

Strategic Japan Opportunities Fund

October 2020 Fund Commentary



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PORTFOLIO MANAGER

MARKET DEVELOPMENT

The news of President Trump's COVID-19 infection shocked global markets in early October, but they recovered soon after. The Japanese market declined due to increased concern over the recent weakness within the domestic economy and the continued global COVID-19 situation. Q3 earnings in Japan were in line with investor expectations. However, investor sentiment became conservative and concern increased following the reintroduction of lockdown measures in major cities throughout Europe and uncertainties over the US Presidential election.

MARKET OUTLOOK

The US Presidential election has come to a conclusion, leaving behind a disorderly aftermath; Trump disputing the result combined with a nation divided. That said, what is more important is how the US moves forward from here. We don't believe the US-China trade war will diminish, and as such we will maintain the current portfolio strategy, even after Joe Biden's inauguration.

We have been focusing on DX and 5G telecommunication this year, and Suga's cabinet has also focused on these as tactical economic strategies. PM Suga is planning to set up a Digital Agency in order to increase progress on DX, particularly within local government bodies, where fewer employees are struggling under the current environment.

The COVID-19 situation in Japan is much better compared to other countries. PM Suga implemented the GoTo Travel and GoTo Eat campaigns, designed to encourage people to go out and spend, and it has been successful. The number of travellers has increased over recent months and the local economy has begun to move. Restaurants and hotels - high-end in particular, are almost fully booked at weekends. Between Mondays and Thursdays it remains quiet, but the overall situation has improved greatly.

We will continue to carefully monitor the domestic economy and COVID situation, and maintain the current portfolio.

PORTFOLIO DEVELOPMENT

Comture (3844) provides information processing and information technology business solutions. The company also provides web solutions relating to the information sharing environment. Comture supports remote working environments under COVID-19 business conditions, and the revenue generated by this division has offset the declining airline sector revenues, which are struggling again in the COVID-19 environment.

The company was founded by CEO Mukai in 1985, and was listed on the Nasdaq in 2007 and the TSE 1 in 2013. Digital Exchange (DX) business needs on cloud computing, Artificial Intelligence, Internet of Things, and Fintech are Comture's target business areas. Prime Minister Suga has accelerated the growth of the DX environment in Japan to a much faster pace than before, and this will support and drive Comture's business also. Even though some sectors that were more heavily affected by COVID-19 will experience difficulties; such as airlines, hotels, and retail; these businesses will bounce back in the future when the COVID-19 situation subsides or a vaccine and medicines are available globally. P/E 47.2x, PBR 7.91x, ROE 17.5%.

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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FUND AWARDS



Morningstar Sustainability Rating.
Out of 1,054 Japan Equity funds as of as
at 30/09/2020 based on 87.65% AUM.
Data is based on Long positions only.

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 11/11/2020 and are based on internal research and modelling.

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The Strategic Japan Opportunities Fund (A JPY Class) received a 4-Star Overall Morningstar RatingTM and a 4-Star 3-Year Morningstar RatingTM. Morningstar RatingTM as of 31/10/2020.

The Strategic Japan Opportunities Fund received a Morningstar 3 Globe Morningstar Sustainability Award. Out of 1,054 Japan Equity funds as of 30/09/2020. Based on 87.65% of AUM. Data is based on long positions only. Historical Sustainability Score as of 31/08/2020. Sustainability Rating as of 30/09/2020. Sustainability provides company-level analysis used in the calculation of Morningstar's Historical Sustainability Score.

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