

JSV Fund

Japan Strategic Value Equity
Monthly Report for October 2021

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Authorised and regulated by the Federal Financial Supervisory Authority and the Financial Conduct Authority

Key points

Investment Objective

- The performance objective is to achieve long term capital growth through investment in a portfolio of Japanese equity securities.

Inception Date

- The inception date for the portfolio is 26th August 2009

Portfolio Manager

- Kentaro Takayanagi

Base Currency

- JPY

Benchmark

- TOPIX Index - Total Return in Japanese Yen

Change in market value

- Opening value as at 30th September 2021: JPY 81,609,196,659
- Closing value as at 31st October 2021: JPY 82,810,611,742

Performance Summary

Returns to 31st October 2021	Current Month (%)	3 Months (%)	Year to Date (%)	1 Year (%)	3 Years p.a (%)	5 Years p.a (%)	Since Inception p.a (%)
Portfolio	-0.21	5.45	20.41	40.41	8.26	9.14	8.12
Benchmark	-1.42	6.14	13.06	29.38	9.26	9.97	8.41
Excess Return	1.21	-0.69	7.34	11.03	-1.01	-0.84	-0.29

Source: NAM-UK

Benchmark: TOPIX Index - Total Return in Japanese Yen

Note: Returns over 1 year are annualised unless otherwise stated.

Returns are net of fees.

Basis: NAV to NAV Returns – Net Asset Value per share calculated by BBH

Inception date : 26th August 2009

Portfolio Performance Review

The portfolio outperformed the TOPIX index (total returns basis) over the month, falling 0.21% in local currency terms against a loss of 1.42% in the benchmark.

Following a strong gain in September when many other major markets suffered their worst monthly downturns since the onset of the pandemic last year, the Japanese market adjusted in October. Profit taking weighed on the Japanese market as investors gave a less than enthusiastic welcome to incoming Prime Minister Kishida and his cabinet. With one of the lowest initial approval ratings ever, there were some doubts that the ruling coalition would be able to hang on to its comfortable majority, just shy of two thirds of seats, at the October 31 election. Prime Minister Kishida's "New Capitalism" slogan for his economic policies left investors guessing what his top priorities might be, especially after he scrapped a proposal for higher capital gains taxes; a policy that he had eagerly advocated during the race to lead the Liberal Democratic Party (LDP). Meanwhile, the yen depreciated sharply against a robust US dollar, while there were rising expectations that the Federal Reserve Board would be forced to bring forward the timing of the first and a subsequent rate hike given the possibility of persistent inflationary pressure. Investors also expected the Bank of Japan to maintain its accommodative monetary policy for longer, effectively widening the interest rate gap between the US and Japan.

As far as the broad investment styles were concerned, Value stocks underperformed Growth by approximately 60 basis points using Russell Nomura figures and 130 basis points using MSCI data. As for size, large-caps outperformed mid-caps by around 30 basis points, which in turn outperformed small-caps by approximately 20 basis points. Individual stock positions providing the biggest positive contributions to performance included overweight positions in semiconductor package maker Shinko Electric Industries, Toyota supplier Denso and construction machinery maker Komatsu; as well as non-holdings of drug maker Takeda Pharmaceutical and electronic component maker Murata Manufacturing. Significant detractors included overweight positioning in healthcare/material solutions provider FUJIFILM Holdings and ceramic capacitor maker Taiyo Yuden, together with non-holdings of employment services provider Recruit Holdings, semiconductor-making equipment manufacturer Tokyo Electron and FA equipment maker Keyence.

