Nippon Growth (UCITS) Fund

October 2022 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 October, buying predominated the Japanese market as concerns eased over further monetary tightening in the US, on the back of a lower-than-expected US ISM Manufacturing Index.

In mid-October, the Japanese market followed the US market with higher volatility. The market declined as fears returned over US monetary tightening, when brisk numbers were announced for the US labour market. After higher-than-expected US CPI figures were released, the Japanese market rebounded, again following the US market.

In late October, the Japanese market swayed from the macro environment, but brisk results releases for individual stocks supported the market gains.

On the 21st, the yield on the US 10 Yr Treasury rose to its highest level since 2008, and the JPY against the USD weakened close to 152, the weakest level since 1990, prompting the BoJ and Japanese government to operate a Yen-buying intervention. Japan's core CPI (which excludes fresh food) was announced as 3% YoY for September, the highest level in 31 years. Furthermore, the cabinet approved a JPY 29 Tr stimulus package to combat inflation.

In October, the TOPIX closed the month at 1,929.4 (up 5.1% MoM), and the Nikkei 225 at 27,587.5 (up 6.4% MoM).

29 out of 33 sectors gained. The top five performers were Rubber, Mining, Marine Transportation, Transport Equipment and Electricals. The bottom five performers were Pulp & Paper, Foods, Fishery & Agriculture, Utilities and Glass & Ceramic Products.

The 10 Yr JGB yield began at 0.244, and was quite stable considering that the US long-term yield rose rapidly to 4.335 at one point, ending the month at 0.248. The JPY against the USD opened at 144.74, and at one point depreciated to 151.95 as the rate gap between the US and Japan widened. Following the currency intervention by the BoJ, it settled towards 145 and closed the month at 148.71. The Crude oil price began at 79.49, rose to 93.64 at one point, but settled at 86.53 at the end of the month.

Market Outlook

The Japanese economy is getting into better shape as a whole; although inflation has been creeping up. Industrial production in September declined 1.6% MoM, the first MoM decline since May 2022. This was a reactive decline after strong catch-up production pushed output up by almost 14% through August, from a bottom in May when production was heavily impacted by China's zero-COVID policy. Meanwhile, industrial production rose sharply by 5.9% QoQ in Jul-Sep. The government estimated that industrial production would decline 0.4% MoM in October and rise 0.8% MoM in November.

Sound momentum in retail sales continued in September, up 1.1% MoM, making three consecutive MoM increases.

Yutaka Uda
Portfolio Manager

Maiko Uda
Portfolio Manager

Citywire Rating: Yutaka and Maiko Uda are AA rated by Citywire for their rolling 3 year risk-adjusted performance, for the period to 30/09/2022.

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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According to October's Economy Watchers Survey announced on 9th November, the household-related DI improved by 2.6 points MoM to 51.4, the third consecutive MoM rise. The service-related DI and the eating/drinking DI improved sharply by 6.5 and 4.3 points respectively, with the return of international tourists following the lifting of border controls and the beginning of government support for domestic travel in October.

On the 28th October, Kishida's government announced a comprehensive economic stimulus package with direct government spending of JPY 29 Tr, 5% of GDP, including further relaxation of border controls for inbound tourists.

A sharp increase of inbound spending is firmly anticipated. As we have said before, this should have a significant impact on the economy and could be a trigger for the Yen to stop weakening, encouraging foreign investors to increase investment in Japanese securities and properties. The current level of the Yen's weakness should incentivise corporations to increase domestic capex in Japan.

The US and European economies may be forced to slow down significantly for more than a year as higher interest rates continue. We are convinced that the main driver of global economic growth for the coming years will shift from IT investment to infrastructure investment, where inflation should be higher for the next 5-10 years, than the previous 15-20 years. The Japanese market is well positioned, with a higher weighting towards Industrials and less exposure to IT sectors. The Japanese market could be the best performer among major markets for the next few years.

Portfolio Strategy

The net asset value per unit for the Nippon Growth (UCITS) Fund on a Japanese Yen basis as of 28th October 2022 rose 3.4%* compared with that of 30th September. The Fund 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, Banking and Steel, while defensive sectors such as Foods, Pharmaceuticals and Utilities; in addition to IT related sectors, such as Electricals and Communications, continue to be underweighted.

* 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 October 2022

Annualised Return %

	1M	3M	1Y	3Y	5Y	10Y	15Y	SI
A JPY Class	3.35	-1.22	10.32	11.50	5.51	11.51	2.03	5.19
TOPIX TR JPY	5.10	0.52	-1.00	7.52	4.22	12.46	3.38	4.38

Calendar Year Return %

	YTD	2021	2020	2019	2018	2017	SI	Strategy SI
A JPY Class	10.23	27.55	-5.55	19.10	-20.67	20.88	140.29	191.90
TOPIX TR JPY	-0.72	12.74	7.39	18.12	-15.97	22.23	182.29	147.81

12 Month Returns %

	01/11/2021 - 31/10/2022	01/11/2020 - 31/10/2021	01/11/2019 - 31/10/2020	01/11/2018 - 31/10/2019	01/11/2017 - 31/10/2018
A JPY Class	10.32	45.50	-13.64	0.92	-6.54
TOPIX TR JPY	-1.00	29.38	-2.95	3.88	-4.78

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/.

Ratings & Awards

MORNINGSTAR ★★★

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