

# Strategic Japan Opportunities Fund

March 2020 Fund Commentary



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PORTFOLIO MANAGER

## MARKET DEVELOPMENT

The market continued to deteriorate in March, mainly due to the rising fear of Coronavirus which has killed more than 42,000 people globally. The Tokyo market declined towards the middle of the month, then recovered slightly by month end. World leaders asked their citizens not to go out and to stay at home, and this approach worked in some places but the number of Covid-19 patients increased in the US and Europe. The Japanese Government did not give strict orders for people not to go out, and as such the nation could not stop the increase in the number of Covid-19 patients. In terms of economy stimulus measures, the Japanese Government spent a long time debating possible measures amongst politicians and bureaucrats, but have not produced a plan to date. They may issue plans sometime in April, but the Investment Adviser believes it has taken too much time.

## OUTLOOK

Coronavirus, which has killed many people in the world so far, is unlikely to disappear unfortunately, and we will have to live with this flu like virus in the future. If we look back at the GFC in 2008, the Japanese market deteriorated around 40% in approximately 120 business days. The market began to recover in the following 120 days and hovered at the same level for a while. It is obvious that the domestic economy will deteriorate and may not return to normal easily, even with a large amount of government support. Consumer sentiment, which worsened after consumption tax rose last October, deteriorated further in the last two months. The Japanese Government is considering sizeable stimulus measures in the region of 5% to 10% of GDP this month. The Investment Adviser is of the opinion that it will be too little too late if compared to the US and Germany. This said, the Government has no option other than to support the domestic economy; and even if the stimulus package is not enough, the market may not be disappointed as their expectations are so low. Over the last 30 years, the equity markets have shown that "people will start to walk again, even if an accident has previously stopped them". If Coronavirus can be controlled like influenza, fear of the virus will be reduced around the world. For the time being, the Team will maintain the current portfolio that has increased exposure to conservative sectors such as civil engineering and health care, with a relatively high cash position which is around 6% of the portfolio.

## FUND DEVELOPMENT

Maeda Kosen (7821) manufactures and sells construction and industrial materials which are used for river, road paving and disaster prevention construction. The need for social infrastructure, including embankment reinforcement materials, civil engineering sheets and slope disaster prevention materials have been rising recently due to the increase in the number of large typhoons to hit Japan. Maeda Kosen has also invested in a healthcare related company in Switzerland. This healthcare company develops peripheral artery vascular treatment products that may be approved by the authorities in Japan within several years, and will probably be marketed in 2024. The Team believe building and civil construction related products will lead the company's top and bottom lines for the next few years as the nation needs to strengthen its natural disaster countermeasures and its budgets. P/E 16x, PBR 1.9x, ROE 12.3%.

## 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.

## CONTACT

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## 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 06/04/20 and are based on internal research and modelling.

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