Top Ten and Bottom Ten Contributors to Performance

No	TSE 33 Sectors	Name	Average Weight			Attribution
			Portfolio (%)	Benchmark (%)	Active (%)	Effect
1	Electric Appliances	Shinko Electric Industries Co., Ltd.	1.37	0.05	1.32	0.30
2	Banks	Hokkoku Financial Holdings, Inc.	0.17	0.01	0.16	0.18
3	Transportation Equipment	DENSO CORPORATION	1.85	0.62	1.23	0.16
4	Machinery	Komatsu Ltd.	1.79	0.46	1.33	0.15
5	Pharmaceutical	Takeda Pharmaceutical Co. Ltd.	0.00	1.00	-1.00	0.14
6	Electric Appliances	Murata Manufacturing Co., Ltd.	0.00	0.94	-0.94	0.13
7	Chemicals	Shin-Etsu Chemical Co Ltd	2.80	1.26	1.54	0.13
8	Mining	INPEX CORPORATION	1.40	0.19	1.21	0.11
9	Information & Communication	Nippon Telegraph and Telephone	3.65	1.32	2.34	0.11
10	Transportation Equipment	Toyota Industries Corp.	2.00	0.28	1.72	0.11

No	TSE 33 Sectors	Name	Average Weight			Attribution
			Portfolio (%)	Benchmark (%)	Active (%)	Effect
1	Chemicals	FUJIFILM Holdings Corp	3.50	0.57	2.93	-0.24
2	Services	Recruit Holdings Co., Ltd.	0.00	1.78	-1.78	-0.21
3	Banks	Hokkoku Bank, Ltd.	0.01	0.00	0.01	-0.19
4	Electric Appliances	Taiyo Yuden Co., Ltd.	0.97	0.10	0.87	-0.12
5	Electric Appliances	Tokyo Electron Ltd.	0.00	1.05	-1.05	-0.08
6	Electric Appliances	Keyence Corporation	0.00	2.35	-2.35	-0.08
7	Chemicals	Mitsubishi Chemical Holdings	1.43	0.23	1.20	-0.08
8	Electric Appliances	Sony Group Corporation	1.41	2.86	-1.45	-0.08
9	Transportation Equipment	Toyota Motor Corp.	0.00	3.65	-3.65	-0.06
10	Insurance	T&D Holdings, Inc.	1.52	0.16	1.36	-0.06

Source: NAM-UK - Covering the period between 1st October 2021 and 31st October 2021

Benchmark: TOPIX Index - Total Return in Japanese Yen

Note: Weights are the average over the month and as a percentage of the total portfolio.
The attribution should be regarded as indicative only.

Performance - Attribution Analysis

Industry

Industry	Port. Average Weight	Port. Total Return	Bench. Average Weight	Bench. Total Return	Allocation Effect	Selection+ Interaction	Currency Effect*	Total Effect
Total	100.00	-0.10	100.00	-1.42	0.28	1.04	0.01	1.32
Fishery, Agriculture & Forestry	0.00	0.00	0.09	-2.06	0.00	0.00	0.00	0.00
Mining	1.40	8.69	0.22	7.65	0.10	0.01	0.00	0.11
Construction	4.29	-0.53	2.35	-0.43	0.02	0.00	0.00	0.02
Foods	0.12	-3.83	3.46	-1.44	0.00	0.00	0.00	0.00
Textiles & Apparels	0.39	-1.83	0.47	-1.76	0.00	0.00	0.00	0.00
Pulp & Paper	0.00	0.00	0.22	-0.80	0.00	0.00	0.00	0.00
Chemicals	10.31	-1.79	7.01	-1.20	0.00	-0.07	0.00	-0.06
Pharmaceutical	2.96	-4.86	5.04	-5.01	0.08	0.01	0.00	0.09
Oil & Coal Products	1.41	0.84	0.43	1.63	0.03	-0.01	0.00	0.02
Rubber Products	0.00	0.00	0.71	-5.05	0.03	0.00	0.00	0.03
Glass & Ceramics Products	2.66	1.27	0.78	1.84	0.06	-0.02	0.00	0.03
Iron & Steel	0.38	2.48	0.82	0.20	-0.01	0.01	0.00	0.00
Nonferrous Metals	1.02	7.96	0.70	2.74	0.01	0.05	0.00	0.06
Metal Products	1.62	-3.91	0.60	-4.76	-0.03	0.01	0.00	-0.02
Machinery	5.92	2.42	5.37	-0.41	0.01	0.17	0.00	0.17
Electric Appliances	13.26	1.05	18.47	-0.49	-0.04	0.20	0.00	0.17
Transportation Equipment	8.46	3.19	7.80	1.16	0.02	0.17	0.00	0.19
Precision Instruments	0.88	-0.31	2.93	-3.41	0.04	0.03	0.00	0.07
Other Products	1.97	0.04	2.16	-3.22	0.00	0.06	0.00	0.07
Electric Power & Gas	0.15	-5.42	1.13	-8.06	0.07	0.00	0.00	0.07
Land Transportation	1.96	-2.88	3.22	-5.79	0.06	0.07	0.00	0.12
Marine Transportation	0.08	-8.78	0.44	-4.81	-0.04	0.00	0.00	-0.03
Air Transportation	0.00	0.00	0.47	-8.38	0.04	0.00	0.00	0.04
Warehousing & Harbor Transportation Services	0.00	0.00	0.18	-3.63	0.00	0.00	0.00	0.00
Information & Communication	4.58	3.58	8.50	-0.52	-0.04	0.18	0.00	0.15
Wholesale Trade	7.78	2.35	4.87	1.04	0.07	0.10	0.00	0.17
Retail Trade	5.15	-3.24	4.39	-5.25	-0.03	0.11	0.00	0.08
Banks	4.94	-4.80	5.03	-4.61	0.01	-0.01	0.00	0.00
Securities & Commodity Futures	0.61	6.88	0.76	0.70	0.00	0.04	0.00	0.03
Insurance	8.23	-2.15	2.06	-1.72	-0.02	-0.03	0.00	-0.05
Other Financing Business	0.39	-5.02	1.17	1.39	-0.02	-0.03	0.00	-0.05
Real Estate	5.33	-1.08	2.01	-2.28	-0.03	0.06	0.00	0.03
Services	1.77	-3.20	6.14	1.28	-0.12	-0.08	0.00	-0.20
Cash	1.97	--	1.97	2.12	--	2.12	-0.13	--

