



# Nippon Growth (UCITS) Fund

November 2020 Fund Commentary

## MARKET DEVELOPMENT

During November, the Japanese stock markets were very strong with the TOPIX closing at 1,754.9 and the Nikkei 225 at 26,433.6, up 11.1% and 15.0% MoM respectively. The Nikkei 225 recorded a 29-year high and the NT ratio (Nikkei 225/TOPIX) also hit a new all-time high on 30 November at 15.06.

US stocks were pushed up by expectations that interest rates would remain low globally, and announcements by overseas pharmaceutical companies regarding progress with COVID-19 vaccines. Stock prices also saw a positive reaction to the conclusion of the US Presidential election as uncertainty surrounding the US political outlook was largely wiped out. Japanese markets rallied in response. Hopes for upward earnings revisions also provided a boost with investors increasing activity, the daily trading value on the TSE-1 rose sharply to JPY2.9 trillion from JPY1.9 trillion in October. Smaller stocks underperformed the TOPIX considerably with the TSE-2 gaining 6.8% MoM, the JASDAQ index up 4.9% MoM and the TSE Mothers up 5.2% MoM, but one factor remains uncertain. The State of Georgia will hold a run-off election for two Senate seats in January 2021. It remains unclear at this juncture whether the Democrats will be able to pass another large economic stimulus package. The stock market corrected suddenly on the last day of November with the TOPIX down 1.8%, due to concerns over the fast pace of stock price gains since the beginning of the month, and the accelerating number of new COVID-19 cases in Japan.

Of the 33 sectors in the TOPIX, 32 sectors gained. The top five performers were Steel, Marine Transportation, Real Estate, Services and Mining, while the bottom five performers were Fishery Agriculture & Forestry, Oil, Utilities, Warehousing & Harbour Transportation and Retail. Crude oil (WTI) recovered quite sharply from USD35.8 to USD45.3 during the period. The USD/JPY continued to weaken from 104.7 to 104.3.

## MARKET OUTLOOK

The Japanese economy should continue to recover towards the end of 2020, but we could see some consolidation in Q1 2021. Industrial production in October rose 3.8% MoM, significantly higher than the market consensus of +2.1% MoM, marking the fifth consecutive monthly increase. Shipments rose sharply by 4.6% MoM with inventories down 1.6% MoM. The government estimated that industrial production in November would increase 2.7% MoM, followed by a 2.4% MoM decline in December. Machine tool orders in November increased 8.0% YoY, the first positive YoY increase in 26 months. Domestic demands remained stagnant with a 15.2% decline YoY, but overseas demand recovered significantly with a 22.5% gain YoY. The recent steady increase in industrial production could suggest that machine tool orders from domestic markets should start to show a continuous recovery for 2021.

That said, business sentiment is deteriorating, surprisingly. According to the Economy Watchers Survey of business in November, the overall current conditions DI fell by 8.9 points MoM to 45.6, the first decline in seven months. In particular, the household-related DI fell sharply by 10.7 points MoM to 44.4, underscoring the heavy impact COVID-19 has had on food & beverage related industries, with customer traffic declining amid a third wave of infections and increasing numbers of year-end gatherings being cancelled. The outlook DI for the economy in two to three months pointed to further deterioration, with the overall reading down 12.6 points MoM to 36.5.



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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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On the back of this, the Japanese government announced the third fiscal stimulus package this year on the 8th December, with the headline figure of JPY73.6 trillion, out of which JPY20.1 trillion is expected to be legalised in the third supplementary budget for FY2020 in late January 2021. This package should contribute to long-term economic expansion from FY2021 onwards as the package aims to not only fight COVID-19, but to also increase infrastructure investment focusing on resilience against natural disasters and to raise the potential of the economy by investing in new digital and green technologies.

That said, in the short term - notably in Q1 (Jan-Mar) 2021, economic activity may slow down with the US economy potentially facing political struggles. The market may experience some corrections in the coming months as the market has risen very sharply over the past several weeks with investors only focusing on potentially positive factors.

## PORTFOLIO STRATEGY

The net asset value per unit for the Nippon Growth (UCITS) Fund on a Japanese Yen basis as of 30 November 2020 rose 10.4% compared with that of 30 October. The Fund added one new name (Honda Motor) to the portfolio with one stock (Sakai Chemical) 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 November 2020

### CUMULATIVE PERFORMANCE %

	1M	1Y	3Y	5Y	10Y	15Y	Fund Inception	Strategy Inception
A JPY Class	10.44	-6.76	-10.77	-1.08	72.53	4.14	65.34	100.84
TOPIX PR JPY	11.12	3.27	-2.07	11.05	103.84	14.24	93.15	51.92
Nikkei 225 Average PR JPY	15.04	13.48	16.32	33.86	166.01	77.74	157.46	134.44

### CALENDAR YEAR PERFORMANCE %

	YTD 2020	2019	2018	2017	2016	2015	Annualised Inception
A JPY Class	-8.63	19.10	-20.67	20.88	-2.21	3.16	3.69
TOPIX PR JPY	1.95	15.21	-17.80	19.69	-1.85	9.93	2.19
Nikkei 225 Average PR JPY	11.74	18.20	-12.08	19.10	0.42	9.07	4.52

\* 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

The views and statements contained herein are those of Evarich Asset Management in their capacity as Investment Advisers to the Funds as of 11/12/2020 and are based on internal research and modelling.

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