SHINING A LIGHT ON THE……
Neptune European Opportunities Fund

AT A GLANCE

Investment Objective
To provide capital growth by investing mainly in a focused portfolio of approximately 40-60 European companies, selected at the manager's discretion, excluding the UK.

Inception Date	29 November 2002
Fund Factsheet Link	http://www.morningstar.co.uk/uk/funds/snapshot/snapshot.aspx?id=F0GBR04GM3

Management	
Manager Name	**Start Date**
Rob Burnett	6 May 2005

Investment Style Details	
Equity Style	
Market Capitalisation	**% of Equity**
Giant	35.16%
Large	47.45%
Medium	15.17%
Small	2.21%
Micro	0.00%

Top 10 Holdings		
Total number of holdings	58	
Assets in Top 10 Holdings	31.14%	
Name	**Sector**	**% of Assets**
SKF AB B	Industrials	3.69%
Banco Santander SA	Financial Services	3.26%
Yara International ASA	Basic Materials	3.21%
Deutsche Bank AG	Financial Services	3.13%
Total SA	Energy	3.02%
Rolls-Royce Holdings PLC	Industrials	3.02%
Repsol SA	Energy	2.99%
Potash Corp of Saskatchewan Inc	Basic Materials	2.97%
Eni SpA	Energy	2.92%
DNB ASA	Financial Services	2.92%

Volatility Measurements	
3-Yr Std Dev (volatility)	17.17%
3-Yr Mean Return (average)	9.42%

FUND PERFORMANCE

Performance 1 January 2012 – 30 April 2017

	2012	2013	2014	2015	2016	2017
Neptune European Opportunities Fund	11.84%	23.01%	-8.73%	8.78%	28.41%	8.76%
iShares MSCI Europe ex-UK	14.00%	21.74%	-2.02%	1.99%	16.48%	8.06%

Performance over 12 months, 3 years, and 5 years and since launch:

	1 year	3 years	5 years	Since launch
Neptune European Opportunities Fund	48.11%	27.70%	86.74%	523.31%
iShares MSCI Europe ex-UK	25.24%	21.97%	69.01%	-

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.

UPDATE….

Rob started by explaining that the track record of the fund over the long term has been poor but it has picked up in the short term. He then went on to explain why investors should now consider his fund vs those that have a better track record over the long term.

His argument is that cheap companies will outperform over the long term, and his fund is a pure value strategy. However, over the last 9 years it has been a tough time for value funds and many have been shut down or rebranded. He believes fund management is a brutal industry where you have 3 years to prove yourself or you are out, so it is difficult to go against the crowd.

But time after time history shows that in the long-term value outperforms. However, the market is skewed towards growth and he believes this is starting to shift; there is a point at which value strategies will provide those high returns but most funds will be in the wrong position.

One of the reasons for the underperformance is interest rates; falling rates hinder value. This means that stocks like Nestle do well in this environment; the PE ratio has gone up from 14 to 22 times but at the same time growth has slowed. In contrast, banks lose money as rates fall so multiples remain weak.

However, interest rates can't go any lower so the main hindrance to value has gone. The fund has big weightings to banks, materials and energy. Many of these have seen depressed earnings and valuations are low. Even a slight improvement in earnings opens up significant opportunities.

In terms of banks he explained that they have had everything chucked at them; fines, falling rates and any piece of bad news will hurt them. Three things are holding valuations down…interest rates being cut (but these are unlikely to go any lower and if anything, go up), regulation but that is almost at an end and fines which again are almost over. Banks are starting to see light at the end of the tunnel and earnings are growing. Dividends however are at levels well below what they can afford to pay.

The likes of BP are struggling to pay dividends and cannot grow earnings so seems a bad investment. Equally Nestle can sell, for example, Kit Kats but it's share price is too high; this will come down as earnings slow, so again this appears a bad investment. Rob feels you need to be in those investments which are at a turning point like banks.

In summary, Rob believes investing in Europe and in particular his fund, is a once in a generation story with a hundred years of history to back it up. But he admits it does take courage particularly where the focus is always on past performance, and with many funds focused on growth rather than value. In terms of performance we can see a turnaround over 12 months, and clearly Rob is a manager who has survived the exodus of value managers from Europe. Like any investing sometimes going against the crowd can be good, but uncomfortable; it is just whether we believe the story or not.

The source of information in this note has been provided by Neptune and is correct as at April 2017. 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. We would also recommend that you receive advice before following up on any decision.