



Nippon Growth (UCITS) Fund

April 2021 Fund Commentary

Market Development

In April, the Japanese stock market declined for the first time in six months with the TOPIX down 2.9% MoM and the Nikkei 225 down 1.3% MoM. The market rallied at the beginning of the month, largely on the back of President Biden's infrastructure spending plan. Stock prices were also supported by the BoJ Tankan, US jobs data and other indicators providing evidence of an economic recovery in the US and Japan. Even so, from mid-month, a rise in domestic COVID-19 cases weighed heavily on the market, as concerns among investors over the potential impact on the Japanese economy increased. A third State of Emergency (SoE) was declared in Japan on 23rd April, while US stocks fell due to concerns over a proposed hike to US capital gains tax.

Conservative guidance regarding profit outlooks for FY 2021 announced in late April by many companies also dampened investor sentiment. One clear reason for the underperformance this year by Japanese stocks compared to the US and Europe is the delay in Japan's vaccination program. Japan's vaccination rate per population is around 100th in the world, attracting ridicule for the country as a vaccine straggler.

Of the 33 TSE sectors, only four gained this month. The top five performers were Marine Transportation, Iron & Steel, Securities, Communication and Miscellaneous Manufacturing, while the bottom five performers were Utilities, Pharmaceuticals, Oil, Transport Equipment and Real Estate.

Market Outlook

The Japanese economy is going through a period of uncertainty. Industrial production in March rose 2.2% MoM, higher than the market consensus of -1.9% MoM. The government forecasts that industrial production in April would rise 8.4% MoM and decline 4.3% MoM in May. In the Economy Watchers Survey of Business, the overall current conditions DI for April fell by 9.9 points MoM and the household-related DI was down by 11.9 points MoM. Deterioration was especially pronounced in the DI readings for the retail and food-related sectors (-13.1 and -20.5 points MoM respectively). The corporate sector DI deteriorated by 5.0 points MoM with the manufacturer DI down only 3.8 points MoM.

The third SoE was extended to 31st May 2021 from the initial plan of 11th May. Given the prospect of solid overseas demand as the COVID-19 vaccine rollout makes steady progress, particularly in the US and Europe, manufacturing sectors may continue to fare better. The Japanese stock market has shown relatively strong performances among global markets through mid-March, but since April there has been a complete turnaround with market trends remaining lacklustre and the market underperforming other major markets due to delays in rolling out vaccinations and the prolonged SoE. The government announced that imports of the vaccine would increase sharply from mid-May and vaccinations for people over 65 would be completed by the end of July 2021. The inflation outlook in the US is likely to be gloomy as the infrastructure spending plans may take a couple of months to be concluded. In that sense, we expect the Japanese market to head into the trading range of 27,000-30,000 for the Nikkei 225 for several weeks.

Although we need to pay careful attention to the development of COVID-19 vaccinations, we believe there is a very good chance that the Japanese economy will be back to normal from July-August with the Tokyo 2020 Olympic Games heightening people's expectations of an economic recovery.



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.

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The Japanese market should be in a position to show better performance as it is regarded as the most economically sensitive market among major markets. Following the Tokyo Olympic Games, World Exhibitions are going to be held in Osaka, Japan in 2025; and integrated resorts projects, including casinos, are expected to make progress towards 2026-2027.

Portfolio Strategy

The net asset value per unit for the Nippon Growth (UCITS) Fund on a Japanese Yen basis as of 30th April 2021 declined 0.8% compared with that of 31st March whilst the TOPIX went down 2.9% during the same period. The Fund added one new name to the portfolio (Sumitomo Electric Industries) with no stocks 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 cautious stance on IT related sectors.

Performance Data As at end of April 2021

Annualised Returns %¹

	1M	1Y	3Y	5Y	10Y	15Y	Annualised Inception
A JPY Class	-0.76	43.72	2.92	8.12	7.86	0.65	4.66
Benchmark	-2.85	29.66	2.22	7.21	8.34	0.67	2.56

Calendar Year Performance %²

	YTD 2021	2020	2019	2018	2017	2016	Fund Inception	Strategy Inception
A JPY Class	18.10	-5.55	19.10	-20.67	20.88	-2.21	101.84	145.19
Benchmark	5.18	4.84	15.21	-17.80	19.69	-1.85	108.92	64.33

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.



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Performance since the 22 October 2009 is that of the Nippon Growth (UCITS) Fund. Strategy Inception performance is not annualised.

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