Dear all, dear friends,

2021 is soon ending. Nervousness on inflation, Covid and China, just to name the major worries, continues to monopolize investors' attention and sometimes, it feels like a never-ending story.

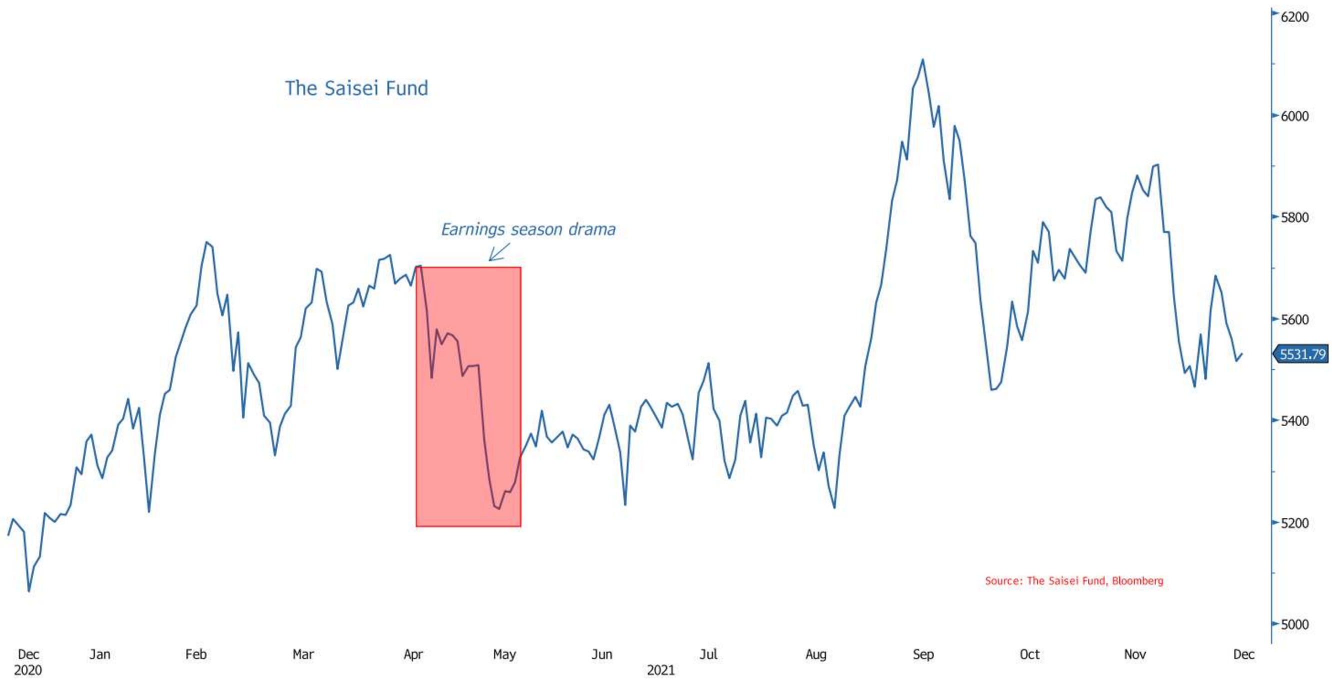
In Japan, the market environment in 2021 has been extremely complex. Japanese stocks rose sharply at the start of the year on expectations of an economic reopening, following positive news of successful vaccine developments. However, the encouraging prospects started to vane with repeated states of emergency implemented, due to delays in the vaccine rollout. In addition, expectations for achieving herd immunity collapsed with the emergence of the Delta variant, ruining the "rosy" scenario for Japanese stocks.

Meanwhile, doubts on transitory inflation in the US added to an already clouded sky, with ongoing talks of the FED raising rates sooner than anticipated. Adding to the gloom has also been China's shift to "common prosperity", with the Chinese government appetite for regulating the IT and real estate industries, which has (negatively) exceeded expectations of many market participants. Underperformance for Japanese stocks became thus unavoidable, once the market began to view the gloomy "stagflation" scenario. Of course, Saisei always wonders why Japanese equities seemed too often to be so much more impacted by mainly those external factors, than really domestic problems. All told, 2021 has not necessarily been a good year for Japanese stocks.

