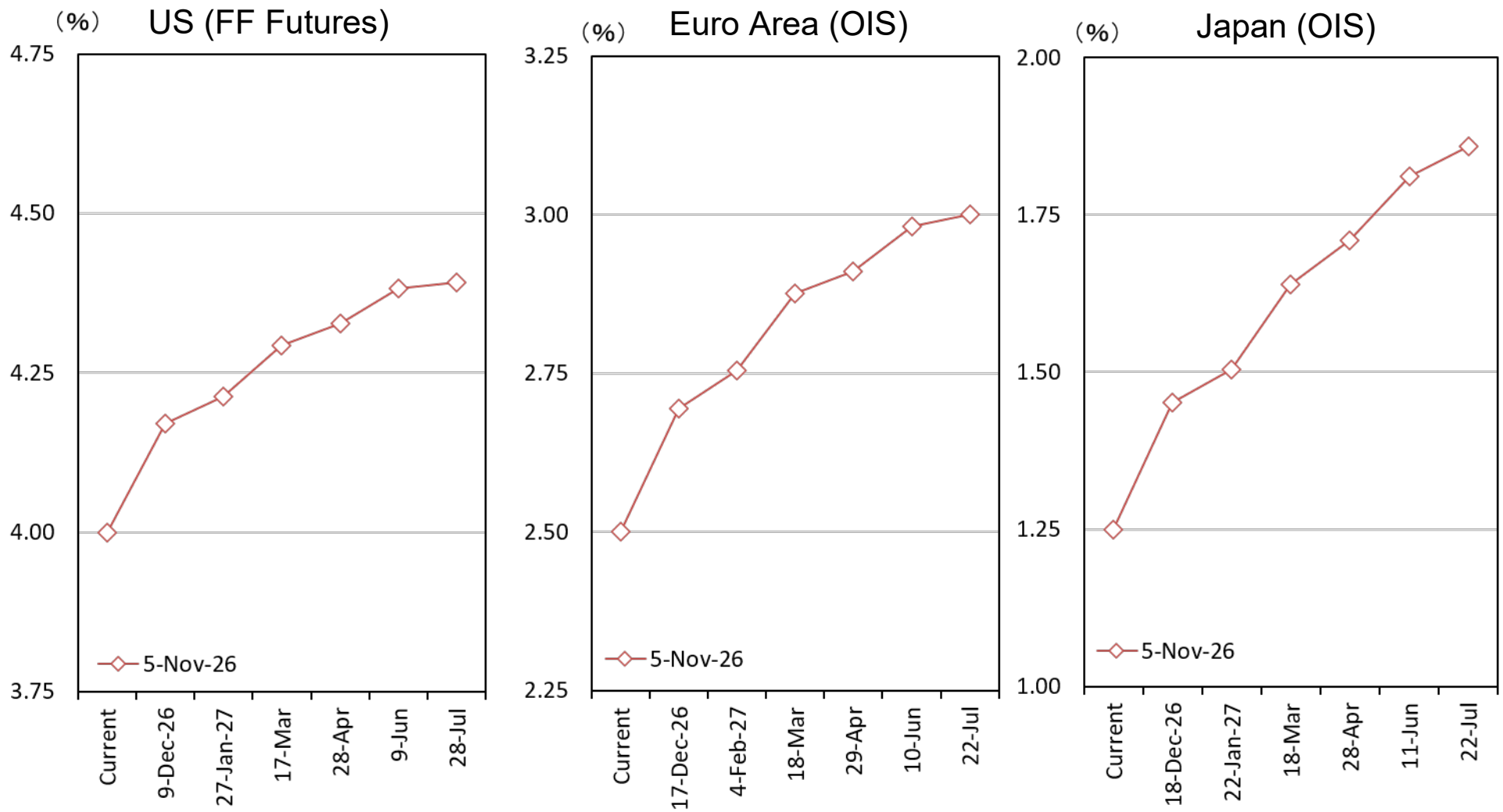
Key Findings

1. The Nikkei 225 rose by 19,722.84 yen year to date (from 50,339.48 yen to 70,062.32 yen), representing a gain of 39%.
2. Of this increase, the 25 selected companies accounted for 14,442.37 yen, or approximately 73% of the total rise.
3. The contribution of AI-related goods to the Nikkei 225's 39% gain is estimated at 29 percentage points.

Category	Companies	Contribution to the Nikkei 225 Performance	
		Yen	%
Optical Fiber Cables	Furukawa Electric	124.33	0.25
	Fujikura	649.88	1.29
	Sumitomo Electric Industries	184.64	0.37
Semiconductor Manufacturing Equipment	SCREEN Holdings	242.52	0.48
	Tokyo Electron	3,886.21	7.72
	EBARA	87.28	0.17
	DISCO	221.98	0.44
	Lasertec	253.70	0.50
	ADVANTEST	3,313.29	6.58
Memory	Kioxia Holdings	1,513.20	3.01
Silicon Wafers	SUMCO	8.17	0.02
Multilayer Ceramic Capacitors (MLCCs)	TAIYO YUDEN	489.81	0.97
	Murata Manufacturing	590.66	1.17
	TDK	697.16	1.38
Semiconductor Materials & Components	IBIDEN	1,085.19	2.16
	NGK	129.45	0.26
	Resonac Holdings	37.36	0.07
	Mitsui Kinzoku	89.62	0.18
	Ajinomoto	164.80	0.33
	TOKAI CARBON	23.98	0.05
	KYOCERA	353.31	0.70
	Nissan Chemical	100.58	0.20
	Denka	10.95	0.02
Power Semiconductors	ROHM	98.59	0.20
	Renesas Electronics	85.72	0.17
Sum		14,442.37	28.69
The Nikkei 225		19,722.84	39.18

Note: Contributions are calculated for the first half of 2026.
Source: Daiwa Securities, Nikkei; compiled by DIR.

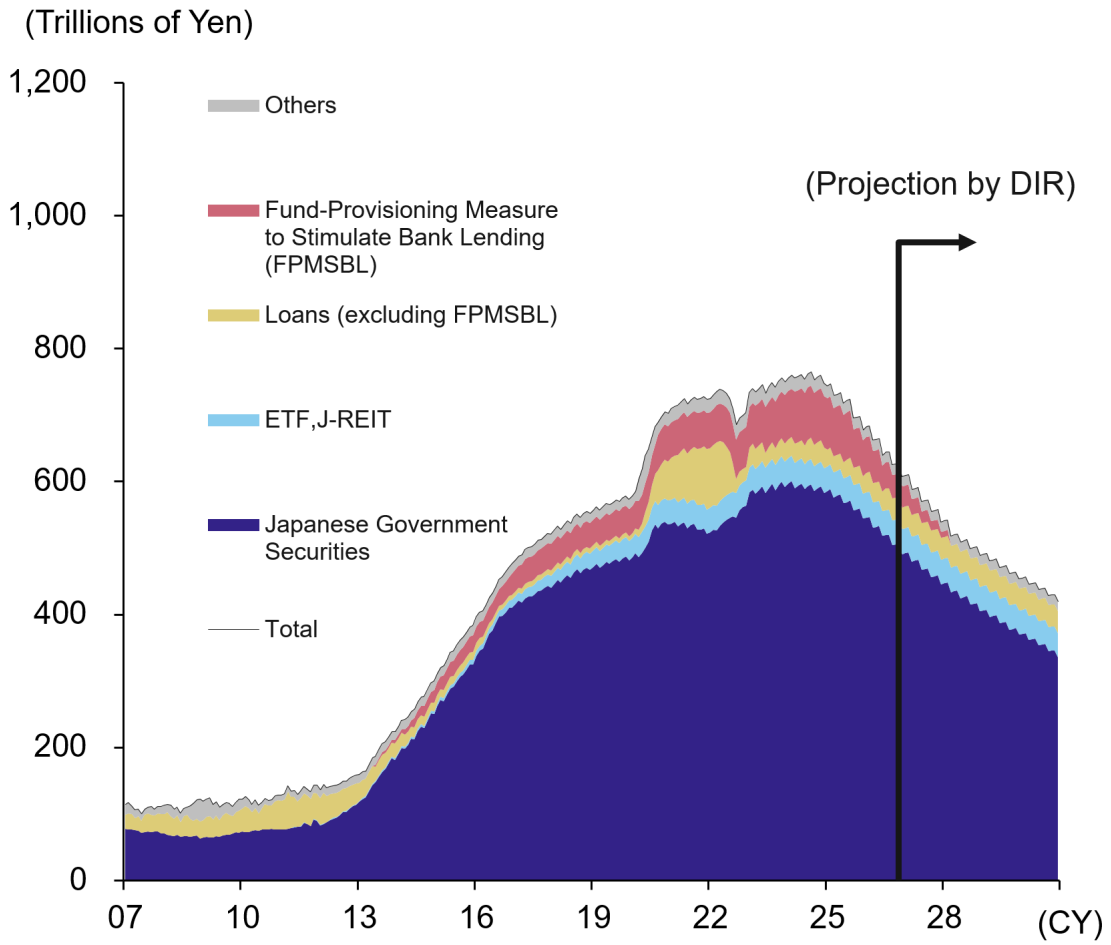
5. Policy Rates Implied by Fed Funds Futures and OIS for Each Policy Meeting



