

Strategic Japan Opportunities Fund

December 2019 Fund Commentary



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PORTFOLIO MANAGER

MARKET DEVELOPMENT

At the beginning of December, a sizeable 26 trillion-yen supplemental budget was announced which partially supported the market throughout the month. The Japanese market was in euphoria and relatively quiet, as it seemed to gain hope for Japan's future, recalling 2017 when markets rallied, on the back of the 28 trillion-yen supplemental budget which was announced late 2016. The Conservative Party won the 2019 UK general election, which should lead to the completion of Brexit in January 2020. The US and China also agreed to sign off "phase one" of the trade deal in January 2020. With these two large uncertainties removed during the month; global markets gained traction again towards the end of the year. The Japanese market also rose, whilst emerging market stocks slumped. Since the Tokyo Stock Exchange has considered its market and index reform plan for several years, investors who are reluctant to have stocks that may be influenced by the reform, may withdraw, particularly from illiquid emerging stocks.

OUTLOOK

The US attack and assassination of Soleimani, commander of the Quds Force of Iran, surprised global markets at the beginning of 2020. Oil prices soared and the dollar dropped as a result of the increased tension of prolonged geopolitical issues in the Middle East. The Japanese market declined at the beginning of the New Year, and may continue to be fragile for the time being under such geopolitical pressure, in addition to the Korean Peninsula and the potential of ongoing negativity for the global economy. In Japan, 5G telecommunication network service starts in March with the launch of several new gadgets from major telephone operators. As stated before, 5G will not only be used as a telecommunication tool, but in many industries such as transportation, logistics, warehousing control and others. The Investment Adviser does not expect the new system to be utilised soon but will gradually penetrate the markets and industries. As mentioned above, the dollar/yen rate dropped sharply due to the US attack against the top Iranian general, and it remains around 108, which is obviously not good for Japanese exporters. The Japanese market may hover around its current level unless tensions ease for some reason. The Investment Adviser will maintain the current portfolio.

FUND DEVELOPMENT

Toridoll (3397) is engaged in the operation and management of restaurants serving a variety of cuisines such as: skewered grill chicken, Japanese Udon noodle, Ramen noodle, Japanese-style pancake, and pasta. They have such restaurants in shopping centre food courts, stations and highway rest areas. "Marugame Seimen", which is their primary restaurant, provides Udon noodles and accounts for 62% of total revenue, and the company derives 21% of total revenue from overseas operations. Their recent recovery was mainly due to its marketing efforts such as TV commercials. The company highlighted the quality flour they are using for making Udon at each shop and that they serve hand-made noodles directly to customers without delivering from a central kitchen. Overseas operations have also been welcomed and are growing, mainly in Hong Kong, where people are familiar with Japanese foods. P/E 45x, PBR 3.5x, ROE -0.3%.

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 December 2019

CUMULATIVE PERFORMANCE %

	1M	3M	1Y	2Y	Fund Inception
JPY I	1.17	8.83	19.17	-5.10	21.45
TOPIX TR JPY	1.45	8.59	18.12	-0.75	17.06

CALENDAR YEAR PERFORMANCE %

	YTD 2019	2018	Annualised Inception
JPY I	19.17	-20.37	7.21
TOPIX TR JPY	18.12	-15.97	5.80

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 11/01/20 and are based on internal research and modelling.

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