

**SHINING A LIGHT ON THE.....  
Neptune European Opportunities Fund**

**AT A GLANCE**

<b>Investment Objective</b>	
The investment objective of the Neptune European Opportunities Fund is to provide capital growth by investing predominantly in a concentrated portfolio of approximately 40-60 European companies, selected at the manager's discretion, excluding the UK. The Fund aims to achieve top quartile performance in the IA Europe ex UK sector peer group.	

<b>Inception Date</b>	29 <sup>th</sup> November 2002
<b>Fund Factsheet Link</b>	<a href="http://www.morningstar.co.uk/uk/funds/snaps/hot/snapshot.aspx?id=FOGBR04GM3">http://www.morningstar.co.uk/uk/funds/snaps/hot/snapshot.aspx?id=FOGBR04GM3</a>

<b>Management</b>	
<b>Manager Name</b>	<b>Start Date</b>
Robert Burnett	6 <sup>th</sup> May 2005

<b>Investment Style Details</b>	
<b>Equity Style</b>	
<b>Market Capitalisation</b>	<b>% of Equity</b>
Giant	22.32%
Large	46.57%
Medium	22.05%
Small	9.06%
Micro	0.00%

<b>Top 10 Holdings</b>		
<b>Total number of holdings</b>	50	
<b>Assets in Top 10 Holdings</b>	34.86%	
<b>Name</b>	<b>Sector</b>	<b>% of Assets</b>
E.ON SE	Utilities	4.11%
Volkswagen AG Participating Preferred	Consumer Cyclical	3.57%
UniCredit SpA	Financial Services	3.57%
Intesa Sanpaolo	Financial Services	3.49%
Nutrien Ltd	Basic Materials	3.48%
Continental AG	Consumer Cyclical	3.43%
Yara International ASA	Basic Materials	3.34%
Daimler AG	Consumer Cyclical	3.31%
ArcelorMittal SA	Basic Materials	3.30%
SKF AB B	Industrials	3.26%

<b>Volatility Measurements</b>	
<b>3-Yr Std Dev (volatility)</b>	17.70%
<b>3-Yr Mean Return (average)</b>	11.56%

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## FUND PERFORMANCE

Performance from 1<sup>st</sup> January 2013 to 31<sup>st</sup> October 2018:

	2013	2014	2015	2016	2017	2018
<b>Neptune European Opportunities Fund</b>	23.01%	-8.73%	8.78%	28.41%	21.09%	-14.97%
<b>iShares MSCI Europe ex-UK</b>	24.53%	0.04%	4.07%	19.51%	16.37%	-4.87%

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

	1 year	3 years	5 years	Since launch
<b>Neptune European Opportunities Fund</b>	-14.83%	34.80%	32.39%	492.59%
<b>iShares MSCI Europe ex-UK</b>	-6.05%	33.44%	37.70%	-

*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....

This fund has been managed by Rob Burnett since 2005, and although the fund performance has been average, it is worth understanding the reasons behind this. This fund has a value bias: - effectively this is buying quality companies at a cheap price. Different styles go through phases. Currently most funds are growth focused and value is out of favour. Value has been out of favour for over ten years now and during this time Rob has continued to stick with what he knows.

The logic behind value investing makes sense. If a company is expensive, how much more can it grow? If a company is cheap and unloved then it has the potential to grow significantly more. In his own words, this year has been brutal for the fund because of his exposure to banks and autos. He feels there have been extreme moves in the market which statistically are impossible.

Some of the biggest fallers for the fund are Continental, Commerzbank, Salzgitter, UniCredit, Daimler, SKF and ArcelorMittal. Rob explained that the falls make no logical sense as most of the earnings expectations are flat or positive and yet the share prices have fallen disproportionately. Across the fund earnings expectations are up 2% and average share price is down 18%. The price to earnings ratio has fallen on the fund from 12 times to 9 times.

In terms of the macro picture Rob is positive. He started by explaining that it appears the markets are bracing for something. The tension is such that it feels like whatever is about to happen will be worse than 2008 and 2011/12. If he considers the reasons the main ones appear to be Fed Rate Rises, Tariffs, Brexit, Italy, Currency and Oil prices.

In terms of China and the US, Rob feels that there will be a de-escalation of tensions in the short term as Trump focuses on the elections in 2020. He needs to lift business confidence and continued tensions will not help.

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In terms of Italian debt private sector debt is much lower than the UK and one of the biggest surpluses in the world. There doesn't appear to be a solvency problem and yet the bond spreads are out of proportion to the actual situation.

Much of the concern seems to be more about unknown politicians, limited communication with the market, poor relationships with the press and a perception they want to leave the EU. The reality is that the Italian concerns are not about leaving the EU but about the permanence of austerity and it is this that they want to remove.

The UK is much more fragile than Italy, with a budget and private sector deficit. Crashing out of the EU without a deal will almost certainly plunge the UK into a recession as we are not strong enough to protect against this type of shock. If this happens Europe could dip into recession, but he expects it to come out quickly. He thinks parliament will come to its senses and vote through the deal.

The point being that many of the concerns seem unlikely to happen and if they do then the market has already priced these in. Over the next ten years Rob feels that there could be closer fiscal union. In Germany the growing party is the Green Party with 24% of votes. They are Pro-Europe and in favour of limited fiscal union. The potential replacements for Merkel are also Pro-European and close to France.

The reality is that the union has worked well for Germany with current account balance rising and debt falling. In theory Germany could be debt free within 10 years. The idea of a fiscal union is more popular than ever, and this would be positive for the region.

In terms of the fund Rob is positive about the long-term picture for Europe and in the short-term value has started to outperform. His fund hasn't picked up on this trend due to the exposure to banks and autos, but he remains committed to these parts of the market. In terms of banks he is seeing positive loan growth and record low valuations. Defensive stocks like tech, staples and pharma are at 132% premium and he feels this just can't continue.

In summary, although the performance hasn't been strong, if there is a belief that growth stocks have gone as far as they can then this might be a fund to consider moving forward. The market views are interesting and as he has indicated this is short term. Looking longer term he feels a move to partial fiscal union would be positive. There are very few value European Funds and for those who believe there is a shift towards this, this might be a fund to consider as a blend.

*The source of information in this note has been provided by Neptune and is correct as at October 2018. 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.*