Nippon Growth (UCITS) Fund

December 2021 Fund Commentary

Retail Marketing Communication / Publicité / Financial Promotion addressed to investors in the countries mentioned in the disclaimer, related to **E.I. Sturdza Funds plc – Nippon Growth (UCITS) Fund** – (hereinafter referred to as the "Fund") a sub-fund of E.I. Sturdza Funds plc, an Irish open-ended umbrella investment Company with variable capital – UCITS ("the Company").

Market Development

In early December, the Japanese market rebounded from the sharp decline witnessed at the end of November, which arose on the back of concerns surrounding the new Omicron variant. The market began to perceive the new variant to be less serious, and relaxed in terms of COVID infections.

In mid-December, the market pulled back as the ECB decided to end the COVID support measures, moving towards monetary tightening following the Fed's decision to accelerate tapering, announced at the FOMC meeting.

In late December, Japanese equities rebounded as the US market surged, with Semiconductor names leading the rally.

The TOPIX closed out December at 1,992.3 (up 3.3% MoM) and the Nikkei 225 at 28,791.7 (up 3.5% MoM).

31 out of 33 sectors gained. The top five performers were Marine Transportation, Steel, Warehousing, Mining and Insurance. The bottom five performers were Communication, Precision Instruments, Retail, Utilities and Real Estate.

On an annual basis for 2021, the TOPIX gained 10.4% and the Nikkei 225 was up 4.9%. The standout top performer was Marine Transportation, whilst the bottom performers were Utilities and Pharmaceuticals.

The 10-year JGB yield opened the month at 0.057 and continued to decline, following the trend of the risk-off mood triggered by the rise in new Omicron cases, which began late November. On 6th December the yield fell to 0.039, the lowest level since late September 2021. Throughout the month, the bond market was steady on the back of new COVID cases in the US and Europe and a rate cut in China. That said, on the last trading day of 2021, the US and European bond markets fell and the JGB yield rose, to end the year at 0.071.

The JPY against the USD began the month at 113.17, and the risk-off mood remained until late December when news reported that the US would soon approve oral medicines for COVID. This caused the US Dollar to strengthen as the US yield surged and the Yen weakened from the risk-on mood to end the month at 115.08.

The crude oil price started at 66.18, but as the risk-on mood predominated the market, it continued to rise and ended the month at 75.21.

Yutaka Uda
Portfolio Manager

Maiko Uda
Assistant Portfolio Manager

Citywire Rating: Yutaka and Maiko Uda are + rated by Citywire for their rolling 3 year risk-adjusted performance, for the period to 31/12/2021.

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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Market Outlook

The Japanese economy has entered the recovery phase. Industrial production in November 2021 rose 7.2% MoM, higher than the market consensus of +4.8% MoM. The Japanese government estimates that industrial production will increase 1.6% MoM in December and 5.0% MoM in January 2022. The government revised up its overall assessment of industrial production from "at a standstill" to "showing signs of recovery".

On the other hand, in the Economy Watchers Survey of Business, the overall current conditions DI for December 2021 stood at 56.4, slightly higher than November's 56.3. Conversely, the outlook DI declined to 49.4 from the previous month's 53.4, reflecting concerns surrounding a COVID resurgence and, due to price hikes on fuel, food and other basic goods, expectations are that consumer spending on services will be curbed.

A new variant - Omicron - is prevailing rapidly, even in Japan. On 12th January 2022, the number of new infections nationwide exploded to 13,052, the highest since 4th September 2021. The National Institute of Infectious Diseases reported that the incubation period of Omicron was 2-5 days, much shorter than the delta variant of 1-14 days. It was also reported that the new variant appears to be less serious than the delta variant. On the back of this, we believe the damage to economic activities from Omicron could be much less than the previous variant.

On 12th January, the December 2021 US consumer price index was announced to have increased 7.0% YoY, the biggest jump since June 1982. The FRB should take action to tackle the inflation with interest rate hikes and quantitative tightening in the near future. We believe the US CPI could stay over 2.5% in the medium term and 10 year treasury yields should climb over 3% within a couple of years.

