



Nippon Growth (UCITS) Fund

February 2020 Fund Commentary

MARKET DEVELOPMENT

In February, the Japanese market declined more than other major markets as concerns over the spread of COVID-19 within Japan escalated and several countries implemented travel restrictions from Japan.

On the first trading day of February, the Japanese market declined as the US market fell sharply on the back of similar concerns regarding the spread of COVID-19. However, the People's Bank of China announced an injection of 1.2 tn Yuan to the financial market which brought reassurance, and the Japanese market rallied for the next few days, supported by the Yen depreciating against the US dollar.

In mid-February, the Japanese market fell due to: 1) Weak earnings results for Q3 of FY March 2020 in domestic companies. 2) JMTBA reporting a 35.6% YoY decline for machine tool orders in January, the lowest level in 7 years. 3) Minus 6.3% decline in annualised GDP for Oct-Dec vs the consensus estimate of minus 3.8%.

In late February, as the worldwide spread of COVID-19 was confirmed, a slowdown was anticipated for the global economy, and the Japanese market declined sharply, as did other major markets.

In February, the TOPIX closed the month at 1,510.9 (down 10.3% MoM) and the Nikkei 225 at 21,143.0 (down 8.9% MoM). All 33 sectors declined, particularly economic sensitive and domestic sectors. The top five performers were information & communication, insurance, oil, utilities and transportation equipment. The bottom five performers were steel, securities, land transportation, marine transportation, and real estate.

The 10-year JGB yield started at minus 0.066 and rose towards minus 0.005, but risk-off mood returned as the fear of a global economic slowdown increased due to the spread of COVID-19 and ended the month at minus 0.153, while the US 10-year treasury yield dropped to an all-time low of 1.114. The Yen against the US dollar which started at 108.35, depreciated to 112.23 at one point but rebounded sharply on the last day to end the month at 107.89. The Crude oil price started at 51.56, but declined sharply as the NY Dow experienced a record drop of 1190 on the 27th, finishing the month at 44.76.

MARKET OUTLOOK

At present, there is an extreme amount of uncertainty surrounding the world economy and the global financial markets. It is very difficult to judge how far and for how long COVID-19 will spread throughout the world. COVID-19 was discovered for the first time in Wuhan, China in December 2019. Since then it has been spreading rapidly throughout the world. According to Bloomberg, at the end of January 2020, the total number of infections globally was 11,374. Out of those China had 9,692 cases, followed by Japan with 17, South Korea with 11, the US with 7 and Italy had 2. As of 11 March, total infections worldwide stood at 118,226, out of which China had 80,778, Japan had 568, South Korea had 7,755, the US had 961, Italy had 10,149 and Iran had 8,042. Interestingly, infections in China on a net basis (total infections – patients discharged from hospitals) had already peaked out at 59,884 on 18 February, and declined sharply to 19,303 on 11 March. The total death toll as of 11 March was 4,238 globally, out of which China lost 3,158, Japan lost 12, South Korea lost 60, US lost 29, Italy lost 631 and Iran lost 237. There were serious fears that Japan would suffer from COVID-19 as much as China. However, as shown above there are only 568 infections (excluding people infected in the cruise ship), and a death toll of only 12,



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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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much less than other countries.

In late February, the Japanese government requested corporations, schools and individuals to avoid unnecessary events, and a few days later Prime Minister Abe called on every elementary school, middle school and high school across the country to close from 2 March to the end of March to reduce social contact and the spread of COVID-19. Many large events have been cancelled or postponed. The Investment Adviser believes Japan could avoid serious damage from COVID-19 in terms of infections spreading, but economic activities are likely to be disrupted significantly due to over-reactions of the Japanese society to this problem, in particular for Q1 2020 (Jan-Mar). However, the Team believe that the greater downward revision in Q1 economic growth and corporate profits, the quicker the anticipated recovery from mid Q2. In the case of the SARS virus outbreak of 2003 in China, it took almost six months for the number of people infected to peak following the first discovery (November 2002).

By nature, this type of virus does not cope well in higher temperatures. The Team hope that the spreading of infections will fade away by mid 2020. Another uncertain factor is the oil market. The WTI crude oil price plunged 32.2% from 45.9 \$/bl on 5 March to 31.13 \$/bl on 9 March, when Saudi Arabia declared that they would increase oil production by almost 20% to 12mbl/d. Saudi's proposal of further cutting the total production of oil for OPEC and allies was rejected by Russia which put pressure on the US shale oil producers. The production cost of the US shale industry would be 30-50 \$/bl. The Investment Adviser doesn't believe anyone will be happy with an oil price level of 30 \$/bl and is of the opinion that that the price of oil will return to 40-50 \$/bl within a year. Based on history during the SARS outbreak, the TOPIX hit bottom at 770 in March 2003, a 32% decline from the previous peak of 1,139 in May 2002. Then the TOPIX recovered to 1,217 in April 2004, higher than the previous peak of 1,139. The Team believe the Japanese market should follow a similar pattern to that in 2003 going forward.

PORTFOLIO STRATEGY

The net asset value per unit for the Nippon Growth (UCITS) Fund on a Japanese Yen basis as of 28 February 2020 declined 10.6% compared with that of 31 January while the TOPIX declined 10.3% during the same period. The Fund added no 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 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 February 2020

CUMULATIVE PERFORMANCE %

	1M	1Y	3Y	5Y	10Y	15Y	Fund Inception	Strategy Inception
JPY A	-10.62	-3.54	-1.51	-4.97	60.75	40.41	62.08	96.88
TOPIX PR JPY	-10.30	-6.02	-1.59	-0.85	68.98	28.32	66.29	30.79
Nikkei 225 Average PR JPY	-8.89	-1.13	10.59	12.47	108.80	80.08	105.93	87.52

CALENDAR YEAR PERFORMANCE %

	YTD 2020	2019	2018	2017	2016	2015	Annualised Inception
JPY A	-12.63	19.11	-20.67	20.85	-2.23	3.19	3.73
TOPIX PR JPY	-12.23	15.21	-17.80	19.69	-1.85	9.93	1.46
Nikkei 225 Average PR JPY	-10.63	18.20	-12.08	19.10	0.42	9.07	3.46

* 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 12/03/2020 and are based on internal research and modelling.

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