

**SHINING A LIGHT ON THE.....
GLG Japan CoreAlpha Fund**

AT A GLANCE

Investment Objective
The investment objective of the Fund is to provide capital growth by outperforming (net of fees) each of (i) TOPIX Total Return Index and (ii) the Russell/Nomura Large Cap Value Total Return Index, both converted to sterling, in a rolling five year period.

Inception Date	29 November 1999
Fund Factsheet Link	https://www.morningstar.co.uk/uk/funds/snapshot/snapshot.aspx?id=F0GBR04D3H

Management	
Manager Name	Start Date
Stephen Harker	1 st August 2002
Neil Edwards	21 st February 2005
Jeffrey Atherton	21 st March 2011

FUND PERFORMANCE

Performance from 1st January 2016 to 31st January 2021:

	2016	2017	2018	2019	2020	2021
Man GLG Japan CoreAlpha Fund	32.43%	10.81%	-9.49%	7.46%	-13.99%	0.44%
Xtrackers MSCI Japan	23.48%	13.19%	-8.64%	14.37%	12.34%	-1.29%

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

	1 year	3 years	5 years
Man GLG Japan CoreAlpha Fund	-10.35%	-15.67%	31.44%
Xtrackers MSCI Japan	13.11%	16.42%	65.36%

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.

Tracking Error	Active Share	Upside Capture Ratio	Downside Capture Ratio	Batting Average	Beta	Alpha	Equity Style
9.33	82.00	98.04	166.27	41.67	1.22	-10.52	Value/Large

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Volatility Measurements	
3-Yr Std Dev (volatility)	17.21%
3-Yr Mean Return (average)	-5.52%

Investment Style Details	
Giant	37.60%
Large	48.71%
Medium	12.45%
Small	0.00%
Micro	0.00%

Top 5 Holdings – 46 Equity Holdings		
Mitsubishi UFJ Financial Group Inc	Financial Services	6.73%
Sumitomo Mitsui Financial Group Inc	Financial Services	5.53%
Japan Post Holdings Co Ltd	Financial Services	5.00%
Honda Motor Co Ltd	Consumer Cyclical	4.88%
Canon Inc	Technology	4.74%

Top 5 Sectors	
Financial Services	31.44%
Consumer Cyclical	20.90%
Basic Materials	11.98%
Industrials	11.04%
Real Estate	6.33%

UPDATE....

The team behind this strategy have built a fantastic reputation. However, for at least five years the fund has significantly underperformed the benchmark. Additionally, two members of the team, Stephen Harker and Neil Edwards, are set to retire at the end of March. This will leave Jeff Atherton to take on the fund.

There is no doubt that style bias has had an influence on the fund. The fund focuses on value and therefore the cheaper end of the market. The fund is now trading at a 60% discount to the market and yet the areas they invest in have seen significant improvements. The challenge is that the fund is skewed towards banks, steel, and autos – all old Japan rather than tech, telecoms and software, which is more about new Japan.

In the update it was clear even with the change of management there will be no change to strategy. This means that investors must believe that there will be a shift towards value, and that areas like banks, steel and autos will outperform. The management believe that there are some bargains. For example, Mitsubishi UFJ Financial owns 20% of Morgan Stanley and its market cap is equivalent to that stake, so effectively investors are getting the company for free.

Honda Motor is so depressed in terms of share value and yet it is the biggest motorbike manufacturer in the world with the highest market share in many emerging market economies. The depressed price means that investors are getting the auto business effectively for free.

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And then Nippon Steel is a cyclical stock, but steel is important to big auto and the electronics industry and therefore there must be a rebound.

The fund has seen significant outflows of investor money as clearly patience has run out, but this has recently stabilised. What has always struck us with the team, is the certainty of what they are doing, which borders on arrogance. This worked well when the fund was doing well but humility goes a long way in the world of fund management, and you never get that from the team. Even with the team departing there are no plans to change the remaining team.

The comment was that they have been running on extra capacity because they knew they were set to retire. They feel that the process has taken them to the bottom of the market, and that they are contrarian by nature, and in this type of market environment there is no place for them to hide, although investors will be rewarded at some point. The team pointed out that the process and style is not going to change now just because the two most senior members are leaving.

In terms of Jeff, we looked at the data from trustnet which looks to analyse managers. Over all markets he outperformed 4 years out of a possible 10. He underperformed over all markets 6 years out of 10 years and outperformed 3 years out of 8 in rising markets, and 1 year out of 2 in falling markets. This may reflect the style bias, but investors need to understand how the manager has performed if they are going to trust their money with him.

The concern we have listening to the update is two-fold; firstly, there is a debate as to whether old style value still has a place. The world is changing and some assets may remain at deflated prices because that is what is a fair price. Secondly, it feels the fund needs new input and new life, especially when you consider the track record of the new manager, and there is clearly no intention to do that.

In summary, what investors are effectively gambling on is that there will be a switch to old style value, and if this happens, then this fund will do well. The question is how long this runs for. Is this a short shift, or a long-term trend? Investors also need to consider that the original managers behind this are the ones retiring and although Jeff has been around since 2011 and the team have been prepared for this, should there be fresh eyes coming in? Does the strategy need tweaking to adapt to a more modern view of value investing to providing long sustainable returns for investors? We would want to see some changes before adding to a watch list but at this stage we cannot see that this is likely to happen.

The source of information in this note has been provided by Man GLG and is correct as at February 2021. 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.