



# E.I. Sturdza Strategic Japan Opportunities Fund

February 2019 Fund Commentary



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PORTFOLIO MANAGER

## MARKET DEVELOPMENT

The domestic market rose again in February, despite global uncertainties continuing to prevail. The Japanese market gained, led by growth-oriented rather than value-oriented companies. Investors preferred to target future growth instead of value stocks, which were considered to be safe-haven assets late last year and early this year.

YTD the Japanese market has recovered more than half of its loss incurred between September and December 2018. Investors are focusing on corporate earnings projections, which may be dull given the gloomy macro environment and unstable geopolitical situation. According to Factset's latest survey, the Topix EPS rose 2.6% YoY in 2018 and is projected to increase 4.1% YoY in 2019. EPS had previously risen 25.5% YoY in 2017, constituting the main driver of superb equity returns during said year. The Investment Adviser however does not expect such growth to apply to all Japanese companies.

In the team's opinion the following continues to hold: "One should look at a tree, not a forest." The Investment Adviser continues to focus on individual companies that have the ability to grow regardless of the macro or geopolitical environments.

84 companies IPOed in Japan last year, following 88 and 74 IPOs in 2017 and 2016 respectively. Many companies are waiting to be listed and offer growth prospects, with the team having the opportunity to invest in such companies. Foreign investors have not come back to the Japanese market yet, which enables the team to invest in potential growth and domestic companies before valuations start to increase.

UT Group (2146) provides labour dispatching services, and offers outsourcing of permanent employees in manufacturing, design and development, construction, and other industries, thereby providing similar services to Outsourcing, which is held in the Investment Adviser's portfolio.

The Company's strategy is to concentrate its client base, whilst competitors such as Outsourcing (2427) and World Holdings (2429) are diversifying their client base. UT Group will going forward provide assistance for foreign workers (in non work-related situations), which are employed by Japanese companies. The Company plans to handle 1,000 requests at the end of this fiscal year. UT Group further offers 10,000 dormitory rooms to their employees, the highest number of rooms offered by a Japanese company. UT Group further provides housing as well as \$200/month support for their employees, enabling the Company to recruit a sufficient labour force to meet the robust needs of its clients. The Company is currently trading at P/E 19x, PBR 8.1x and ROE 52.6%.

## 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.

## CONTACT

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**PERFORMANCE DATA** As at end of February 2019

**CUMULATIVE PERFORMANCE %**

	1M	3M	1Y	Fund Inception
JPY I	5.19	-4.28	-10.57	13.66
TOPIX TR JPY	2.60	-3.35	-7.06	6.68

**CALENDAR YEAR PERFORMANCE %**

	YTD 2019	2018	Annualised Inception
JPY I	11.53	-20.37	6.77
TOPIX TR JPY	7.65	-15.97	3.36

Past performance is not an indicator of future performance.

**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 12/03/19 and are based on internal research and modelling.

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