



E.I. Sturdza Nippon Growth (UCITS) Fund

March 2019 Fund Commentary

MARKET DEVELOPMENT

At the beginning of March, positive economic data from the US and China bolstered the Japanese equity market. The yen depreciated against the US dollar following the publication of a better than expected US GDP figure. On 4th March, the Nikkei 225 reached the 21,822 level, the highest since December 2018.

Surprisingly, the Caixin China General Manufacturing PMI improved in February and the Chinese market continued to rise. During the National People's Congress, which started on the 5th, China lowered its economic growth target for 2019 down to 6.0%~6.5%, against its previous estimate of 6.5% in 2018.

On 6th March, US tech stocks were sold off. One day later, the January Coincident Index of the Japan Indexes of Business Conditions was published, showing a decline for the 3rd consecutive month. The Japanese market decreased for 4 consecutive days up to the 8th March, with the Nikkei 225 falling below the 21,000 level.

The market gained slightly in mid-March following progress in the US-China trade talks and rising expectations regarding the avoidance of a hard Brexit. This said, domestic private core machinery order for January were announced and disappointed with a 5.4% MoM decline.

In late March, the Fed changed its outlook during the FOMC meeting to no interest rate hikes for 2019, with the market welcoming a pause in monetary tightening. This said, long-term rates were globally subject to downward pressures. The US yield curve inverted on 22nd March, with the 10 year treasury yield falling below the 3 months T-bills, which the market interpreted as a warning sign for a US recession, leading the market to decline. The yen appreciated against the US dollar, which also hurt the Japanese market.

The TOPIX closed the month at 1,591.6 (down 1.0% MoM), whilst the Nikkei 225 finished at 21,205.8 (down 0.8% MoM). In terms of sector performance, 12 out of 33 sectors gained, with the five best performers being fishery & agriculture, real estate, pulp & paper, precision instruments and miscellaneous manufacturing. The five worst performers were marine transportation, securities, transportation equipment, rubber, and oil.

At the beginning of March, the yen started against the US dollar at 111.39 and subsequently weakened following the market's recovery in the US and China, as a risk-on mood emerged. This said, the mood turned more risk-averse upon the inversion of the US yield curve and the yen suddenly strengthened against the US Dollar, which fell below 110. At the end of the month, equities were bought and the yen depreciated again, ending at 110.86.

MARKET OUTLOOK

Recently, mixed economic data has been published in Japan. Industrial production increased for the first time in 4 months, recording a 1.4% MoM rise in February. The government estimates that industrial production will rise 1.3% MoM in March and a further 1.1% MoM in April. Additionally, the labour market continues to show some improvements: the unemployment rate declined from 2.5% in January to 2.3% in February, with the number of jobless workers declining by 120,000, whilst the number of employed increased by 350,000 MoM.

This said and according to the quarterly economic survey "Tankan" by the Bank of Japan, the business sentiment diffusion index (DI) for large manufacturers worsened substantially from +19 in December 2018 to +12 in March 2019, whilst the DI for large non-manufacturers declined from +24 in December to +21. According to the economy watchers survey, the



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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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overall current conditions DI for March dropped to 44.8, 2.7 points lower than in February.

It is expected that the IMF will downgrade the global economic forecast for 2019 within a couple of weeks. On 2nd April, the IMF's head, Ms Lagarde warned that most countries would be unable to offset a downturn with lower interest rates and instead need to make "smarter use" of fiscal policies in future.

The Investment Adviser agrees with her argument that fiscal policy is becoming more important than monetary policy at this stage, with some countries having already taken a clear step towards fiscal stimulus. China, although having lowered its GDP growth target, pledged to increase fiscal spending on infrastructure together with implementing sizable tax cuts. In India, Prime Minister Modi made a promise ahead of the general election in April that the country would spend USD1.45 trillion on infrastructure investments over the coming 5 years.

Further, it appears that the US-China trade talks, which according to the Investment Adviser are most important for the direction of the world economy, would reach a meaningful agreement in the near future. The team believe, that the global economy would have a greater chance to recover from the second half of 2019 onwards and think that the Japanese stock market, which has been lagging the majority of other major markets over the past couple of years, should rally given its very cheap valuation.

PORTFOLIO STRATEGY

The net asset value per unit for the Nippon Growth (UCITS) Fund on a Japanese yen basis as of 29 March 2019 rose 0.2% compared with that of 28 February, while the TOPIX lost 1.0% during the same period. The Fund put no new names into the portfolio, with three stocks (IHI, Seibu Holdings and Sojitz) sold out.

The Fund gradually reduced the number of holdings from 40 stocks at the end of 2018 to 32 stocks at the end of March 2019. The Fund continues to be overweight with regards to economic sensitive sectors such as energy, trading companies, machinery and banking. Construction and real estate sectors remain bullish against the background of aggressive fiscal spending. At the same time, defensive sectors such as foods, pharmaceuticals and utilities continue to be avoided.

PERFORMANCE DATA As at end of March 2019

CUMULATIVE PERFORMANCE %*

	1M	1Y	3Y	5Y	10Y	15Y	Fund Inception	Strategy Inception
JPY A	0.20	-6.93	18.38	18.40	95.48	50.34	68.37	104.53
TOPIX PR JPY	-1.00	-7.26	18.14	32.32	105.73	34.97	75.17	37.78
Nikkei 225 Average PR JPY	-0.84	-1.16	26.54	43.01	161.49	81.01	106.54	88.08

CALENDAR YEAR PERFORMANCE %

	YTD 2019	2018	2017	2016	2015	2014	Annualised Inception
JPY A	8.11	-20.67	20.85	-2.23	3.19	2.19	4.15
TOPIX PR JPY	6.53	-17.80	19.69	-1.85	9.93	8.08	1.84
Nikkei 225 Average PR JPY	5.95	-12.08	19.10	0.42	9.07	7.12	3.66

Past performance is not an indicator of future performance.

AWARDS



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* 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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