



# E.I. Sturdza Strategic Japan Opportunities Fund

May 2019 Fund Commentary



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PORTFOLIO MANAGER

## MARKET DEVELOPMENT

In May, the Japanese market declined amid rising tensions between the US and China, with Tokyo's market correction however being relatively muted compared to other Asian countries.

During the month, President Trump visited Japan for four days to meet the New Emperor and Empress of Japan, attending their dinner party and additionally visiting the US Military base in Yokosuka. Prime Minister Abe entertained President Trump by taking him out to golf, dinner, and watching Sumo wrestling, providing him with high levels of hospitality. Prime Minister Abe tried to secure favourable trading conditions for Japan in the midst of the fierce US China trade dispute. Both leaders however postponed an agreement between the two countries until August, when the Japanese House of Councillors election ends.

## OUTLOOK

The economic and political environment has deteriorated globally. The US and China trade dispute has spread to Mexico, increasing its burden on global markets. The Investment Adviser is expecting a sizeable negative impact, not only on Japanese auto manufacturers but on other industries and companies as well.

Amid such a challenging environment, the G20 summit will take place in Osaka on 28th – 29th June, providing a platform for various leaders such as Trump, Xi, May, Macron, Merkel and Abe to discuss global geopolitical and economic concerns. The summit's main topic has not been determined yet, but trade disputes and geopolitical threats such as the issue surrounding the Korean peninsula as well as the escalating tensions between the US and Iran should be focused on in the Investment Adviser's opinion.

The domestic market remains fragile against the forthcoming elections in July and the 2% consumption tax hike scheduled for October. There are rumours going round that the rate will be reduced or the tax hike postponed under severe economic conditions. The government had twice postponed raising the consumption tax by 2%, in October 2015 and April 2017, mainly on the back of a weak macro-economic environment.

It is still uncertain whether Prime Minister Abe will decide to delay raising taxes at this point, with the team however doubting that this would stimulate domestic consumption significantly. The Investment Adviser believes that it would in fact have a negative impact on Japan, should the country's sovereign debt rating be lowered as a consequence.

## FUND DEVELOPMENT

Japan Material (6055) provides gas management system services for semiconductor and LCD factories. Semiconductor etching has recently required additional steps due to environmental concerns, as a result the work load has increased for manufacturers. Although there are many jobs available in this field of work, there are not enough companies and people capable of such work, with the exception being Japan Materials. The Company hired skilled workers from Sharp (6753), Kurita Water Industries (6370) and Organo (6368) in order to enrich their workforce at client factories at which the Company has installed its gas management systems and facilities.

## 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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Japan Material's after-tax margin improved from 14.8% in Q3 2017 to 16.8% in Q3 2018 alongside globally increasing demand for their systems. The Company also develops and produces application software products for CAD/CAM and 3D data processing. The Company currently trades at P/E 26x. PBR 6.4x and ROE 26.5%.

The team continues to maintain the current balanced portfolio, with active exposures towards electronics, exporters and domestic names.

## AWARDS



## PERFORMANCE DATA As at end of May 2019

### CUMULATIVE PERFORMANCE %

	1M	3M	1Y	2Y	Fund Inception
JPY I	-8.44	-3.48	-12.80	5.48	9.71
TOPIX TR JPY	-6.52	-4.89	-11.38	0.83	1.46

### CALENDAR YEAR PERFORMANCE %

	YTD 2019	2018	Annualised Inception
JPY I	7.65	-20.37	4.29
TOPIX TR JPY	2.38	-15.97	0.66

**Past performance is not an indicator of future performance.**

**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 11/06/19 and are based on internal research and modelling.

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