

Strategic Japan Opportunities Fund

November 2019 Fund Commentary



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MARKET DEVELOPMENT

The market continued to rise during November in the face of many uncertainties such as Brexit, the US and China trade talks and Hong Kong's protest against the Government. The market seemed to absorb these obstacles, in November at least. The South Korean Government decided not to terminate the intelligence-sharing pact with Japan (GSOMIA), which was positive for Japan and the US. The District Council elections in Hong Kong finished, and surprisingly, pro-democracy parties gained seats. Investors maintained a wait-and-see stance for the market prior to important upcoming elections in the UK and Taiwan later this year, and the US election next year.

Japanese companies' second quarter earnings were generally in-line with initial expectations and asserted the severe condition of the economy. Share prices of companies that announced a downward revision of earnings rose sharply during the month, which the Investment Adviser believes to be a result of investors waiting for recovery in the latter half of this fiscal year. Foreign investors reinvested in Japan and started to accumulate Japanese equity in November.

OUTLOOK

Investors have retained a positive outlook regarding the US and China trade talks, but it may yet deteriorate due to the signing of the Hong Kong Human Rights and Democracy Act by President Trump. The Investment Adviser believes that the positive global market scenario can be broken easily and market conditions change considerably. The Team have concerns over capital restrictions amongst countries including Japan. The Japanese House of Representatives passed new a capital restriction bill in November with a focus to protect domestic nuclear technology and the nuclear-based electric energy industry, mainly from China. The foreigners' investment capital restriction hurdle for listed companies has also been raised, but investors who are not in charge of the business itself will fortunately, be deducted. For foreign non-investment business purposes, the threshold has been lowered from an equity stake of 10% to 1% before an investor of a listed Japanese company is required to pre-report to the FSA.

Although the global economy has enjoyed improving productivity by rationalisation and globalisation the past few decades, President Trump's aggressive protectionism policy and his attitude to fight against anyone but the US continues to reduce global capital and industrial frameworks. Despite such conditions, companies are looking for growth, and the Investment Adviser believes new telecommunication investment is the most likely area at this time amongst major industries. 5G telecommunication, which will be used for telephone calls, video chat, and more significantly, in the auto-industry for unmanned drive and service industry which provide a fascinating multitude of services and tools for driver and passenger. The Team will maintain the current portfolio.

FUND DEVELOPMENT

Lacto Japan (3139) derives skimmed milk, raw milk and milk products, processing into Cheese and other dairy products, then distributes in several Asian countries, mainly Japan. The number of Japanese farmers is decreasing and output of raw milk declined recently whilst the needs of cheese and other dairy products remain strong. Lacto Japan may increase the price of its end product in light of the widening supply-demand gap for milk and related products in Japan. Additionally, demand of daily ingredients and cheese production in Asia, which has much a better gross margin than conventional domestic business, is growing rapidly and has driven Lacto Japan's top line growth recently. Lacto Japan's import business is also growing due to the deregulation of trade regulations for milk products. P/E 17x, PBR 2.3x, ROE 13.7%.

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. Sturza plc.
Registered in Ireland.

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PERFORMANCE DATA As at end of November 2019

CUMULATIVE PERFORMANCE %

	1M	3M	1Y	2Y	Fund Inception
JPY I	2.35	13.44	1.10	-2.46	20.05
TOPIX TR JPY	1.94	13.50	4.54	-0.63	15.39

CALENDAR YEAR PERFORMANCE %

	YTD 2019	2018	Annualised Inception
JPY I	17.80	-20.37	6.98
TOPIX TR JPY	16.43	-15.97	5.43

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 06/12/19 and are based on internal research and modelling.

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