



Nippon Growth (UCITS) Fund

October 2019 Fund Commentary

MARKET DEVELOPMENT

On 1st October Japanese consumption tax rose from 8% to 10%. The tax increase did not cause any major issue, with Japan being the top performing major stock market during the month, with the Topix hitting a YTD high.

At the beginning of the month, the market pulled back following the announcement of weak US economic data which led the yen to appreciate against the US dollar. Trade frictions between the US and China and the US and Europe were also concerns and a wait-and-see stance was adopted until the US-China cabinet level trade talks commenced on the 10th of the month.

In mid-October the market rallied as a partial agreement was reached between the US and China and positive earnings reports were announced in the US. The Risk-on mood returned as a result and the Yen depreciated against the dollar, which further stimulated the Japanese market. The TOPIX and Nikkei 225 both hit YTD highs.

As we reached the end of the month the market made further gains as expectations for improvements in Japanese companies rose. The Fed's 25bp rate cut acted as a further positive stimulus for the market, and the TOPIX once again reached a YTD high on the last day of the month.

Value stocks continued to be favoured in October, with the Materials sector being among the top performers.

The TOPIX closed the month at 1,667.0 (up 5.0% MoM) and the the Nikkei 225 at 22,927.0 (up 5.4% MoM). In terms of sector performance, 32 sectors among 33 sectors gained, with metal products, marine transportation, pharmaceuticals, non-ferrous metals and rubber being the top performers. At the other end of the spectrum, the worst five performers were textiles, miscellaneous manufacturing, fishery & agriculture, land transportation, and insurance.

10-year treasury rates both in the US and Japan steadily rose during the month as the market became favourable towards risk, with the US 10-year treasury moving from 1.6646 to 1.6910 and the 10-year JGB from minus 0.213 to minus 0.133. At the same time the Yen against the US dollar entered October at 108.08 before appreciating to 106.92 at one point before ending at 108.03. The Crude oil price was relatively stable in October starting at 54.1 and ending at 54.2.

MARKET OUTLOOK

The Japanese economy is currently a little stagnant, although continues to maintain positive GDP growth. Industrial production in September rose 1.4% MoM, better than market consensus of +0.4% MoM; however for the 3Q (July-September) was down 0.6% QoQ versus 2Q which was up 0.6% QoQ. The Government forecasts that industrial production in October would rise 0.6% MoM, and decline 1.2% MoM in November.

Corporate profits are trending downward. According to Nomura, as of 11th November, 233 companies out of 256 in their coverage announced profits results for 1H of FY2019 with recurring profits down 11.3% YoY compared with initial estimates of 5.8% YoY decline. This said, the total profit estimates for 233 companies for 2H of FY2019 represent a 12.8% YoY



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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. Sturdza plc.
Registered in Ireland.

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increase. Companies are becoming cautiously optimistic towards next year.

Against this background, on 8th November Prime Minister Abe gave orders for an economic stimulus package which would include a supplementary budget of approximately JPY5 trillion expected for FY2019. There were a series of national disasters over the past couple of months, the package therefore should include spending for reconstruction. The government recognise that there is currently a global economic slowdown, and that there is the possibility of some negative reaction to the consumption tax hike implemented on 1st October 2019. The Government wants to utilise the fiscal spending to raise productivity in small business, agriculture and regional areas, together with investment to improve economic competitiveness for future growth after the Tokyo Olympic Games in 2020.

Expectations are that the detailed plan is most likely to be announced in December and approved in January 2020. Following this the next most important event is expected to be the disclosure of the tax reform plan which will be disclosed in December. The Investment Adviser will be closely monitoring communications in this regard given Mr. Akira Amari's appointment in September as the Chief of the LDP Research Commission on the Tax System. He was former Minister of State for Economic and Fiscal Policy. Several years ago, he developed Japan's growth strategy as a key Cabinet member under the Abe Administration. The team believe that Mr. Amari will put forward new ideas which will contribute to economic expansion through tax reforms. Further the team expect the Japanese stock market to maintain its strong momentum towards year end with fiscal related sectors such as construction leading the rally.

PORTFOLIO STRATEGY

The net asset value per unit for the Nippon Growth (UCITS) Fund on a Japanese yen basis as of 31 October 2019 rose 4.8% compared with that of 30 September while the TOPIX went up 5.0% 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 October 2019

CUMULATIVE PERFORMANCE %

	1M	1Y	3Y	5Y	10Y	15Y	Fund Inception	Strategy Inception
JPY A	4.79	0.92	25.16	14.51	80.59	69.17	77.70	115.86
TOPIX PR JPY	4.99	1.27	19.67	25.00	86.33	53.58	83.47	44.31
Nikkei 225 Average PR JPY	5.38	4.59	31.58	39.68	128.48	112.85	123.30	103.34

CALENDAR YEAR PERFORMANCE %

	YTD 2019	2018	2017	2016	2015	2014	Annualised Inception
JPY A	14.10	-20.67	20.85	-2.23	3.19	2.19	4.32
TOPIX PR JPY	11.57	-17.80	19.69	-1.85	9.93	8.08	2.04
Nikkei 225 Average PR JPY	14.55	-12.08	19.10	0.42	9.07	7.12	3.98

* Source; Morningstar. 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

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