

NIPPON GROWTH (UCITS) FUND

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



EI STURDZA
INVESTMENT FUNDS

DECEMBER 2018 – MONTHLY COMMENTARY BY PORTFOLIO MANAGER YUTAKA UDA

FUND COMMENTARY

At the beginning of December, the Japanese market rallied on the back of President Trump's decision to postpone additional import tariffs on China following mutual discussions with Xi Jinping during the G20 meeting until March 2019. This said, concerns over the US-China trade frictions resurfaced when the Canadian government announced the arrest of Huawei's (Chinese telecom equipment producer) CFO. Further, the US market reacted negatively to the publication of weak employment statistics during the month and the US 10-year Treasury yield dropped.



In mid-December, the release of Huawei's CFO and China's agreement to lower tariffs on US cars bolstered the market for a while. Pessimism however took over when Chinese and US macro data was weak. During the month, the crude oil price declined and equities weakened across the board following

concerns over a global economic slowdown.

In December, the risk-off market prevailed. The yen appreciated to 110 level against the US Dollar, hurting the Japanese market. During the month the Nikkei 225 decreased below 21,000 for the first time since March. On 19th December, the Federal Reserve Bank (FRB) decided to raise interest rates for the fourth time in 2018, displeasing President Trump and leading to rumours about the removal of FRB Chair Powell. In addition, the political environment stagnated in the US following the partial shutdown of US government institutions.

In late December, the Dow Jones decreased for 4 consecutive days, with the crude oil price declining to near its 18 month low. On 26th December, the Nikkei 225 declined below 19,000 intraday for the first time since April 2017, with the market not recovering substantially before the year-end break.

The TOPIX closed the month at 1,494.1 (down 10.4% MoM), while the Nikkei 225 finished at 20,014.8 (down 10.5% MoM). All 33 sectors declined, with the worst five performers being mining, pharmaceuticals, securities, oil and machinery. The best five performers were land transportation, air transportation, utilities, construction and foods.

The yield on 10-year JGBs opened the month at 0.092% but continued to decline, succeeding its previous month's trend. The decline in oil prices and equities on the back of the risk-off mood in the global market increased bond prices. The US rate hike, which raised concerns about a slowing economy and appreciation of the yen, also triggered a rise in the JGBs price, leading yields to decline. The yield continued to decline throughout December and finally dipped below 0 intraday on the last day of the month, eventually ending at 0.003%.

The net asset value per unit for the Nippon Growth (UCITS) Fund on a Japanese yen basis as of 31st December 2018 declined 11.1% compared with that of 30th November, while the TOPIX declined 10.4% during the same period. The Fund put no new names into the portfolio with no stocks sold out.

*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.

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Global markets are currently watching the developments of the US-China talks regarding a trade deal and the progress on the partial shutdown of the US government. Until these issues have been resolved, the markets, including equities, bonds, commodities and currencies, won't find a clear direction.

The Japanese economy itself is growing steadily, in spite of decelerating global growth and trade tensions between the US and China. Industrial production in November declined 1.1% MoM after a sharp rebound of 2.9% MoM in October, above market consensus of -2.1% MoM. The government estimates that industrial production in December will rise 2.2% MoM and decline 0.8% MoM in January 2019. On 21st December, the government approved the second supplementary budget for FY2018, with JPY1.1 trillion out of JPY3.0 trillion allocated to public works spending. The budget is likely to be legalised in the Diet in late January or early February 2019.

Since Mr. Abe took office as Prime Minister in December 2012, he has tried to bolster economic growth based on three themes (the so called "three arrows"), namely (1) financial policy, (2) fiscal stimulus and (3) structural reforms. Looking back in history, one however can dispute the impact of fiscal stimulus. In fact, public works showed a negative YoY growth three times (2014, 2015 and 2018(E)) during the last 6 years (between 2013-2018).

Mr. Abe has not kept his initial promises, partly due to the resistance of the Ministry of Finance, but mainly due to a lack of urgency in his approach. This time however it appears that he will by all means pursue higher growth (2.0%) over the coming three years. On 7th January, the government appointed Mr. Shunpei Takemori, a professor of Keio University, as a private member to the Council of Economic and Fiscal Policy. Mr. Takemori is a well-known Keynesian and an expert on the global economy, including trade issues. His appointment implies that the government is inclined to implement decisive fiscal stimulus at last. Regardless of this being good or bad, Japanese businesses and people's mentality by nature rely heavily on government policy. In that sense, the Investment Adviser thinks that the economy has the potential to achieve handsome growth.

Going forward, the Investment Adviser will reduce the number of stocks from currently 40 to around 30 over the next couple of months. The team thereby aim to concentrate the portfolio, including higher conviction stocks, similar to the strategy implemented in 2003, while at the same time keeping a similar sector allocation.

The views and statements contained herein are those of Evarich Asset Management in their capacity as Investment Advisers to the Funds as of 11/01/2019 and are based on internal research and modelling.

AWARDS (NIPPON GROWTH UCITS FUND)



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

CUMULATIVE PERFORMANCE %

	1M	1Y	3Y	5Y	10Y	15Y	Fund Inception	Strategy Inception
JPY A	-11.05	-20.67	-6.27	-1.16	84.51	69.71	55.74	89.19
TOPIX PR JPY	-10.40	-17.80	-3.44	14.73	73.89	43.15	64.44	29.34
Nikkei 225 Average PR JPY	-10.45	-12.08	5.15	22.86	125.91	87.46	94.94	77.51

* 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.

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

CALENDAR YEAR PERFORMANCE %

	YTD 2018	2017	2016	2015	2014	2013	Annualised Inception
JPY A	-20.67	20.85	-2.23	3.19	2.19	53.99	3.74
TOPIX PR JPY	-17.80	19.69	-1.85	9.93	8.08	51.46	1.49
Nikkei 225 Average PR JPY	-12.08	19.10	0.42	9.07	7.12	56.72	3.36

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