Nippon Growth (UCITS) Fund

May 2020 Fund Commentary

MARKET DEVELOPMENT

Global markets rose sharply in May, as economies began to reopen. Both the TOPIX and Nikkei 225 made substantial gains, outperforming other major markets. The Japanese market was a little stagnant during the first half of the month, reflecting weak corporate profits results for FY2019 and concerns surrounding a resurgence of friction between the US and China. But on 14 May, the government made the decision to lift the state of emergency in 39 of the 47 prefectures, extending this to the whole of Japan on 25 May resulting in crowds of people happily returning to the streets. On 27 May, the Abe administration approved a second supplementary budget worth JPY117 trillion, the largest in Japan's history, including JPY33 trillion in new direct spending.

During the second half of May, the stock market regained strong momentum. Efforts to restart economic activities overseas continued, US equities rose sharply on the back of optimism surrounding the progress made towards the development of a COVID-19 vaccine. There was also some negative news in the market, such as the US government's tightening of restrictions on Huawei and the enactment of a Hong Kong national security law by China's National People's Congress, but on the whole this had little impact on global stock markets. The TOPIX ended the month at 1,563.7 (up 6.8% MoM) and the Nikkei 225 at 21,877.9 (up 8.3% MoM).

In the TOPIX, 32 out of 33 sectors gained. The five best performers were pharmaceuticals, miscellaneous financials, non-ferrous metals, services and glass & ceramics, while the five worst performers were pulp & paper, insurance, utilities, miscellaneous manufacturing and real estate. The oil market recovered sharply during the month, with WTI starting the month at 18.84 USD/bbl and closing at 35.49 USD/bbl. The 10-year JGB yield also recovered, returning to positive territory, closing at 0.005 after starting the month at -0.030.

MARKET OUTLOOK

It looks like the Japanese economy is through the darkest times following the outbreak of COVID-19. Retail sales declined sharply in April 2020 by -13.7% YoY due to the pandemic and the impact of the resulting declaration of a state of emergency. On a seasonally adjusted basis, the decline in retail sales widened by -9.6% MoM. Whilst most goods dropped significantly, retail sales of food and beverages increased 1.3% MoM as "stay-at-home" consumption remained strong. Industrial production in April declined 9.1% MoM, much worse than the market consensus of -5.1% MoM. The data reflected a notable slump in both domestic and external demand. The government estimated that industrial production would continue to decline in May by 4.1% MoM, but would then increase 3.9% MoM in June. In May the state of emergency in Japan was lifted, the Chinese economy has started to recover, boosted by the substantial economic stimulus and lockdowns are gradually easing throughout Europe and the US. The Team predicted that economic activity would bottom out in May, and recover steadily and soundly from June towards the end of 2021.

Medicines to treat COVID-19, as well as vaccines are being developed world wide, which will hopefully reduce the impact of any second wave of COVID-19. Global stock markets have already started to discount the potentially positive outlook beyond the deep and shallow valley.

The Investment Adviser believes that additional fiscal stimulus which is expected to be introduced around the world and prolonged monetary easing should continue to have a positive impact on the global equity markets.

Yutaka Uda
PORTFOLIO MANAGER

Maiko Uda
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.

CONTACT

E.I. Sturdza Strategic Management Limited
+44 1481 722 322
info@ericsturdza.com
ericsturdza.com

The Team expect the Japanese market to show a remarkable rally towards mid-2021, with the TOPIX approaching the 2,000 level (1,563, the end of May 2020) on the back of its cheap valuation, being less impacted by COVID-19 and the anticipated shifts of production facilities to Japan from China. The Team still believe that economic sensitive stocks with cheap valuations will lead the rally.

PORTFOLIO STRATEGY

The net asset value per unit for the Nippon Growth (UCITS) Fund on a Japanese Yen basis as of 29 May 2020 climbed 6.7% compared to the previous month whilst the TOPIX returned 6.8% during the same period. The Fund added no new names to the portfolio and no stocks were sold out.

The Fund continues to be overweight in 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 May 2020

CUMULATIVE PERFORMANCE %

	1M	1Y	3Y	5Y	10Y	15Y	Fund Inception	Strategy Inception
JPY A	6.67	-1.97	-5.65	-18.72	59.56	39.26	53.58	86.56
TOPIX PR JPY	6.81	3.40	-0.30	-6.57	77.60	36.64	72.10	35.36
Nikkei 225 Average PR JPY	8.34	6.20	11.33	6.39	123.96	94.01	113.09	94.04

CALENDAR YEAR PERFORMANCE %

	YTD 2020	2019	2018	2017	2016	2015	Annualised Inception
JPY A	-17.21	19.11	-20.67	20.85	-2.23	3.19	3.38
TOPIX PR JPY	-9.16	15.21	-17.80	19.69	-1.85	9.93	1.63
Nikkei 225 Average PR JPY	-7.52	18.20	-12.08	19.10	0.42	9.07	3.60

*** 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 11/06/2020 and are based on internal research and modelling.

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