

NIPPON GROWTH (UCITS) FUND

A SUB-FUND OF E.I.STURDZA FUNDS PLC. REGISTERED IN IRELAND.



EI STURDZA
INVESTMENT FUNDS

NOVEMBER 2018 – MONTHLY COMMENTARY BY PORTFOLIO MANAGER YUTAKA UDA

FUND COMMENTARY

In November, the Japanese market initially declined following an announcement by Japan's main mobile phone operator (DOCOMO) of its intention to reduce charges by 20~40% by mid-2019, triggering the stocks of 3 major telecom carriers to fall.

Despite the lingering risk surrounding the US-China trade dispute, Japanese companies published strong mid-term results, with domestic demand oriented names performing well after the announcements. Following the risk-on mood in the US market after the midterm elections, the Japanese market gained, supported by a depreciating Yen. In mid-November, the plunge of US technology names; such as Apple and Nvidia triggered Japanese tech stocks to fall. Machinery stocks were also under selling pressure when October machine tool orders were announced, and were negative YoY for the first time in 23 months.



Later in the month, the risk-off market became predominant, with the Yen appreciating, acting as a drag on the Japanese equity market. On 20th November, Nissan's and Mitsubishi Motor's stocks plunged following the previous day's news that the chairman Carlos Ghosn was arrested for alleged financial crime. In late November, the market rebounded on expectations that the US-China trade dispute will ease following discussions between the two countries. The Japanese market gained on 24th November, when the city of Osaka won a bid to host the World Expo 2025. Further, the speech of the Fed's chair on 28th November gave reassurance to the market, with a break in further interest rate hikes expected.

During the month, crude oil prices continued to decline, temporarily dipping below 50 \$/bbl following anticipations about oversupply as well as weakening demand. The TOPIX closed the month at 1,667.5 (up 1.3% MoM), whilst the Nikkei 225 finished at 22,351.1 (up 2.0% MoM). In terms of sector performance, 22 out of 33 sectors gained, with the five best performers being warehousing, textiles, land transportation, glass, and chemicals. The five worst performers were oil, pulp & paper, mining, securities and banks.

The net asset value per unit for the Nippon Growth (UCITS) Fund on a Japanese yen basis as of 30 November 2018 declined 0.6%* compared with that of 31 October, while the TOPIX gained 1.3% during the same period. The Fund put no new names into the portfolio, with three stocks (Mitsubishi Chemical, Mitsubishi Motors and Toyo Engineering) sold out.

The yield on 10-year JGBs opened the month at 0.127%, but started to decline from mid-month onwards due to a decline in oil prices and a risk-off mood in the global market, reflecting trade frictions, weakening demand in China, uncertainty surrounding Brexit, and financial issues in Italy. In late November, the JGB's yield temporarily declined to 0.079%, alongside a decline in the US long term yield following the speech by the Fed's chair, which was interpreted as signalling that we are approaching the end of the current cycle of monetary tightening. The yield remained at a low level, ending the month at 0.092%. Government bond yields in the US and Europe also fell during the month.

*For detailed performance information based on complete 12-month periods since inception, please refer to page 2.

PORTFOLIO MANAGER



YUTAKA UDA

Yutaka Uda, the Founder, CIO and President of Tokyo-based Evarich Asset Management acts as Portfolio Manager to the Nippon Growth (UCITS) Fund on behalf of E.I. Sturdza Strategic Management Limited. Uda was previously Managing Director and CIO of Nikko Asset Management and also enjoyed 15 years managing funds for Baring Asset Management in London and Tokyo. He started out as an analyst at Nikko Securities in 1971 after graduating from Tokyo University.

ASSISTANT PORTFOLIO MANAGER



MAIKO UDA

Maiko joined Evarich Asset Management in July 2009. From 2005 until 2009 Maiko worked for Fidelity Investment as a Research Analyst covering the automobiles and real estate sectors. Maiko is a graduate from Keio University and holds an MBA from Stanford University. Prior to her study in Stanford, Maiko also worked as an announcer in New York and Tokyo, as well as being a sports caster and news anchor for the Fuji Television Network, Inc.

FUND OBJECTIVE

The investment objective of the Fund is to achieve long-term capital growth through active sector allocation and stock selection resulting from changes in economic conditions.

