



Nippon Growth (UCITS) Fund

July 2020 Fund Commentary

MARKET DEVELOPMENT

In July, the TOPIX closed down 4.0% MoM at 1,496.1 with the Nikkei 225 down 2.6% MoM at 21,710.0. While there were some positive developments such as improvements in economic indicators in both the US and China, and news regarding the development of a COVID-19 vaccine, the market still declined overall as a result of increased friction between the US and China and the sharp rise in the number of new COVID-19 cases in Tokyo.

During the first half of July, the Japanese stock markets traded within a narrow range either side of their closing levels. The Nikkei 225 reached 22,946 at one point on 15 July, but failed to surpass 23,000, staying within the 22,000-23,000 range. From mid-July to the end of the month, markets fell sharply due to concerns around containing the number of new COVID-19 cases in Japan.

Tensions between the US and China escalated on the back of the news that both countries announced plans to close the others consulate. In the FOREX markets, the Yen has been consistently strengthening against the US Dollar, and at one point reached its highest level since 13 March, hitting just below 105. This said, concerns that this would have a negative impact on Japanese companies' profits weighed on the stock markets. On 31 July, the Nikkei 225 recorded its sixth consecutive trading day decline, reaching a low of 21,710, the lowest since 15 June.

Out of 33 sectors in the TOPIX, only three made gains. The top five performers were communications, electricals, securities, non-ferrous metals and retail, while the bottom five performers were land transportation, air transportation, real estate, rubber and utilities.

On 27 July, the US Republican Party announced additional economic stimulus measures as part of the new coronavirus relief package, worth USD 1 trillion, but negotiations with the Democratic Party hit an impasse and the package was not approved by the end of the month. The US 10-year Treasury bond yield slipped to 0.53% at the end of July, from 0.66% at the beginning of the month, while the price of gold rose to its highest level in nine years at 1,975.9 USD/oz on 31 July. Commodity markets continued to perform strongly with WTI crude oil up 2.5% MoM and copper up 6.6% MoM.

On 21 July, EU leaders agreed upon a USD 2 trillion fiscal recovery plan, sparking expectations for EU fiscal unification and causing the EUR/USD to rise from 1.12 to 1.18, its highest level in two years.

MARKET OUTLOOK

The Japanese economy is clearly on the road to recovery after bottoming out in May 2020. Industrial production rose 2.7% MoM in June, marking the first rise since January 2020, with shipments increasing 5.2% MoM and inventories declining 2.4% MoM.

The Government estimates that industrial production will increase 11.3% MoM in July and a further 3.4% MoM in August. Retail sales in June declined 1.2% YoY, a sharp recovery from declining 12.5% YoY in May. Retail sales in June on a seasonally adjusted basis rose sharply by 13.1% MoM - the lifting of the state of emergency nationwide by the end of May played a large role in this.



Yutaka Uda

PORTFOLIO MANAGER



Maiko Uda

ASSISTANT PORTFOLIO
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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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Despite these positive indicators, warning signs remain: in the Economy Watchers Survey of Business released on 11 August, the overall current conditions DI for July increased 2.3 points MoM to 41.1. This said, the pace of improvement slowed from +23 points MoM in June and the outlook DI for the overall DI in the economy over the coming two to three months declined by 8.0 points from July. We believe the outlook likely reflects concerns regarding the resurgence of COVID-19 and the impact of the Government's diminishing cash stimulus.

According to the WHO, new COVID-19 infections have surged again in Japan, from 14 on 24 May to 1,998 on 3 August. Looking at data for the most recent 10 days, new infections are approaching their peak now the rainy season is over and hot summer weather begins. In this environment, the Government allocated an additional JPY 1.1 trillion to alleviate the impact of COVID-19 out of the JPY 11 trillion in reserves in the second supplementary budget for FY2020. The Government may utilise the remaining JPY 10 trillion when it becomes necessary to maintain the economy's upward trajectory. According to SMBC Nikko, public works contracts have been rising - they increased 9.8% QoQ in Q2 (Apr-Jun) following a 2.7% QoQ rise in Q1 (Jan-Mar). The aim being to strengthen Japan against future natural disasters as it so often faces, including earthquakes, heavy rains and typhoons.

We believe that the Japanese economy should recover sharply from Q3 2020 and may continue its strong momentum towards the end of 2021. The market may reach its peak around the middle of 2021 in this cycle with the TOPIX approaching 2,000.

PORTFOLIO STRATEGY

The net asset value per unit for the Nippon Growth (UCITS) Fund on a Japanese Yen basis as of 31 July declined 3.8% compared with that of 30 June, while the TOPIX went down 4.0% 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 economically 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 July 2020

CUMULATIVE PERFORMANCE %

	1M	1Y	3Y	5Y	10Y	15Y	Fund Inception	Strategy Inception
A JPY Class	-3.82	-11.11	-15.00	-20.78	54.82	17.79	41.61	72.02
TOPIX PR JPY	-4.02	-4.41	-7.57	-9.85	76.11	24.16	64.66	29.51
Nikkei 225 Average PR JPY	-2.59	0.88	8.96	5.46	127.63	82.44	111.45	92.55

CALENDAR YEAR PERFORMANCE %

	YTD 2020	2019	2018	2017	2016	2015	Annualised Inception
A JPY Class	-21.74	19.10	-20.67	20.88	-2.21	3.16	2.91
TOPIX PR JPY	-13.09	15.21	-17.80	19.69	-1.85	9.93	1.38
Nikkei 225 Average PR JPY	-8.23	18.20	-12.08	19.10	0.42	9.07	3.52

* 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

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