



Nippon Growth (UCITS) Fund

January 2020 Fund Commentary

MARKET DEVELOPMENT

On the first trading day of the Japanese market in 2020, the market declined on the back of heightened tensions between the US and Iran. However, when tensions dissipated and the US market gained, the Japanese market showed confidence and also increased.

In mid-January, the Japanese market moved positively as the US and China signed a trade agreement and the Yen depreciated against the US dollar. On the 16th January it was announced that machinery orders in the private sector were up +18% MoM for November, which was much higher than the market forecast. On the 17th January the market gained on the back of reassuring Chinese Q4 GDP data. The US Dow marked its record high, and the Nikkei 225 also reached over 24,100, the highest since Oct 2018.

In late January the market declined substantially as concerns heightened over the spread of coronavirus. Markets in Shanghai and Hong Kong declined on the 21st January, followed by global markets. However, some sectors such as defensives, semi-conductor related areas and real estate outperformed within the Japanese market. A decline in tourist numbers and spending from China were anticipated and stocks relating to inbound tourism were sold off. On the last day of the month, markets rebounded from reassurance when the WHO did not restrict trade or travel over the coronavirus outbreak.

In January, economic sensitive stocks and inbound tourism related names were sold off. The TOPIX closed the month at 1,684.4 (down 2.1% MoM) and the Nikkei 225 at 23,205.2 (down 1.9% MoM). In terms of sector performance, 28 of 33 sectors declined. The top five performers were real estate, securities, miscellaneous finance, pharmaceuticals and precision instruments. The bottom five performers were marine transportation, mining, non-ferrous-metals, air transportation and oil.

The 10-year JGB yield declined in late January as the market became cautious towards the risk, it started at minus 0.011 and ended at minus 0.066. The Yen against the US dollar, which started at 108.61 depreciated to 110.29 at one point but climbed back to finish the month at 108.35. The crude oil price started at 61.06 and rose to 65.65 on the 8th January, but ended at 51.56 due to a negative outlook in the global economy.

MARKET OUTLOOK

Industrial production rose 1.3% MoM in December, surpassing the market forecast of +0.7% MoM. Additionally, the government estimated that industrial production in January would rise 3.5% MoM, and a further 4.1% MoM in February, but the Investment Adviser assumes that these estimates were made mid month, before coronavirus spread through the world so rapidly. In the Economy Watchers Survey of Business announced on 10th February, the overall current conditions DI (diffusion index) for January 2020 improved by 2.2 points to 41.9 from December, but the outlook DI calls for significant deterioration from 45.5 to 41.8. It suggests industrial production in both January and February would be revised down significantly from the current estimates.

The number of people infected with coronavirus, which originated in Wuhan, continues to rise in mainland China at a faster pace than the SARS outbreak in 2003. However, the Chinese government has moved quickly to implement containment measures, and many other countries such the US, Europe and Japan have also taken measures to restrict travellers movement to and from their own countries. In the case of the SARS virus, it took almost six



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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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months for the number of people infected to peak from the first discovery. Goldman Sachs argues that even if the outbreak peak is delayed into Q2, the direct and indirect impact to global GDP would be limited to around 0.3%.

The Japanese economy is also likely to be damaged by reduced inbound tourism and disrupted supply chains, although the government did decide to implement an economic stimulus package totalling JPY26 trillion in December 2019. Within that framework, the supplementary budget of JPY4.5 trillion for FY2019 was approved on 30th January 2020. The Investment Adviser is of the opinion that the government will try to frontload the FY2020 budget which is likely to pass in the Diet by the end of March 2020. The Investment Adviser believes that an increased estimate of the Q1 decline in economic growth and corporate profits, would result in a quicker recovery than anticipated from Q2. The Investment Adviser estimates that corporate profits for FY2020 can achieve double digit YoY growth. Corporations are continuously increasing shareholder returns (dividends & share buybacks). In light of this, the year 2020 could be a remarkable one for the Japanese market, with the Nikkei 225 targeting 28,000 by the year end. The Team believes that domestic demand related sectors with cheap valuations should lead the rally.

PORTFOLIO STRATEGY

The net asset value per unit for the Nippon Growth (UCITS) Fund on a Japanese yen basis declined 2.2% as of 31st January 2020 compared with that of 31st December 2019 while the TOPIX declined 2.1% during the same period. The Fund added no new names into the portfolio and sold no stock out.

The Fund continues to be overweight with regards to economic sensitive sectors with cheap valuations such as trading companies, construction, real estate and banking. At the same time defensive sectors such as foods, pharmaceuticals and utilities continue to be avoided.

PERFORMANCE DATA* As at end of January 2020

CUMULATIVE PERFORMANCE %

	1M	1Y	3Y	5Y	10Y	15Y	Fund Inception	Strategy Inception
JPY A	-2.24	8.11	11.74	16.50	81.54	61.61	81.34	120.28
TOPIX PR JPY	-2.14	7.46	10.70	19.04	86.93	46.97	85.39	45.82
Nikkei 225 Average PR JPY	-1.91	11.71	21.87	31.29	127.55	103.78	126.01	105.81

CALENDAR YEAR PERFORMANCE %

	YTD 2020	2019	2018	2017	2016	2015	Annualised Inception
JPY A	-2.24	19.11	-20.67	20.85	-2.23	3.19	4.38
TOPIX PR JPY	-2.14	15.21	-17.80	19.69	-1.85	9.93	2.07
Nikkei 225 Average PR JPY	-1.91	18.20	-12.08	19.10	0.42	9.07	3.99

* 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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