Source: NAM-UK - Covering the period between 1st October 2021 and 31st October 2021

Benchmark: TOPIX Index - Total Return in Japanese Yen

Note: The above is for information only since the strategy is not managed from a sector perspective due to its inherent bottom-up approach.

Market Review

Following a strong gain in September when many other major markets suffered their worst monthly downturns since the onset of the pandemic last year, Japan's Tokyo Stock Price index (TOPIX) adjusted in October, falling 1.42% in local currency terms.

Profit taking weighed on the Japanese market as investors gave a less than enthusiastic welcome to incoming Prime Minister Kishida and his cabinet. With one of the lowest initial approval ratings ever, there were some doubts that the ruling coalition would be able to hang onto its comfortable majority, just shy of two thirds of seats, at the October 31 election. Prime Minister Kishida's "New Capitalism" slogan for his economic policies left investors guessing what his top priorities might be, especially after he scrapped a proposal for higher capital gains taxes, a policy that he had eagerly advocated during the race to lead the Liberal Democratic Party (LDP). Meanwhile, the yen depreciated sharply against a robust US dollar, while there were rising expectations that the Federal Reserve Board would be forced to bring forward the timing of the first and a subsequent rate hike given the possibility of persistent inflationary pressure. Investors also expected the Bank of Japan to maintain its accommodative monetary policy for longer, effectively widening the interest rate gap between the US and Japan.

Supply chain disruption is becoming increasingly visible and broad based across industries. Industrial production fell by 5.4% (mom) in September, below expectations, with output decelerating further from a 3.6% fall in August. The automobile industry continued to suffer the largest correction and the pace of decline quickened (-28.2% vs. -15.2%). Although disruption has not been as severe as in the automobile industry, production difficulties have spread to other industries such as general machinery, production machinery, plastic products, and ceramics. The negative impact is starting to be felt in corporate earnings results as well. Severe shortages of semiconductors, along with other supply chain issues, have been well flagged by automobile producers. Moreover, companies in some other industries including office equipment and household appliances have reported weaker than expected earnings for their fiscal second quarter (July to September) results due to shortages of components and increased logistics costs. Looking at the sectors, however, most manufacturing sectors were not amongst the worst performers, as the weaker yen largely offset supply chain concerns in the short term. In fact, the auto sector appreciated in October, since it had already discounted the supply chain disruption previously. Meanwhile, the flipside of these supply chain issues is an acute tightening of supply and demand balances, especially for seaborne traded commodities including oil, natural gas, and coal, causing a spike in prices. While, energy, trading and investment related stocks rallied on the back of higher commodity prices, air transportation, electric power, and land transportation were heavily sold down as a result.