CONTACT

E.I. Sturdza Strategic Management Limited

Telephone +44 1481 722 322

Email info@eisturdza.com

Website eisturdza.com

The Investment Adviser thinks, that it is a unfortunate that global markets have been moving in tandem with President Trump's tweets. This said, the team believe the most crucial determinant for the world economy to be the direction of the US-China trade dispute. On the 1st December, after the G20 Summit, Donald Trump and Xi Jinping met over dinner, making some progress on disputed trade issues. They agreed that tariffs on Chinese imports will not be raised at the beginning of 2019, and that China would purchase a "very substantial amount of farm, energy and industrial goods" in order to reduce the trade surplus with the US. Other sensitive issues such as intellectual property and access to technology were unresolved, with both Presidents trying to resolve these issues within the next 90 days, some people however being sceptical regarding a successful agreement. Nevertheless, the Investment Adviser hopes that they will find some meaningful solutions as they both have to recognise that they eventually need to share economic and strategic responsibilities.

In Japan, GDP for 3Q was slightly disappointing, declining -2.5% QoQ annualised, partly due to weak external demand and partly due to natural disasters in Japan during recent months. Public works showed the fifth consecutive QoQ decline. This said, there have been some signs of economic recovery from October onwards. According to the household surveys, real core consumption increased 2.0% MoM in October, recouping the sharp drop of 1.9% MoM in September. Industrial production in October increased by +2.9% MoM (September -0.4% MoM), higher than the market consensus of +1.2%. Shipments rose strongly by 5.4% MoM (September -2.0%), whilst inventories declined by 1.4% MoM. The government estimates that industrial production in November will increase 0.6% MoM and rise a further 2.2% MoM

in December. Production is likely to be managed cautiously due to unclear external demands caused by trade frictions.

The government passed the first supplementary budget for FY2018, allocating JPY936 billion on 7th November and is strongly committed to launching the second supplementary budget with approximately JPY3 trillion, which is likely to be approved in January 2019.

With regards to corporate profits, recurring profits for Russell/Nomura large cap stocks are expected to continue to expand, with a 7.6% gain forecasted for FY2018 and a 9.1% increase expected in FY2019. The team believe valuations to be quite cheap, standing at PER 12x in FY2019. Most of the negative news appears to have been discounted by the market, with any positive news potentially being a catalyst for a sharp market recovery from January 2019 onwards.

Against the backdrop of Japan's vulnerability against natural disasters and sizable fiscal spending to be decided on from November onwards, the team are in the process of adding one additional name in the construction sector to the Fund, increasing the weighting in the real estate sector. The Investment Adviser remains quite confident regarding the outlook of both, the Japanese and global economy, which is why the Fund is overweight with regards to economic sensitive sectors such as energy, banking and machinery. The Fund will continue to be underweight in technology related sectors such as electricals, precision instruments, and automobiles. At the same time, defensive sectors such as foods, pharmaceuticals and utilities continue to be avoided.

The views and statements contained herein are those of Evarich Asset Management in their capacity as Investment Advisers to the Funds as of 10/12/18 and are based on internal research and modelling.

AWARDS (NIPPON GROWTH UCITS FUND)



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PERFORMANCE DATA* (as at the end of November 2018)

CUMULATIVE PERFORMANCE (%)

| | November 2018 | 3 Months | 1 Year | 3 Years | 5 Years | Since Fund Inception | Since Strategy Inception |
|---------------------------|------------------|-------------|-----------|------------|------------|----------------------------|--------------------------------|
| JPY A | -0.56 | -2.77 | -7.81 | 2.15 | 15.48 | 75.09 | 235.58 |
| TOPIX PR JPY | 1.30 | -3.91 | -6.95 | 5.52 | 32.48 | 83.52 | -2.72 |
| Nikkei 225 Average PR JPY | 1.96 | -2.25 | -1.65 | 13.18 | 42.71 | 117.69 | 0.54 |

*During the period 1996 to 2001, the Portfolio Manager managed an internal account using the same strategy as used by the Fund. In 2001, the Nippon Growth Fund was authorised by the Guernsey Financial Services Commission as an open ended collective investment scheme. Performance since the 22 October 2009 is that of the Nippon Growth (UCITS) Fund.

PERFORMANCE BY CALENDAR YEAR (%)

| | 2018 YTD | 2017 | 2016 | 2015 | 2014 | 2013 | Annualised since inception |
|---------------------------|-------------|-------|-------|------|------|-------|----------------------------------|
| JPY A | -10.82 | 20.85 | -2.23 | 3.19 | 2.19 | 53.99 | 5.50 |
| TOPIX PR JPY | -8.26 | 19.69 | -1.85 | 9.93 | 8.08 | 51.46 | -0.12 |
| Nikkei 225 Average PR JPY | -1.82 | 19.10 | 0.42 | 9.07 | 7.12 | 56.72 | 0.02 |

Please note, past performance is not indicative of future returns.

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