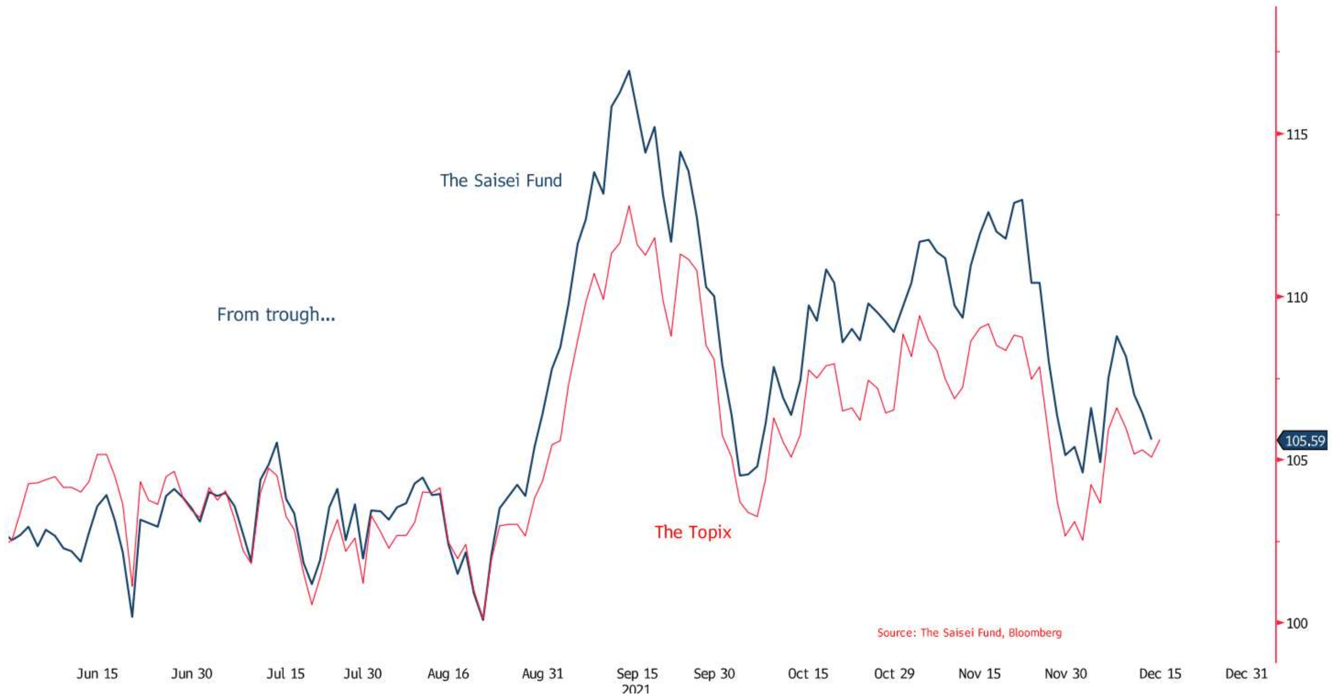
How did Saisei fare in this (non-expected) turbulent year 2021?

The Fund began to perform in line with the market, although it was not specifically positioned for the mainstream scenario that prevailed for Japanese equities at that time, i.e. “Value” and “Reflation”. The Topix gained almost + 12% until mid-March to reach the 2’000 points level and then, as explained above, doubts started to emerge on the Covid vaccination campaign set by the Japanese government. From then on, Japanese equites wobbled in tight range, between 1’850 on the downside and 2’100 on the upside. Also, worth mentioning that *the top 10 stocks only (out of 2224 constituents!!) were responsible for 53% of the annual Topix performance*.

