



Nippon Growth (UCITS) Fund

July 2021 Fund Commentary

Market Development

In July, the Japanese market underperformed relative to most other major global markets, while hosting the Tokyo Olympics under the 4th COVID state of emergency in Tokyo.

In early July, the market pulled back, concerned over the recovery of the economy as COVID-19 infections increased globally. The slow progress of vaccinations in Japan was an additional discouragement. On 9th July, Prime Minister Suga's government announced the 4th declaration of emergency for Tokyo from 12th July to 22nd August - and anxiety grew.

The Japanese market rebounded following the US market in mid-July, due to a low yield in US 10-year treasury. Machinery stocks gained as the better-than-expected numbers were announced for May Machinery Orders. That being said, the market gradually weakened as concern arose over a slowdown in the Chinese economy and the worldwide spread of the Delta variant.

In late July, the Tokyo Olympics started and a festive mood developed. At the same time, COVID-19 infections rose rapidly in Tokyo and the market moved up and down, finishing flat over the month.

In July, the TOPIX closed the month at 1,901.1 (down 2.2% MoM) and the Nikkei 225 at 27,283.6 (down 5.2% MoM). 22 sectors out of 33 sectors declined. The best five performers were Marine Transportation, Insurance, Fishery, Warehousing and Precision Instruments. The bottom five performers were Other Products, Pharmaceuticals, Mining, Information and Communication, and Rubber.

10-year JGB yield started at minus 0.058 and went down as the US 10-year treasury yield continued to decline, ending the month at 0.022. Due to the decline in the US long yield, and from a risk reverse mood on the back of the spread of the Delta variant, the JPY against the USD hiked, starting the month at 111.11 and ending at 109.72. The crude oil price was volatile starting at 73.47 and at one point hiked close to 77 following an OPEC Plus meeting cancellation as uncertainty emerged for production, and sharply dropped near 65 when economic slowdown became a concern, however it rose back as the US market hit an historical high and ended at 73.95.

Market Outlook

The Tokyo 2020 Olympic Games were successfully concluded on 8th August 2021, though the number of infections are still rising nationwide in Japan. The Japanese economy remains stagnant at present as the fourth state of emergency for Tokyo, and some other prefectures, was extended to the end of August 2021. In the Economy Watchers Survey of Business, the overall current conditions Diffusion Indices (DI) for July 2021 improved slightly to 48.4 from 47.6 in June, yet the outlook for the overall conditions DI deteriorated by 4.0 points to 48.4 from the previous month.

Vaccinations are increasing rapidly. Currently daily vaccinations have mounted to 1.5 million doses from 1.0 million doses in June and July. On 9th August, Prime Minister Suga mentioned that the total number of inoculations had exceeded 100 million, and 40% of Japanese nationals would have received both inoculations by late August. In addition, the government would be able to complete a vaccine rollout program in October-November 2021 for all Japanese people who want to have the vaccine. According to Bloomberg,



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.

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on 11th August, infections nationwide hit the historical peak at 15,782, but the death toll was only 9, much less than the peak of 216 on 18 May 2021. This indicates that the rapid progress of vaccinations has made a significantly positive effect on the death toll data.

We think that economic activity in Japan will be back to normal within a couple of months. Meanwhile, Sankei Shinbun reported on 9th August that Mr. Suga would announce a large economic stimulus of around ¥30 trillion by mid-September, ahead of the general election expected in October. The Japanese economy is expected to recover sharply from Q4 (Oct-Dec) onwards. More importantly, the US Senate passed a \$1 trillion infrastructure bill on 10th August. Although it is not yet clear when the House of Congress will approve it, the global economy will regain strong growth driven by infrastructure demand. We expect to see a dramatic shift from the IT industry to Infrastructure related sectors for growth. We believe, and hope, that the market leaders will change drastically, and this new trend will last for at least a few years.

Portfolio Strategy

The net asset value per unit for the Nippon Growth (UCITS) Fund on a Japanese Yen basis as of 30th July 2021 declined 1.54% compared with that of 30th June whilst the TOPIX went down 2.19% during the same period. The Fund added no new name to the portfolio with no stock sold out.

The Fund continues to be overweight in economically sensitive sectors with cheap valuations such as Trading Companies, Marine Transportation, Construction 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 July 2021

Annualised Returns %¹

| | 1M | 1Y | 3Y | 5Y | 10Y | 15Y | Annualised Inception |
|-------------|-------|-------|------|------|------|------|----------------------|
| A JPY Class | -1.54 | 40.48 | 3.85 | 8.75 | 7.08 | 1.34 | 4.53 |
| Benchmark | -2.19 | 27.07 | 2.73 | 7.53 | 8.49 | 1.28 | 2.53 |

Calendar Year Performance %²

| | YTD 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | Fund Inception | Strategy Inception |
|-------------|----------|-------|-------|--------|-------|-------|----------------|--------------------|
| A JPY Class | 16.40 | -5.55 | 19.10 | -20.67 | 20.88 | -2.21 | 98.94 | 141.66 |
| Benchmark | 5.34 | 4.84 | 15.21 | -17.80 | 19.69 | -1.85 | 109.23 | 64.57 |

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 does not predict future returns.

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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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