



Nippon Growth (UCITS) Fund

December 2020 Fund Commentary

Market Development

During December, the Japanese stock market continued to show strong momentum with the TOPIX and Nikkei 225 up 2.8% and 3.8% MoM respectively. Until the later stage of the month, the Nikkei 225 hovered around the 26,500-27,000 range, before climbing in the final few days.

Positive factors for the markets were:

- (1) the distribution of COVID-19 vaccines and prolonged monetary easing in the US;
- (2) on the 8th December, the Japanese government finalised a JPY 73.6 trillion economic stimulus package, and on the 21st December the Cabinet approved a JPY 106.6 trillion budget for FY2021, the largest initial budget in Japan's history.

On the negative side,

- (1) the pandemic worsened globally, and a new virus variant identified in the UK increased concerns;
- (2) delays in passing the additional economic stimulus bill in the US and wariness toward the rapid rise of equities in November dampened the upside.

Towards the end of the month, the UK and EU agreed on a trade deal, and an additional economic stimulus package was passed in the US. On the 27th December, President Trump signed a bill for USD 900 billion. On the 28th December, the New York Dow, S&P 500 and NASDAQ all reached record highs. The Nikkei 225 rose 714 to 27,568 on the 29th December, reaching a 30 year high. The NT ratio (the Nikkei 225/TOPIX) marked a record high at 15.20 on the 30th December.

Among the TSE's 33 sectors, 28 gained during the month. The top five performers were Non-Ferrous Metals, Pulp & Paper, Marine Transportation, Transportation Equipment and Miscellaneous Manufacturing, while the bottom five performers were Air Transportation, Rubber, Services, Real Estate and Mining. In general, economic sensitive value stocks outperformed growth stocks. Smaller stocks continued to underperform the TOPIX with the TSE-2 gaining 1.1% MoM, the JASDAQ up 2.1% MoM and the TSE Mothers down 2.9% MoM.

Market Outlook

The Japanese economy has started to show mixed signals on a short-term outlook. Industrial production in November came in at 0.0% MoM, lower than the market consensus of +1.2% MoM with shipments down 0.9% MoM and inventories down 1.1% MoM. The government estimates that industrial production in December will decline 1.1% MoM and increase 7.1% MoM in January 2021.

According to the Economy Watchers Survey of Business, in December the overall current conditions DI declined by 10.1 points MoM to 35.5, its lowest reading since June 2020. In particular, the household related DI for December fell 11.4 points from November. This decline highlighted the significant impact following the suspension of the Go To Travel campaign and the COVID-19 third wave. The corporate related DI also fell 6.6 points, but the manufacturing DI dipped by a modest 2.0 points while the non-manufacturing DI



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Portfolio Manager



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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.

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Registered in Ireland.

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dropped sharply by 9.7 points. The outlook DI for the economy in two to three months points to a modest improvement with the overall DI rising 0.6 points MoM.

On the 7th January, Prime Minister Suga declared a State of Emergency (SoE) in Tokyo and three surrounding prefectures, which will continue until the 7th February 2021, following a sharp rise in COVID-19 cases that increased fears of a breakdown in the capital's medical systems. On the 13th January, the government decided to extend the SoE to an additional seven prefectures. The declarations could have some negative impacts on the economy in the short term, although the impact should be smaller than during last year's SoE.

The global equity markets have been rising continuously through January 2021 on the back of an anticipated economic recovery following large fiscal stimulus measures and prolonged monetary easing around the world. We may see some stagnation in global economic growth in Q1 2021 due to lockdowns in many countries and the natural slowdown of growth following sharp economic recoveries in both Q2 and Q3 2020.

The Nikkei 225 stood at 22,977.1 at the end of October 2020. Since then, the Nikkei 225 continued to record a sharp rally for two consecutive months until the end of December with the Nikkei 225 standing 27,444.2. Following the Democrat victory for the two seats in the Georgia Senate election on the 5th January, the Japanese stock market accelerated its strong momentum, neglecting any potential risk. The Nikkei 225 rose to a 28,979.5 high intraday on the 14th January, which is 5.6% higher than the end of 2020. It seems the market has entered into dangerous territory for the short term where any negative news could be a trigger for crystallisation.

Portfolio Strategy

The net asset value per unit for the Nippon Growth (UCITS) Fund on a Japanese Yen basis as of the 30th December 2020 climbed 3.4% compared with that of the 30th November whilst the TOPIX rose 2.8% during the same period. The Fund added one new name (Tokyo Steel) to the portfolio with one stock (Nachi-Fujikoshi) 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 December 2020

Cumulative Performance %

	1M	1Y	3Y	5Y	10Y	15Y	Fund Inception	Strategy Inception
A JPY Class	3.37	-5.55	-10.77	5.48	65.65	-2.49	70.91	107.61
TOPIX PR JPY	2.84	4.84	-0.71	16.63	100.79	9.39	98.62	56.23
Nikkei 225 Average PR JPY	3.82	16.01	20.55	44.19	168.30	70.34	167.30	143.41

Calendar Year Performance %

	YTD 2020	2019	2018	2017	2016	2015	Annualised Inception
A JPY Class	-5.55	19.10	-20.67	20.88	-2.21	3.16	3.85
TOPIX PR JPY	4.84	15.21	-17.80	19.69	-1.85	9.93	2.33
Nikkei 225 Average PR JPY	16.01	18.20	-12.08	19.10	0.42	9.07	4.71

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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