



# E.I. Sturdza Nippon Growth (UCITS) Fund

June 2019 Fund Commentary

## MARKET DEVELOPMENT

At the beginning of June, the Japanese market continued its downward trend from May, declining further. This said, the market rallied on the 4th, following the US market, which gained on the back of the Fed chair's suggestion of a possible decline in interest rates. Resource stocks rallied against a rise in crude oil prices, with economic sensitive stocks following suit.

In mid-June, the market took a downturn on the back of large demonstrations in Hong Kong, and geopolitical risks in the Middle East, which weighed heavily on the market. The FOMC meeting took place from 18th to 19th June, ending with no change in monetary policy. This said, the Fed's statements guided towards an interest rate cut should the economy slow down further, leading US and Asian equities higher, at the same time however triggering an appreciation of the yen and capping the gain of Japanese equities<sup>1)</sup>. After the policy meeting, the Bank of Japan's Governor Kuroda commented that the bank will consider additional easing if needed, leading the 10-year government bond yield to drop to -0.192% intraday on the 21st<sup>1)</sup>. According to the team, market participants adopted a "wait and see stance" in late June and before the US-China summit during the G20 meeting

The TOPIX closed the month at 1,551.1 (up 2.6% MoM), whilst the Nikkei 225 closed at 21,275.9 (up 3.3% MoM). In terms of sector performance, 27 out of 33 sectors gained<sup>1)</sup>. The five best performers were mining, non-ferrous metal, marine transportation, metal products and machinery. The five worst performers were utilities, land transportation, fishery and agriculture, air transportation and foods. Many sectors that had gained in May, declined this month and vice versa.

In June, US and Japanese bond yields declined on speculations of a rate cut<sup>1)</sup>. As a consequence, 10-year JGBs, which had started the month at -0.094, declined further, ending at -0.158. In June, the Yen appreciated from 108.29 to 107.85 against the US dollar. The crude oil price declined from 53.50 to 50.60 at the beginning of the month but later recovered when the US enforced sanctions against Iran, ending the month at 58.47.

## MARKET OUTLOOK

The Trump-Xi meeting at the G20 summit in Osaka on 29th June ended without a significant solution. This said, the worst case scenario – an escalation of the US-China trade war – was avoided as President Trump decided to hold off further tariffs on USD300 billion worth of Chinese goods and agreed that negotiations will continue. The Investment Adviser hopes that the two leaders will be able to find meaningful solutions in the near term. The team believes they should in the meantime make efforts to stimulate domestic demand in their respective home countries.

On 10th July, Mr. Powell, chairman of the US Federal Reserve, stated in his testimony to Congress<sup>2)</sup> that "economic momentum appears to have slowed in some major foreign economies and that weakness could affect the US economy" and "that there is a risk that weak inflation will be even more persistent than [the] Fed currently anticipates". According to the team, the market widely expects that the Fed will cut its main interest rate by at least 25 basis points in late July.

<sup>1)</sup> Source: Bloomberg. July 2019.

<sup>2)</sup> Source: FXStreet. July 2019: URL: <https://www.fxstreet.com/news/powell-speech-weak-inflation-could-be-even-more-persistent-than-fed-currently-anticipates-201907101235>



**Yutaka Uda**  
PORTFOLIO MANAGER



**Maiko Uda**  
ASSISTANT PORTFOLIO  
MANAGER

## 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.

## CONTACT

E.I. Sturdza Strategic  
Management Limited  
+44 1481 722 322  
info@ericsturdza.com  
ericsturdza.com



In Japan, economic data is mixed. Industrial production<sup>3)</sup> rose 2.3% MoM in May, much higher than the market consensus of +0.7%. The government estimates that industrial production will decline 1.2% MoM in June and increase 0.3% MoM in July. According to the BoJ's quarterly economic survey "Tankan"<sup>4)</sup>, the business conditions diffusion index (DI) for large manufacturers worsened from +12 in March to +7 in June, while the DI for large non-manufacturers increased from +21 in March to +23 in June.

The labour shortage eased slightly as indicated by a rise in the employment DI (excessive-insufficient) from -35 in March to -32 in June<sup>4)</sup>. The Capex plan for FY2019 (large companies, all industries) stands at +7.4% YoY, higher than the initial plan of +1.2% YoY in March<sup>4)</sup>.

According to the Investment Adviser, people continue to worry about the negative economic impacts of the consumption tax hike (from 8% to 10%, scheduled for 1st October 2019). The government has however announced various counter measures to tackle this increase. In this context the impact of the first consumption tax hike (from 0% to 3%) in April 1989 should be remembered. Back then the economy continued to deliver more than 4% GDP growth in FY1989 and FY1990 thanks to sensible economic stimulus. As such, the team believe that the consumption tax hike can be a catalyst for a market rally.

## PORTFOLIO STRATEGY

The net asset value per unit for the Nippon Growth (UCITS) Fund on a Japanese yen basis as of 28th June 2019 gained 4.2%\* compared with that of 31st May, while the TOPIX rose 2.6% during the same period. The Fund put no new names into the portfolio with one stock (Sumitomo Realty) sold out.

The sound outperformance of the Fund against the index in June was mainly due to the Fund's overweighting to energy-related sectors (such as mining, non-ferrous metals, and marine transportation) as well as machinery. Further, the Fund's underweight to the more defensive sectors (utilities and food) added to alpha.

The Fund continues to be overweight with regards to economic-sensitive sectors with cheap valuations 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.

<sup>3)</sup> Source: Meti. June 2019. [https://www.meti.go.jp/statistics/tyo/iip/result/b2015\\_201905sj.html](https://www.meti.go.jp/statistics/tyo/iip/result/b2015_201905sj.html)

<sup>4)</sup> Source: Tankan, June 2019: <https://www.boj.or.jp/en/statistics/tk/gaiyo/2016/tka1906.pdf>

## PERFORMANCE DATA\* As at end of June 2019

### CUMULATIVE PERFORMANCE %

	1M	1Y	3Y	5Y	10Y	15Y	Fund Inception	Strategy Inception
JPY A	4.16	-8.06	28.78	7.96	57.90	47.23	63.17	98.22
TOPIX PR JPY	2.57	-10.38	24.51	22.86	66.83	30.39	70.72	34.28
Nikkei 225 Average PR JPY	3.28	-4.61	36.59	40.32	113.65	79.41	107.22	88.70

### CALENDAR YEAR PERFORMANCE %

	YTD 2019	2018	2017	2016	2015	2014	Annualised Inception
JPY A	4.77	-20.67	20.85	-2.23	3.19	2.19	3.91
TOPIX PR JPY	3.82	-17.80	19.69	-1.85	9.93	8.08	1.67
Nikkei 225 Average PR JPY	6.30	-12.08	19.10	0.42	9.07	7.12	3.62

\*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 16/07/2019 and are based on internal research and modelling.

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