

# Strategic Japan Opportunities Fund

June 2020 Fund Commentary



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## MARKET DEVELOPMENT

The Japanese market moved sideways during the month whilst emerging markets rose, supported by investors in search of rebounding stocks and positive alpha in small companies. At the beginning of the month, the market gained, backed up by strong US labour market numbers, but declined later in the month following comments from the Chairman of the US Federal Reserve Bank, that the FRB would continue to maintain a near zero interest rate until at least the end of 2022. Investors responded negatively to the comments, subsequently pulling money from the equity market. In addition, the Investment Adviser believes that as Investor fear of a second wave of COVID-19 increases, companies growth is likely to be limited during the latter half of this year. The US and China trade talks were accelerated as China introduced the National Security Law. Meanwhile, Wilbur Ross from the US Department of Commerce commented that the US may rescind Hong Kong's special trade status.

## OUTLOOK

The Tokyo Metropolitan Government lifted the state of emergency at the end of May, but more recently there has been an increase in the number of infected COVID-19 patients, which is obviously unfortunate for everyone in the city. Local small business operators, especially restaurants, hotels and night clubs are willing to continue trading, but things are becoming uncertain yet again.

Chief Cabinet Secretary, Mr. Suga of Abe's Government advised that the state of emergency could be reinstated should the number of patients continue to increase. There are opposing beliefs between the central government and business operators: It is inevitable that a state of emergency will be declared to reduce the number of deaths caused by COVID-19; the Investment Team are currently of the opinion that this will not occur, as the number of COVID-19 deaths per day has been in single figures since late June, but things are obviously uncertain. This said, the state of emergency could be declared if the ports are opened, allowing foreigners into the country. Ports and borders are opening all over the world, such as in Europe where people are allowed to move around within the EU region from July 2020.

The portfolio will be maintained with the same strategic principles as the last few months, focusing on civil engineering, 5G, and companies that could benefit from the post-Coronavirus life style environment. The Team began to invest in an IPO, but this has been delayed due to COVID-19.

## FUND DEVELOPMENT

Pan Pacific International Holdings (7532), formerly Don-Quijote Holdings, is a discount retailer that sells consumer electronics, daily foods, groceries, luxury bags, watches and many other products in 693 stores, primarily in Japan, but with 40 stores overseas. The company's major stores open 24 hours a day, 7 days a week. Pan Pacific has acquired Uny which was a subsidiary of Itochu Corporation and is transforming Uny stores throughout Japan into Don-Quijote stores. Don-Quijote's unique store operation is defined as convenience, discount and amusement which is emphasised by their company's mission policy "Customers First". The company has reformed its management team from a conventional team, which has led the company from the beginning, to a hire from a consultant firm, in order to identify the issues which the company is currently facing. The company has expanded the number of stores and locations by giving more authority to store managers and employees, and providing effective support for such workers. P/E 30x, PBR 4.1x, ROE 14.5%.

## 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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