



Strategic Japan Opportunities Fund

August 2019 Fund Commentary



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MARKET DEVELOPMENT

The Japanese market declined in August amid a lack of any fresh news. Q1 earnings of Japanese companies were in line with market expectations and affected by a sharp appreciation of the yen as well as a weak global economy.

During the month, there were no noteworthy news despite the G7 summit in France, with President Trump's stubborn behaviour disappointing markets. This said, Japan and the US discussed various postponed trade issues and the latter agreed to not impose further auto tariffs on Japanese cars. As part of the agreement, Japan approved to buy the United States' excess corn, with this trade deal minimising the immediate impact on the domestic economy.

In August and after the disappointing G7 meeting, the dollar depreciated sharply against the yen, hitting a level of 105. The Japanese market deteriorated after the meeting, with its recovery only setting in towards the end of the month. According to the Investment Adviser, the domestic market was supported by its book value during the month.

OUTLOOK

The dollar-yen exchange rate recovered from 104 to 106 in late August. The team will continue to watch the exchange rate carefully since the dollar is likely to depreciate in September against a narrowing interest rate gap between Japan and the US.

According to the Investment Adviser, the depreciation of the dollar adds to the world economy's uncertainty. Investors continue to be concerned about the crossing of the 2-year and 10-year bond yields, which may indicate an upcoming recession of the US economy within the next few years. At this point, the team believe that there will be no new near-term stimulus measures for the world economy.

North Korea and other geopolitical problems continue to impact Japan. According to the team, Prime Minister Abe's current lack of activism to employ effective stimulus measures for the domestic economy, may lead to a continuing deterioration of the market for the time being. This said, the market remains at its 1.0x PBR level, with foreign investors adopting a "wait-and-see" stance.

In October, the Japanese government will raise the consumption tax rate from 8 to 10 percent, with consumers and the market currently being silent in this regard. The team recommend to look further ahead, as a sharp turnaround of Japanese companies' bottom lines cannot be expected in the near term.

This said, the market so far appears to have already discounted most of the negative news, apart from sudden geopolitical threats. The Investment Adviser believes, that the Japanese market will reach its bottom soon as the world economy starts to recover towards year end.

FUND DEVELOPMENT

Japan Investment Adviser [JIA (7172)], which has been part of the portfolio since inception, is a leasing company that mainly handles airplane and marine transport containers. JIA has purchased new Boeing airplanes in order to create more appealing financial instruments for global institutions that are looking for high-yielding products amid the global environment

INVESTMENT APPROACH

The portfolio management team seeks to invest in companies with consistent revenue/profit growth and strong management regardless of size, history, brand or market capitalisation in the Japanese market.

INVESTMENT OBJECTIVE

To outperform the broad Japanese equity market over the long-term.

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Registered in Ireland.

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of zero interest rates. The Company's business also includes M&A advisory and private equity investments, as well as real estate investments. The issue surrounding Boeing's 737 Max aircraft may remain unsolved until Boeing has made a final decision. JIA plans to purchase 4 planes in 2021 and 6 in 2022, giving Boeing some time to deal with the issue. In the meantime, the Company announced it would be setting up an office in Ireland to further improve communication with European Airlines, which have a strong leasing demand for Airplanes. The Company currently trades at P/E 11x, PBR 1.5x and ROE 14.5%.

For now, the team will maintain the current portfolio and continues to watch the domestic economy carefully.

AWARDS



PERFORMANCE DATA As at end of August 2019

CUMULATIVE PERFORMANCE %

	1M	3M	1Y	2Y	Fund Inception
JPY I	-6.34	-3.53	-15.78	-3.97	5.83
TOPIX TR JPY	-3.37	0.20	-10.78	-2.24	1.67

CALENDAR YEAR PERFORMANCE %

	YTD 2019	2018	Annualised Inception
JPY I	3.84	-20.37	2.33
TOPIX TR JPY	2.59	-15.97	0.68

Past performance is not an indicator of future performance.



IMPORTANT INFORMATION

The views and statements contained herein are those of Rheos Capital Works Inc in their capacity as Investment Adviser to the Fund as of 04/09/19 and are based on internal research and modelling.

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