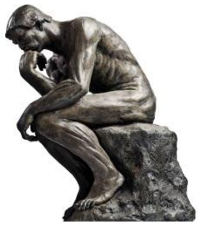

LWM Consultants Ltd

Meeting the fund manager

GLG Japan Core Alpha Fund

The GLG Japan CoreAlpha Fund was previously a holding in our portfolios. It has been an extremely well managed and successful fund but it was closed to new business in March 2012 which meant we could no longer hold it in our portfolios. The reason for the closure was maintaining the balance between the level of assets and volume in the market.

The fund is mainly a large cap play and towards the end of 2011 and early 2012 volume in the Japanese Equity Market plummeted. The team has always managed a moderately high conviction portfolio and did not want to dilute the process by buying more stocks to manage more assets. However, a number of factors have happened whereby the fund was re-opened towards the end of 2012.

We have previously met the fund manager, Stephen Harker, and we were recently invited to attend a telephone conference to have an update from the fund manager. In the update there were three areas of interest to me, firstly the currency play against the Euro which has benefited the fund, secondly the potential opportunities within the sector they invest and finally the opportunities particularly within the financial sector which has provided a strong return for the fund.

As a background to Stephen, in 2006 Stephen and the Japan equity team at SGAM established the CoreAlpha Strategy. In 2009 SGAM was acquired by GLG and Stephen joined GLG. Over a 7 year period Stephen has outperformed his peer group five times.

Overview

First and foremost the fund is large value play. For the last seven years it has been a mixture of top cap and mid cap value with virtually no exposure to small cap. When looking at stocks, they are looking for certain characteristics and it is a blend of those characteristics which make up the portfolio.

Stephen went onto explain that the performance of large value has been extraordinary. Since 1980 there has been three down periods which I think is interesting as all of them appear to be tech or new economy bull markets. Between 1981 and 1984 there was the US led tech bubble with the video cassette players, between 1997 and 2000 there was the TNT bubble and between 2009 and 2012 there has been what he has called the Apple / Google play. This is where high growth stocks are revised up whereas other stocks are revised down.

He believes we are coming out of this phase; however he was quick to add that he cannot predict when that will happen. During the discussion he picked some stocks that they hold and how the fund is positioned to benefit from this potential up turn.

Japan has by any standards come through a very difficult period the massive earthquake and Fukushima fallout, the Olympus shock, the Thai flooding and the spat with China. Meaning there has been a whole load of stuff that has been negative for Japan and for value.

Stephen believes that if there was a bottom to the market this was around August when the Euro hit its bottom. The Euro has now gone up by 25% against the Yen which has significantly helped the portfolio which has a Euro tilt.

The TOPIX index was up over 20% in 2012 although a lot of that growth was generated in the last quarter of 2012. Interestingly over the last three years the winners in the market have been small cap and therefore large cap has been out of favour, we are now starting to see this reverse.

I think this demonstrates the contrarian style of investing that Stephen adopts. He admits that it can be hairy at times but there is a need to stay calm where people around you are panicking and it is at that point that you can identify opportunities.

We discussed financials where the fund holds around 31%. Nomura in 2011 was worrying investors and wasn't doing what was expected. The worry peak was around November 2011 and it seemed these stocks bottomed around this time. In 2012 Nomura has been one of the biggest drivers for the portfolio with a 110% return. Daiwa is another company which has delivered during 2012.

The other area they like is Electrical Appliances where they hold around 30%. We talked about Sharp which they don't hold. This was flashing buy signs but from their research it didn't add up and they didn't invest and it has underperformed. Some companies which they believe could be the Nomura's for 2013 in terms of return are the likes of Nintendo, Panasonic and Sony. In their view these companies are extraordinarily cheap relative to past price and the market.

We talked about high beta stocks, when the market is falling the contrarian investor will be buying high beta stocks, and when the market is rising low beta stocks. Because the market has been going back for three years high beta stocks have been bombed out and therefore have been attracting the attention of Stephen. This has happened before in 1998, 2003 and 2008 the only difference today is that the bottom has dragged out longer.

Stephen was keen to stress that he was not forecasting the returns however he believes the fund is well positioned to respond to a rally if we have a repeat of 1998, 2003 or 2008. They have fixed weightings in stocks so with Nomura this is at 5% (so although they reduced the number of shares they hold, the weighting has remained the same). With Sony this is slightly higher.

The other part to his optimism is the market price to book value, they are low PBR managers and that spread is growing and in his view he hasn't seen that spread since the peak of the TMT bubble. His view is that this will contract so that low PBR stocks move closer to the market and high PBR stocks will move back towards the market.

We finished the discussion around his optimism going forward as mentioned a lot of investors are fishing in the small cap market but he believes large cap is where the value is. They're depressed, and out of favour. We have seen the benefits coming through in financials and other parts of the portfolio should start to deliver.

Conclusion

We have always been impressed with the fund manager and his style, however the closure of the fund meant we have had to seek alternative options. This Euro currency play has benefited the fund and we believe it could work well with the Neptune Fund we have and these two have worked together in the past.

When we review the portfolios we will consider how this fund may fit into the mix against the current range of funds and whether this could deliver long term benefits to the portfolio.

The source of information in this note has been provided by GLG and is correct as at 17 January 2013. These are notes from meeting the fund manager or representative and should not be seen as a recommendation to purchase this fund. 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 as rise.