



E.I. Sturdza Strategic Japan Opportunities Fund

April 2019 Fund Commentary



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MARKET DEVELOPMENT

The market moved sideways and without clear direction in April. The performance divergence between the Topix and Nikkei, accounting for 3.32%, mainly stemmed from two companies, namely Fast Retailing and SoftBank Group, which account for circa 10% and 5% of the Nikkei and rose 23% and 7.5% respectively in yen terms during April.

The market continued to be hampered by global issues such as the US - China trade negotiations and Brexit, with investors being frustrated by the seemingly endless talks. This said, investors observed markets which keep moving and continuously growing, regardless of the macro environment. The US and China trade negotiations have recently started to heat up again, when the US accused China of reneging on its trade commitments. To the Investment Adviser this seems to be an endless game which has repercussions across the world.

China's better-than-expected March PMI triggered investors to look at the global capital goods, semiconductor and electronics markets which have been depressed since last September due to slowed global capital expenditures.

OUTLOOK

Japan's New Era "Reiwa" started in May after 10 consecutive days of holiday. The Japanese welcomed the new name, which signifies a culture nurtured by people who bring their hearts together in a beautiful manner. Japan will host the G20 Summit in Osaka for the first time on 28th – 29th June, which Prime Minister Abe will be well prepared for. During the month, Abe visited President Trump with no major outcomes apart from an agreement on how to deal with North Korea.

The team think that the Japanese market may be quiet due to seasonal reasons. Earnings of Japanese corporations will be gradually released from the end of May onwards. According to the Investment Adviser, the Topix EPS may rise 3% YoY in 2019, and 6.5% in 2020 according to Factset. This said, the team does not expect significant EPS growth for the overall market this year, sticking to individual stocks that can grow under any kind of macro environment which may be impacted by several powerful politicians.

FUND DEVELOPMENT

The Fund returned 4.01% in April, bringing its YTD performance to 17.57% and leading to an 8.05% outperformance versus its benchmark. The team will continue to focus on 5G related companies, as well as software and hardware producers, which support people and companies, which are trying to improve their productivity and eventually top-line growth.

SOU (9270), which has been part of the Investment Adviser's portfolio for a year now, purchases and sells branded goods, precious metals and antique items. The recent regulatory change with respect to the Second-Hand Articles Dealer Act eased the Company's business environment. As a result, SOU is able to expand its shops across Japan, reaching heirs and households that struggle to dispose of their inherited items or convert them into cash more easily.

There is so far no such market in Japan but the need for shops and professionals which can handle such items at fair value is growing rapidly alongside the rising number of deaths in the country's aging society. SOU organises and integrates local small second-hand shops across Japan to support them during times of regulatory change and in order to expand its

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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business area. The Investment Adviser believes SOU will be one of the major solutions for second-hand goods in Japan given the demographic evolution. The Company currently trades at P/E 19x, PBR 4.3x, ROE 27.4%.

PERFORMANCE DATA As at end of April 2019

CUMULATIVE PERFORMANCE %

	1M	3M	1Y	2Y	Fund Inception
JPY I	4.01	10.89	-4.23	20.70	19.82
TOPIX TR JPY	1.65	4.39	-6.78	10.45	8.54

CALENDAR YEAR PERFORMANCE %

	YTD 2019	2018	Annualised Inception
JPY I	17.57	-20.37	8.89
TOPIX TR JPY	9.52	-15.97	3.94

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 09/05/19 and are based on internal research and modelling.

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