Note: For the US (FF futures), figures indicate the upper bound of the federal funds target range; for the Euro Area (OIS), the deposit facility rate; and for Japan (OIS), the uncollateralized overnight call rate.
Source: Bloomberg; compiled by DIR.

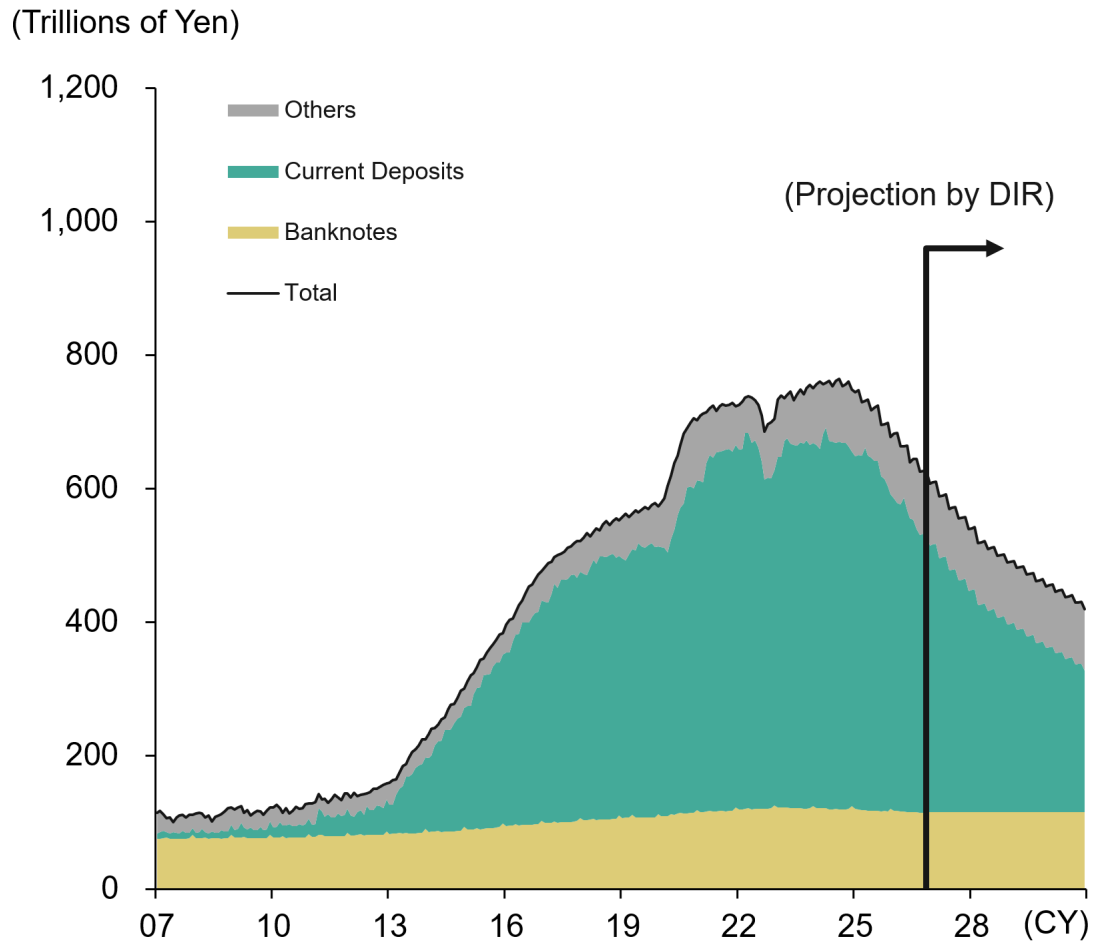
6. Outlook for the Bank of Japan's Balance Sheet

Assets



Changes from the Pre-QT Period to October 2026
Japanese Government Securities: ▲88 trillions of yen
Fund-Provisioning Measure to Stimulate Bank Lending: ▲43 trillions of yen

Liabilities

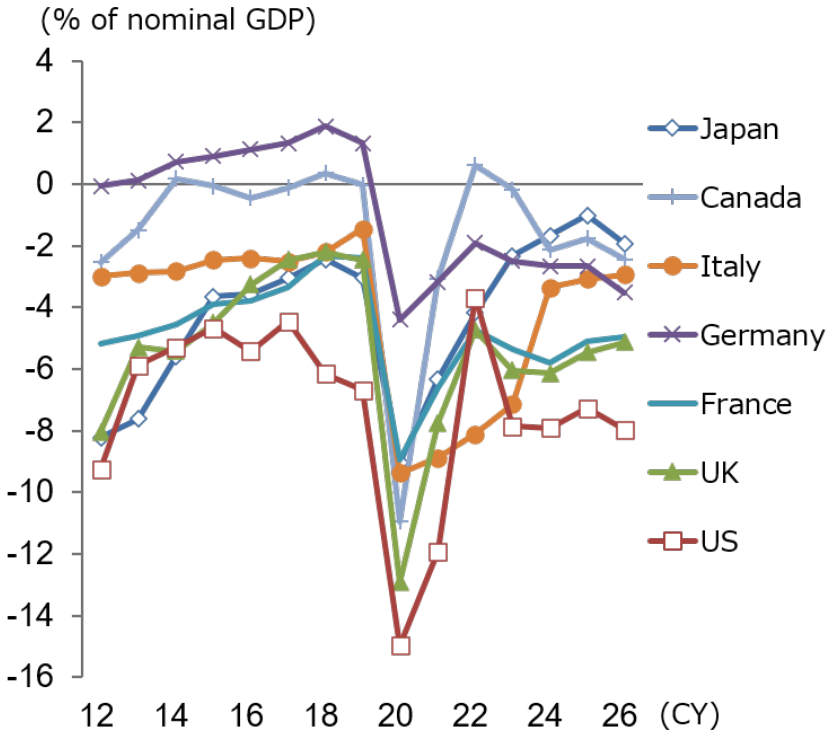


Changes from the Pre-QT Period to October 2026
Current Deposits: ▲130 trillions of yen

Note: Forecasts from November 2026 onward are by DIR.
Source: Bank of Japan; compiled by DIR.

