

Strategic Japan Opportunities Fund

May 2020 Fund Commentary



Mitsuhiro Yuasa
PORTFOLIO MANAGER

MARKET DEVELOPMENT

The Japanese market continued to recover during May 2020 even though the impact of COVID-19 remains. While the state of emergency was lifted throughout most of Japan on 14 May, it was maintained until 25 May for Tokyo and its neighbouring prefectures. Some small retailers have experienced bankruptcy, but large retailers have managed to survive. Many companies have postponed their results announcements for FY2019 which ended March 2020, and were also unable to provide earnings estimates for the new fiscal year. Although there are many uncertainties surrounding corporate earning projections and the potential for a severe business environment in the near future, investors are beginning to invest again. The Bank of Japan held an emergency meeting and announced the introduction of additional financial support, mainly for small to mid-size companies in Japan. Robust financial and fiscal support, which began in April, has partially supported small and mid-sized companies.

OUTLOOK

The domestic market may continue to rise as the market seems to be ignoring the possibility of further earnings deterioration due to COVID-19 later in the year. The corporate earnings for Q2 could be the worst during this fiscal year with the potential to recover towards the end of the fiscal year. The substantial financial and fiscal stimulus packages have certainly supported the domestic economy and the strong US dollar, which maintained 107 yen, has also supported Japanese exporters or cyclical stocks. The US-China dispute has accelerated the disconnection of current supply chains for the global electronics and auto industries. Japanese electronic and component manufacturers now require two supply chains to meet the demand in both the US and China. Companies with more warehouses around the world may be able to supply parts in a timely manner. The Investment Team believe Daifuku (6383)'s warehouse management system has the potential to grow going forward. On 25 May, the Japanese Government finally eased the state of emergency for all prefectures including Tokyo and Hokkaido. Life will return to normal gradually, but new life-style practices such as physical-distancing and working from home are continuing globally. The Team also believe electronic gadgets and fast telecommunication companies that support this new way of life will grow within Japan and other countries. Therefore, the Team believe concentrating on companies related to the above is the best approach. The Investment Adviser will maintain the current portfolio.

FUND DEVELOPMENT

Nichicon (6996) is engaged in the manufacture and sale of various capacitors including aluminium and tantalum electrolytic capacitors and plastic film capacitors for electronics. The company's products are used for electric apparatuses, power utilities, function modules, positive thermistors and switching power supplies. The company announced weak earnings for FY2019, but has increased its dividend for the eighth consecutive fiscal year. Investors welcomed the strong earnings trend and firm dividend payment, and the share rose strongly during the month. P/E 19x, PBR 0.7x, ROE 3.6%.

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.

CONTACT

E.I. Sturdza Strategic
Management Limited
+44 1481 722 322
info@ericsturdza.com
ericsturdza.com



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