

SHINING A LIGHT ON..... AXA FRAMLINGTON JAPAN FUND

At a glance

In my previous update we looked at Neptune Japan, and the unique approach the manager takes to investing. The challenge for investors which we identified was the Yen depreciating and how this might mean returns are limited without a hedge.

We are also aware that although the focus of the fund is large cap multinationals the volatility is at the high end and this may not appeal to all investors. We suggested a blend and one fund we use is the GLG, however there are concerns we have with the fund. Firstly for the second time the managers have soft closed the fund to new money, secondly the managers will not discuss the impact of yen depreciation on the fund and thirdly similar to Neptune it plays in the large cap space.

We have recently met Chisako Hardie who is the manager of the AXA Framlington Japan Fund and there are a number of reasons why this might be an interesting blend. Firstly performance, the performance over 1 and 3 years has significantly outperformed GLG and over five years it has outperformed Neptune, over 12 months it has underperformed Neptune. Secondly volatility, the performance has been delivered with volatility close to the index at 12.50% which is significantly lower than Neptune and lower than GLG. Thirdly the investment is different to both GLG and Neptune in that the focus is multi cap with a bias to small and mid-cap.

The meeting with the manager provided an alternative insight to Japan and how to achieve long term returns.

Who are the team behind the fund?

The lead manager is Chisako Hardie.

As a native Japanese speaker Chisako Hardie has a good insight into her investment territory and believes she has an edge over many of her rivals in the relatively under-researched world of Japanese small-caps.

She ran the SWIP Japan Smaller Companies fund with a mix of growth and value styles. Since 2010 she has been running the AXA Framlington Japan Fund. She studied Sociology at Keio University, Tokyo and worked as an investment analyst for five years before she moved into fund management in 1997. Hardie particularly admires the skills of Michael Thomas, the respected fund manager at her former employer Martin Currie.

She is supported by William Howard who joined AXA in 2012.

Fund highlights?

This fund currently has 98 holdings and these are fairly evenly spread with the top holdings being around 1% to 1.5% of the fund. No-one holding will top 2%. As the fund invests in micro, small and mid-caps some of the holdings are illiquid and therefore to mitigate stock specific risk the holdings are evenly spread. For illiquid assets the holding tends to be around 0.5%.

For some this shows a lack of conviction but on the flipside it is this approach which keeps the volatility low and this is needed when investing in the small and mid-cap space. As we have seen this has not been detrimental to performance.

Another aspect is that this will be a fairly high turnover fund with the average holding period being 12 months, some holdings are held for months and others have been held for 4 years. It leads to the manager being a stock picker and this is where she admits she can make money for investors.

In the update we talk about the process and also the yen. Chisako admitted that in the past she felt it was not the position of the fund manager to call whether the yen should be hedged or not, and to some extent this approach was okay where the Yen was getting stronger.

However, she admits that the overall feeling is that the Yen will weaken further and this means that a manager should consider the implications of this. It may be that the AXA Fund introduces a hedged version of the fund or some form of market neutral instrument. This is the first manager who has indicated that hedging will play a part going forward.

Clearly without the hedge she has been able to drive strong returns and with little currency movement in 2014 the fund has performed strongly. This reflects her approach to companies and perhaps with the ability to manage the hedge this could be an interesting fund to follow.

Ultimately Chisako is a stock picker and at the heart of what she does is meeting companies, seeing their research centres, visiting factories and in the retail space looking at shops. She only picks companies where she has met them and understands the nature of their business.

Contrary to the view of Neptune her view is that there are many good companies in Japan and these tend to be in the Small and Mid-Cap space.

Some examples of themes she is playing is market share expansion in mature markets. Chisako explained that many sectors are still highly fragmented and strong players have ample opportunity to grow. An example we discussed was Ain Pharmaciez; this is the largest pharmaceutical chain in Japan but it only controls a tiny proportion of the market. As the market consolidates this business is likely to be a beneficiary of this.

Unicharm is a leading manufacturer of disposable nappies and has managed to take its products to Asia, the Middle East and Latin America and taken the largest market share in these regions.

Robotics is another area where Japan are innovators creating factory automated robots reducing labour costs and this is extremely important both in Japan and China. And with an aging population the likes of Tsukui are providers of nursing care services for the elderly.

The point that Chisako was making is that there are many opportunities in Japan and these are just an example of some of them others include growth in tourism, women in the work place etc. The skill is identifying those opportunities and finding ways to exploit them.

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In conclusion with this fund you have a manager who is Japanese, who has studied and lived in Japan and understands the culture. You also have a manager with a proven track record in the small and mid-cap space and has many years' experience. The only question mark is around the hedging of the yen which she admits could be a problem moving forward however the fund may adapt to reflect this and she has still been able to deliver strong returns. It may therefore act as a good blend with a hedged fund.

Fund performance

Performance for the past five year's vs GLG Japan CoreAlpha Fund, Neptune Japan Opportunities Fund and db x-trackers MSCI Japan Fund is shown below:

	2009	2010	2011	2012	2013	2014
AXA Framlington Japan Fund	-11.17%	21.39%	-13.83%	1.61%	34.11%	7.01%
Neptune Japan Opportunities Fund	5.25%	-0.11%	-21.57%	17.15%	50.74%	1.30%
GLG Japan CoreAlpha Fund	9.35%	24.28%	-16.64%	0.48%	31.61%	0.03%
Db x-trackers MSCI Japan ETF	-7.12%	17.46%	-14.46%	3.73%	24.61%	-0.52%

	12 months	3 years	5 years
AXA Framlington Japan Fund	6.04%	38.68%	42.89%
Neptune Japan Opportunities Fund	11.07%	69.93%	40.51%
GLG Japan CoreAlpha Fund	1.46%	25.50%	27.85%
Db x-trackers MSCI Japan ETF	0.12%	24.98%	27.29%

Since taking on the management of the fund on 16 April 2010 she has returned 28.70%, Neptune has returned 25.30%, GLG 12.83% and the index returned 13%.

You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well as rise. The total return reflects performance without sales charges or the effects of taxation, but is adjusted to reflect all on-going fund expenses and assumes reinvestment of dividends and capital gains. If adjusted for sales charges and the effects of taxation, the performance quoted would be reduced.

Conclusion

This is a well-managed fund which relies on the stock picking skills of the manager. The question mark remains around the hedge and clearly that is something the manager is considering to. It may well work well as a blend with a hedged fund.

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