



# Nippon Growth (UCITS) Fund

April 2020 Fund Commentary

## MARKET DEVELOPMENT

In April, global markets gained on expectations that the COVID-19 outbreak would reach its peak. The Japanese market also gained, although it underperformed other markets due to a further peak of the virus and Prime Minister Abe's declaration of a state of emergency on 07 April which would continue until 14 May.

At the beginning of April, markets declined given concerns regarding the negative impact COVID-19 has had on the global economy and fear of lockdowns in Japan. The BOJ Tankan survey of corporate sentiment stood at minus 8 for large manufacturers, the first minus figure in seven years. The market began to recover following reports that Russia and Saudi Arabia were close to reaching an agreement to cut the supply of crude oil. Whilst the expansion of the Fed's stimulus package also supported the market.

Mid month, the market swayed between negative economic numbers and a rebound following the BOJ's purchases of ETFs. Foreign related names were bought and domestic names were sold off as the Japanese government decided to extend the state of emergency from 7 prefectures to the whole of Japan on 16 April.

In late April, the price of crude oil futures fell into negative territory for the first time and equities were sold off due to fears of an economic recession. Markets started to recover as the peak of new COVID-19 cases in Europe and the US brought expectations that economic activity would restart. Concerns regarding a further extension of the state of emergency continued across Japan however. In April, the TOPIX closed the month at 1,464.0 (up 4.3% MoM) and the Nikkei 225 at 20,193.7 (up 6.7% MoM). A return reversal occurred, and 27 out of 33 sectors gained. The best five performers were economic sensitive sectors, such as mining, marine transportation, services, electricals and machinery which sold off in March. The bottom five performers were air transportation, utilities, pulp & paper, foods and land transportation.

Key indicators:

- 10-year JGB yield started the month at + 0.022 and ended at - 0.03.
- The Yen / US dollar rate entered the month at 107.54, ending at 107.18.
- Whilst crude oil futures started at 20.48 and rose to close to 30 at one point, before dropping sharply on the 20 April to below - 37 before recovering to 18.84 by month end.

## MARKET OUTLOOK

The Investment Adviser believes that the worst is now over regarding the spread of COVID-19 in Japan. According to the WHO, as of 11 May, the total global death toll stood at 287,534, out of which only 633 were in Japan, much lower than the US at 80,397, Italy at 30,739 and many other European countries. In terms of new infections, Japan peaked at 743 daily cases on 12 April, this number reduced significantly to 51 by 11 May, while new infections globally remained at very high levels during the same period. As a result, the Japanese government announced that the "state of emergency" would be lifted immediately across most of the country on 14 May. The remaining eight prefectures such as Tokyo and Osaka are expected to follow within a couple of weeks. It is now the reporting season for corporate results as at FY March 2020, but many companies have delayed their announcements and 60% of companies have not disclosed forecasts for FY March 2021 according to SMBC Nikko. As of 14 May, 64% of listed stocks announced business results with net profits declining 15.6% YoY for FY March 2020 and a further decline of 14.9% YoY for FY March 2021.



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PORTFOLIO MANAGER



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ASSISTANT PORTFOLIO  
MANAGER

## 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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In the Economy Watcher's Survey of Businesses announced on 13 May, the overall current conditions DI for April 2020 came in at 7.9, a new record low (the March 2020 figure of 14.2 had been the lowest reading since records began in 2000). The Investment Adviser believes that the darkest times for economic activity will pass in April and May. The Investment Team believes the Japanese stock market already bottomed out mid-March with a 30% decline from the previous peak, discounting most of the negative events which have occurred.

In addition to the exceptional relief measures currently in place, political leaders around the world will be implementing further real economic stimulus to help increase growth, such as infrastructure spending. The Team is of the opinion that COVID-19 may fade away gradually worldwide towards the summer.

The oil market is expected to stabilise alongside the global economy, recovering from 3Q of 2020. The Investment Adviser therefore believes that the market has the potential for a significant rally from here towards mid-2021.

## PORTFOLIO STRATEGY

The net asset value per unit for the Nippon Growth (UCITS) Fund on a Japanese Yen basis as of 30 April 2020 gained 2.7% compared with that of 31 March whilst the TOPIX increased 4.3% during the same period. The overweight in commerce and construction sectors was the main reason for the underperformance. 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 April 2020

### CUMULATIVE PERFORMANCE %

	1M	1Y	3Y	5Y	10Y	15Y	Fund Inception	Strategy Inception
JPY A	2.68	-15.74	-10.49	-19.54	27.85	24.12	43.97	74.89
TOPIX PR JPY	4.35	-9.51	-4.42	-8.08	48.33	29.57	61.13	26.74
Nikkei 225 Average PR JPY	6.75	-9.28	5.19	3.45	82.63	83.43	96.68	79.10

### CALENDAR YEAR PERFORMANCE %

	YTD 2020	2019	2018	2017	2016	2015	Annualised Inception
JPY A	-22.39	19.11	-20.67	20.85	-2.23	3.19	3.04
TOPIX PR JPY	-14.95	15.21	-17.80	19.69	-1.85	9.93	1.28
Nikkei 225 Average PR JPY	-14.64	18.20	-12.08	19.10	0.42	9.07	3.17

\* 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 18/05/2020 and are based on internal research and modelling.

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