



# Nippon Growth (UCITS) Fund

March 2021 Fund Commentary

## Market Development

In March, the Japanese stock market continued to rise with the TOPIX up 4.8% MoM and the Nikkei 225 up 0.7% MoM. Economic sensitive stocks and Financials rallied on the back of additional economic stimulus measures in the US and expectations over more widespread vaccinations. In addition to signing a \$1.9 trillion economic relief package on 11th March, US President Joe Biden unveiled a \$2 trillion infrastructure investment plan on 31st March. While the NY Dow broke the 33,000 mark for the first time ever on 17th March, the NASDAQ has declined since hitting an all-time high of 14,095 on 12th February, falling to 12,609 on 8th March before recovering to over 13,200 at month end.

The 10-year US Treasury yield rose to 1.74 on 31st March, its highest level since January 2020, which put pressure on growth stocks worldwide. At its monetary policy meeting on 19th March, the Bank of Japan decided to limit its Exchange Traded Fund (ETF) purchases to TOPIX-linked ETFs from April 2021, and this appears to have resulted in a wider gap in performance between the TOPIX and the Nikkei 225.

On 18th March, the TOPIX rose to over 2,000 for the first time since May 1991. On 30th March, the USD/JPY exchange rate climbed above 110 for the first time in almost a year.

Of the 33 TSE sectors, 29 gained. The top five performers were Marine Transportation, Iron & Steel, Utilities, Construction and Transportation Equipment, while the bottom five performers were Mining, Land Transportation, Air Transportation, Miscellaneous Manufacturing and Securities and Communication.

## Market Outlook

We are monitoring the potential risk of global inflation and will prepare as necessary if the risk materialises. President Biden's proposal to spend \$2 trillion on infrastructure over the coming eight years, backed by a corporate tax hike from 21% to 28%, should be very good news for the long term, as the US needs to strengthen its infrastructure in many fields to secure sustainable growth and high productivity. We need to wait a few months before the final outcome on the proposals have concluded, as the Republicans are likely to oppose it. In the short term, it could be a delicate matter with regards to inflation risks.

Some economists argue that the excess savings accumulated during the COVID-19 crisis in the US are almost equivalent to ten years of annual consumption increases. If the savings are put into consumption quickly, we could see the US economy overheating, with higher inflation risks. The US government and the FRB are expected to take appropriate and sensitive action to manage this.

In Japan, the state of the economy is fairly good, although the vaccination programs are behind schedule. Industrial production in February declined 2.1% MoM, a pull back from the 4.3% MoM growth in January. The government estimates that industrial production in March will decline 1.9% MoM, but increase 9.3% MoM in April. Machine tool orders in March were exceptionally strong with export demand increasing 101.8% YoY and domestic demand up 18.7% YoY. As at the end of March, the domestic Corporate Goods Price index has risen MoM for four consecutive months, with the rate of increase accelerating at 0.8% up compared to 0.6% up in February. Energy and Basic Materials contributed significantly to this. It is expected that imports of vaccines will increase substantially from June, leading to a return to normal economic activities.



**Yutaka Uda**  
Portfolio Manager



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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.

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We may see inflation continue to creep up and a subsequent rise in interest rates, but the BoJ should try to subdue inflation and then the upside potential of rates would be limited for a short term. The stock market is expected to move into a trading range for the time being.

## Portfolio Strategy

The net asset value per unit for the Nippon Growth (UCITS) Fund on a Japanese Yen basis as of 31st March 2021 went up 8.8% compared with that of 26th February whilst the TOPIX rose 4.8% during the same period. The large outperformance is mainly due to sector positioning. We added no new names to the portfolio and no stocks were 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. We have taken a cautious stance on IT related sectors.

## Performance Data As at end of March 2021

### Annualised Returns %<sup>1</sup>

	1M	1Y	3Y	5Y	10Y	15Y	Annualised Inception
A JPY Class	8.77	48.69	4.84	7.97	7.69	0.71	4.72
Benchmark	4.80	39.27	4.42	7.72	8.43	0.82	2.72

### Calendar Year Performance %<sup>2</sup>

	YTD 2021	2020	2019	2018	2017	2016	Fund Inception	Strategy Inception
A JPY Class	19.00	-5.55	19.10	-20.67	20.88	-2.21	103.38	147.06
Benchmark	8.27	4.84	15.21	-17.80	19.69	-1.85	115.06	69.15

Source: Morningstar.

Benchmark: TOPIX PR JPY

<sup>1</sup> Annualised Returns as of the date of the reporting over the defined period. Data less than 1 year and strategy inception are not annualised.

<sup>2</sup> Calendar Year Returns: Annual Performance for the stated calendar year.

**Past performance is not an indicator of future performance.**



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