SHINING A LIGHT ON……
MAN GLG UNDERVALUED ASSETS FUND

Update….

When we first reviewed this fund we explained that it was similar to the SLI UK Equity Unconstrained Fund which looks to invest in undervalued businesses.

The main differences at the time were performance and volatility. At the time the SLI Fund had stronger performance with greater volatility, today the Man GLG has slightly better performance with less volatility. For investors looking at investment options it is worth comparing these two with others in the market.

In this review we will cross reference the original update to see what has changed.

In October 2014 52% of stocks in the FTSE 100 were overvalued and at the time Henry (the manager) felt the hunting ground was narrowing. Fast forward to August 2015 and that is now 75%. He didn't cover what the sell off has done to the market but it is fair to assume this has come down slightly (but still remains high).

With this in mind Henry explained that currently he is investing in 60 stocks, with 10 to 15 stocks that he is currently following, but there are fewer opportunities. The fund is a multi-cap fund with 36% coming from FTSE 100, 39% FTSE 250, 13% Small Cap and 12% Europe.

Where he is finding value is in banks, oil and mining. In the last update he highlighted supermarkets as an opportunity but he is still prepared to wait before investing in case they are value traps. He continues to hold BP where he sees great opportunities.

As he went onto explain; at the moment with BP he describes it as similar to the eighties where the price of oil came down by over 60% and the shares significantly underperformed the market. Henry explained at the time the company cut costs, improved profitability and then the share price corrected.

If they follow a similar strategy a 10% shift in operational efficiency could improve free cash flow to £9 billion easily covering the cost of dividends, and then we should see a correction in share price.

Turning to banks Henry argues that the business models have changed significantly, they are better run and they are not reliant on lending to drive returns. What will change the price of the shares is investor perception which Henry believes is on the cards.

In the last update he talked about holding airlines but Henry was worried about the impact of Ebola, he now holds International Consolidated Airlines.

Fundamentally Henry looks to exploit short term weaknesses with a two year time frame but it can be a lot less where the target price is met early. Stock pickers are great when it goes well but equally they can suffer when the market goes against them. With this in mind Henry does have a great track record but it may not suit all investors.

In the discussion we talked about stocks the fund doesn't hold and one of those is VW. This opened up what they look for. They are looking for those trading below book value but which are cash generative or an undervalued profit stream with an improving operating outlook. In both cases VW would not fall into this.

In conclusion this fund follows a specific process of identifying undervalued companies but equally avoiding what are seen as value traps. So for example, Lloyds would be seen as undervalued with considerable opportunities whereas the supermarkets still need to prove that they either cash generative or have an undervalued profit stream. Because there is a short term outlook, what he favours today can be different tomorrow and so investors are reliant on his skills as a manager to deliver.

This fund will not suit all investors and although his past performance has been good and even since joining Man GLG this has continued investors may want to wait for a three year anniversary before making any decisions.

Fund performance

Performance since launch on 15 November 2013 to 30 September 2015

	2013	**2014**	**2015**
Man GLG Undervalued Assets Fund	5.10%	5.00%	6.66%
Lyxor ETF FTSE All Share ETF	1.75%	0.93%	-3.32%

	1 year	Since launch
Man GLG Undervalued Assets Fund	7.84%	17.71%
Lyxor ETF FTSE All Share ETF	-2.94%	-0.71%

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.

The source of information in this note has been provided by Man GLG and is correct as at October 2015. These are notes from meeting the fund manager or representative and should not be seen as a recommendation to purchase any fund mentioned. Any reference to shares is not a recommendation to buy or sell. Should you wish to make a decision based on these notes we cannot take responsibility for this and you should carry out your own research before making a decision. You should note that past performance is not a reliable indicator of future returns and the value of your investments can fall as well rise.