

Strategic Japan Opportunities Fund

July 2020 Fund Commentary



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MARKET DEVELOPMENT

In July the Japanese market rose initially but later deteriorated due to the surge in the number of COVID-19 cases in the Tokyo Metropolitan Area. It is expected that as the authorities increase testing capacity, the number of detected infected patients will grow. There is a concern that an easing of the lockdown in the major cities may lead to a second wave of infections. The Tokyo market, which has recovered strongly since March, has stabilised, signalling that Japanese companies are starting to recover and grow in a difficult macro environment. The market is now looking for growth indicators to support current valuations.

OUTLOOK

The Tokyo market may hover at its current level for a while before rising again when investors see potential earnings growth in the near future. An increase in COVID-19 cases in certain cities, including Tokyo, and the potential negative impact on the economy caused by the government's soft-lockdown measures is difficult to measure at this point. For instance, a high-end restaurant in Tokyo can now return to 80% of its pre-COVID-19 capacity, but by comparison, a mid-range restaurant can only bring back 50% of its customers. However, a high-end restaurant group decided to close one of its restaurants located in Shibuya, an area where many technology companies are based. As companies have closed their offices and moved to remote working since March, the number of workers in the area has decreased significantly. As a result, the owner decided to close its restaurant in April; a much faster decision than its competitors. This is not an isolated case in Japan, such measures can be seen elsewhere in the world. Finally, as remote working has seen a major uptake globally, many companies continue to invest in their employees and infrastructure. We believe that those companies will have an advantage over those that fail to take action.

FUND DEVELOPMENT

Asics Corporation (7936) is a manufacturer of general sporting goods, such as shoes, sportswear and equipment. The company sells its goods in Japan and other markets, including the US, Europe, Australia and Asia. Due to its inefficient product and inventory management systems, the company has struggled to improve its profit margin for many years, which has been lower than its competitors, Nike, Adidas and Skechers. The company has now reformed its management style to be more in line with other sports manufacturers by implementing a product categorisation profit system at its direct and indirect stores. Asics Corporation told us that their direct to indirect store ratio is 20/80, which is the opposite to that of other competitors. We expect the company's margin to improve gradually, and its valuation to be corrected along with a recovery in the company's profits in the near future. P/E 95x, PBR 1.6x, ROE 1.6%.

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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FUND AWARDS



See Awards Disclaimer on last page.



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