



# Strategic Japan Opportunities Fund

July 2019 Fund Commentary



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## MARKET DEVELOPMENT

The Japanese market continued to rise at the beginning of July against the lack of any major news. The FRB's hint to possibly implement monetary easing in the US supported global markets and at the same time reduced uncertainty in the Japanese market. The US and China trade dispute continued, whilst President Trump spent more time domestically making racist comments.

During the month, the Japanese market moved sideways following the release of companies' weak Q1 earnings. The Investment Adviser believes that the market has mostly discounted exporters' weak Q1 earnings following the ongoing dispute between the US and China, preventing a large decline of the market. The LDP and Komeito maintained the majority of seats in the Japanese Diet's Lower House, with the election not having impacted the market.

## OUTLOOK

According to the team, first quarter earnings (April to June 2019) were not as good as anticipated due to the US-China trade dispute, uncertainty surrounding Brexit, consumption tax hike in Japan, and geopolitical threats, which continue to give the global market a headache.

During the month, the FRB lowered its FF rate by 25bps for the first time since December 2008. Despite the market having faced several sizeable events including Japan's Lower House election, the FOMC, and the UK Conservative Party leadership election, the team do not anticipate that the bottom line of domestic companies will recover significantly in the near term. The Investment Adviser rather expects the domestic market to hover around current levels for a while against weak earnings expectations.

According to the team, the Japanese currency may strengthen against the dollar due to FRB's current stance, creating a headwind for Japanese exporters. The FRB commented that they are unlikely to speed up lowering interest rates, but will take prompt action when the need for lower rates is identified. This leaves the possibility of further interest rate declines, which would weaken the dollar. Against this backdrop, the team will carefully watch the earnings trend of Japanese companies for a while.

## FUND DEVELOPMENT

The Investment Adviser continues to take a slightly cautious stance regarding the Japanese market, holding quality company stocks which have the ability to generate a decent bottom line growth in the long-term.

During the month, the Fund gained 1.69%, 0.78% ahead of its benchmark, taking the Fund's YTD return up to 10.87% and translating into a relative outperformance of 4.70% versus its benchmark.

Toridoll Holdings (3397) operates a variety of restaurants, such as skewered grilled chicken, Japanese Udon noodle, Ramen noodle, Japanese-style pancakes and pasta restaurants. The restaurants operate at food courts in shopping centres, stations, highway rest areas, and suburbs. Toridoll is expanding its business abroad, which accounts for 20% of total sales. The Company owns 1,103 shops in Japan and a total of 575 shops in Hong Kong, Taiwan, the Philippines, Singapore, and the US.

## 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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Their brands such as Wok to Walk, Marugame Seimen, Shoryu, Tamjai Yunnan Mixan, Pokeworks, and Monster Curry are popular with locals. The Company's latest store sales rose 8.7% and 5.1% YoY in May and June respectively. Based on the Company's earnings estimate for the current fiscal year, Toridoll trades at P/E32x (2020 Est), PBR 3.0x, and ROE 9.2% (2020 Est.).

**AWARDS**



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

**CUMULATIVE PERFORMANCE %**

	1M	3M	1Y	2Y	Fund Inception
JPY I	1.69	-5.70	-9.66	5.24	12.99
TOPIX TR JPY	0.91	-3.07	-8.59	1.13	5.22

**CALENDAR YEAR PERFORMANCE %**

	YTD 2019	2018	Annualised Inception
JPY I	10.87	-20.37	5.28
TOPIX TR JPY	6.17	-15.97	2.17

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 08/08/19 and are based on internal research and modelling.

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