

Strategic Japan Opportunities Fund

January 2020 Fund Commentary



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PORTFOLIO MANAGER

MARKET DEVELOPMENT

The US attack on Iran's Quds Force leader in early January surprised the global market, but it soon calmed down following the US and Iran's statement that neither party wanted the matter to escalate. The US market exceeded previous estimates on the back of firm domestic consumption and successful diplomatic actions with Iran. The US and China signed the "Phase one" agreement of trade talks, the US Department of the Treasury having removed China from the currency manipulator list prior to the signing.

Despite positive signs of progress between the US and China, and the US and Iran situations putting investors' minds at ease, the deadly coronavirus outbreak in the Chinese city of Wuhan had a large, negative impact on global markets in January.

OUTLOOK

The fear-spreading coronavirus will obviously have a large negative impact, not only for the Chinese but also the global economy over the next few months at least. The fear of coronavirus caused the number of Chinese and Korean tourists visiting Japan to fall significantly which should result in a sizeable negative impact on Japanese retailers. Domestic consumption has been under pressure since last October, when the government raised consumption tax from 8% to 10%. Nation-wide department store sales declined 5% year-on-year in December 2019, the third consecutive negative year-on-year result, with January looking to decline further. Looking back to the SARS virus in 2003, the market will be subject to a harsh macro environment for the next few months, but it is also likely that the economy will return to the level prior to the incident. The Chinese Government must boost the domestic economy anyway, and the Japanese Government must set up adequate coronavirus control at major ports in Japan, and prepare for the 2020 Tokyo Olympic and Paralympic games due to take place this summer. The 5G story is maintained as a planned course, even with the Coronavirus situation surrounding global markets, and the Investment Adviser will mirror this in the portfolio. The Team will maintain the current portfolio for the time being.

FUND DEVELOPMENT

Nitto Boseki (3110) is a manufacturer and seller of building and textile materials. Need for the company's high-performance fibre glass products, with greater electrical insulation properties, has been heightening due to the increased insulation requirements of high-end print circuit boards used in smart phones. The company has Textiles, Glass Fibre, Environmental & Health and Property Management divisions. The Textiles includes the sale of core spun yarn, stretch products and interlining products among others. The Environmental & Health division specialises in vitro diagnostics, specialty chemicals, soft drink manufacture and sales, rock wool product sales, agricultural products, acoustic construction, design, supervision and contracting as well as environmental improvement management. Competition has risen amongst makers of products providing better insulation properties but the Investment Adviser believes Nitto Boseki's advantage will remain for the time being. P/E 34x, PBR 2.1x, ROE 6.1%.

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 January 2020

CUMULATIVE PERFORMANCE %

	1M	3M	1Y	2Y	Fund Inception
JPY I	-3.10	0.33	8.91	-9.97	17.68
TOPIX TR JPY	-2.14	1.21	10.17	-3.89	14.56

CALENDAR YEAR PERFORMANCE %

	YTD 2020	2019	2018	Annualised Inception
JPY I	-3.10	19.17	-20.37	5.82
TOPIX TR JPY	-2.14	18.12	-15.97	4.84

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 07/02/20 and are based on internal research and modelling.

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