

Strategic Japan Opportunities Fund

August 2020 Fund Commentary



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MARKET DEVELOPMENT

Even though August is traditionally a quiet month due to the summer vacation, the Japanese markets performed well throughout the month. The performance was led by Air Transportation, Iron and Steel, Land Transportation and Marine Transportation - the latter two having declined in the previous months. In contrast, the Information and Communication, Electrical Appliances and Pharmaceutical sectors, which have performed well in recent months, declined throughout August.

The Fund was well supported by the market during the month due to our widely diversified portfolio combined with investment in companies which we believe will generate consistent profits in the long term.

MARKET OUTLOOK

Global stock markets rallied during August, mainly led by the US Nasdaq Index. The Nasdaq experienced a rise in stock trading primarily due to retail investors called "Robinhooders". Robinhood is a US-based fintech company that provides commission-free trading via an online trading platform, primarily for retail investors. Japan has also witnessed increased activity in the stock market, driven by individuals spending funds received in financial support from the Government following the COVID-19 emergency.

Prime Minister Abe Shinzō's resignation was a shock to the market. The former Chief Cabinet Secretary of Abe's Government, Mr. Suga, is now the Prime Minister of Japan. He is a very practical person who fights to solve issues as and when they arise. We expect Suga to continue the digitalization of Japan; both within public services at the local government level, but also within private companies by introducing DX solutions. We believe Suga will pursue further regulatory reforms, and potentially central government reforms, and that he has the capacity to achieve this, even though he does not belong to any faction in the LDP. We feel that the majority of LDP members are not focussed on factions or political power games at this time, as evidenced by the landslide victory at the LDP chairman election.

Japan experienced its largest ever decline in Gross Domestic Product (GDP) from April to June. During the second quarter of 2020, GDP declined by 27.8% compared to the previous quarter. This being said, we believe that the Japanese economy has bottomed out, and expect to see improved YoY GDP figures as our economy has dipped since October 2019, when consumption tax was raised to 10% from the previous 8%. We believe that the market may decline in September due to the surprisingly strong performance during August and Prime Minister Abe's sudden resignation following health concerns. We will look to use this time as an opportunity to accumulate positions in what we believe to be promising companies.

FUND DEVELOPMENT

Sun Asterisk (4053) operates a digital creative studio to support the digitalisation of any industry. DX, which means digital transformation, is a key word for many industries in the present day. Their aim is to improve customers, or potential customers experience on a client's website.

Sun Asterisk researches the client's industry, what makes its business unique, and the character of the clients company in order to design and build the client's website and digital offering using their team of IT professionals. Clients benefit from its prototype, or Minimum Viable Product (MVP), a development that shortens the design process and provides the client the flexibility to adjust, pause or stop the whole project in the middle of the process. The company's vision is "to create a world where everyone has the freedom to make awesome things that matter". Sun Asterisk sees itself as Creative x Tech x Business. The company was listed on the TSE Mothers Index on 31st July 2020. P/E 220x, PBR 47x, ROE N/A.

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.



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 10/09/20 and are based on internal research and modelling.

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