



Nippon Growth (UCITS) Fund

November 2019 Fund Commentary

MARKET DEVELOPMENT

At the beginning of November, the Japanese market exceeded expectations due to progress in the US-China trade talks. The US market was strong, stemming from brisk economic indicators such as US employment data, and as a result, the Yen weakened against the US dollar. Japanese mid-term results showed that earnings are bottoming out and left expectations for improvement in 2H for FY 2019. Announcements of share buybacks also supported the market.

In mid-November, the market continued to gain, positively affected by the solid rise in the US market. On the 12th November, the recovering Nikkei 225 reached over 23,500 for the first time since October 2018. However, domestic numbers such as machinery orders for September and a disappointing real GDP was announced. Furthermore, weak Chinese economic numbers also affected the market. Friction between the US and China arose regarding Hong Kong and the market trailed down.

In late November, expectations for progress in the US-China trade talks arose from the Chinese Government's quote and the US market rallied, which had a positive effect on the Japanese market. South Korea's decision to suspend the expiry of GSOMIA was also a reassurance to geopolitical risk and the Japanese market showed confidence on the back of this. On the 27th November, the TOPIX renewed its YTD high at 1,710.98. However, as Trump signed the Hong Kong Human Rights and Democracy Act on 28th, a cautious view towards the US-China trade talks spread and the market pulled back towards the end of the month.

During November, the market reversed from October with domestic sectors outperforming the external demand related sectors. The TOPIX closed the month at 1,699.4 (up 1.9% MoM) and the Nikkei 225 at 23,293.9 (up 1.6% MoM). In terms of sector performance, 22 of 33 sectors gained. The best five performers were securities, precision instruments, other products, pharmaceuticals, and pulp & paper. The bottom five performers were oil, rubber, utilities, marine transportation and metal products.

The 10-year treasury in Japan rose steadily this month as the market became favourable towards risk. The 10-year JGB started at minus 0.133 and ended the month at minus 0.073. The Yen against the US dollar which started at 108.03, depreciated to 109.49.

MARKET OUTLOOK

During October, retail sales declined sharply by 7.1% YoY due to fallout from front-loaded demand and the impact of national disasters. In addition to a reactive decline after the consumption tax hike on 1 October, a large typhoon caused a wide range of businesses to stop operations temporarily, including department stores and restaurants, which decreased retail sales further. Industrial production declined 4.2% MoM in October, much more than the market forecast of -2.0% MoM. This is largely attributed to the impact of damage to production and distribution facilities caused by Typhoon No.19. The Government estimated that industrial production would decline a further 1.5% MoM in November, and increase 1.1% MoM in December. It is likely that industrial production in 4Q (Oct.-Dec.) would show two consecutive QoQ declines. In the Economy Watchers Survey of businesses, the overall current conditions DI for November improved slightly, 2.7 points to 39.4, despite low levels, after it declined 10.0 points in October.



Yutaka Uda

PORTFOLIO MANAGER



Maiko Uda

ASSISTANT PORTFOLIO
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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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Against the back ground mentioned above, on 5 December, the Government approved an economic stimulus package totalling JPY 26 trillion, the largest since 2016, out of which JPY 13 trillion would be direct spending by both the central and local Governments in a 15-month budget from January 2020 to March 2021. The total stimulus package consists of JPY 7 trillion for disaster restoration, JPY 7.3 trillion for addressing the down size risk of the economy and JPY 11.7 trillion for preventing a drop in public works spending after the Tokyo Olympic and Paralympic next year – targeting investment for future growth. The package would be approved in the Diet in January 2020, contributing significantly to economic recovery from 1Q (Jan.-Mar) 2020.

The US-China trade dispute remains the main issue for the global market, but the Investment Adviser hopes this matter will be resolved gradually step by step. Investors may regain confidence in the Japanese market with the new package being implemented steadily. The Team expect that 2020 should be a remarkable year for the Japanese market with the Nikkei 225 targeting 28,000.

PORTFOLIO STRATEGY

The net asset value per unit for the Nippon Growth (UCITS) Fund on a Japanese yen basis as of 29 November 2019 went up 2.3% compared with that of 31 October while the TOPIX rose 1.9% during the same period. The Fund put one new name (Orix Corp) 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 November 2019

CUMULATIVE PERFORMANCE %

	1M	1Y	3Y	5Y	10Y	15Y	Fund Inception	Strategy Inception
JPY A	2.29	3.81	15.35	11.89	101.83	72.44	81.76	120.80
TOPIX PR JPY	1.94	1.91	15.65	20.49	102.32	54.66	87.03	47.11
Nikkei 225 Average PR JPY	1.60	4.22	27.23	33.41	149.25	113.72	126.88	106.60

CALENDAR YEAR PERFORMANCE %

	YTD 2019	2018	2017	2016	2015	2014	Annualised Inception
JPY A	16.71	-20.67	20.85	-2.23	3.19	2.19	4.43
TOPIX PR JPY	13.74	-17.80	19.69	-1.85	9.93	8.08	2.14
Nikkei 225 Average PR JPY	16.38	-12.08	19.10	0.42	9.07	7.12	4.05

* 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

The views and statements contained herein are those of Evarich Asset Management in their capacity as Investment Advisers to the Funds as of 11/12/2019 and are based on internal research and modelling.

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