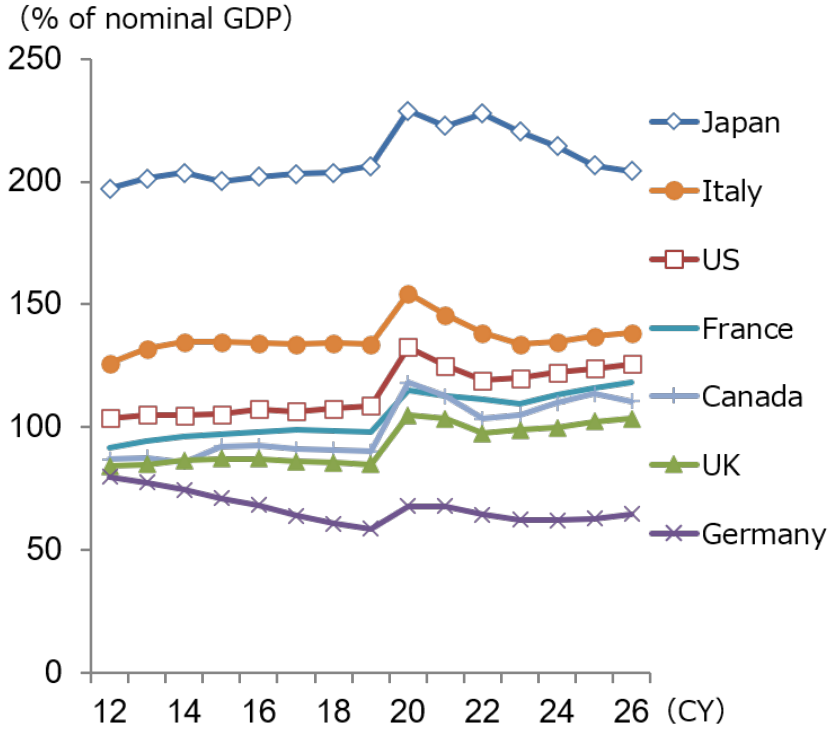
7. General Government Financial Balances and Gross Financial Liabilities

General government
financial balances



Note 1: General government sector comprises all government units of central, state, provincial, regional, and local government, and social security funds imposed and controlled by those units.
Note 2: 2026 estimates.
Source: OECD, "Economic Outlook 119"; compiled by DIR

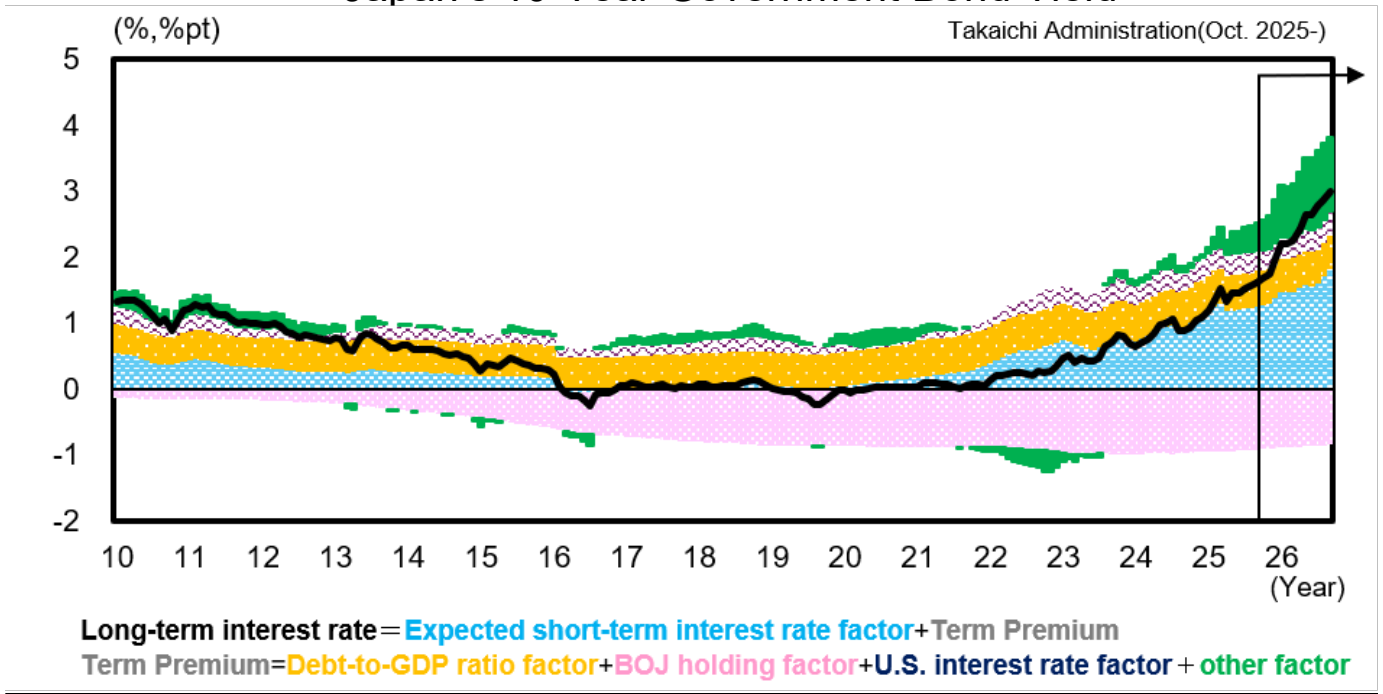
General government
Gross financial liabilities



Note 1: General government sector comprises all government units of central, state, provincial, regional, and local government, and social security funds imposed and controlled by those units.
Note 2: 2025-26 estimates for Japan, France, and Canada; 2026 estimates for all other countries.
Source: IMF, "World Economic Outlook" (April 2026); compiled by DIR

