Nippon Growth (UCITS) Fund

February 2021 Fund Commentary

Market Development

In February, the Japanese stock market registered further gains with the TOPIX up 3.1% MoM and the Nikkei 225 up 4.7% MoM. In the first half of the month, the market rallied significantly, reflecting:

1. Strength of US stocks fuelled by expectations of additional fiscal stimulus in the US economy;
2. Better-than-expected recovery in domestic corporate profits;
3. Vaccine rollout in the coming months.

The Nikkei 225 rose to 30,467 on 16th February, the highest level since August 1990. The state of emergency in greater Tokyo and other Japanese regions was extended, but this had limited impact on stock prices, in part due to the imminent rollout of COVID-19 vaccinations in Japan. In the second half of the month, a surge in the US long term rates provided a drag and the market declined sharply. The US 10-year Treasury yield stood at 1.07% at the end of January and reached 1.52% on 25th February 2021, marking its highest level since February 2020. This development caused the NASDAQ to fall 3.5%. Selling pressure centred on high-priced stocks and technology names, but economic sensitive stocks fared well.

Among the 33 TSE sectors, the top five performers were Mining, Air Transportation, Marine Transportation, Iron & Steel and Banking, while the bottom five performers were Pharmaceuticals, Foods, Precision Instruments, Utilities and Chemicals.

Market Outlook

We believe the Japanese economy may continue to recover from Q2 (Apr-Jun) 2021 following an expected temporary setback in Q1 2021. Core machinery orders in the private sector, a leading indicator of capex, rose 5.2% MoM in December 2020, much higher than the market forecast of -6.2% MoM. Thus, machinery orders rose 16.8% QoQ in Q4 (Oct-Dec) 2020, marking the highest ever quarterly rise. In the Economy Watchers Survey of Businesses, the overall current conditions DI for February 2021 increased sharply by 10.1 points MoM to 41.3, rebounding almost to the pre-COVID-19 level of 41.9 in Jan 2020. The outlook DI for the economy in two to three months also improved 11.4 points MoM to 51.3, much higher than the market consensus of 41.0.

In the US, Joe Biden's $1.9 trillion COVID-19 relief package was passed in Congress, enabling the President to shift his focus to other important measures, such as expanding infrastructure spending. This should contribute to a lift in economic growth, not only for the US, but also the global economy. Any potential risk of the world entering into a recession caused by COVID-19 could be almost wiped out. In the short term, markets may interpret this negatively as inflation might increase with interest rates rising. On a positive note, we believe this should accelerate the shift of market leaders from growth to value stocks. Notably, semiconductor stocks have shown remarkable performance in the past few years. Many countries such as China, the US and even Germany are going to expand production capacity of semiconductors internally, due to the fear of a supply shortage. We agree that the semiconductor industry has significant potential for high growth. However, we argue that the recent growth in demand might have been stronger than sustainable growth, as temporary and extra demands would have occurred by expanding remote working around the world, in addition to the building up of inventories at every point of the supply chains,

Yutaka Uda
Portfolio Manager

Maiko Uda
Assistant Portfolio Manager

Investment Approach

Access to Mr. Yutaka Uda's 40 years' investment experience in Japanese equities. Portfolio construction combines the long term macroeconomic view of the Investment Adviser with a bottom up perspective of stock research based on fundamental analysis.

Investment Objective

To achieve long-term capital growth through active sector allocation and stock selection resulting from changes in economic conditions.

A sub-fund of E.I. Sturdza Funds plc.

Registered in Ireland.

Contact

E.I. Sturdza Strategic Management Limited
+44 1481 722 322
info@ericsturdza.com
ericsturdza.com

due to the US-China trade friction. We could see an over capacity problem in the near future. In that sense, the current situation in semiconductors and other IT products is looking quite similar to that of 2000, when IT and high-tech stocks started to collapse.

Portfolio Strategy

The net asset value per unit for the Nippon Growth (UCITS) Fund on a Japanese Yen basis as of 26 February 2021 went up 7.9% compared with that of 29 January whilst the TOPIX rose 3.1% during the same period. The Fund added two new names (Kubota and Sumitomo Chemical) to the portfolio, with three stocks (Makino Milling Machine, NIDEC and Tokyu) sold out.

The Fund continues to be overweight in economically sensitive sectors with cheap valuations such as Trading Companies, Construction, Real Estate and Banking, while defensive sectors such as Foods, Pharmaceuticals and Utilities continue to be avoided. The Fund takes a cautious stance on IT related sectors.

Performance Data As at end of February 2021

Annualised Returns %[1]

	1M	1Y	3Y	5Y	10Y	15Y	Annualised Inception	Strategy Inception
A JPY Class	7.85	18.27	0.36	7.25	5.62	0.48	4.30	127.15
Benchmark	3.08	23.41	1.78	7.52	6.96	0.78	2.48	61.40
Nikkei 225 Ave PR JPY	4.71	37.00	9.49	12.57	10.55	3.95	4.96	156.90

Calendar Year Performance %[2]

	YTD 2021	2020	2019	2018	2017	2016	Fund Inception
A JPY Class	9.41	-5.55	19.10	-20.67	20.88	-2.21	86.99
Benchmark	3.31	4.84	15.21	-17.80	19.69	-1.85	105.20
Nikkei 225 Ave PR JPY	5.55	16.01	18.20	-12.08	19.10	0.42	182.12

Source: Morningstar.
Benchmark: TOPIX PR JPY
[1] Annualised Returns as of the date of the reporting over the defined period. Data less than 1 year and strategy inception are not annualised.
[2] Calendar Year Returns: Annual Performance for the stated calendar year.

Past performance is not an indicator of future performance.

* In 2001, the Nippon Growth Fund was authorised by the Guernsey Financial Services Commission as an open ended collective investment scheme using the same strategy as the Fund. Performance since the 22 October 2009 is that of the Nippon Growth (UCITS) Fund.

Important Information

The views and statements contained herein are those of Evarich Asset Management in their capacity as Investment Advisers to the Funds as of 12/03/2021 and are based on internal research and modelling.

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