# Nippon Growth (UCITS) Fund

## August 2023 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 Delopment

In early August, the Japanese market declined from the rise in long-term interest rates in both the US and Japan. Meanwhile, China lifted its ban on group tours to Japan and Inbound related stocks rallied as did individual stocks which announced brisk Q1 results.

Mid-month, the market declined further as concerns arose over the Chinese economy, and investor's risk appetite fell when China's Evergrande Group made the Chapter 15 filing in the US.

In late August, the market gained from declining US long-term rates which peaked at over 4.3%, the highest level since 2007. In addition, NVIDIA's positive result encouraged US semiconductor stocks which raised the overall market. The Yen continued to depreciate against the USD. Coupled with a rise in the Consumer Price Index (CPI), particularly in gasoline prices, this led to increased dissatisfaction over inflation and consequently, the approval rating of the Kishida administration declined.

In August, the TOPIX closed the month at 2,332.0 (up 0.4% MoM) and the Nikkei 225 at 32,619.3 (down 1.7% MoM). 24 out of 33 sectors gained, and commodity related sectors overall did well. The best five performers were Marine Transportation, Mining, Oil, Fishery & Agriculture, and Utilities.  The bottom five performers were Precision Instruments, Electricals, Air Transportation, Textiles, and Non-ferrous Metals.

The 10-year JGB yield started at 0.612 and remained fairly stable, ending at 0.651. The JPY against the US Dollar opened at 142.3 and depreciated to over 147 at one point before closing at 145.5. Crude oil began at 81.8 and ended at 83.6.

## Market Outlook

The Japanese economy remained solid. Industrial production in July declined 2.0% MoM, partly due to a reactionary decline from strong growth in June (+2.4% MoM). The government estimates that industrial production will rise 2.6% MoM in August, and a further 2.4% MoM in September. Retail sales in July rose sharply by 2.1% MoM, much higher than the market forecast of +1.0% MoM.

The second estimate for Q2 2023 GDP was reported on 8th September with real GDP increasing 4.8% QoQ annualised (notably nominal GDP in Q2 2023 grew 11.4% QoQ annualised).

During the period, domestic demands were weak with consumption down 2.5% and capex down 4.0%, partly due to reactionary effects from strong Q1 2023 data. Real GDP growth was pushed up significantly by external demand. Exports improved strongly by +12.9%, from -14.4% in Q1, while imports declined by 16.5%, from -8.7% in Q1. This suggests that domestic production has started to replace imports, influenced by a weakening Yen. Nominal GDP showed a remarkable growth of +11.4%, following +9.0% in Q1 2023 and +5.0% in Q4 2022. The Japanese government estimates that total tax revenue for FY2023 would increase by Yen 4 Tr YoY based on the assumption of +2.1% YoY nominal GDP growth. If nominal GDP growth was achieved by 4.0% YoY, tax revenue would increase by Yen 9 Tr YoY. The government could easily source the funds for the budget of the anticipated increase of defence spending and key measures to deal with the declining birth rate.

On 13th September, Prime Minister Kishida reshuffled his cabinet in an effort to boost his administration's popularity. Additionally, in October, he is set to unveil comprehensive economic

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Portfolio Manager

CITYWIRE AAA

### Maiko Uda
Portfolio Manager

CITYWIRE AAA

Citywire Rating: Yutaka and Maiko Uda are AAA rated by Citywire for their rolling 3 year risk-adjusted performance, for the period to 31/08/2023.

### 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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measures accompanied by a substantial supplementary budget to reinforce the ongoing economic recovery.

We believe that the Bank of Japan will likely step up further to change its monetary stance at the Monetary Policy Meeting on 30th-31st October with the renewed quarterly outlook report. This should be the clear signal for the Yen to change its direction. The market would welcome it as a positive sign for the economy and the stock market with domestic demand related sectors, notably Banks, leading the rally.

## Portfolio Strategy

The net asset value per unit for the Nippon Growth (UCITS) Fund on a Japanese Yen basis as of 31st August 2023 went up 1.9%* compared with that of 31st July, whilst the TOPIX TR index rose 0.4% during the same period. The Fund didn't add any new names into the portfolio, but one stock (Fuji Film) was 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, and IT related sectors such as Electricals and Communications continue to be underweighted. The semiconductor sector is looking dangerous. The Fund will increase inbound tourism related stocks.

* 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 August 2023

### Annualised Return %

| | 1M | 3M | 1Y | 3Y | 5Y | 10Y | 15Y | Strategy SI |
|---|---|---|---|---|---|---|---|---|
| A JPY Class | 1.92 | 16.26 | 32.87 | 28.52 | 13.69 | 9.42 | 6.69 | 6.56 |
| TOPIX TR JPY | 0.43 | 9.63 | 22.04 | 15.72 | 8.70 | 10.18 | 6.53 | 5.19 |

### Calendar Year Return %

| | YTD | 2022 | 2021 | 2020 | 2019 | 2018 | SI | Strategy SI |
|---|---|---|---|---|---|---|---|---|
| A JPY Class | 32.59 | 15.43 | 27.55 | -5.55 | 19.10 | -20.67 | 233.62 | 305.27 |
| TOPIX TR JPY | 25.06 | -2.45 | 12.74 | 7.39 | 18.12 | -15.97 | 246.87 | 204.50 |

### 12 Month Returns %

| | 01/09/2022 - 31/08/2023 | 01/09/2021 - 31/08/2022 | 01/09/2020 - 31/08/2021 | 01/09/2019 - 31/08/2020 | 01/09/2018 - 31/08/2019 |
|---|---|---|---|---|---|
| A JPY Class | 32.87 | 18.68 | 34.54 | 2.22 | -12.43 |
| TOPIX TR JPY | 22.04 | 2.55 | 23.79 | 9.78 | -10.78 |

Source of graphs and tables: Morningstar.

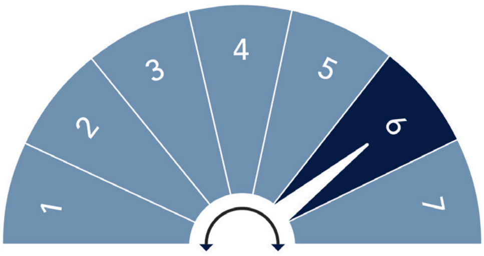
Past performance may not be a reliable guide to future performance. Returns could be reduced, or losses incurred, due to currency fluctuations.

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




**Lower Risk**
Potentially lower rewards

**Higher Risk**
Potentially higher rewards

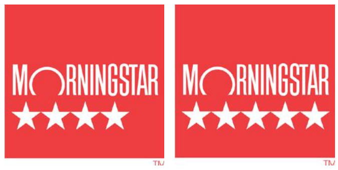
The risk indicator is based on historical data and may not be a reliable indicator of the future risk profile of the Fund, is not guaranteed and may change over time. The lowest category does not mean risk free.

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

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The Nippon Growth (UCITS) Fund - A JPY share class has a Morningstar rating of 4 stars overall and 5 stars over 5 Years. Morningstar Rating™ as of 31/08/2023.

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