



Nippon Growth (UCITS) Fund

September 2019 Fund Commentary

MARKET DEVELOPMENT

At the beginning of September, the market briefly declined as the US launched a fourth round of punitive tariffs on Chinese imports, and China retaliated.

The United States' ISM manufacturing PMI for August was announced on 3rd September, falling below 50 for the first time in 3 years and the yen appreciated intraday to the level of 105.74 against the US dollar. This said, from the next day onwards, the yen depreciated against the market's prevailing risk-on mood, with the Hong Kong government withdrawing its extradition bill and the UK's House of Commons approving a bill to postpone Brexit. The US then postponed the introduction of further round of punitive tariffs on Chinese imports and showed a positive stance towards monetary easing, while the ECB decided to resume quantitative easing. Later in the month, excessive concern over a global economic slowdown receded and market rallied across the board.

In mid-September, the Japanese market continued to rally as the yen depreciated against the US dollar from rising long-term rates in the US. Until the 17th, the Nikkei 225 gained for 10 consecutive days for the first time in 2 years. On the 18th, the Yen's depreciation stopped as the FOMC cut its key rate by 25bps. In the meantime, the Bank of Japan maintained its monetary policy.

In late September the market declined as the impeachment inquiry against US president Trump and the consideration of delisting Chinese stocks listed in the US market was conveyed.

The Japanese market performed better than other major markets during the month as global markets favoured value stocks, which are prevalent in the Japanese market. The TOPIX closed the month at 1,587.8 (up 5.0% MoM) and the Nikkei 225 at 21,755.8 (up 5.1% MoM). In terms of sector performance, 31 sectors among the 33 sectors gained. The best five performers were marine transportation, non-ferrous metals, oil, textiles and machinery. The worst five performers were air transportation, communication, fishery and agriculture, utility and pharmaceuticals.

The US 10-year treasury declined to 1.427 intraday, on the 3rd, the lowest level since June 2016, after the US manufacturing PMI for August was announced. Once the risk-on-mood took over the US and Japanese interest rates started to rise. The 10-year JGBs which started at minus 0.269 rose and ended at minus 0.213. In September, USDJPY started the month at 106.28, with the Japanese Yen losing value against the US Dollar, closing at 108.08. Crude oil price started at 55.1 and shot up to an intraday price of 63.4 following the attack on petroleum facilities in Saudi Arabia but declined and ended at 54.1.

MARKET OUTLOOK

On 11th October, the US agreed to suspend another set of tariff increases on USD250 billion of Chinese imports, originally scheduled to take effect on the 15th October, in return for a series of modest concessions, most of which had been offered by China in previous rounds of negotiations. According to the Investment Adviser, it appears that both sides decided that half a deal was better than no deal, consenting to a preliminary agreement that would require China to buy more American farm products and taking several other limited steps to open its economy in exchange for the US foregoing its planned tariff increase. The team



Yutaka Uda
PORTFOLIO MANAGER



Maiko Uda
ASSISTANT PORTFOLIO
MANAGER

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.
Registered in Ireland.

CONTACT

E.I. Sturza Strategic
Management Limited
+44 1481 722 322
info@ericsturza.com
ericsturza.com



believe that the two sides are still a long way from a final settlement that includes much more contentious issues, such as Chinese government support for strategic industries and state owned companies. President Trump indicated that the first step is finalised, with the second and third steps to follow in several weeks. The Investment Adviser views this agreement positively, as a further escalation in the trade war between the US and China was avoided at least and large uncertainty and anxiety over the global economy is improving.

The Japanese economy is not in a strong position at present. Industrial production in August declined 1.2% MoM, worse than the market forecast of -0.4% MoM. The Government estimates that industrial production in September would rise 1.9% MoM and decline 0.5% MoM in October. According to the BoJ's quarterly economic survey "Tankan", business sentiment diffusion index (DI) in September for large manufacturers stood at +5, a 2 point decline from June, but still well above the market forecast by +1. The pessimistic view surrounding the manufacturing industry, which was chiefly triggered by renewed US-China trade friction and instability in the Chinese economy, could be overblown. At large non-manufacturers, the DI declined 2 points from June to +21, but was slightly above the market forecast by +4. According to the survey, the outlook for DIs in December worsen across the board for both manufacturing and non-manufacturing. The degree of deterioration for non-manufacturing stands out due to the impact of the consumption tax hike implemented on 1st October. The Investment Adviser reiterates the view that the consumption tax hike should no longer be a source of concern given that the Government has implemented lots of counter measures.

The Investment Adviser believes that when the US-China trade frictions approach a resolution, step by step, the Japanese market should show a remarkable rally towards year end.

PORTFOLIO STRATEGY

The net asset value per unit for the Nippon Growth (UCITS) Fund on a Japanese yen basis as of 30th September 2019 returned +7.5% compared with that of 30th August while the TOPIX rose by 5.0% during the same period. The Fund put one new name (Sakai Chemical) 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. The team remain bullish toward construction and real estate sectors 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 September 2019

CUMULATIVE PERFORMANCE %

	1M	1Y	3Y	5Y	10Y	15Y	Fund Inception	Strategy Inception
JPY A	7.54	-11.65	27.51	9.02	63.86	60.42	69.58	106.00
TOPIX PR JPY	5.02	-12.63	20.04	19.72	74.51	44.07	74.75	37.45
Nikkei 225 Average PR JPY	5.08	-9.80	32.26	34.52	114.70	101.00	111.90	92.96

CALENDAR YEAR PERFORMANCE %

	YTD 2019	2018	2017	2016	2015	2014	Annualised Inception
JPY A	8.89	-20.67	20.85	-2.23	3.19	2.19	4.08
TOPIX PR JPY	6.27	-17.80	19.69	-1.85	9.93	8.08	1.77
Nikkei 225 Average PR JPY	8.70	-12.08	19.10	0.42	9.07	7.12	3.70

*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 16/10/2019 and are based on internal research and modelling.

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