



# Nippon Growth (UCITS) Fund

May 2021 Fund Commentary

## Market Development

The Japanese stock market rebounded in May, with the TOPIX up 1.3% MoM at 1,923 and the Nikkei 225 up 0.2% MoM at 28,860. The market began the month with a better tone on the back of expectations for a global economic recovery. That said, US tech stocks decreased sharply on 10th May in response to the rise in US long-term interest rates and the Nikkei 225 declined 2,070 over the three trading days from 11th to 13th May, dipping below 28,000 on 13th May, the lowest level since 6th January 2021.

During the second half of the month, the Japanese market recovered soundly, with US equities stabilising again as the rise in US long rates ran out of steam, and fewer new COVID-19 cases were discovered in Japan. Expectations of progress with Japan's vaccine rollout program also supported the market. Approval ratings for the Suga Administration continue to drop, and an extension to the state of emergency was declared, lasting until 20th June, but those factors only had a limited impact on the Japanese market. Commodity prices were fairly strong with WTI crude oil up 4.3% and copper up 4.4% during the month.

Of the 33 TSE sectors, 21 gained. The top five sectors were Rubber, Transportation Equipment, Precision Instruments, Air Transportation and Miscellaneous Manufacturing, while the bottom five performers were Communication, Fishery & Agriculture, Utilities, Glass & Ceramic and Pulp & Paper.

## Market Outlook

The Japanese economy continues to lack recognisable trends. In April, retail sales turned downward on a MoM basis for the first time in three months at -4.5% due to the combination of emergency infection control measures and the state of emergency that was imposed on many major cities. Industrial production rose 2.5% MoM in April, marking two months of consecutive increase. The government forecast that industrial production in May would decline 1.7% MoM, and increase 5.0% MoM in June.

According to the Economy Watchers Survey of Business, the overall current conditions DI for May fell slightly by 1.0 point MoM, following a 9.9 point decline in April. The household-related DI for May was down by 1.9 points MoM, while the corporate sector DI improved by 1.1 points MoM. That said, the overall DI for future conditions in the next 2-3 months improved by 5.9 points vs. April, reflecting high expectations for improvement in mobility and consumer sentiment as the COVID-19 vaccine is rolled out.

The number of vaccinations in Japan has been rising sharply since mass vaccinations began in mid-May. Goldman Sachs forecasts that 34% of the population will have received at least one jab by the end of July; average daily vaccinations will reach 1.2 million in August; and Japan's percentage of inoculation will be on par with where the US is in early June, by early September. On 9th June, Prime Minister Suga stated confidently that all Japanese people who want to have the inoculation, would do so by November 2021. In that sense, one of the major reasons why the Japanese market has been lagging behind other major markets since mid-March 2021 should be lifted within a couple of months.

We believe that the most important factor that will determine the direction of the global market is likely to be the "America jobs plan" (the so-called infrastructure bill). US President Biden scaled back on the initial plan for infrastructure spending from \$2.3 trillion to \$1.7 trillion in order to continue negotiations with the Republicans. We expect the final outcome



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## 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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for the plan to be decided by the end of July. We believe the size and content of the plan will have an enormous impact on global economic growth, commodity prices, inflation, interest rates and the direction of market characteristics. US Treasury Secretary Yellen said "I will not give up on the next packages, they are not meant as stimulus, they are meant as investments to address long-standing needs of our economy."

We believe the Japanese stock market will begin to show a remarkable rally from July/August 2021.

## Portfolio Strategy

The net asset value per unit for the Nippon Growth (UCITS) Fund on a Japanese Yen basis as of 31st May 2021 rose 0.2% compared to the 30th April, whilst the TOPIX increased 1.3% during the same period. The Fund added one new name to the portfolio (Astellas Pharma) with one stock sold out (Comsys Holding).

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 May 2021

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

	1M	1Y	3Y	5Y	10Y	15Y	Annualised Inception
A JPY Class	0.16	34.94	4.57	7.44	7.79	1.23	4.65
Benchmark	1.30	22.98	3.24	6.87	8.65	1.32	2.61

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

	YTD 2021	2020	2019	2018	2017	2016	Fund Inception	Strategy Inception
A JPY Class	18.29	-5.55	19.10	-20.67	20.88	-2.21	102.17	145.58
Benchmark	6.56	4.84	15.21	-17.80	19.69	-1.85	111.64	66.47

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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