8. Factors behind the Increase in Long-term Interest Rate

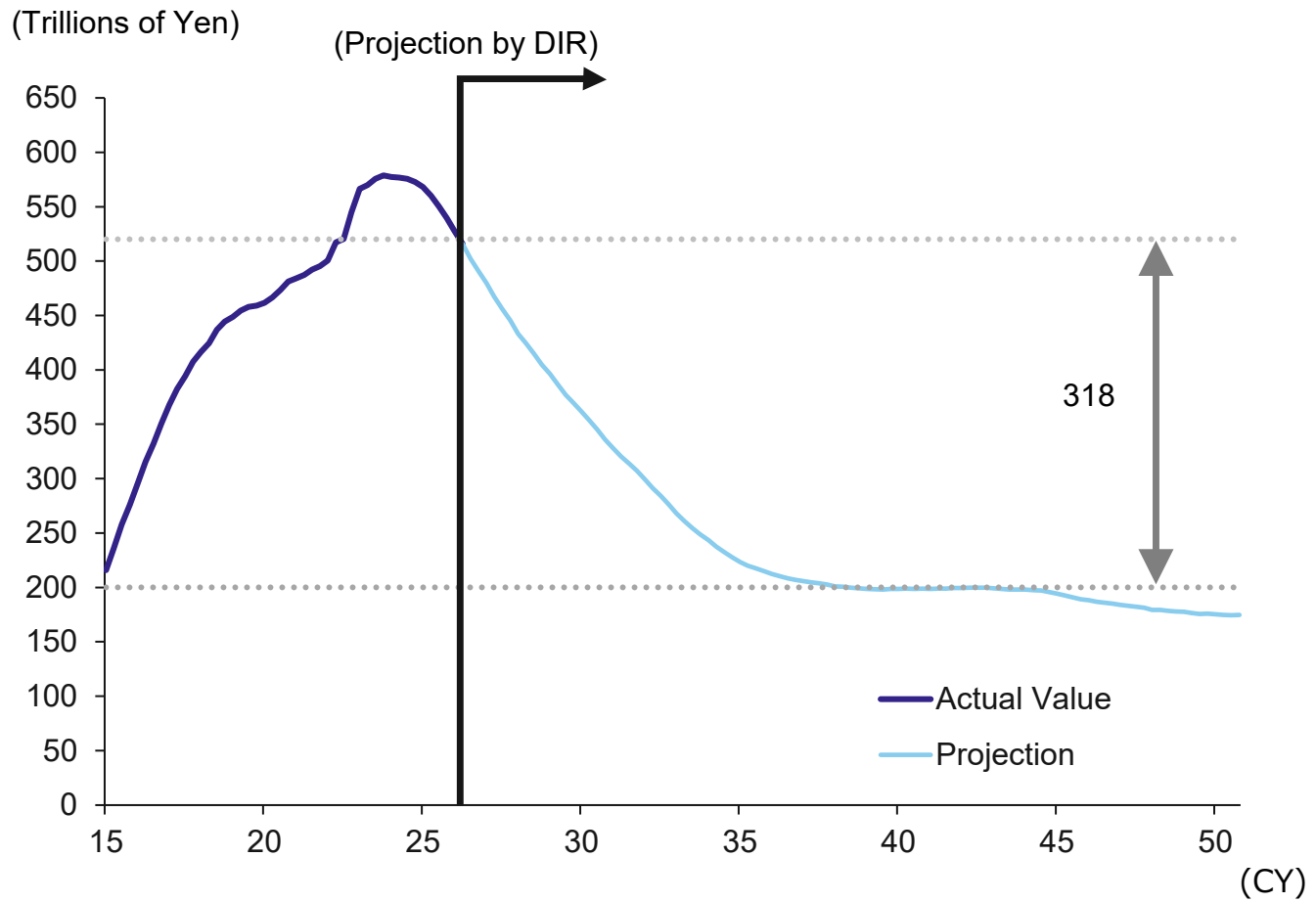
Japan's 10-Year Government Bond Yield



	Change in interest rate	Expected short-term interest rate factor	Term Premium
Increase in the long-term interest rate from July 2024 to September 2026	+2.0%pt	+0.9%pt	+1.1%pt ＜+0.1%pt＞
from October 2025 to September 2026	+1.4%pt	+0.6%pt	+0.8%pt ＜+0.1%pt＞

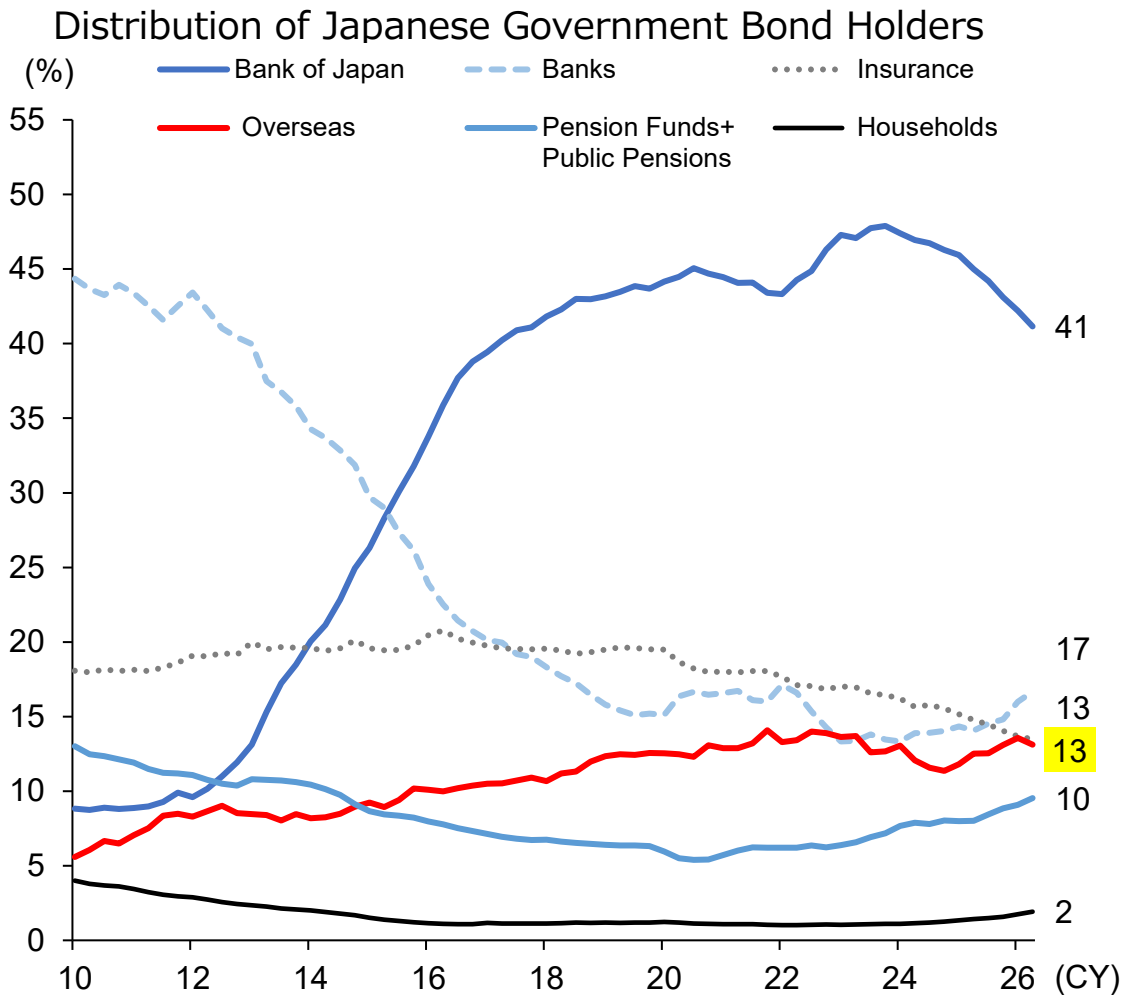
Source: Koki Akimoto, Keiji Kanda, and Kisuke Yoshii (2026), "Assessing Long-Term Interest Rates Following the Inauguration of the Takaichi Administration," Daiwa Institute of Research Report, August 12, 2026.
Koki Akimoto, Keiji Kanda, and Kisuke Yoshii (2026), "Japan's Long-Term Interest Rate Could Reach the 5% Range by 2035," Daiwa Institute of Research Report, October 16, 2026.

