

## **SHINING A LIGHT ON..... GLG JAPAN COREALPHA FUND**

### **At a glance**

This fund is one of a handful of well-respected Japanese Funds with a tried and tested strategy and a strong management team. We have used the fund in our portfolios since inception with a brief period where we removed the fund when it soft closed.

Its strategy is described as having a contrarian bias – and there are three strands to it.

Firstly it is a large cap strategy targeting the top 300 largest companies with around 70 holdings. The second part is what they call buy low, sell high. The managers look to identify stocks that are cheap for technical or strategic reasons. They then set a maximum weighting with a view to hold until they outperform again and then sell. In reality they increase the weighting on stock weakness and decrease as the stock strengthens and therefore the maximum weighting tends to be when the stock is at the bottom of its value.

The final part is value; they see themselves as value investors. So they look for firms which have low price to book ratios against the Japanese market.

The fund looks to buy through the bad news and then sell as the business recovers. This style has been in place for 25 years and continues whatever the market is doing. It has a strong track record and for this reason I believe this is a good option to access the Japanese market.

A concern is with Japan deflating their currency this fund doesn't have a currency hedge meaning some of the upside is lost as the currency deflates. We therefore should blend this with a fund which has a hedge. If the currency rises then this fund will take up the slack and vice versa. I believe this to be prudent for investing in Japan in the era of Abenomics.

### **Who are the team behind the fund?**

The lead manager is Stephen Harker who developed the overall strategy. He is supported by Neil Edwards, Robert Blake and Jeffrey Atherton. Since its inception in 2006 there has only been one change to the team which was the addition of Jeffrey Atherton 2011. This team is vital to the success of the fund.

Over 12 months, 5 years and 7 years the manager has outperformed the peer group although over 3 years it was slightly behind. The style of management means that there will be times when the strategy underperforms and this must be accepted as natural.

### **What is the story behind the investment?**

Japan has faced many false dawns and this could be seen as another, however I believe this time there is a difference. The main reason is the political landscape. The new Prime Minister has a majority government which over the next three years means he has the ability to drive through change. In the first 12 months of Prime Minister Abe's administration Japanese economic growth was one of the strongest in the developed world.

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The aim is Abenomics is to; remove inflation and reduce government debt - but like many developed economies they have an aging society and a reducing workforce. Most western economies are ignoring this and Japan is recognised as the first to face facts.

There are three arrows to the strategy – aggressive monetary policy, flexible fiscal policy and structural change.

Over the last 12 months we have seen a lot around the first two arrows and now we are starting to see action around the third. 30 bills are going through parliament and although these are not startling they pave the way for dynamic changes. The areas they are keen to tackle are promotion of investment, better utilisation of human resource which includes immigration, creation of new markets and better global economic integration.

If Japan does nothing the economy will go bankrupt, we shouldn't underestimate the extent of the challenge facing the government however the building blocks are there and perhaps this time it won't be a false dawn, if it is it may be the last.

### **Fund highlights?**

The Nikkei was up 56% in 2013, the best year since 1972. The Topex Index was up 51% the 3<sup>rd</sup> best since the 1950's. The fund itself returned 31.61%. (Source: GLG).

Clearly the fund has seen its returns weakened by a reduction in the value of the Yen however we are not trying to guess when it is best to hedge the Yen. So we therefore should blend this fund with the Neptune Global Opportunities Fund which does hedge.

There are going to be periods when one will outperform the other and therefore it gives the best of both worlds. In the first six months of 2013 GLG was winner with a return of 29.87% against the Neptune Fund which returned 23.51%. As the Yen weakened over the next six months the GLG fund returned 1.34% and Neptune returned 22.05%. As we enter 2014 in the first month of January Neptune was down nearly 6% whereas GLG was down 2.34%. (Source: Morningstar)

For the whole 13 month period the Neptune Fund has outperformed the GLG Fund however I believe the blend is right for the portfolios and for investors.

The fund saw big plusses to the portfolio from consumer electronics like Sony and Panasonic. The managers have reduced exposure to Panasonic. They like financials but feel they have not been as strong as they expected. The shape of the fund going in 2014 hasn't changed much. They have reduced exposure to electronics slightly and for the first time added a small exposure to commodities.

The managers are confident that there is still value in the market and I continue to believe following the update that this is the right fund to blend into the portfolios.

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## Fund performance

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

	2009	2010	2011	2012	2013
<b>GLG Japan CoreAlpha Fund</b>	9.35%	24.28%	-16.64%	0.48%	31.61%
<b>Neptune Japan Opportunities Fund</b>	5.25%	-0.11%	-21.57%	17.15%	50.74%
<b>Db x-trackers MSCI Japan ETF</b>	-7.12%	17.46%	-14.46%	3.73%	24.61%

*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

Investors may be nervous of Japan but recent strong returns will likely encourage investors back into the market however I believe it is important to understand the background before making the move. We also feel that although there is a good argument to have a hedged fund particularly with the desire for government to devalue the Yen further there will be times when funds with this strategy will struggle and as we don't know when this will be we have to blend the strategies so clients can benefit.

*The source of information in this note has been provided by GLG and is correct as at January 2014. 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.*