

Strategic Japan Opportunities Fund

February 2020 Fund Commentary



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PORTFOLIO MANAGER

MARKET DEVELOPMENT

The Japanese market declined sharply in February mainly as a reaction to the coronavirus outbreak. The market needed some time to understand the global phenomenon, but the reaction was swift once the implications for the domestic economy were understood. The Japanese Government reacted decisively but could not stop the initial spread of the virus. Early in the month, Investors trading was limited; however the pace increased throughout with a rush to sell holdings towards month end. In light of the evolving situation the portfolio team started to reduce the number of stocks within the portfolio in early February, mainly stocks with small weightings and IPOs.

OUTLOOK

Reflecting on market reactions to significant global events such as the IT Shock, SARS, the Great Financial Crisis (GFC), and the Great East Japan Earthquake we note it took several months for the first impact of the events to be absorbed. The portfolio team believe the coronavirus will have a large impact on the markets, comparable to the impact of the GFC, as such it is necessary to prepare for a long-term deterioration of the overall market and economy. The Federal Reserve Bank (FRB) lowered its target rate by 50bp, and President Trump declared a suspension of the payroll tax with the aim of boosting the US economy.

As such the team added conventional civil engineering to the portfolio, believing such companies may benefit from further stimulus introduced by the government. They are focusing on companies and industries that can deliver earnings in the current environment, those that can survive in such severe economic conditions and can use this opportunity to grow further, whilst seeking to avoid further negative impacts associated with the coronavirus. The current portfolio positioning will be maintained for the time being.

FUND DEVELOPMENT

Tri Chemical Laboratories Inc. (4369), develops and produces semiconductor and optical fibre materials such as insulating equipment. Insulation, which is produced from crystals such as quartz and zirconium, is the main driver of Tri Chemical Lab.'s recent success. The high quality insulator market is small and requires highly knowledgeable staff with an understanding of different material properties and access to the right technologies, allowing for different materials to be combined in order to meet client needs. The company has accumulated the required knowledge and technology internally over the last thirty years. Many participants within the semiconductor market are focussed on volume zone materials such as silicon wafer but Tri Chemical Lab. focusses solely on insulator and its associated materials which are too small to make huge profits in short-term. The company is however planning to increase its production capacity in order to meet top global semiconductor makers such as Toshiba and Micron Technologies this year. P/E 21x, PBR 6.6x, ROE 37.1%.

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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