

Strategic Japan Opportunities Fund

September 2020 Fund Commentary



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MARKET DEVELOPMENT

During September, Japanese small caps rose continuously, whilst the broad market was relatively flat. Overall, the Japanese market remained steady following a sharp rise the previous month and the sudden resignation of PM Abe. Former Chief Cabinet Secretary Suga, who supported Abe for nearly eight years, was elected Prime Minister of Japan. His focus is to develop Japan's digitalisation quickly, and as widely as possible. PM Suga's passionate statement regarding the reinforcement of digitalisation had a sense of urgency that led investors to investigate Digital Transformation stocks (DX) and related companies that could accelerate Japan's progress in this area. On the back of this, DX stocks rose sharply, supporting our portfolio during September.

Surala Net (3998) provides electronic learning, education consulting and website operation to schools and individuals. The need for online learning has jumped due to the Covid-19 pandemic, pushing up the revenue of these companies. During the month, MonotaRO (3064) and Future Corp (4722) rose and contributed to the portfolio.

MARKET OUTLOOK

The Japanese market welcomed Prime Minister Suga and the newly formed cabinet, including a Digitalisation Agency based on his idea, which will be formed in early 2021. The new Agency will consist of 50 people from various ministries and 10 from private companies. Prime Minister Suga has reduced telecommunication costs and introduced the so-called Number Card which is similar the US Social Security Number. Although the Number Card's penetration ratio is currently only 20%, Suga and his cabinet will continue their efforts with the aim that everyone in Japan will have a card; and to improve the social services through the system.

When Abe's government introduced cash benefits in May, the Japanese people experienced a complicated mailing process in order to receive these benefits. Suga faced questions regarding the inadequacies of the system from citizens and journalists at the time, in his previous role as Chief Cabinet Secretary of the former government. PM Suga's focus is also to raise the birth rate in Japan, which will be a critical issue of the country for many years. In terms of Covid-19 control, the daily cases have remained around 100 to 200 in Tokyo, and 600 to 700 nationwide. Therefore we will maintain a cautious stance and carefully watch how the Covid-19 situation develops in the autumn and winter seasons. We continue to look into DX companies and will maintain the current portfolio.

PORTFOLIO DEVELOPMENT

JTOWER (4485) is engaged in the design and construction of wireless telecoms and information communications infrastructure. The company's services include mobile infrastructure sharing services, equipment development and system operations and maintenance. The company is also engaged in the design and development of communications-related solutions and the provision of information communications services.

Former equity analyst Atsushi Tanaka, who has had experience in start-up telecommunication companies, founded the company in June 2012. Based on past experience, Tanaka believes that sharing telecom-infrastructure services, a system that major US telecommunication companies have had in place for many years, would be a success in Japan. He started by buying businesses with existing in-building systems, which is considered less risky than building new towers. His more recent business model has been to make sizeable investments in building facilities to support new 5G services for major Japanese telecom companies. The Ministry of Internal Affairs and Communication of Japan has changed its telecommunication service target to a low cost service rather than full coverage of the population. JTOWER's service, which lowers the cost of telecom companies, should continue to grow. P/E n/a, PBR 17.1x, 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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