

## SHINING A LIGHT ON..... NEPTUNE JAPAN OPPORTUNITIES FUND

### Update....

This is an update on the fund rather than a review of the process and management style. Details on this have been made available via other updates.

In recent weeks we have heard different views on Japan, and from these it is clear that the stance taken by the manager on the Neptune Fund is different to other managers. Furthermore it is clear that potential investors need to stay clear of the razzmatazz that comes with this fund and ask a simple question – do they truly believe in what he is saying.

This might be hard to do because he is a credible manager and other credible managers have very different views. Someone is right, and someone isn't!

Chris started the update by highlighting that the way to benefit from what is happening in Japan is to invest in global multinationals and benefit from the depreciating yen.

His argument is that this is the final roll of the dice for Japan to avoid bankruptcy and the only way to do this is to cut the budget deficit and pay down the national debt. Only corporate profits can help to achieve this.

This is because although the two other main sources – income tax and VAT – can go up they can only go up slowly and not by sufficient numbers to cut the budget deficit and national debt and in the time required.

If we go back to corporates the case is much stronger.....

Only 27% of companies in Japan are profitable and therefore pay tax. On these only 100 pay sufficient tax. So to achieve sufficient revenues to cut the deficit and pay down national debt these companies need to increase corporate revenue by 367% and earnings by 486% by 2018.

This is a big ask without something to turbo charge the earnings and therefore the tax revenues. Since 1995 these companies have invested year on year outside of Japan with a focus on higher growth areas such as China and the ASEAN regions. Interestingly many view these companies as exporters but the reality is that much of their operations are outside of Japan.

In transportation as an example 40% of production is outside of Japan and over the last ten years overseas production across the board is exceeding domestic exports. The point is that these companies are sound and profitable but to turbo charge earnings they need something else and this is a weaker yen. Some estimate that this needs to weaken by as much as 40 – 65%.

The argument / thesis makes sense and as a consequence of this it should also help domestic based suppliers of these multi nationals through higher prices which will feed through to more jobs and higher wages.

But what happens if this is wrong and QE is pumped into the system with no means to reduce the deficit and national debt, and even a stronger Yen. In theory the whole economy could go bang. Some will argue that purely an increase in income tax, corporate profits and VAT without Yen weakness is

sufficient and it might be over time but time is not what they have. Even the Bank of Japan have said they see the Yen weakening further.

So purely on a logical basis the thesis seems to have legs but is there appetite in Japan for change?

The election in 2012 gave Abe a super majority with control of the upper and lower house. The snap election of 2014 took advantage of the weakness of the opposition parties and delivered another super majority. This enables Abe to deliver another 4 years of the same. We should see more QE and with corporates generating higher profits this should feed to domestic suppliers increasing wages and jobs. The impact of the Nippon ISA and the Government Pension Scheme increasing exposure to Japanese equities should not be discounted. Japanese investors need to reverse the trend of overseas investors holding the majority of Japanese stocks.

In conclusion Chris' argument is logical because nothing else really has the time to deliver what is needed, and without this then the economy is in serious trouble. However, the risks of investing in Japan shouldn't be underestimated and it may not appeal to the more cautious investor.

Time will tell whether Chris was right.....and potential investors need to consider this before investing.

#### **Fund performance**

Performance over the last five years is shown below:

	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
<b>Neptune Japan Opportunities Fund</b>	-0.11%	-21.57%	17.15%	50.74%	4.39%
<b>Db x-trackers MSCI Japan ETF</b>	17.46%	-14.46%	3.73%	24.61%	0.07%

*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 Neptune and is correct as at January 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.*