



Nippon Growth (UCITS) Fund

August 2019 Fund Commentary

MARKET DEVELOPMENT

On 1st August, the yen depreciated over 109 intraday against the US dollar following the FRB's decision to cut interest rates at the end of July for the first time in more than 10 years. The Japanese market temporarily rallied against a weaker yen but soon followed the plunge of the US market, when President Trump hinted at a fourth round of additional tariffs on Chinese goods.

On 5th August, Bloomberg reported that the Chinese government will order state-owned companies to halt imports of US agricultural products. While the Japanese yen appreciated against the US dollar, the Chinese yuan weakened to its lowest level in 11 years (passing the level of 7 against the dollar), with the US officially naming China a currency manipulator. At the same time, large scale protests continued in Hong Kong. These geopolitical risks further triggered an appreciation of the yen against the US dollar. Japan's (preliminary) Q2 GDP was announced at 1.8%, coming in significantly higher than the market estimate of 0.4%.

In mid-August, geopolitical risks weakened as US trade representatives announced the postponement of the fourth round of tariffs (on certain products, including smartphones) until December. In late August, President Trump suggested countermeasures to China's retaliatory tariffs, leading the market to decline sharply following the appreciation of the yen towards a mid-104 level per dollar. At the end of the month, the market gained on the back of easing geopolitical risks and Trump's indication to seek negotiations with China.

The TOPIX closed the month at 1,511.9 (down 3.4% MoM), whilst the Nikkei 225 finished at 20,704.4 (down 3.8% MoM). In terms of sector performance, 31 out of 33 sectors declined. The five best performers were securities, real estate, retail, land transportation and construction. The five worst performers were oil, steel, marine transportation, glass & ceramics and pulp & paper. During the month, domestic names did well, while materials fared poorly.

In August, the US treasury yield curve inverted for the first time since 2007, with the US 30-year treasury yield falling below 1.95% for the first time in history. 10-year JGBs that started at -0.153, fell to -0.292 and ended at -0.269. The yen started the month at 108.78 against the US dollar and appreciated towards 104.46 against the backdrop of a risk-averse market, eventually ending at 106.28 at the end of the month. Crude oil prices started the month at 58.58 and sharply declined to 50.52 following heightened concerns over the global economic slowdown. Towards the end of the month, prices settled at 55.1 against easing fears.

MARKET OUTLOOK

Global markets, particularly the Japanese market, have been volatile following Trump's tweets regarding the US-China trade war. This said, in early September both Washington and Beijing agreed to resume face to face negotiation on a ministerial level in Washington in early October, sparking modest hopes that a further escalation of the conflict can be avoided. According to the team, weak US employment data alongside Germany's disappointing manufacturing data indicate that the global economy is on the edge of a downturn. The team believe, that global central banks should employ new measures to tackle this problem during the coming weeks. It appears that different measures than fiscal



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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. Sturza plc.
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stimulus are required as pointed out by Ms Christine Lagarde, the European Central Bank President-elect.

In the Investment Adviser's opinion, the Japanese economy itself is comparatively solid at present. Industrial production rose 1.3% MoM in July, higher than the market consensus of +0.2% MoM, with shipment up 2.7% MoM and inventory down 0.3% MoM. The government forecasts that industrial production will rise 1.3% MoM in August and decline 1.6% MoM in September.

Based on the Economy Watchers Survey, the overall current conditions diffusion index (DI) for August increased by 1.6 to 42.8, marking the first rise in four months. In general, the non-manufacturing sectors remain steady, while manufacturing sectors are more fragile. Although the direction of the US-China trade war is a dominant factor for the Japanese market, the team believe that the worst scenario may have already been discounted by the market, when the TOPIX hit the recent bottom of 1,478.0 on 26th August. The Baltic Dry Index (BDI), one of the marine transportation market indices, recovered strongly from 595 on 11th February 2019 to 2,422 as of 9th September 2019, suggesting that the global manufacturing PMI is approaching the bottom of the cycle.

The Japanese market has underperformed other major markets this year. In the team's opinion and contemplating historical patterns, the market has the potential to show a remarkable recovery after the global manufacturing PMI reaches its bottom. The team perceive the overcoming of the consumption tax hike on 1st October to be an additional positive factor.

PORTFOLIO STRATEGY

The net asset value per unit for the Nippon Growth (UCITS) Fund on a Japanese yen basis as of 30th August 2019 declined 3.4%* compared with that of 31st July, while the TOPIX also decreased by 3.4% during the same period. The Fund put no new names into the portfolio with no stocks sold out.

The Fund continues to be overweight with regards to economic-sensitive sectors with cheap valuations such as energy, trading companies, machinery and banking. Construction and real estate sectors remain bullish against the background of aggressive fiscal spending. At the same time, defensive sectors such as foods, pharmaceuticals and utilities continue to be avoided.

PERFORMANCE DATA* As at end of August 2019

CUMULATIVE PERFORMANCE %

	1M	1Y	3Y	5Y	10Y	15Y	Fund Inception	Strategy Inception
JPY A	-3.44	-12.43	16.90	3.82	48.21	47.30	57.69	91.55
TOPIX PR JPY	-3.40	-12.88	13.71	18.30	56.55	33.85	66.39	30.88
Nikkei 225 Average PR JPY	-3.80	-9.45	22.60	34.23	97.32	86.83	101.66	83.63

CALENDAR YEAR PERFORMANCE %

	YTD 2019	2018	2017	2016	2015	2014	Annualised Inception
JPY A	1.25	-20.67	20.85	-2.23	3.19	2.19	3.68
TOPIX PR JPY	1.19	-17.80	19.69	-1.85	9.93	8.08	1.51
Nikkei 225 Average PR JPY	3.45	-12.08	19.10	0.42	9.07	7.12	3.43

*Past performance is not an indicator of future performance.



* In 2001, the Nippon Growth Fund was authorised by the Guernsey Financial Services Commission as an open ended collective investment scheme using the same strategy as the Fund. Performance since the 22 October 2009 is that of the Nippon Growth (UCITS) Fund.

IMPORTANT INFORMATION

The views and statements contained herein are those of Evarich Asset Management in their capacity as Investment Advisers to the Funds as of 11/09/2019 and are based on internal research and modelling.

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