Looking at the styles, Value stocks underperformed Growth by approximately 60 basis points using Russell Nomura figures and 130 basis points using MSCI data. As for size, large-caps outperformed mid-caps by around only 30 basis points, which in turn outperformed small-caps by approximately 20 basis points.

Market Outlook

While the global economy continues to normalise, the pace of recovery is slowing. Companies from a wide range of manufacturing industries, including automobile manufacturers, have cut their production forecasts due to prolonged supply chain bottlenecks. Rising commodity prices and labour costs also began to weigh on their profitability. In China, meanwhile, power shortages are becoming more serious, forcing factories to reduce operating hours. Under these economic conditions, the US real GDP growth rate for the third quarter was +2.0% (qoq, annualised), and slipped from +6.7% for the second quarter. China's October manufacturing PMI also fell below the 50-point threshold for a second consecutive month, slipping to 49.2 from 49.6 in September. In Japan, economic activity has gradually resumed since the state of emergency declaration was lifted. However, these uncertainties in the global economy could lead to a temporary slowdown in the domestic economy.

July-September earnings results from Japanese companies have been reasonably solid so far. Although it is still early in the earnings reporting season and therefore too early to tell what the overall trend will be, the recent deterioration in the terms of trade has led some companies to lower their guidance. In addition to the automotive industry, where supply shortages of semiconductors and other products are becoming more serious, electrical power generating companies have also revised their full-year forecasts downwards, citing the direct impact of rising energy costs on their profits. At present, the additional impact of higher commodity prices on profits is likely to be marginal, as many companies had partially factored in the rebound in raw material prices in their initial guidance. However, more persistent price rises beyond current forecasts could put corporate profits under pressure.

In the Lower House election held on October 31st, the ruling LDP succeeded in maintaining a stable majority of seats in the House of Representatives. Through this election victory, Prime Minister Kishida seems to have stabilised the political foundations of his new government. On the other hand, we have been seeing a sharp deterioration in the terms of trade while the slowdown in China's economic growth rate adds further uncertainty to the corporate earnings outlook, suggesting that market volatility is likely to remain high in the short term.

From a longer-term perspective, however, we believe the global economy is still on course towards normalisation. Given the high level of household savings in Japan, consumer spending is expected to boost the domestic economy going forward as normal economic activity resumes. Accordingly, we believe the current TOPIX EPS forecast still has plenty of upside potential, and that the TOPIX 12-month forward PER, which remains lower than other major indices at around 14.6, looks undervalued. It is therefore reasonable to expect the Japanese stock market to return to an upward trend once these temporary concerns have eased.

Investment Strategy

Although severe supply shortages exacerbated by a surge in Delta-variant infection rates in Southeast Asia have led automakers and other manufacturers to cut their production plans this summer, the current situation at factories in Southeast Asia appears to be improving. Going forward, in order to meet the strong pent-up demand, production levels are expected to turn upwards towards record levels. Meanwhile, new Prime Minister Kishida has announced economic measures worth tens of trillions of yen, and with vaccination rates expected to exceed 80% by the end of the calendar year, there are also plans to revive the “Go-to” campaign, which should all help stimulate consumption and support the reopening of the Japanese economy.

Against this backdrop, we will continue to pay close attention to companies with “enabling technologies” capable of supporting social changes such as DX (digital transformation) and stricter environmental regulations, companies that are expected to benefit from restructuring or industry consolidation while also seeing tailwinds for demand, and highly competitive companies with the potential to improve shareholder returns.

The fund seeks out investment opportunities across the market and hence its sector allocation is purely an aggregation of its stock choices. With this in mind, at the end of October, the fund’s biggest active sector overweights were Insurance, Chemicals, and Real Estate. Its largest sector underweights were Electric Appliances, Services and Information & Communication.

