



# Nippon Growth (UCITS) Fund

January 2021 Fund Commentary

## Market Development

The Japanese stock market recorded further gains in January, with the TOPIX up 0.2% MoM and the Nikkei 225 up 0.8% MoM. The Nikkei 225 began the year by falling 186 points to 27,258 in the opening session on 4th January. On 5th January, the Senate run-off elections in the US State of Georgia resulted in victory for the Democratic Party for the two seats, culminating in the US becoming "Triple Blue" with a Democratic President and Democratic control of both houses of Congress. This raised investors' expectations of a large-scale economic stimulus package. On 7th January, Prime Minister Suga declared another State of Emergency (SoE) in the Tokyo metropolitan area, but the rally continued, with the Nikkei 225 advancing to 28,139 on 8th January, climbing above 28,000 for the first time in 30 years.

The US 10-year Treasury yield climbed to 1.15% on 11th January from 0.92% on 31st December, prompting investors to take a fresh look at Japanese stocks as cyclical plays. The Japanese market appreciated rapidly with Financials and other economic sensitive sectors bouncing back. The ordinary Diet session commenced on 18th January, with the debate concentrating on the third supplementary budget for FY 2020 and a proposed amendment to the Act on Special Measures for Pandemic Influenza and New Infectious Diseases Preparedness and Response. Mr. Suga's support ratio has been dropping rapidly due to his lacklustre arguments.

The NY Dow rose to an all-time high of 31,188 on Joe Biden's Inauguration Day, 20th January. The Japanese stock market continues to be supported on the back of positive indicators from the Fed and Janet Yellen on monetary easing and large-scale fiscal stimulus.

That said, the market declined towards the end of the month, following concerns regarding the sharp fall in US equities over fears that speculative trading could result in market turmoil.

Among the TSE 33 sectors, the top five performers were Oil, Rubber Products, Mining, Securities and Electricals, while the bottom five performers were Precision Instruments, Marine Transportation, Iron & Steel, Transportation Equipment and Miscellaneous Manufacturing.

## Market Outlook

The economic data in Japan has started to show a yellow signal for the short term outlook. Industrial production declined 1.6% MoM in December, now two consecutive months of MoM decrease. The government estimate indicated that industrial production in January 2021 would rise 8.9% MoM and then decline 0.3% MoM in February. According to the January Economy Watchers Survey of Business announced on 8th February, the overall current conditions DI declined by 3.1 points to 31.2, slightly above the February 2020 reading of 27.9.

The outlook DI for the economy in two to three months pointed to improvement with the overall reading up 3.8 points MoM, based on strong expectations for a recovery in customer traffic when the SoE is lifted and the vaccine rollout begins. On 15th February, preliminary GDP data for 4Q (Oct-Dec) 2020 was announced with real GDP increasing 12.7% QoQ annualised, higher than the market consensus of +10.1%. Consumption, net exports and CAPEX contributed largely to the sound growth. It is widely expected that



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Portfolio Manager



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Assistant 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.

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### 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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A sub-fund of E.I. Sturdza Funds plc.

Registered in Ireland.

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GDP data for 1Q (Jan-Mar) 2021 will show a negative QoQ growth, primarily because of a slump in consumption as the Go To Travel campaign was suspended and the SoE was implemented Jan-Mar 2021.

We believe stock markets will have begun to price in an anticipated sharp recovery of corporate profits after COVID-19 is brought under control. This being said, with vaccines and drugs becoming increasingly available around the world, the global economy could regain strong momentum on the back of large increases in infrastructure spending, notably in the US following Biden's victory.

Given extreme and sustained monetary easing, the market should show a remarkable rally in the medium-long term. However, the Japanese markets have reached a dangerous level, with 30,000 in the Nikkei 225 and the PER of the TOPIX standing at 26x. In the short term, any bad news, such as: a temporary slowdown of the economy; a sharp rise in the price of oil and subsequent pick up of inflation; or minor change of monetary policy, could be a trigger for a market correction. We believe a correction may be accompanied by a great shift of the market leaders, from growth oriented stocks, such as IT to economic sensitive value stocks, such as Financials and cyclicals.

## Portfolio Strategy

The net asset value per unit for the Nippon Growth (UCITS) Fund on a Japanese Yen basis as of 29th January 2021 went up 1.4% compared with that of 30th December 2020 whilst the TOPIX rose 0.2% during the same period. The Fund added no new names to the portfolio with no stocks 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. The Fund has taken a cautious stance towards IT related sectors.

## Performance Data As at end of January 2021

### Annualised Returns %<sup>1</sup>

	1M	1Y	3Y	5Y	10Y	15Y	Annualised Inception	Strategy Inception
A JPY Class	1.44	-1.99	-3.82	3.42	4.93	-0.09	3.91	110.61
Benchmark	0.23	7.38	-0.51	4.78	7.11	0.37	2.33	56.58
Nikkei 225 Ave PR JPY	0.80	19.21	6.19	9.56	10.45	3.44	4.73	145.35

### Calendar Year Performance %<sup>2</sup>

	YTD 2021	2020	2019	2018	2017	2016	Fund Inception
A JPY Class	1.44	-5.55	19.10	-20.67	20.88	-2.21	73.37
Benchmark	0.23	4.84	15.21	-17.80	19.69	-1.85	99.07
Nikkei 225 Ave PR JPY	0.80	16.01	18.20	-12.08	19.10	0.42	169.44

Source: Morningstar.

<sup>1</sup> Annualised Returns as of the date of the reporting over the defined period. Data less than 1 year is not annualised.

<sup>2</sup> Calendar Year Returns: Annual Performance for the stated calendar year.

**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 15/02/2021 and are based on internal research and modelling.

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