

Strategic Japan Opportunities Fund

October 2019 Fund Commentary



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MARKET DEVELOPMENT

The Japanese market continued to rise in October. The US / China trade dispute continued, and global markets as a result continued to face gloomy economic conditions which have been prolonged for many months. The earnings of Japanese companies remained weak and investors struggled to find positive Japanese orientated or global economic news. Foreign investors who have sold Japanese exposure over the last year, turned positive net purchasers in October, buying the broad market, while domestic individuals were net sellers of the market. Investors, especially foreign investors, ignored the weak earnings trend in relation to Japanese companies, and focused on the positive upside potential of the economy; which may turn around next year, shifting their attention away from the negative news flows that are currently being presented. A large typhoon hit the centre of Japan in the middle of October, negatively impacting domestic consumption, which was in addition to the tax rise implemented during the month.

OUTLOOK

The Japanese market may continue to rise through to year end, should there be a lack of fresh negative news flows. The typhoon that hit Japan caused severe and wide spread damage; however this also presents the opportunity to re-build a stronger and more resilient infrastructure. Many people have been injured or died as a result of extreme weather conditions and earthquakes in the last few years in Japan, unfortunately flood control and anti-earthquake measures have not been taken seriously. To combat this, central and local Governments have started to invest in digital administrative service systems in order to better serve residential areas, but immediate action is also required in order to rebuild infrastructure such as roads, rivers, dams, railroads, drainage, and securing lifelines. Discussions are planned at the Government level shortly with the aim of forming a supplementary budget to support such efforts and to be made available during the current fiscal year.

The Bank of Japan has maintained its current monetary policy whilst the FED lowered its rates by 25 bps. The FED and BoJ may not make any significant changes to their monetary policies for the time being, allowing markets to stabilise.

FUND DEVELOPMENT

ELECOM (6750) is a maker and seller of PC peripherals and consumables, smart-phone and tablet products, TV and AV products. An increase in the usage of smart-phones and tablets globally supports growth in peripherals such as accessories and consumable gadgets, supporting Elecom's product sales which are showing steady growth. The Investment Adviser expects gross margins, which improved recently due to their product mix, may grow further.

The company purchased DX Antenna in 2017 which produces and sells antennas. Following the purchase margins were reduced; however DX Antenna's margins are showing signs of recovery following a lowering of procurement costs. The Team believe the number of gadgets and users of such gadgets will increase, supporting growth in the peripherals market. ELECOM's P/E currently stands at 22x, with PBR and ROE at 3.7x and 18.9% respectively.

Against the current macro environment backdrop, the Investment Adviser will maintain the current shape of the portfolio.

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.

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PERFORMANCE DATA As at end of October 2019

CUMULATIVE PERFORMANCE %

	1M	3M	1Y	2Y	Fund Inception
JPY I	5.10	3.80	1.71	-1.13	17.29
TOPIX TR JPY	4.99	7.58	3.88	-1.08	13.19

CALENDAR YEAR PERFORMANCE %

	YTD 2019	2018	Annualised Inception
JPY I	15.09	-20.37	6.26
TOPIX TR JPY	14.21	-15.97	4.83

AWARDS



Source: Morningstar. 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 12/11/19 and are based on internal research and modelling.

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