Portfolio Activity

Major Purchases and Sales (1st - 31st October 2021)

Purchases	Sales
1 Sony Group Corporation	1 Nippon Yusen Kabushiki Kaisha
2 West Japan Railway Company	2 Bank Of Kyoto, Ltd.
3 FUJIFILM Holdings Corp	3 Konica Minolta, Inc.
4 Nippon Telegraph And Telephone Corporation	4 NGK Insulators, Ltd.
5 Hitachi,Ltd.	5 Tokai Carbon Co., Ltd.

Source: NAM-UK

Top 10 Holdings

No.	TSE 33 Sectors	Name	Portfolio Weight (%)	Benchmark Weight (%)
1	Information & Communication	Nippon Telegraph and Telephone Corporation	3.70	1.33
2	Electric Appliances	Hitachi,Ltd.	3.61	1.15
3	Chemicals	FUJIFILM Holdings Corp	3.46	0.56
4	Insurance	Dai-ichi Life Holdings,Inc.	2.95	0.43
5	Chemicals	Shin-Etsu Chemical Co Ltd	2.94	1.24
6	Insurance	Tokio Marine Holdings, Inc.	2.91	0.71
7	Real Estate	Mitsubishi Estate Company, Limited	2.75	0.41
8	Wholesale Trade	Mitsubishi Corporation	2.35	0.97
9	Transportation Equipment	Honda Motor Co., Ltd.	2.23	0.96
10	Transportation Equipment	Toyota Industries Corp.	2.05	0.29

Source: NAM-UK as at 31st October 2021

Benchmark: TOPIX Index - Total Return in Japanese Yen

Note: Weights are a percentage of the total portfolio.

Top 10 Overweight and Underweight Positions

Top 10 Overweight positions

No.	TSE 33 Sectors	Name	Portfolio (%)	Benchmark (%)	Active (%)
1	Chemicals	FUJIFILM Holdings Corp	3.46	0.56	2.90
2	Insurance	Dai-ichi Life Holdings, Inc.	2.95	0.43	2.52
3	Electric Appliances	Hitachi, Ltd.	3.61	1.15	2.46
4	Information & Communication	Nippon Telegraph and Telephone	3.70	1.33	2.37
5	Real Estate	Mitsubishi Estate Company, Limited	2.75	0.41	2.35
6	Insurance	Tokio Marine Holdings, Inc.	2.91	0.71	2.20
7	Electric Appliances	TDK Corporation	2.03	0.22	1.81
8	Transportation Equipment	Toyota Industries Corp.	2.05	0.29	1.77
9	Chemicals	Shin-Etsu Chemical Co Ltd	2.94	1.24	1.69
10	Construction	Daiwa House Industry Co., Ltd.	2.05	0.40	1.65

Source: NAM-UK as at 31st October 2021

Benchmark: TOPIX Index - Total Return in Japanese Yen

Note: Weights are a percentage of the total portfolio.

Top 10 Underweight positions

No.	TSE 33 Sectors	Name	Portfolio (%)	Benchmark (%)	Active (%)
1	Transportation Equipment	Toyota Motor Corp.	-	3.71	-3.71
2	Electric Appliances	Keyence Corporation	-	2.26	-2.26
3	Services	Recruit Holdings Co., Ltd.	-	2.04	-2.04
4	Electric Appliances	Sony Group Corporation	1.64	3.00	-1.36
5	Information & Communication	SoftBank Group Corp.	-	1.32	-1.32
6	Electric Appliances	Tokyo Electron Ltd.	-	1.22	-1.22
7	Precision Instruments	HOYA CORPORATION	-	1.19	-1.19
8	Electric Appliances	Nidec Corporation	-	1.19	-1.19
9	Machinery	DAIKIN INDUSTRIES, LTD.	-	1.16	-1.16
10	Electric Appliances	Murata Manufacturing Co., Ltd.	-	0.93	-0.93

Source: NAM-UK as at 31st October 2021

Benchmark: TOPIX Index - Total Return in Japanese Yen

Note: Weights are a percentage of the total portfolio.

This is a marketing communication. Please refer to the prospectus and to the KIID before making any final investment decisions.

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