



Nippon Growth (UCITS) Fund

July 2019 Fund Commentary

MARKET DEVELOPMENT

At the beginning of July, the Japanese market rallied on the back of progress made with regards to the US-China trade talks during the G20 summit and expectations of monetary easing in the US.

This said, on the 8th of July, solid US job data was published, leading to receding expectations of monetary easing and a weakening of the stock market. The US market hit a record high on the 10th, when Fed Chair Powell hinted at an early rate cut. At the same time, the Yen appreciated against converging US-Japan interest rates, leading to a slight decline of the Japanese market. In mid-July, the Japanese market fell following the announcement of sluggish Q1 earnings results.

In late July, geopolitical risks arose in Iran and Hong Kong. In Japan, the Upper House election took place, with the government party winning the majority of seats, creating expectations of the continuation of a stable government and economic stimulus.

The TOPIX closed the month at 1,565.1 (up 0.9% MoM), whilst the Nikkei 225 finished at 21,521.5 (up 1.2% MoM). In terms of sector performance, 17 out of 33 sectors gained. The five best performers were insurance, marine transportation, fishery & agriculture, metal products and communication, whereas the five worst performers were steel, securities, oil, pulp & paper, and non-ferrous metals. Overall, growth-related stocks fared well, with semi-conductor-related names performing especially well.

During the month, bond yields remained at a low level both in the US and Japan, as speculations about an FRB rate cut lingered. 10-year JGBs, which had started the month at -0.158 moved within a small range, ending at -0.153. The Yen remained at a high level against the US dollar, and only depreciated slightly from 107.85 to 108.78. Crude oil prices were fairly stable, increasing slightly from 58.47 to 58.58.

MARKET OUTLOOK

According to the Investment Adviser, the world equity markets have been volatile and unstable in the past few months. On the 31st of July, the FRB cut its main interest rate by 25 basis points for the first time since the 2008 financial crisis, signalling that it would further ease monetary policy if necessary. On the 1st of August, US President Donald Trump suddenly announced imposing 10% tariffs on a further USD300 billion worth of Chinese goods from 1st September 2019 onwards, indicating an escalation in the US-China trade war.

Against this backdrop, consumer sentiments have worsened in Japan. Based on the Economy Watchers Survey¹⁾, July's overall current conditions diffusion index (DI) showed a three month consecutive decline down to 41.2, the lowest level since April 2016. The team believe that this deterioration is partly due to the consumption tax hike (from 8% up to 10%), scheduled for the 1st of October.

Industrial production in June declined sharply by 3.6% MoM, at the same time however indicating a positive growth of +0.5% on a QoQ basis. The government estimates that

¹⁾ Source: Goldman Sachs. August 2019.



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



industrial production in July would rise 2.7% MoM and increase a further 0.6% MoM in August. According to the Investment Adviser, this estimate has in the past shown a strong upward tendency, for which the team expect production in the near term to likely be flat compared with June.

On 9th August, GDP data was reported. Real GDP for the April-June quarter expanded 1.8% QoQ annualised, much better than the market forecast of 0.6%. Whereas external demand contributed negatively (-1.2%), domestic demand increased strongly: Private capex accelerated by 6.1% QoQ annualised on the back of capacity constraints and the labour shortage. Public works increased 4.0%, reflecting the government's budget increase, with consumer spending also rising 2.5%.

According to the team, market sentiments remain weak in Japan, on the one hand due to the trade frictions and the other hand the consumption tax hike. The team believe that the consumption tax hike is no longer a worrying matter as the government prepares various counter measures. Once investors recognise this, the team believe that the Japanese market should rally to catch up with other major markets, with domestic-oriented sectors with cheap valuations (such as construction and real estate) likely to lead the rally.

PORTFOLIO STRATEGY

The net asset value per unit for the Nippon Growth (UCITS) Fund on a Japanese Yen basis as of 31st July 2019 rose 0.1% compared with that of 28th June, while the TOPIX gained 0.9% during the same period. The Fund added no new names to the portfolio, with one stock (Kajima) sold out.

The slight underperformance of the Fund against the index in July was amongst others due to overweights in energy-related sectors (oil, non-ferrous metals and mining) and machinery.

The Fund continues to be overweight with regards to economic-sensitive sectors with cheap valuations such as energy, trading companies, machinery and banking. Exposure to construction and real estate sectors remains 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 July 2019

CUMULATIVE PERFORMANCE %

	1M	1Y	3Y	5Y	10Y	15Y	Fund Inception	Strategy Inception
JPY A	0.08	-10.30	21.79	6.33	59.56	59.11	63.30	98.37
TOPIX PR JPY	0.90	-10.73	18.33	21.38	64.71	37.38	72.26	35.49
Nikkei 225 Average PR JPY	1.15	-4.58	29.89	37.78	107.80	90.02	109.62	90.88

CALENDAR YEAR PERFORMANCE %

	YTD 2019	2018	2017	2016	2015	2014	Annualised Inception
JPY A	4.85	-20.67	20.85	-2.23	3.19	2.19	3.90
TOPIX PR JPY	4.76	-17.80	19.69	-1.85	9.93	8.08	1.71
Nikkei 225 Average PR JPY	7.53	-12.08	19.10	0.42	9.07	7.12	3.67

*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 13/08/2019 and are based on internal research and modelling.

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