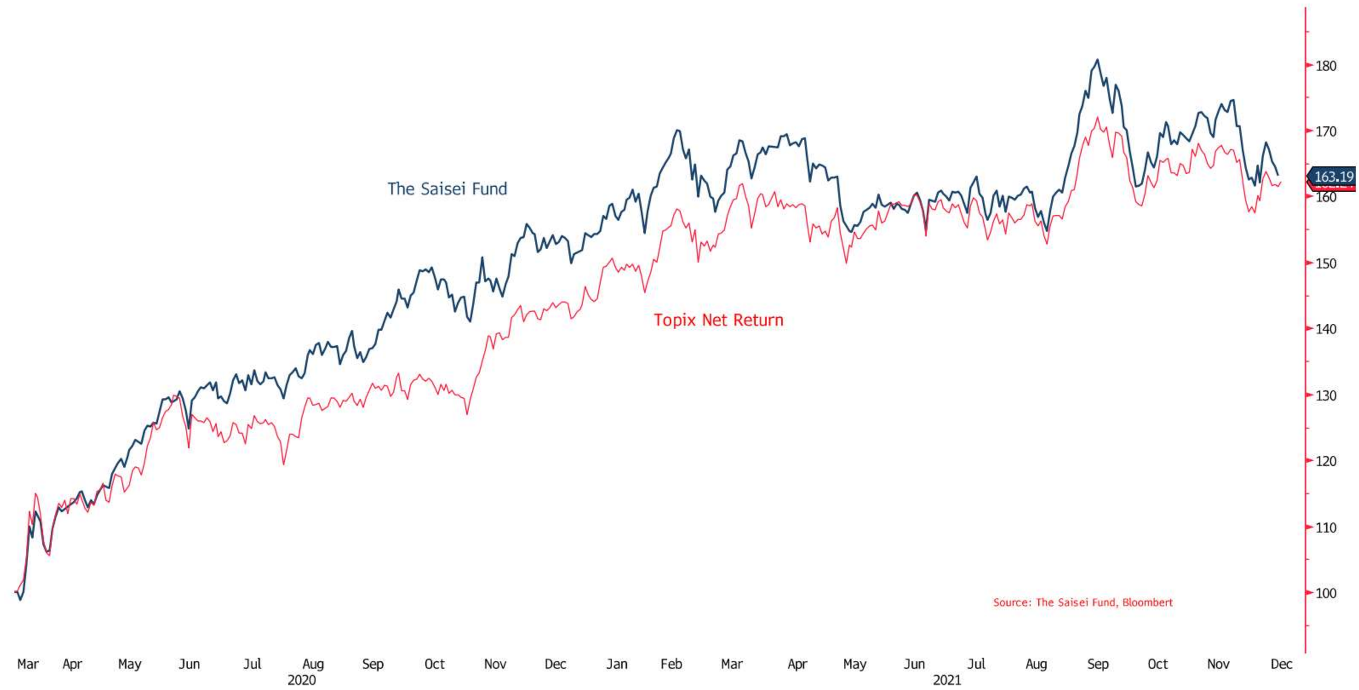
As said, although Saisei’s investment style is by no means “value”, it was surprising to have the Fund perform in line with the market. Unfortunately, during the annual earnings results from end of April to mid-May, the Fund went through a tough period and had its largest drawdown for the year, following very poor market reaction to disappointing earnings from some of its largest exposure. At that time, Saisei lost more than 300 bp of relative performance vs. the Topix. And while the market remained in its box range for the rest of the year, it was difficult for the Fund to recoup those (relative) losses without taking undue risks.



Nonetheless, it is interesting to note that while Japanese equities went briefly through a very wild period from late August to mid-September, gaining approximately +13%, Saisei clearly outperformed the index at that particular moment. And if we take the Fund's performance since its mid-May low, Saisei has outperformed, albeit slightly.



Interestingly, the performance from the trough of March 2020, seemed less dramatic than first feared (chart).



Over the year, the Fund's Large (58.3% of the total) and Medium (23.3%) capitalisations outperformed the index by 1.8% and 2.1% respectively, while it was the Small (17.5%) capitalisations that crushed the overall performance, with a drop of -4.1% (relative). Also, most of this underperformance occurred during the last two months of the year.

In 2021, Saisei had its lowest turnout ever, but being a conviction fund, Saisei continues to strongly believe that the majority of its components are grossly undervalued, and that a re-valuation of those shall occur next year.

What about 2022?

The Fund is well positioned on structurally growth themes, such as environment, EV's and Tech (mainly semis, foundries), while e-commerce, which is just starting in Japan, is also very well represented. Meanwhile, stocks which were hardly hit by self-imposing Covid restrictions in 2021 shall also have their fortunes replenish. Saisei also strongly believes that cross holdings re-adjustments will accelerate next year, a theme in which the Fund still holds some positions after two successful trades were sold in 2021.

Of course, no one knows what will happens next, but considering the followings, Saisei believes that Japan's stocks are due for a re-rating:

- Nobody dares saying it yet, but "Covid" herd immunity among the people at risk is almost reached, with 97% of adults aged 60 and above fully vaccinated, representing 36% of the population. Latest numbers show only 20 average daily positive cases in Tokyo, for only 3 "severe" (hospitalised) cases a day.
- Domestic GDP growth to reach its highest level since 1990 (many sources, like GS, UBS and OECD point towards that direction, with GS forecasting less GDP growth in the US than in Japan).
- Supply constraints, which penalised some companies, shall abate in 2022.
- Topix EPS growth estimates at +9.5% induces the index PER at its lowest point since 2011, or 13.5x.
- China policy to shift towards more easing, as its fight against real estate speculation backfires.
- Global Inflation scare to ease.

In final words, Saisei would like to thank those of you who have trusted the Fund again in 2021, and Saisei hopes that this trust will not be deceived following two extremely challenging years.

In the meantime, Saisei wish you and your families a Merry Christmas and a wonderful end of the year.

Stay safe,

Frédéric Annoni