Nippon Growth (UCITS) Fund

October 2020 Fund Commentary

MARKET DEVELOPMENT

During October, the TOPIX closed at 1,579.3 (-2.8%) and the Nikkei 225 at 22,977.1 (-0.9%). With few significant events and little domestic news, the Japanese markets fluctuated in response to news surrounding the COVID-19 pandemic, and the potential for additional US economic stimulus measures.

During the first half of the month, the Japanese markets were solid due to expectations for additional stimulus measures to be passed quickly in the US. With Joe Biden leading the polls in the race for the Presidency, the markets gained support on the back of expectations of large-scale public spending. However, stimulus talks were hindered mid-month and concerns over the economic outlook in Europe rose following the sharp increase in the number of COVID-19 infections. Towards the end of the month, another wave of lockdowns came into effect across major European economies, US equities declined sharply in the last week of October and Japanese stock prices also fell in reaction to this decline. Trading value on the TSE-1 was very low in October, with the average daily trading value coming down to JPY1.9 trillion, below JPY2 trillion for the first time since December 2019. 10 year Treasury yields, which were 0.68% at the end of September rose to 0.87% at the end of October and 10 year JGB yields also climbed from 0.02% to 0.04% during the same period. The USD/JPY began the month at 105.48 and ended at 104.66.

Of the 33 sectors in the TOPIX, the best five performers were marine transportation, insurance, metal products, electricals and communications, while the worst five performers were pharmaceuticals, mining, land transportation, miscellaneous finance and warehousing & harbour transportation.

MARKET OUTLOOK

The Japanese economy continues to recover steadily. Industrial production rose 4.0% MoM in September, exceeding the market consensus of +3.0%, increasing for four consecutive months. When looking at production categories, durable consumer goods, including automobiles, increased significantly (12.1% MoM) and recorded a sharp rise of 52.6% QoQ for Q3 (July-September), while capital goods, excluding transport equipment, remained weak returning only +0.7% MoM with Q3 output declining 4.9% QoQ. That said, capital goods production may begin to rise at an increasing pace going forward, based on recent machine tool orders. The government forecast that industrial production would rise 4.5% MoM in October and a further 1.2% MoM in November.

Corporate profits are also improving. According to SMBC Nikko, as of 12th November, 90.5% of companies listed on the TSE-1 have announced corporate profit results for H1 of FY2020 ending in September. Recurring profits for H1 declined 37.3% YoY, but the companies forecast that recurring profits for H2 of FY2020 would improve to 0.0% YoY.

The key point for the market is what kind of economic policies will be introduced by the new administration in the US. The US Presidential election ended with a victory for Joe Biden and the Democratic Party, although Donald Trump is yet to concede. We will need to wait until January 2021 to see how easily Mr. Biden can implement his economic policies such as, infrastructure spending, healthcare, climate, tax and so on as this could largely depend on the final results in the Upper House. In that sense, the US economic outlook is likely to

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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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remain uncertain for the next few months. We believe the current markets will only focus on potentially positive factors, but we could see some negative reactions in the short term.

In the longer term, we should regard Biden's victory positively as we believe the world economy will be lifted by the anticipated increase of infrastructure spending, and global trade activities can be encouraged. This should be the trigger for the market to change its leadership from growth-oriented sectors such as IT, to economic sensitive value sectors such as financials and cyclicals. The recent headline on a COVID-19 vaccine breakthrough by Pfizer-BioNTech should enhance this change.

PORTFOLIO STRATEGY

The net asset value per unit for the Nippon Growth (UCITS) Fund on a Japanese Yen basis as of 30th October 2020 declined 4.7% compared with that of 30th September. 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 October 2020

CUMULATIVE PERFORMANCE %

	1M	1Y	3Y	5Y	10Y	15Y	Fund Inception	Strategy Inception
A JPY Class	-4.65	-13.64	-18.55	-10.07	64.39	-2.91	49.70	81.85
TOPIX PR JPY	-2.84	-5.26	-10.57	1.36	94.76	9.32	73.82	36.72
Nikkei 225 Average PR JPY	-0.90	0.22	4.39	20.41	149.68	68.87	123.79	103.79

CALENDAR YEAR PERFORMANCE %

	YTD 2020	2019	2018	2017	2016	2015	Annualised Inception
A JPY Class	-17.27	19.10	-20.67	20.88	-2.21	3.16	3.17
TOPIX PR JPY	-8.25	15.21	-17.80	19.69	-1.85	9.93	1.64
Nikkei 225 Average PR JPY	-2.87	18.20	-12.08	19.10	0.42	9.07	3.78

*** 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 16/11/2020 and are based on internal research and modelling.

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