9. Projected Balance of Government Bonds Held by the Bank of Japan

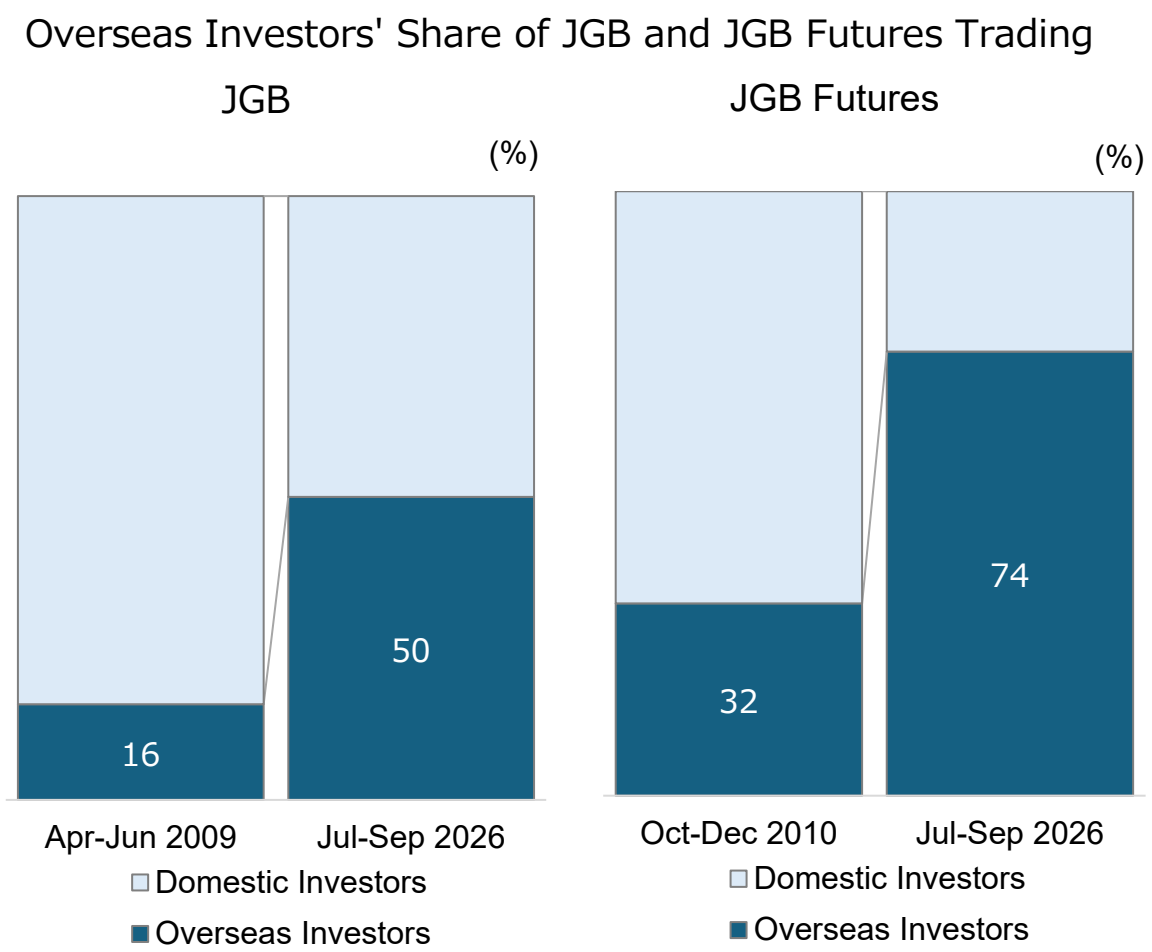


Note: Figures are on a face value basis and are quarterly. Figures from Q3 2026 onward are forecasts by DIR.
Source: Bank of Japan; compiled by DIR.

10. Distribution of Japanese Government Bond Holders



Note 1: Japanese government bonds include FILP bonds and treasury discount bills.
Note 2: Banks include securities investment trusts and securities companies.
Note 3: The most recent value is of June 2026.
Source: Bank of Japan; compiled by DIR.

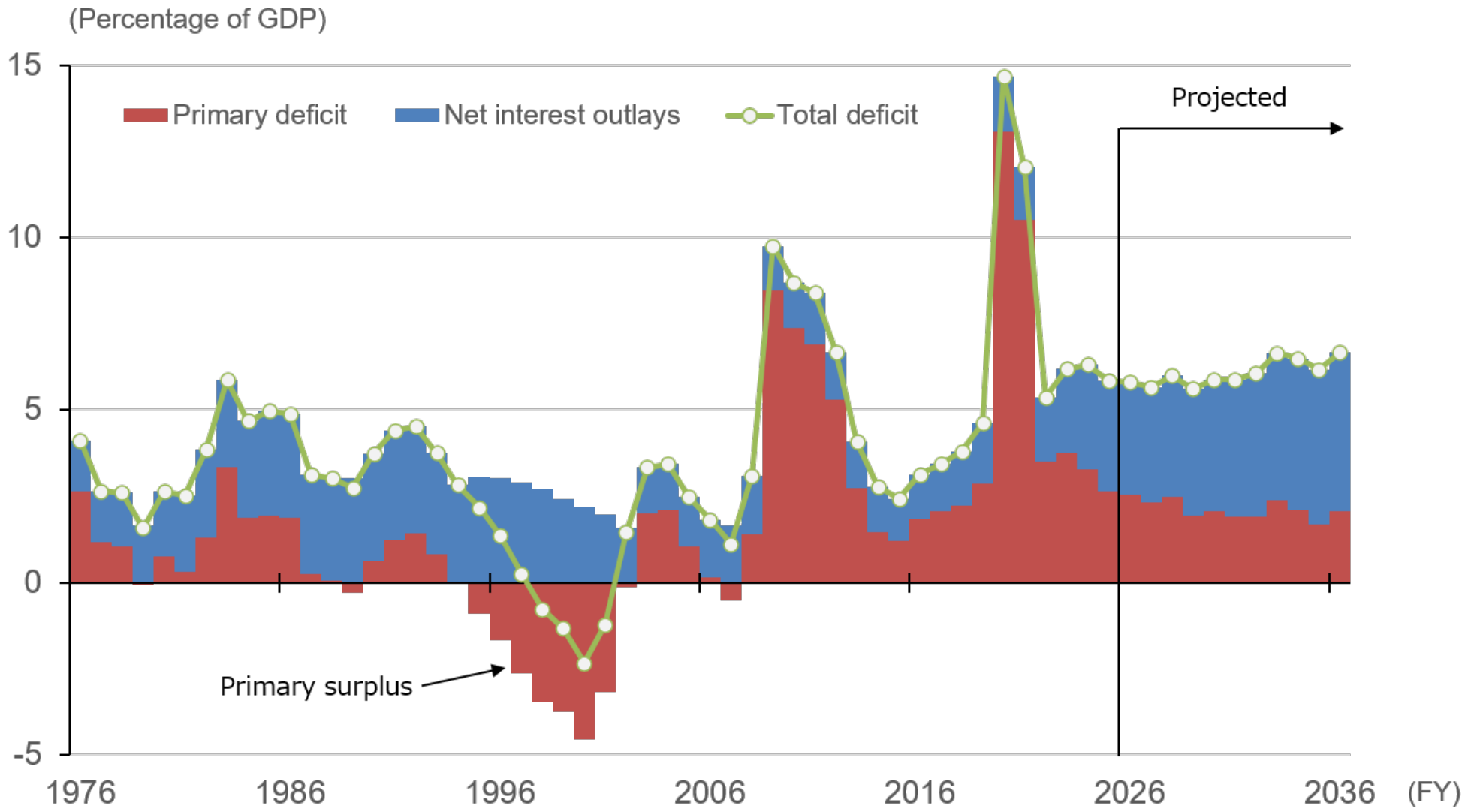


Note: JGB cash transactions include Treasury discount bills. The Left hand bars for each instrument represent the lowest share of overseas investors since 2008.
Source: Ministry of Finance, Japan Securities Dealers Association, Japan Exchange Group; compiled by DIR.

