

# STRATEGIC JAPAN OPPORTUNITIES FUND

A SUB-FUND OF E.I.STURDZA FUNDS PLC. REGISTERED IN IRELAND.



**EI STURDZA**  
INVESTMENT FUNDS

NOVEMBER 2018 – MONTHLY COMMENTARY BY PORTFOLIO MANAGER MITSUHIRO YUASA

## FUND COMMENTARY

The domestic market recovered slightly in November despite the lack of any good news. Investors were disappointed about the lack of results from the APEC forum, with no notable progress made regarding the trade dispute between the US and China.

Disappointing earning results from US technology companies weighed on both, the US and Japanese markets. A continuation of US-China trade talks have put a halt on companies' capital expenditure plans, which have been stopped globally since the beginning of the year and at the same time are negatively impacting earnings' projections. According to the Investment Adviser, future uncertainty surrounding the global economy has grown due to the lack of healthy capital expenditure.



The US market has been supported by share buy-backs, accounting for approximately \$850bn this year and is expected to rise to \$900bn next year.

Investors negative reaction to the G20 summit in Buenos Aires showed their frustration about a leaderless world economy.

A new law, seeking to ease immigration rules for foreign workers in Japan has been passed by the House of Representatives and was sent to the House of Councillors for implementation in April 2019. This new law will enable immigrant workers with a certain level of skills and occupying certain jobs to stay in Japan with their families for 5 years and to have permanent resident rights in the future. The law is expected to ease labour shortage issues in Japan, especially in the construction, healthcare, and service industries. This change creates business opportunities such as foreign labour placement, security, education and schools. Outsourcing (2427), which the Fund has held since inception, has started a new business related to the above changes and is growing rapidly.

The 2025 Expo will be hosted by the Kansai region, including Osaka and peripheral cities in the western part of Japan. In addition, the Rugby World Cup and G20 summit will also take place in Osaka in 2019, while the 2020 Olympic Games will be held in Tokyo.

In October 2019, consumption tax will be raised from 8% to 10%, which is likely to have a negative impact on the domestic economy. That said, the team believe these impacts to be minimal due to strong support by the current Government that had a bitter experience three years ago. According to the Investment Adviser, the market may fluctuate temporarily, but the team believes that overall, a positive view should be maintained regarding the domestic economy, market and ultimately the portfolio.

JSB (3480), one of the portfolio's investments, amongst others, provides real estate related services such as designing student dormitories and condominiums, operation, renting, and property management. JSB has recently expanded its services to include houses for elderly people, which is growing rapidly through merger and acquisitions. The Company's margins are also rising by using IT services. The number of Japanese people around the age of eighteen has gradually decreased due to the changing demographics, while the number of students has continued to be stable through an increase in immigrants from ASEAN countries. As a result, the business environment has improved, with room to further improve productivity by leveraging on IT. The Japanese government has a plan to attract increasing numbers of foreign students, aiming to increase their numbers from 170,000 in 2008 to 300,000 by 2020. In 2017, there were approximately 270,000 foreign students in Japan, with Ms. Oka, Chairman of JSB, indicating that that the Company only has a 3% market share, leaving further room to grow. The Company currently trades at P/E 9.3x, PBR 1.6x and ROE 19.0%.

The views and statements contained herein are those of Rheos Capital Works Inc in their capacity as Investment Adviser to the Fund as of 12/12/18 and are based on internal research and modelling.

## PORTFOLIO MANAGER



**MITSUHIRO YUASA**

Mitsuhiro has over 28 years investment experience and co-founded Rheos in 2003 following a career at Rothschild Asset Management and Gartmore Asset Management. He has extensive experience managing foreign institutional and domestic pension clients. Further Mitsuhiro has superior analytical, knowledge and management skills in relation to emerging growth stock portfolios and equity strategies, with a deep understanding of the Japanese and global asset management industry.

## FUND OBJECTIVE

The investment objective of the Fund is to out-perform the broad Japanese equity market over the long-term.

## CONTACT

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