



Strategic Japan Opportunities Fund

September 2019 Fund Commentary



Mitsuhiro Yuasa
PORTFOLIO MANAGER

MARKET DEVELOPMENT

September saw the Japanese Market rebound from a sharp deterioration in August. Although there was no notable news, global money flow came back slightly, providing a tailwind to the market, with investors preferring stocks which underperformed over the last few months. According to the Investment Adviser, this could potentially be attributed to a share buy-back story, with bold investors, however not having returned to the STET of the market yet. In September and against the dollar/yen rate having stayed below the level of 110 (since May), investors did not appear to have much confidence in the earnings of Japanese companies.

OUTLOOK

According to the Investment Adviser, the Japanese market may continue to increase until the end of the year if the domestic economy manages to manoeuvre smoothly through October and November. The team believe, that the government is handling the 2% consumption tax hike more carefully this time, with the Japanese Chief Cabinet Secretary indicating that Abe's Cabinet will do anything required if there is negative impact on the economy.

According to the team, the US - China talks are continuing with no significant progress thus far. During the year, an investment style drift has taken place, with investors preferring growth stocks at the beginning of this year but having shifted to value stocks since May. The team believe this trend may reverse in the short term.

The Japanese government has started to reform the current domestic pension provisions, which has a significant impact on the Japanese peoples' perceptions of their future. Uncertainty about their future has historically posed a problem, with the majority of Japanese people historically not spending money in an attempt to save money for their pensions.

Additionally, the team believe that it is essential that inflation picks up in Japan, consumption and a transition of cash which is held at banks into the economy.

Both of the above are challenges for the government, with the second being a lot more difficult to solve contemplating the efforts undertaken over the last seven years. This said, the Investment Adviser believes, that the consumption tax hike will support inflation in the long term.

FUND DEVELOPMENT

The Investment Adviser has maintained a balanced portfolio throughout the year, retaining exposure to technology stocks that have suffered from the trade dispute and exchange rate developments since last year. The team believe that the Fund will benefit from a 5G growth story, once progress is made in the China-US trade talks.

In August, the Fund started to invest in Findex (3649), and has further increased exposure in September. Findex develops and maintains software products for the healthcare sector and ophthalmology (which deals with the diagnosis and treatment of eye conditions). The Company develops a compact sized eye-test system mainly for ophthalmology. This goggle-sized equipment is welcomed across the sector from small-sized ophthalmology doctors through to large-scale hospitals. Additionally, the Company builds and provides

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.

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



medical network systems for hospitals, gathering test results and analysing many different conditions which cause eye problems. Findex plans to sell the data collected to pharmaceutical makers that provide products for ophthalmology medical research laboratories. The Company currently trades at P/E 44x, PBR 9.2x, ROE 20.6%.

AWARDS



PERFORMANCE DATA As at end of September 2019

CUMULATIVE PERFORMANCE %

	1M	3M	1Y	2Y	Fund Inception
JPY I	5.45	0.43	-13.69	-2.27	11.59
TOPIX TR JPY	6.04	3.39	-10.37	-0.65	7.81

CALENDAR YEAR PERFORMANCE %

	YTD 2019	2018	Annualised Inception
JPY I	9.50	-20.37	4.41
TOPIX TR JPY	8.78	-15.97	3.00

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 08/10/19 and are based on internal research and modelling.

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