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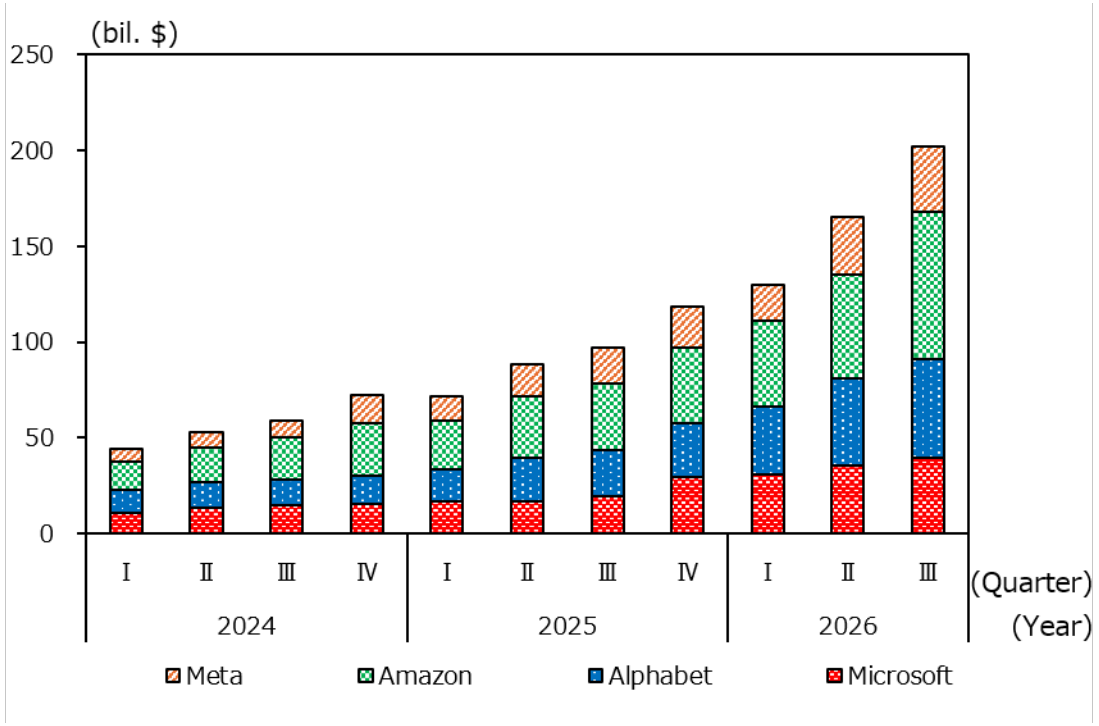
11. Total Deficit, Net Interest Outlays, and Primary Deficit in the US



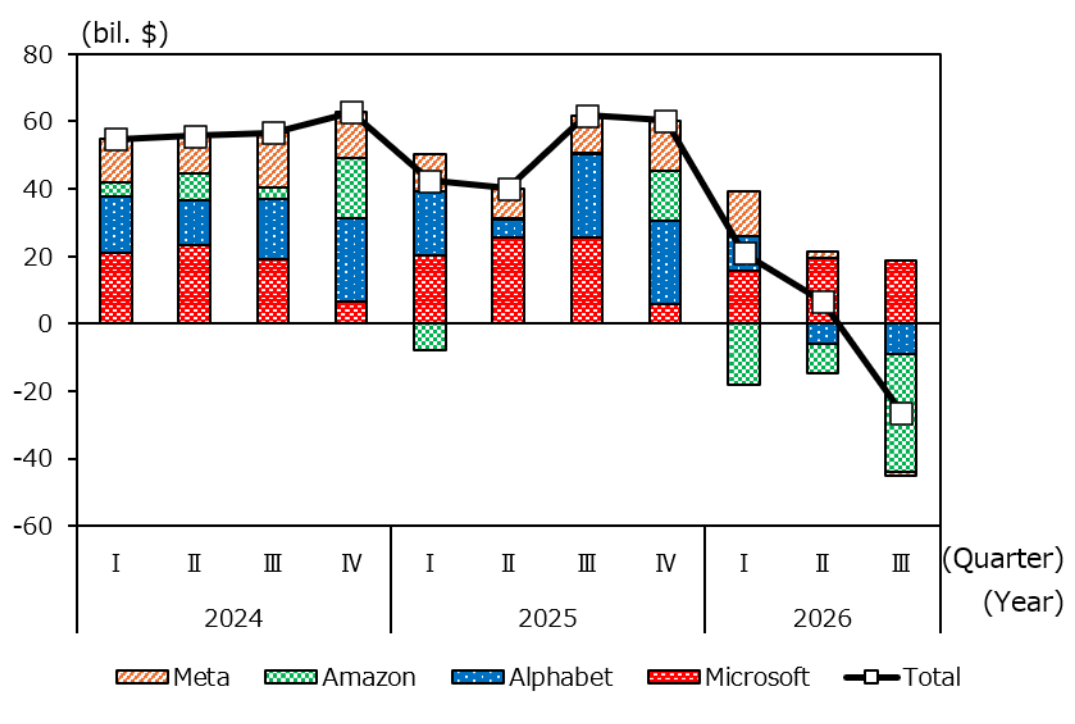
Source: CBO “The Budget and Economic Outlook: 2026 to 2036”; compiled by DIR.

12. Capex by Hyperscalers

Capex by hyperscalers

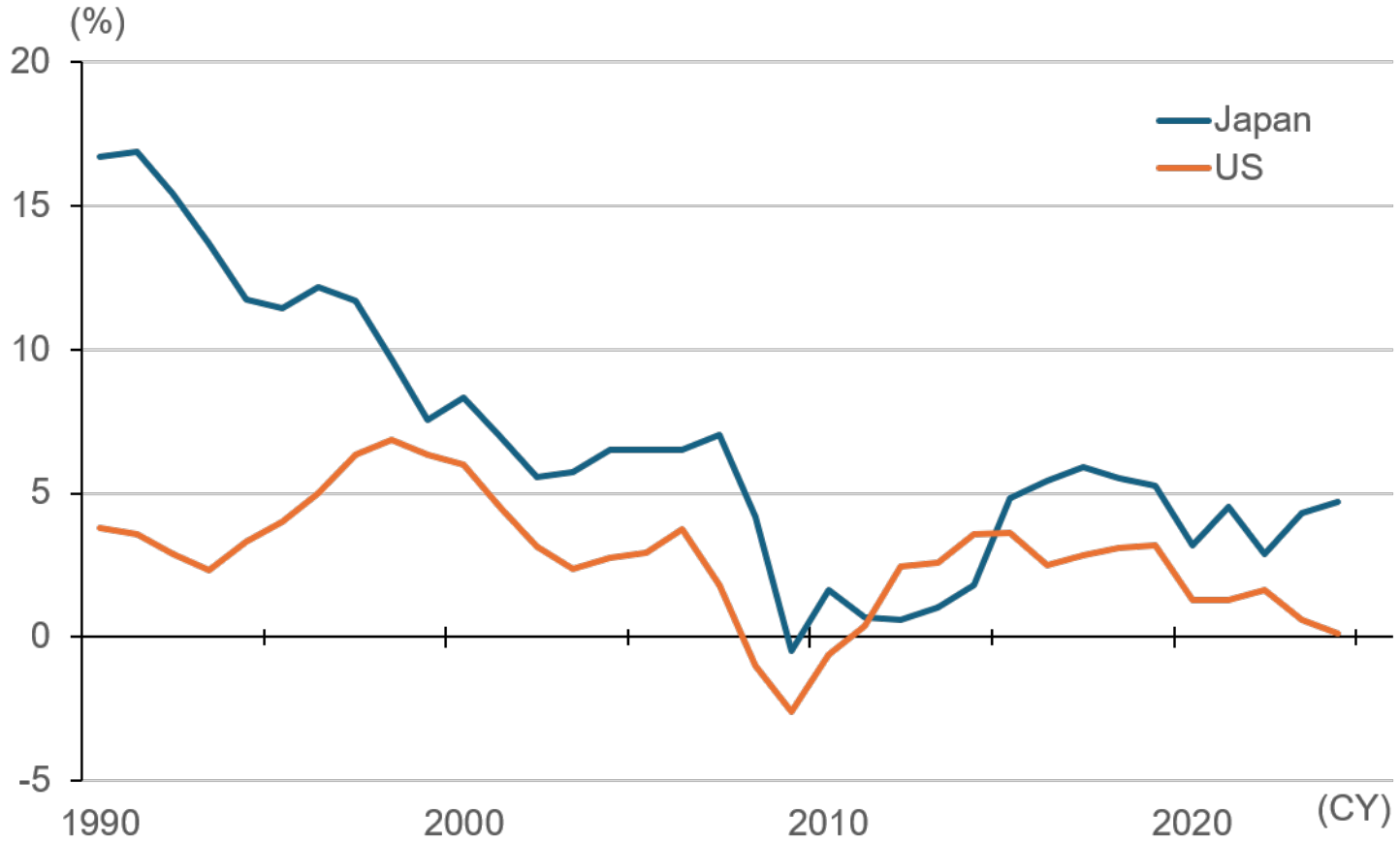


Free cash flow by hyperscalers



Source: Bloomberg; compiled by DIR.

