



# Nippon Growth (UCITS) Fund

August 2020 Fund Commentary

## MARKET DEVELOPMENT

In August, the TOPIX closed up 8.2% MoM at 1,618.2 with the Nikkei 225 up 6.6% MoM at 23,139.8. Despite concerns surrounding the impact of US-China frictions on high-tech sectors, advances in US equities and expectations regarding the development of a COVID-19 vaccine, in addition to a return to normal economic activity, reinstated investors' positive attitude for equity investments. August is traditionally viewed as a month of poor stock performance in Japan. This year however, the NY Dow reached its highest level since February 2020 and the NASDAQ topped 11,000 for the first time in history.

In the US, Congress has entered into its summer recess without an agreement on additional economic stimulus measures, while the chances of Joe Biden from the Democratic Party winning the presidential election seem to have increased. This said, at the FOMC meeting, FRB Chairman Jerome Powell announced that the Fed would continue its monetary easing policies, even if inflation exceeded 2%, which triggered an increase in the long bond yields and a rise in value stocks.

In Japan, the GDP data for Q1 (Apr-Jun) FY2020 released on 17th August showed the largest ever post war QoQ decline. Corporate profits in Q1 FY2020 for Japanese companies declined sharply, but not as far as initial expectations, bringing buying interest into a large number of economic sensitive stocks.

On 28th August, Prime Minister Abe announced his resignation due to ill health. The Nikkei 225 decreased temporarily by 614 at one point, but regained nearly all of its decline by the end of the month on the back of expectations that Abenomics might be preserved should Chief Cabinet Secretary Yoshihide Suga be elected as the new Prime Minister.

The stock prices of five trading companies surged on 31st August following Warren Buffett's announcement that his company, Berkshire Hathaway Inc., has taken positions of over 5% in each of these leading Japanese trading companies.

All 33 sectors in the TSE-1 rose during the month. The best five performers were air transportation, steel, land transportation, marine transportation and insurance, while the bottom five performing sectors were communication, electricals, pharmaceuticals, pulp & paper and foods.

## MARKET OUTLOOK

The Japanese economy continues to recover steadily after bottoming out in May. Industrial production increased 8.0% MoM in July following a sound recovery of 1.9% MoM in June, much better than the market consensus of +5.0% MoM. Inventories decreased by 1.6% MoM, the fourth consecutive monthly decline; and shipments rose 6.0% MoM. At sector level, automobiles remarkably continued to rise 38.5% MoM in July (June: +28.6% MoM), following substantial declines in April and May. Other notable performers were seen in the material sectors, including steel, non-ferrous metals and metal products.

The government estimates that industrial production in August will increase 4.0% MoM and rise a further 1.9% MoM in September. According to the Economy Watchers Survey of Business announced on 8th September, the overall current conditions DI for August improved to 43.9, higher than the pre-COVID-19 level, to come close to the June 2019



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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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level (44.1). The outlook DI for the economy in two to three months improved sharply by 6.4 points MoM, suggesting the restrained mood was unlikely to strengthen as it did in spring as people have grown accustomed to COVID-19 conditions. This improving business sentiment should lead to a positive impact on capital expenditure going forward. Machine tool orders, a leading indicator for capex, remains stagnant at present as the orders in August, announced on 9th September declined 23.3% YoY, out of which domestic orders were particularly weak, down 38.6% YoY.

Recovering automobile production and improving business sentiment are likely to contribute to a recovery of machine tool orders, and capex as a whole within a couple of months. The economy is confirming its sharp turnaround, the market should continue to record a steep recovery.

Market leaders should be shifted significantly from growth oriented IT sectors with high valuations to economic sensitive sectors with cheap valuations. This great shift in market attention is expected to last for the long term as current market conditions are looking similar to those in 2000.

### PORTFOLIO STRATEGY

The net asset value per unit for the Nippon Growth (UCITS) Fund on a Japanese Yen basis as of 31st August 2020 went up 11.0% compared with that of 31st July whilst the TOPIX rose 8.2% during the same period. The Fund added no new names to the portfolio and sold out of one stock (Otsuka).

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 August 2020

#### CUMULATIVE PERFORMANCE %

	1M	1Y	3Y	5Y	10Y	15Y	Fund Inception	Strategy Inception
A JPY Class	11.05	2.22	-5.41	-6.31	82.45	19.95	57.26	91.03
TOPIX PR JPY	8.16	7.03	0.05	5.28	101.10	27.29	78.10	40.08
Nikkei 225 Average PR JPY	6.59	11.76	17.78	22.49	162.23	86.41	125.38	105.23

#### CALENDAR YEAR PERFORMANCE %

	YTD 2020	2019	2018	2017	2016	2015	Annualised Inception
A JPY Class	-13.10	19.10	-20.67	20.88	-2.21	3.16	3.46
TOPIX PR JPY	-5.99	15.21	-17.80	19.69	-1.85	9.93	1.79
Nikkei 225 Average PR JPY	-2.18	18.20	-12.08	19.10	0.42	9.07	3.85

\* 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 14/09/2020 and are based on internal research and modelling.

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