



E.I. Sturdza Strategic Japan Opportunities Fund

March 2019 Fund Commentary



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MARKET DEVELOPMENT

The domestic market rose at the beginning of March following a strong recovery during the early part of the year. This contrasts to the 2H 2018, when the market lost its vigour and direction as a result of the negative impacts of global politics on companies. Further, the remaining uncertainty around Brexit continues to impact global markets.

During the month, geopolitical threats eased compared to last year. This said, the global political situation remains uncertain, leading corporate executives to worry more about the future.

The next Era of Japan, called "Reiwa" which follows "Heisei", will start in May 2019 when Crown Prince Naruhito ascends to the throne. The "Heisei" era started in 1989, when the Emperor of "Showa" died. The name "Reiwa" was taken from Japan's oldest anthology of poetry "MANYOSHU". "Reiwa" was taken from a poem which focusses on a positive start to something new. The Japanese market will be closed from 29 April to 6 May due to the imperial transition. The team however believe the impact of the closure will only be short-lived.

In 2019, Japan is facing various political events such as the 2019 G20 Osaka summit in June, the House of Councillors election in July, and a 2% consumption tax hike (up to 10%) in October. Prime Minister Abe will visit France, Italy, and the US from 22nd to 29th April in advance to these developments.

Abe and his cabinet still maintain a relatively high popularity amongst Japanese citizen, and people around him have started to talk about a further extension of the presidency of the Liberal Democratic Party (LDP). Last year, the LDP extended its leadership to 3 consecutive 3 year terms, from 2 terms previously. Abe took office in 2012 and has so far spent seven consecutive years as Prime Minister, with his current term scheduled to end in 2021. Some of the LDP members and his surrounding peers expect him to remain the Party's leader as long as possible.

FUND DEVELOPMENT

The Investment Adviser has maintained exposure to technology stocks, believing that demand for 5G will pick up again later this year, despite the current downturn of the semiconductor cycle and sluggish capital expenditures on servers and telecommunication systems. The Investment Adviser is further investing in domestic consumption-related companies in order to balance the portfolio. The team continues to watch domestic consumption trends closely and is maintaining the current portfolio positioning for now.

Welbe (6556) offers welfare services and support for people with disabilities. The Company also provides consultation support for people who engage in long-term care for the elderly or child care. Against the backdrop of a continuing full-employment environment and aging society, Japanese companies are struggling to increase their labour force. Despite the government having eased its immigration policy in April 2019 the number of foreign workers may not increase for some time. In the Investment Adviser's opinion, there should be more understanding towards employing people with disabilities. According to the team, there are more than 2 million people with mental disabilities in Japan, out of which only 50,000 are currently employed. The Abe Government is targeting to raise the employment rate of people with physical and mental disabilities from 2.2% currently to 2.3% by 2020. The Company trades at P/E 48x, PBR 20.1x and ROE 49.7%.

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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PERFORMANCE DATA As at end of March 2019

CUMULATIVE PERFORMANCE %

	1M	3M	1Y	2Y	Fund Inception
JPY I	1.35	13.04	-6.51	15.20	15.20
TOPIX TR JPY	0.09	7.74	-5.04	10.03	6.78

CALENDAR YEAR PERFORMANCE %

	YTD 2019	2018	Annualised Inception
JPY I	13.04	-20.37	7.18
TOPIX TR JPY	7.74	-15.97	3.27

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 12/04/19 and are based on internal research and modelling.

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