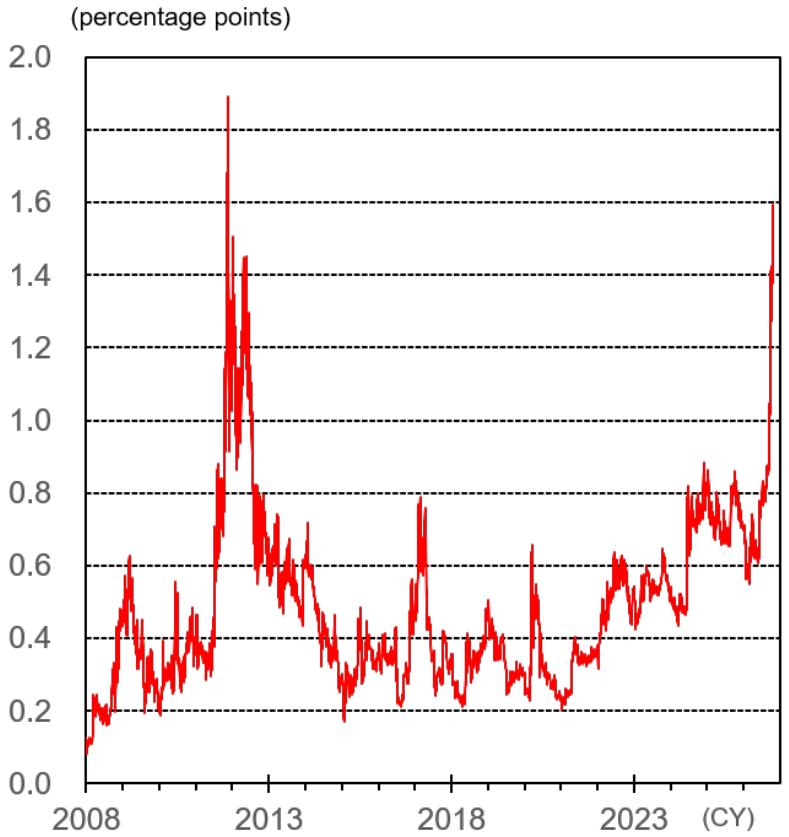
13. Savings Rates of Japan and the US



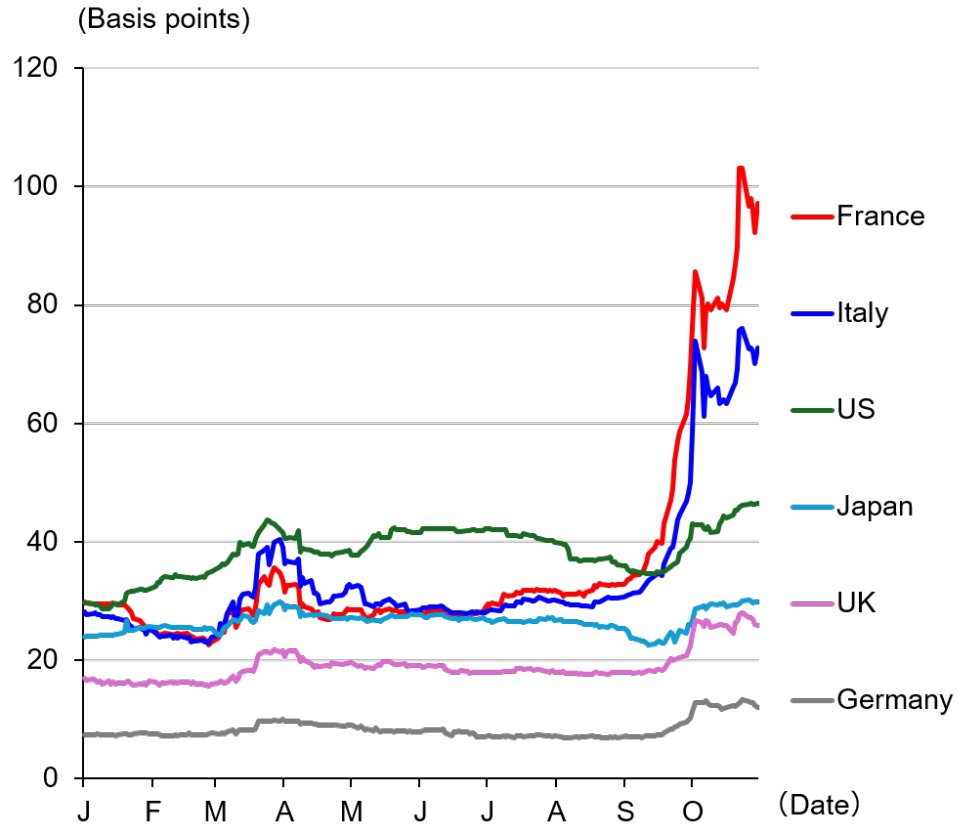
Note: Savings rate is the amount of GDP that is saved by households, businesses and the government. It is calculated as the difference between disposable income and final consumption expenditure. It reflects the part of disposable income that, together with the incurrence of liabilities, is available to acquire financial and non-financial assets. The savings rate presented here corresponds to net saving, which is saving net of depreciation.
Source: OECD; compiled by DIR.

