



Nippon Growth (UCITS) Fund

March 2020 Fund Commentary

MARKET DEVELOPMENT

In March, the Japanese market declined, as did other global markets, but outperformed the US and European markets as the number of COVID-19 cases in Japan did not increase as rapidly as they did in other major countries.

At the beginning of March, all markets continued to decline as the worldwide spread of COVID-19 worsened. In addition, on 6 March the crude oil price fell sharply as OPEC Plus failed to negotiate a cap on the output of oil, causing heightened concerns for oil-related companies in the US. As a result, the risk-off mood prevailed further and US bond yields declined sharply, as did equities. On 9 March, the next trading day, the Nikkei 225 fell below 20,000 for the first time in 14 months, as the 10-year JGB yield dropped and the Yen appreciated sharply against the US dollar.

In mid-March, markets fell further as the number of COVID-19 cases in the US shot up and the WHO declared the outbreak a pandemic. The Fed cut its key rate by 100bp on 15 March, but this did not allay fears in the market and on 16 March, the VIX index climbed to 85.47, surpassing its record following the Lehman Shock. On the same day, the Dow declined 2,997 points, recording its largest one-day fall, but the Japanese market rebounded on the back of the announcement that the BOJ would double its ETF purchases.

In late March, the Japanese market gained significantly more than other markets as the BOJ purchased the ETFs with public pension funds following suit. On 24 March it was decided that the Tokyo Olympics would be postponed, but this was better than cancellation and the market gained further. The US market also rebounded on the back of reports of an economic stimulus package. However, the Japanese market eventually pulled back as concerns grew over rapidly increasing COVID-19 infections, as experienced by other major countries.

In March, the TOPIX closed the month at 1,403.0 (down 7.1% MoM) and the Nikkei 225 at 18,917.0 (down 10.5% MoM). 27 sectors out of 33 declined, particularly economic sensitive and inbound related sectors. The five best performers were defensive sectors, such as pulp & paper, utilities, miscellaneous products, land transportation and foods. The five worst performers were mining, steel, marine transportation, banks and real estate.

The Yen against the US dollar began the month at 107.89, but quickly appreciated to 102.4 during the turmoil of 9 March. However, as the COVID-19 crisis grew more severe, dollar demand surged and as a result the Yen depreciated to 111.2 for a few days before risk-off yen-buying restarted, ending the month at 107.54. The Crude oil price started at 44.74 but dropped sharply on 9 March, declining further to end the month at 20.48.

MARKET OUTLOOK

Japanese economic activity has been experiencing an extreme pace of decline during March and continuing into early April 2020. According to the BOJ's quarterly economic survey "Tankan" announced on 1 April, the business conditions DI for large manufacturers in March declined from 0 in December 2019 to -8, decreasing for five straight quarters and the DI for large non-manufacturers declined from 20 in December 2019 to 8. In the Economy Watchers Survey of Business announced on 8 April, the overall current conditions DI for March fell by 13.2 points MoM to 14.2, lower than the level of 19 reached during the global financial crisis (Lehman Shock) in December 2008. Against this background, unprecedented supporting measures were taken to tackle the huge negative impacts on the economy by the spread of COVID-19.



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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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On the financial side, with its policy meeting on 14 March, the BOJ made the following decisions to stabilise financial markets:

- (a) Setting an upper limit for the annual purchase pace of ETFs at JPY12 trillion for the time being (previously JPY6 trillion)
- (b) Increasing the upper limit on annual purchases of commercial paper and corporate bonds by JPY2 trillion in total
- (c) The introduction of special funds – supplying operations to facilitate corporate financing at zero interest rate

On the fiscal side, the Japanese government approved its largest ever economic relief package on 7 April, totalling JPY108 trillion, out of which JPY39 trillion, equivalent to 7% of annual GDP, comes from fiscal spending. At the same time, Prime Minister Abe declared a “state of emergency”, with effect from 8 April until 6 May at the earliest. Noting that the country’s health care system is becoming increasingly strained, Abe requested that people change their behaviour by reducing their interaction with others by 70-80% for a month. The declaration authorises the governors in the seven prefectures to request that residents stay home with the exception of essential tasks, such as grocery shopping and seeking medical care.

World political leaders, including Germany, have started to take decisive action with both financial and fiscal measures. The Investment Adviser hopes and believes that the global and Japanese economy will begin to recover from 2H of 2020. The Team are of the opinion that the Japanese stock market already hit bottom mid March, discounting most of the negative factors. As COVID-19 may fade away gradually towards summer, the Japanese market should show a significant recovery from then through to mid 2021. Economic sensitive stocks with cheap valuations, which declined the most in the recent downturn, should record a remarkable rally.

PORTFOLIO STRATEGY

The net asset value per unit for the Nippon Growth (UCITS) Fund on a Japanese Yen basis as of 31 March 2020 declined 13.5% compared with that of 28 February whilst the TOPIX declined 7.1% during the same period. Overweighting in energy related, economic sensitive sectors was the main reason for weak performance. The Fund added no new names to 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, while defensive sectors such as foods, pharmaceuticals and utilities continue to be avoided.

PERFORMANCE DATA* As at end of March 2020

CUMULATIVE PERFORMANCE %

	1M	1Y	3Y	5Y	10Y	15Y	Fund Inception	Strategy Inception
JPY A	-13.49	-16.72	-12.07	-17.14	27.60	17.16	40.22	70.33
TOPIX PR JPY	-7.14	-11.85	-7.24	-9.08	43.34	18.68	54.42	21.46
Nikkei 225 Average PR JPY	-10.53	-10.79	0.04	-1.51	70.58	62.11	84.25	67.78

CALENDAR YEAR PERFORMANCE %

	YTD 2020	2019	2018	2017	2016	2015	Annualized Inception
JPY A	-24.41	19.11	-20.67	20.85	-2.23	3.19	2.91
TOPIX PR JPY	-18.49	15.21	-17.80	19.69	-1.85	9.93	1.05
Nikkei 225 Average PR JPY	-20.04	18.20	-12.08	19.10	0.42	9.07	2.82

* 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 13/04/2020 and are based on internal research and modelling.

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