



Nippon Growth (UCITS) Fund

December 2019 Fund Commentary

MARKET DEVELOPMENT

At the beginning of December, the Japanese market rose, as did the rest of the market, from improvements in economic data in China and strong kick-offs in the US Christmas shopping season. On the 5th December, the Japanese government decided on a 13 trillion Yen stimulus package, aiming to recover in downturns from natural disasters and the consumption tax hike, to which the market reacted positively. The US market rallied after robust jobs data was announced and the Japanese market followed.

In mid-December, the market reacted positively as concerns retreated over the US-China trade friction and the possibility of Brexit in the UK. On the 11th December the FOMC meeting took place and decided to maintain the status quo in its policy rate. The US market gained, but the influence in the Japanese market was limited as the Yen appreciated against the US dollar. Nevertheless, the Japanese market was pulled from the US and other Asian markets and recovered over 24,000 in the Nikkei 225 and over 1,700 in the TOPIX, renewing YTD highs which are the highest since Oct 2018.

In late December, the market pulled back from thin trading and profit taking.

During December, economic sensitive stocks performed well. The TOPIX closed the month at 1,721.4 (up 1.3% MoM) and the Nikkei 225 at 23,656.6 (up 1.6% MoM). In terms of sector performance, 25 of 33 sectors gained. The top five performers were mining, marine transportation, communication, metal products and precision instruments whilst the bottom five were rubber, land transportation, pulp & paper, foods and air transportation.

The 10-year JGB yield rose as the market became relaxed towards risk and recovered positively after 9 months. The FOMC's decision to maintain the status quo in its policy rate also supported the yield. The 10-year JGB started at minus 0.073 and ended the month at minus 0.011. The Yen against the US dollar which started at 109.49 appreciated to 108.61. Crude oil began the month at 55.17 and rose steadily on the back of the positive outlook in the global economy, ending the month at 61.06.

MARKET OUTLOOK

The Investment Adviser believes the Japanese economy is likely to turn around from 1Q 2020. On the 13th December 2019, the BOJ's quarterly economic survey "Tankan" announced that business conditions DI for large manufacturers for December fell 5 points, from 0 in September. The DI has now declined for four consecutive quarters. In addition to demand slowdown following the consumption tax hike, the DI reflects the impact of typhoons on production facilities and supply chains, as well as uncertainty over the outcome of the US-China trade friction. CAPEX plans for FY 2019 remain firm with large companies (all industries) revised up to YoY 6.8% compared to September's figure of 6.6%. Real core consumption declined 1.9% YoY in November per the household survey, but increased 3.5% on a MoM basis following a sharp decline of -13.1% in October. This marks a post-tax hike upturn from November (the second month after the hike), whereas consumption continued to decline through the second month after the previous tax hike in April 2014. Industrial production declined 0.9% MoM in November, almost in line with the market consensus of -1.1% MoM. The government forecasts that industrial production will rise 2.8% MoM in December, and a further 2.5% MoM in January 2020. The US and China are scheduled to sign the first phase of the trade deal on the 15th January 2020, effective from



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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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February. The Investment Adviser believes this should change global business sentiments rather dramatically, and help contribute to economic recovery.

The Japanese government is going to pass the supplementary budget for FY 2019 with 4.5 trillion Yen soon after the ordinary Diet session starts on the 20th January 2020. The Investment Adviser expects that the Japanese economy should experience a sharp recovery from 1Q 2020. From late January, reporting season for corporate profits for October-December 2019 will start. Negative results for the Oct-Dec period have largely been ruled out. Market attention should focus on how quickly and how largely corporate profits will recover from 1Q (Jan-Mar) 2020. Recent stabilisation of the Yen-Dollar rate should encourage investors to increase equity positions. The Team expect domestic demand related sectors with cheap valuations to lead the rally.

PORTFOLIO STRATEGY

The net asset value per unit for the Nippon Growth (UCITS) Fund on a Japanese yen basis as of the 31st December 2019 climbed 2.1% compared with that of the 29th November while the TOPIX rose 1.3% during the same period. The Fund didn't add any new names into the portfolio and no stocks were 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 December 2019

CUMULATIVE PERFORMANCE %

	1M	1Y	3Y	5Y	10Y	15Y	Fund Inception	Strategy Inception
JPY A	2.06	19.11	14.19	15.21	86.21	68.93	85.50	125.34
TOPIX PR JPY	1.29	15.21	13.35	22.30	89.66	49.73	89.45	49.01
Nikkei 225 Average PR JPY	1.56	18.20	23.76	35.56	124.31	105.91	130.41	109.81

CALENDAR YEAR PERFORMANCE %

	YTD 2019	2018	2017	2016	2015	2014	Annualised Inception
JPY A	19.11	-20.67	20.85	-2.23	3.19	2.19	4.53
TOPIX PR JPY	15.21	-17.80	19.69	-1.85	9.93	8.08	2.20
Nikkei 225 Average PR JPY	18.20	-12.08	19.10	0.42	9.07	7.12	4.12

* 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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