

# Strategic Japan Opportunities Fund

April 2020 Fund Commentary



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## MARKET DEVELOPMENT

The Japanese market declined at the beginning of April, but recovered towards the end of the month. The market is in a situation similar to that of a nervous breakdown in the aftermath of the Coronavirus, and global market volatility is still high. Foreign investors who sold heavily last month nominally came back in April. The Fund sold Outsourcing (2427) when its share price rebounded during the month given that the company relies heavily on the domestic labour market which the Investment Adviser believes will take a long time to recover. The global labour market collapsed quite quickly, but recovery may take several months. Outsourcing has a large presence in manufacturing sectors such as the auto and electronics industries, and as such, may continue to experience a challenging environment. The fund has maintained exposure to Raito Kogyo (1926) and in March, the Investment Adviser added Sho-bond Holdings (1414) to the portfolio, as they believe there is a strong possibility that civil engineering companies may experience an increase in demand from local domestic bodies and the government, notwithstanding the pressure on the economy as a result of the Coronavirus. In Japan, there is a need to improve infrastructure such as rivers and roads in an effort to cope with any potential natural disasters, particularly heavy rain. The rainy season will return soon, and as such, preparations will need to be made to safeguard against destructive typhoons, in addition to the ongoing rebuilding and strengthening of the existing infrastructure.

## OUTLOOK

The global economy has experienced a severe deterioration as a result of the Coronavirus. Market sentiment moves back and forth but the development of medicines and vaccines for treatment of the virus has certainly progressed. This said, there could yet be a second and third wave of the virus and with them, the associated lockdown of towns which could further damage the economy. The US dollar, which deteriorated so much after the GFC, has held up well this time, supported by global central banks providing extraordinary amounts of monetary easing. The USD-JPY rate which was at 110 in February, ended April at 107, supporting Japanese exporters even though the business environment is obviously severe. The strong dollar supports global money flows and works as an economic stabiliser. The Investment Adviser has added relatively conservative industrial stocks to the portfolio, such as civil engineering, and retained exposure to electronic parts manufacturers and 5G related stocks. The Team believe the Coronavirus is unlikely to disappear in the short term and there may be another virus sometime in the near future, therefore are thinking about how to live if this scenario was to materialise. The working and education environment has changed dramatically, suggesting possible alternatives. In this context, the portfolio would benefit by maintaining exposure to companies that provide services or tools to support this new life style. Internet-based service providers, including GAFA in the US, could provide more public services, meaning focus should be on companies that know and understand their social responsibilities.

## FUND DEVELOPMENT

Sho-Bond Holdings (1414) repairs, reinforces and maintains concrete structures such as elevated highways, bridges and tunnels, in addition to inspecting and repairing buildings. Sho-Bond also manufactures and sells epoxy resin adhesives and construction materials. The company derives 95% of sales from the domestic market and 5% from Hong Kong. P/E 28x, PBR 2.8x, and ROE 10.6%.

## 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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## 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 07/05/20 and are based on internal research and modelling.

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