

# STRATEGIC JAPAN OPPORTUNITIES FUND

A SUB-FUND OF E.I.STURDZA FUNDS PLC. REGISTERED IN IRELAND.



**EI STURDZA**  
INVESTMENT FUNDS

## INVESTING IN GROWING COMPANIES IN JAPAN'S NEW ECONOMY

Why should people invest in Japan today and in particular small and mid cap strategies?

Since Prime Minister Abe assumed his current position in late 2012, we have had the most stable government in Japan. The strong government aims to make the country a global economic leader, bringing confidence back to the people and present Japan's potential to others. Prime Minister Abe has a grand vision for Japan, in which people are working healthy and are not worried about the future. This vision is backed by the Government, while Japanese companies realise the importance of improving productivity, profitability, and Return on Equity to make their company's attractive, not only to investors but also people who may buy products or services from them or work as employees. Based on the current popularity of Abe, he may be able to maintain his current position until 2021, while the Country also benefits from the strong tailwinds associated with the 2020 Tokyo Olympic Games.

Japan is united as one country to grow further, so that the bottom line for corporates should grow faster than ever, with the expectation that the bottom line of small companies should grow faster than those of larger companies. In this context, we should take advantage of this opportunity and invest in companies with the potential to deliver high growth, in a country which is also offering a high potential for growth.

You have indicated that company returns have improved since the introduction of Abenomics. What are the market forces, indicators etc driving this improvement? Do you see this trend developing further or changing in the short to medium term?

Prime Minister Abe has introduced a strong monetary easing policy along with Bank of Japan and expanded the fiscal policy since he took office. We have seen the immediate effect on corporate earnings, mainly because of the depreciation of the foreign exchange rate. We are now expecting essential changes in corporate structures, which we have hoped for for many years. Under the leadership of the government, the stewardship-code and the corporate-governance-code have been established with the aim of increasing shareholders value. Even though the capital efficiency of Japanese companies is still low compared with that of those in the US and EU, we have seen a gradual improvement of corporate attitudes in relation to such matters as, the hiring of external board members, setting of ROE targets, buying back shares, etc., and investors are well aware of those changes. It will take time to build value, but we believe as Prime Minister Abe moves forward with corporate reforms we will see the benefits for the future of the Japanese economy.

How will politics, government policy or BoJ decisions impact on Japan's future?

As mentioned above, a stable government will provide significant support for equity markets and we expect Prime Minister Abe will remain in office until 2021, assuming he is re-elected this year or at the least before August 2018.

Are there any national or international trends which would concern you?

Spreading protectionism which is being led by President Trump is a head ache for us. Additionally, geopolitical issues are causing uncertainty in the market as we see the expansion of populism and protectionism around the world.

Do you currently favour any particular market sectors? Are there any sectors you would avoid in the short term?

Not in terms of particular sectors, as we believe there are always possibilities for positive changes either within the old-economy or new-economy sectors. Having said that, we particularly like companies which are improving or trying to improve their productivity or which provide services or tools to improve productivity for their clients.

## PORTFOLIO MANAGER



**MITSUHIRO  
YUASA**

Mitsuhiro has over 26 years investment experience and co-founded Rheos in 2003 following a career at Rothschild Asset Management and Gartmore Asset Management. He has extensive experience managing foreign

institutional and domestic pension clients. Further Mitsuhiro has superior analytical, knowledge and management skills in relation to emerging growth stock portfolios and equity strategies, with a deep understanding of the Japanese and global asset management industry.

## FUND OBJECTIVE

The investment objective of the Fund is to out-perform the broad Japanese equity market over the long-term.

It could be said that our portfolio has a domestic orientation; circa 70% of all stocks held are usually domestically orientated companies. This is reflective of the fact that we are seeking companies with a unique business model and strong management which create stable growth under any circumstances. However, we also look at the overall market conditions, especially foreign exchange rate which have had a significant impact on the earnings of global/export oriented companies. Considering the past 5 years, we had maintained higher exposure to global/export stocks since investors focused on higher growth stocks, with sharp depreciation of the yen when Prime Minister Abe, in 2012, and President Donald Trump in 2016 assumed their roles.

## Investment Process:

### What makes your investment approach so different?

We have a clear mission and vision and strongly believe that it will be achieved provided that we remain focused. We simply find growth opportunities by researching the company, meeting with the management, and discussing with the team based on our objectives.

### What lessons have you learnt from the financial crisis and how have you adapted your process since then?

Nobody can predict what will happen next, but it is possible to take the right action after market developments/corrections occur. We know that such phenomenon can provide opportunities to invest in high quality companies, as long as people believe in their recovery and have not given up on their future growth prospects.

### If your process indicates turbulence ahead, how do you manage risk and protect assets?

We generally take a long-term position in each company in the portfolio; however if the stock is overvalued, we may slice some portion of the position, and hold as cash or invest in undervalued stocks. We do this as a routine to manage risk.

### Could you expand on how the proprietary quantitative model identifies growth companies to invest in?

Our quantitative model is a screening tool to identify potential investments from all listed companies in Japan. The model is also used to compare each company's relative position from the perspective of valuation, growth, and price momentum. The model is the starting point for research. Meetings with CEO and other management of the company and discussions with the investment team are much more important in the identification of growth companies.

### To what do you attribute the performance of the strategy at this point in time?

Over the last 3 years the majority of the strategy's alpha, with reference to the index (TOPIX) can be attributed to stock selection. As highlighted in the presentation of Strategic Japan Opportunities Fund, we have had a number of great performing stocks in the portfolio, such as JIN CO., LTD and OUTSOURCING INC. This said the portfolio has been diversified and built up the return from a wide range of our investment, rather than being highly geared to the performance of one or two particular stocks.

### How would you characterise name turnover in your strategy?

We invest in companies with a long term view, believing that it takes time (at least 6 months) for the market to appreciate the fundamental changes a company has gone through. Therefore, most of our investment will be held for at least 6 months, unless there are unexpected changes in fundamentals.

Stock prices fluctuate in accordance with market conditions; however we believe it is important to manage our portfolio based on our valuations. Hence, name turnover will not be high but portfolio turnover will be higher because we buy into dips if we believe prices are undervalued or sell an investment if prices are overvalued.

The views and statements contained herein are those of Rheos Capital Works Inc in their capacity as Investment Adviser to the Fund as of 31 January 2017 and are based on internal research and modelling.

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