Market Development

In September, two factors resulted in the Japanese market outperforming the major global markets: 1) an end to political uncertainty; and 2) a decline in COVID cases.

The market climbed during early September, continuing the trend from the end of August. After Prime Minister Suga announced that he would withdraw from the LDP presidential race on the 3rd, the market continued to rally and the Nikkei 225 reached over 30,000. In mid-September, the market buoyed as COVID cases continued to decline and the Nikkei 225 hit over 30,795, the highest level since September 1990.

In late September, former foreign minister Fumio Kishida won the LDP leadership election, but this did not boost the market, instead, concerns over credit risk at China's Evergrande Group and a rise in US long-term interest rates, weighed on the TOPIX and Nikkei 225, both of which declined towards the end of the month.

The 10-year JGB yield began the month at 0.03 and ended the month at 0.07. It shot up to 0.06 on the 24th, on the back of the US 10-year treasury yield rising on the 23rd, following the Fed's announcement that tapering could be decided in November. The JPY against the USD opened at 110.02 and ended the month at 111.29, as the dollar strengthened against yen from a rise in the US treasury yield. The Crude oil price began at 68.50 and continued to rise during September, hitting the highest level in 3 years and ending the month at 75.03.

Market Outlook

According to Our World in Data as of 11th October 2021, the vaccination rate (double dose) against total population in Japan has rapidly increased to reach 66%, exceeding the rate of 56% in the USA. New daily infections for Monday 11th October declined sharply to 370 from the peak of 16,869 on Monday 23rd August, and the state of emergency was lifted from the beginning of October for all of Japan.

It is expected that the Japanese economy will begin to recover quite sharply from Q4 (Oct-Dec). Industrial production in August fell 3.2% MoM, marking a further decline (July -1.5%). By sector, Autos (-15.2% MoM), and Electrical Machinery & Information and Communication Equipment (-10.6%) declined the most. It seems both sectors have been impacted by the global semiconductor shortage, and stalled component supplies from Asian countries affected by the delta variant.

The government estimates that industrial production in September will increase slightly (0.2% MoM), but should recover sharply in October (6.8% MoM). Business sentiment is also expected to bounce back from October. According to the Economy Watchers Survey of Business announced on 8th October, the overall current conditions DI for September improved by 7.4 points to 42.1. In particular, the household-related DI improved significantly (9.6 points) from August. The business condition outlook DI for the coming 2-3 months has also increased remarkably, by 12.9 points to 56.6.

Following Mr. Kishida’s election as prime minister, he was expected to bring policy continuity and predictability. Surprisingly, the Japanese stock market retreated somewhat with the TOPIX declining for 9 consecutive days from 29th September to 7th October, as Mr. Kishida is not in favour of structural reform. That said, the market should regain confidence in the
economic outlook once he shows a clearer picture or plan for the economic policy. This will be announced before the general election to be held on 31st October where it is likely that the LDP coalition government will retain the majority. Corporate profit announcements for 1H FY2021 are due from mid-October, which should encourage investors to increase optimism for the future outlook.

**Portfolio Strategy**

The net asset value per unit for the Nippon Growth (UCITS) Fund on a Japanese Yen basis as of 30th September 2021 gained 3.8%* compared to the 31st August.

The Fund added no new names to the portfolio and sold out of one stock (Taisei).

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

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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