14. French-Germany Yield Spreads & CDS Spreads in Major Advanced Economies

French-Germany 10-Year Yield Spread

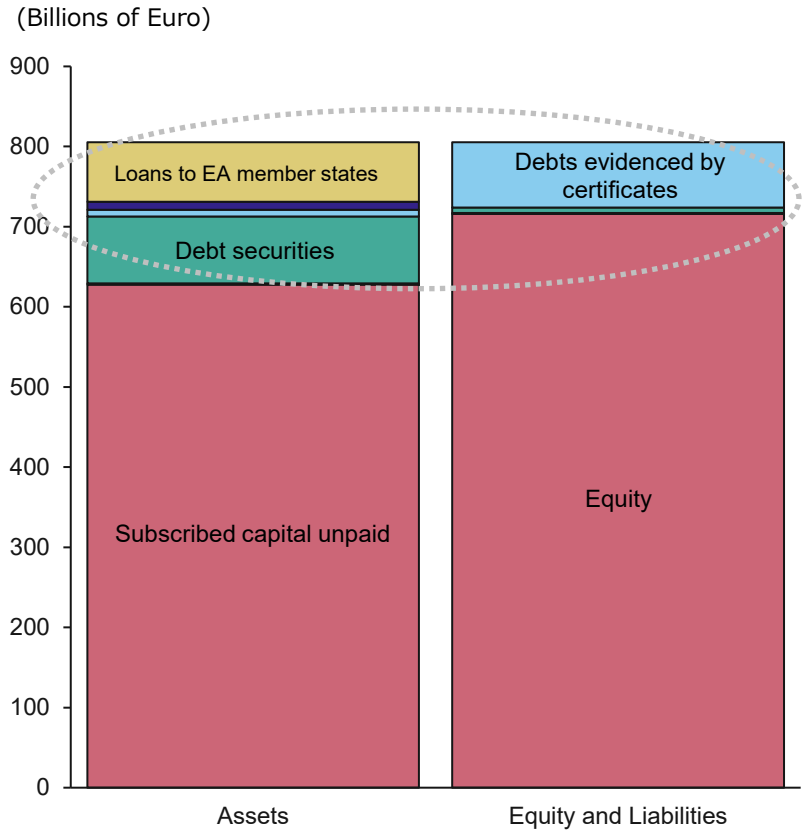


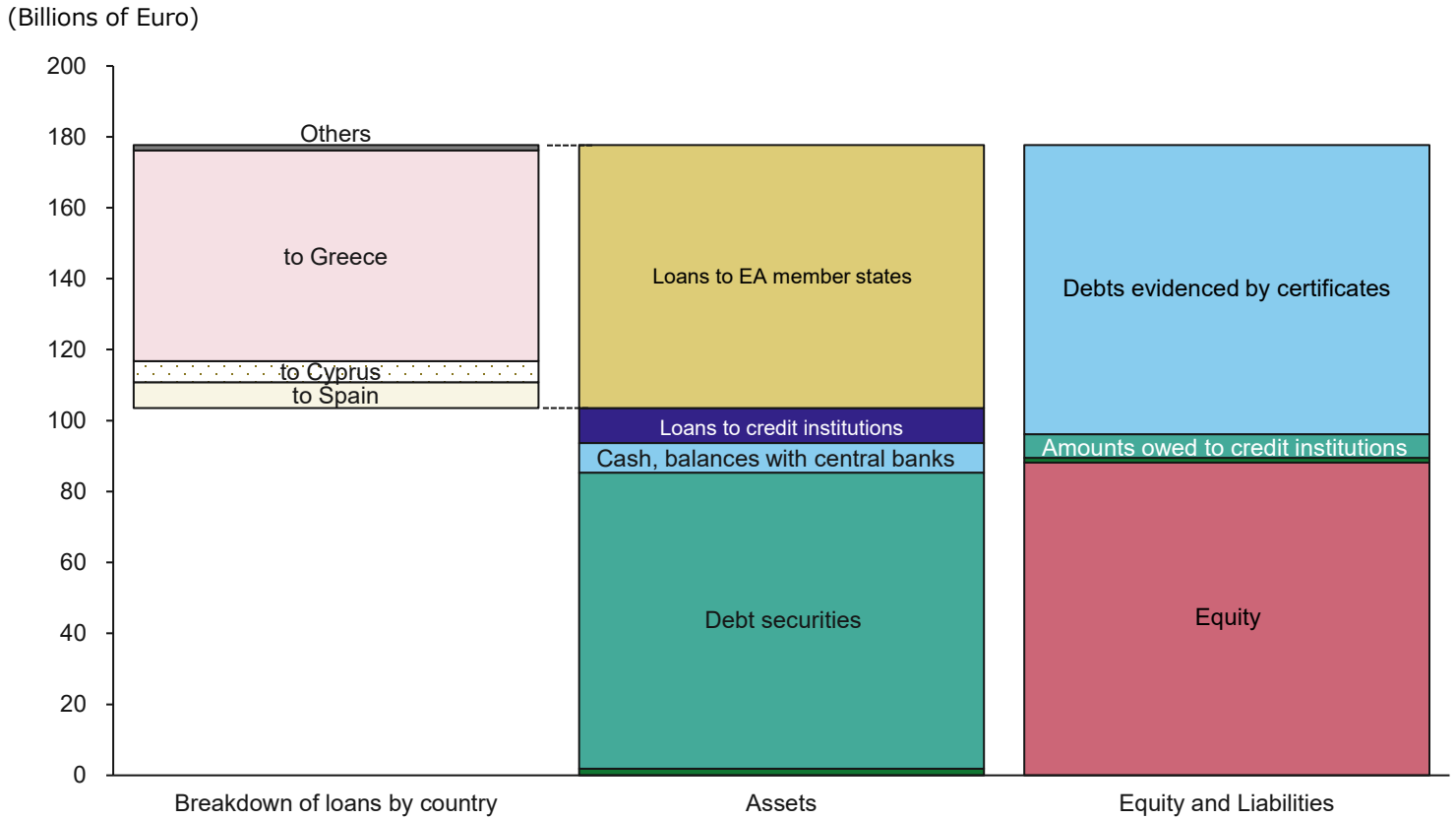
Sovereign CDS Spreads



Source: Bloomberg; compiled by DIR.

15. Structure of the European Stability Mechanism (ESM) and Conditions for Activation of Outright Monetary Transactions (OMT)





More stringent

Less stringent

In return for providing financial assistance, the ESM requires beneficiary countries to comply with “conditionality,” including fiscal and structural reforms.
① Macroeconomic Adjustment Programme (EAP)
② Enhanced Conditions Credit Line (ECCL)
③ Precautionary Conditioned Credit Line (PCCL)
Activation of the ECB’s Outright Monetary Transactions (OMT) requires participation in either ① or ②.

Source: ECB, ESM; compiled by DIR.

16. Comparison of SAA and TPA

Category	Strategic Asset Allocation (SAA)	Total Portfolio Approach (TPA)
Core Concept	Manages and optimizes individual asset classes (optimization at the asset-class level)	Integrates and optimizes the portfolio as a whole (optimization at the total-portfolio level)
Focus of Management	Individual asset classes, such as equities and bonds	Risk factors and investment exposures across asset classes
Asset Allocation	Rebalances the portfolio to maintain predetermined strategic asset allocation targets	Adjusts allocations dynamically in response to the investment environment, guided by overall portfolio objectives
Performance Evaluation and Risk Management	Evaluates performance against asset-class benchmarks and manages tracking error	Evaluates progress toward overall portfolio objectives, considering liquidity and other factors in addition to return and risk
Response to Uncertainty	Determines allocations based primarily on long-term expected returns and risks	Also considers changes and shocks that may not be fully captured by market cycles, including geopolitical risks, inflation, and technological innovation
Governance and Implementation	Asset allocation is approved and overseen by the board or relevant governing body; management and accountability are relatively straightforward	Requires greater delegation of authority to the CIO, as well as cross-asset analytical capabilities and specialized expertise

Source: FinCity.Tokyo, adapted from JST materials.

17. Asset Owner Principles

[Principle 1] Formulation & Review of Objectives & Policies	[Principle 2] Expertise & Operational Structure	[Principle 3] Beneficiary-Focused Management & Risk	[Principle 4] Information Disclosure & Accountability	[Principle 5] Sustainable Growth of Investee Companies
SUPPLEMENTARY	SUPPLEMENTARY	SUPPLEMENTARY	SUPPLEMENTARY	SUPPLEMENTARY
1-1. Clarification and review of beneficiaries and investment goals	**2-1.** Governance framework for effective oversight & execution	**3-1.** Comparative evaluation of investment methods	**4-1.** Appropriate information provision to fulfill accountability	**5-1.** Fulfillment of stewardship responsibilities
1-2. Setting return/risk targets and basic portfolio policy	**2-2.** Utilization of external experts & organizations as needed	**3-2.** Appropriate risk management (diversification, segregation)	**4-2.** Information format enabling comparison with other AOs	**5-2.** Implementation of sustainability-focused investments
1-3. Governance structure for expert decision-making		**3-3.** Manager selection based on investment goals		
1-4. Periodic verification and review of investment policy		**3-4.** Comprehensive evaluation beyond past performance		
		3-5. Periodic review of managers & methods		

Source: FinCity.Tokyo, based on FSA data.