The Japanese stock market seems to have started discounting a dramatic change of economic environment. In early January 2022, the market experienced a sharp rotation to value stocks. High valuation/high growth stocks underperformed notably. We are taking a very cautious stance on Technology and Semiconductor stocks that surged during the pandemic, as they enjoyed additional demands brought about by remote working habits and supply chain fears. Technology nationalism is prevailing globally, many countries are increasing their Semiconductor capacity. We expect to see a significant overcapacity in 2023.

The current situation on Technology stocks is quite similar to that in 2000. Now is just the beginning of a paradigm shift.

Portfolio Strategy

The net asset value per unit for the Nippon Growth (UCITS) Fund on a Japanese Yen basis as of 30th December 2021 increased 7.25%* compared with that of 30th November, whilst the TOPIX TR index rose 3.45% during the same period. The Fund added no new names to the portfolio with no stocks sold out.

The Fund continues to be overweight in economically sensitive sectors with cheap valuations such as Trading Companies, Marine Transportation, Iron & Steel and Banking, while defensive sectors such as Foods, Pharmaceuticals, Retail and Utilities continue to be avoided. The Fund takes a cautious stance on IT related sectors.

* A JPY Class. For detailed performance information based on complete 12-month periods since inception, please refer to page 3.

Performance Data As at end of December 2021

Annualised Returns %

	1M	1Y	3Y	5Y	10Y	15Y	Annualised Inception
A JPY Class	7.25	27.55	12.80	6.59	10.46	1.59	4.90
Benchmark	3.45	12.74	12.67	8.00	13.01	3.26	4.60

Calendar Year Returns %

	YTD 2021	2020	2019	2018	2017	2016	Fund Inception	Strategy Inception
A JPY Class	27.55	-5.55	19.10	-20.67	20.88	-2.21	117.99	164.81
Benchmark	12.74	7.39	18.12	-15.97	22.23	0.31	184.33	149.60

12 Month Returns %

	01/01/2021 - 31/12/2021	01/01/2020 - 31/12/2020	01/01/2019 - 31/12/2019	01/01/2018 - 31/12/2018	01/01/2017 - 31/12/2017
A JPY Class	27.55	-5.55	19.10	-20.67	20.88
Benchmark	12.74	7.39	18.12	-15.97	22.23

Source of graphs and tables: Morningstar.
Past performance may not be a reliable guide to future performance. Returns could be reduced, or losses incurred, due to currency fluctuations.
The performances presented are shown after deduction of ongoing charges and performance fees. Any entry or exit fees are excluded from this calculation. Dividends reinvested. Benchmark: TOPIX TR JPY. Same reference period as for the class: Net Return, dividend reinvested. The reference benchmark of this class is used for performance comparison purposes only. The performance of the benchmark is not indicative of past or future performance of the Fund. Reference periods:
- Annualised Returns as of the date of the reporting over the defined period. Data less than 1 year is not annualised.
- Calendar Year Returns: Annual Performance for the stated calendar year.
- 12 Month Returns: performance for the stated time frame.

When the currency presented differs from yours, there is a currency risk. Class currency hedging is used on non base currency classes aiming to reduce the impact of currency risk. The performance and NAVs of all classes may be obtained at ericsturdza.com. Please refer to the glossary at ericsturdza.com/glossary for further explanation on specific terminologies.

Risk & Reward Indicator ("SRRI") & Inherent Risks

1	2	3	4	5	**6**	7

< Lower Risk — Higher Risk >
Potentially lower rewards — Potentially higher rewards

The risk indicator is based on historical data and may not be a reliable indicator of the future risk profile of the Fund, is not guaranteed and may change over time. The lowest category does not mean risk free.
The risk indicator for the Fund is set as 6, which reflects the historic price behaviour of the Fund. The sub-fund may be subject to high volatility.
Factors that affect the indicator include: Investments in equity securities are subject to fluctuations in value dependent on market conditions which will directly affect the value of investments. The Fund invests with a focus on a single country which may increase the risk of investing when compared to a fund that invests in a globally diversified range of countries. The Fund invests in a concentrated portfolio that may potentially focus on one or more sectors or industries. The range of investments may increase the risk profile of the Fund compared to a more diversified portfolio across sectors and industries. Additional Risks: Currency, Custody and Settlement, Financial Derivatives, Liquidity, Operational and Taxation risks.
For more information about potential risks, please refer to the Key Investor Information Document (KIID), the Prospectus and Supplement available at www.ericsturdza.com/literature/.

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