



E.I. Sturdza Strategic Japan Opportunities Fund

June 2019 Fund Commentary



Mitsuhiro Yuasa
PORTFOLIO MANAGER

MARKET DEVELOPMENT

In June, the Japanese market rebounded from a sharp deterioration during the previous month. Despite a difficult environment, the market gained on the back of Trump's decision to refrain from imposing sanctions on Mexico and the FRB's comment on possibly easing the Federal Funds Rate.

Against the backdrop of a difficult global macro and geopolitical environment, Prime Minister Abe proved a good host of the G20 meeting in Osaka, which eased tensions between the US and China. This said, not all issues could be resolved, with certain disputes remaining unsolved in the Investment Adviser's opinion. President Trump spent most of his time discussing sanctions on China and North Korea. After the summit, Trump flew to Korea to meet Kim Jong Un at the Korean Demilitarized Zone (DMZ). For now the US maintain their sanction list, whilst Japan introduced trade sanctions against South Korea, limiting the export of semi-conductor manufacturing materials and potentially capping future growth in the industry.

OUTLOOK

In the team's opinion, the G20 meeting in Osaka was a success, resolving global issues that needed to be tackled. Under fragile global economic and geopolitical conditions, President Trump opened dialogue with China, with the aim of addressing accumulated issues which have been impacting the global economy.

The team think that the LDP and Komeito coalition government may be able to maintain a majority in the Upper House in the scheduled election later in July. According to the Investment Adviser, one shouldn't worry too much about the domestic political situation. This said, the team advise to watch the economic situation more closely.

A 2% consumption tax hike is scheduled for October, which the team believe has already mostly been discounted by the market. Looking at corporate earnings for the first quarter of the fiscal year (April to June), they appear to have worsened due to the weakening global economy and sharp depreciation of the Dollar against the Yen. According to Factset*, TOPIX EPS for the calendar year 2019 may decline 1% YoY.

The team is aware of a possible downward revision of Japanese companies' earnings, believing this could represent the bottom for the market during the year.

PORTFOLIO DEVELOPMENT

Autonomous Control Systems Laboratory (6232), which has been part of the Investment Adviser's portfolio since the beginning of February 2019, offers autonomous control systems, mainly researching and developing drones. The Company's drone system can be used in places which are difficult to reach, such as tunnels, water supply systems, or beneath highways.

According to the team, many local bodies are facing a labour shortage to check facilities within their town, including e.g. warehousing systems, roads and dams. Once programmed, the drones can carry out such work repeatedly and without the need for a large amount of human resources. The Company currently does not generate any profit but will in the Investment Adviser's opinion soon achieve a certain level of bottom line, backed by local government bodies which aim at cutting costs.

Source: Factset: July 2019.

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

E.I. Sturdza Strategic
Management Limited

+44 1481 722 322
info@ericsturdza.com
ericsturdza.com


PERFORMANCE DATA As at end of June 2019

CUMULATIVE PERFORMANCE %

	1M	3M	1Y	2Y	Fund Inception
JPY I	1.28	-3.55	-11.71	4.56	11.11
TOPIX TR JPY	2.76	-2.35	-8.23	0.64	4.27

CALENDAR YEAR PERFORMANCE %

	YTD 2019	2018	Annualised Inception
JPY I	9.03	-20.37	4.71
TOPIX TR JPY	5.21	-15.97	1.84

Past performance is not an indicator of future performance.

AWARDS




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 09/07/19 and are based on internal research and modelling.

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