



Nippon Growth (UCITS) Fund

June 2020 Fund Commentary

MARKET DEVELOPMENT

At the beginning of June, both the TOPIX and Nikkei 225 rose for six consecutive business days, continuing May's rally. The TOPIX closed the month down 0.3% MoM however, at 1,558.8, whilst the Nikkei 225 rose 1.9% MoM to 22,288.1 as stock prices for high-priced blue chips continued to climb. This gave an NT ratio (Nikkei 225/TOPIX) of 14.3 for June 2020, marking roughly a 39-year high.

The Japanese market rallied off the back of a resumption of global economic activity and improved economic indicators in the US, where stocks performed well. An unexpected, but meaningful improvement in US jobs data provided a further boost, until the Dow Jones tumbled 1,862 points on 11 June, its fourth largest decline ever, following the news on 10 June that the number of COVID-19 infections in the US exceeded 2 million. Japanese stocks also fell through mid-June over similar concerns.

The Japanese market recovered during the second half of the month, but the upside remained limited as the Investment Adviser believes investors were concerned over: (1) the speed of the rally since April; (2) high valuations. The NASDAQ exceeded 10,000 for the first time on 10 June and has remained high since. Emerging markets in Japan were also encouraging with the TSE-2 increasing by 7.2% MoM, the JASDAQ index climbing 1.3% MoM, and the TSE Mothers index gaining 3.0% MoM, all outperforming the TOPIX.

In the TOPIX, 9 out of 33 sectors gained. The top five performing sectors were communication, miscellaneous manufacturing, electricals, machinery and securities, while the bottom five sectors were mining, land transportation, air transportation, oil and fishery & agriculture.

Commodity prices were fairly strong this month. WTI crude oil began the month at 35.49 USD/bbl and closed at 39.27 USD/bbl. The price of copper rose 11.9% during the month. The currency market was fairly stable with USD/JPY opening at 107.83 and closing at 107.93 USD/JPY.

MARKET OUTLOOK

The global economy is clearly recovering after bottoming out in April 2020. According to an announcement by IHS Markit on 6 July, the global composite PMI increased sharply to 47.7 in June from 36.3 in May after recording a historical low of 26.2 in April. The Investment Adviser believes the Japanese economy bottomed out in May 2020.

Industrial production declined 8.4% MoM in May, declining sharply for the second consecutive month following a drop of 9.8% MoM in April. The data reflected a notable slump in both domestic and external demand, with domestic demand contracting due to the state of emergency declaration and exports also falling sharply, particularly to the US.

The Government estimated that industrial production in June would rise 5.7% MoM and increase a further 9.2% MoM in July. The jobless ratio increased by 0.3 points to 2.9% in May from 2.6% in April with the job-offers-to-applicants ratio falling to 1.20x in May compared to 1.32x in April. In the Economy Watchers Survey of Business announced on 8 July, the overall current conditions DI for June increased by 23 MoM to 38.8. June has seen rapid improvement, mainly due to the lifting of travel restrictions and stay-at-home requests nationwide.



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



In June, the Government revised its assessment of the economy to “expectations for improvement” from May’s “deterioration is coming to a halt”. Corporate profits for 2Q FY2020 (Apr-Jun) will be announced from late July to mid-August. These could confirm that 1Q had the lowest level of profits and the speed of recovery from 2Q. The Team believe, in general, the announcement should be interpreted positively.

Financial stimulus and the sizeable economic relief packages around the world have had a significantly positive impact on the global economy so far, but there are still vast amounts of unemployment worldwide. The Investment Adviser is of the opinion that these measures will not be sufficient to ensure sustainable growth.

In order to achieve a sustainable global recovery, new jobs need to be created. It could be argued that infrastructure investment is essential in this regard. China has started investing in infrastructure and it is on Japan’s agenda. The most important point is when, whether or how Europe and the US will start to implement such plans. The Team believes infrastructure investment has the potential to determine the direction of the market.

PORTFOLIO STRATEGY

The net asset value per unit for the Nippon Growth (UCITS) Fund on a Japanese Yen basis as of 30 June 2020 declined 1.7% compared to the previous month whilst the TOPIX declined 0.3% 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 June 2020

CUMULATIVE PERFORMANCE %

	1M	1Y	3Y	5Y	10Y	15Y	Fund Inception	Strategy Inception
JPY A Class	-1.72	-7.50	-11.32	-16.95	60.54	28.92	50.94	83.36
TOPIX PR JPY	-0.31	0.49	-3.30	-4.39	85.25	32.41	71.56	34.94
Nikkei 225 Average PR JPY	1.88	4.76	11.25	10.14	137.55	92.40	117.08	97.68

CALENDAR YEAR PERFORMANCE %

	YTD 2020	2019	2018	2017	2016	2015	Annualised Inception
JPY A Class	-18.63	19.11	-20.67	20.85	-2.23	3.19	3.27
TOPIX PR JPY	-9.45	15.21	-17.80	19.69	-1.85	9.93	1.60
Nikkei 225 Average PR JPY	-5.78	18.20	-12.08	19.10	0.42	9.07	3.68

* 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 09/07/2020 and are based on internal research and modelling.

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