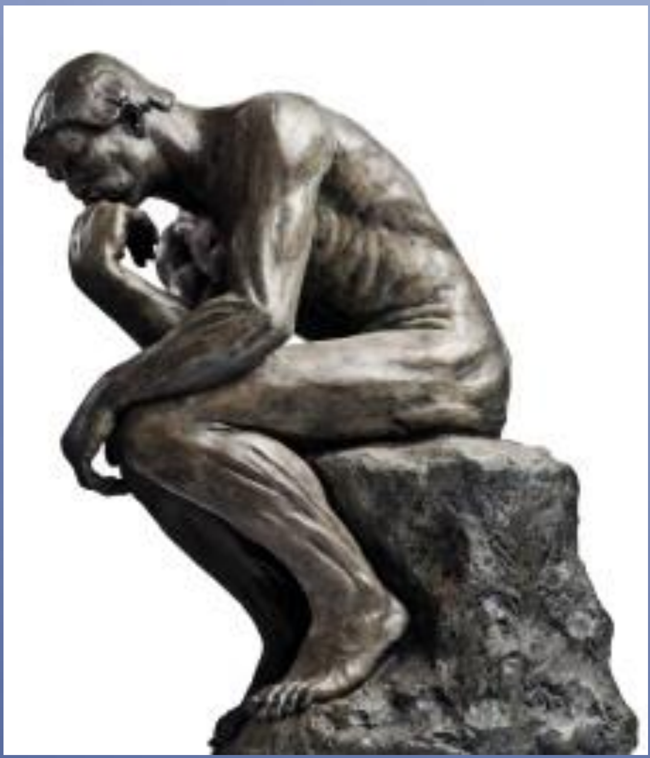

Fund Bites

GLG Japan Core Alpha Fund

The GLG Japan Core Alpha Fund will be added to the portfolios from July 2013. This “fund bites” is a summary of the recent meeting we had with Robert Brookes who is part of the management team of the fund.

Introduction

Japan is one of those enigmas when it comes to the world of investing. After the Second World War it went through one of the longest bull runs which peaked in 1989 and then collapsed. History will lead us to believe that Japan is in terminal decline.

In fact to expand further in 1989 there were 19 major banks; today there are just seven and none of these trades under the same name. It is hard to look at Europe and consider in 25 years that HSBC, Deutsche Bank et el either not existing or trading under another name but this is the story of Japan.

Total bank lending declined by over 30% over a ten year period and house prices declined by between 70 and 80%, effectively cash flow to banks was negative.

Effectively Japan has had to face a fundamental shift in their economy and this hasn't been easy. The fund manager referred to a phrase – DABDA – denial, anger, bargaining, depression and acceptance.

He believes Japan is now at the acceptance phase, for the first time you have a strong government in the lower house and potentially the upper house, you have a Chairman of the Bank of Japan who is tune with the Government. Effectively you have moved to a position of acceptance.

To some extent Europe remains in the denial phase consider the governments in the UK, Italy, Greece and the unrest in Cyprus as just examples of a denial phase.

Japan hasn't stood still over the last 25 years it is a successful economy however perhaps now it has a chance to be a flourishing economy.

The Fund

The fund is managed by Stephen Harker, Neil Edwards, Jeff Atherton and Robert Brooke and this team approach is one of the principal appealing factors of the fund.

Our meeting was with Robert Brooke who provided valuable insight into the market and the potential opportunities.

This picture shows the view from Tokyo Tower. A similar picture taken in 1990 would not show the towers and growth in the heart of the city. For a country say so in terminal decline this paints a very different picture and this is the argument from Robert that actually Japan is very healthy. The banks have changed with seven major banks and we are starting to see an increase in bank lending.

If cash flow becomes positive then you start to see a re-inflation of the economy. We are also seeing a deflation of the Yen. Currently it stands at around 150 Yen to the Pound. Consider in 1966 it was 1000 Yen to the pound. It is unlikely to get to these heights but there are opportunities to deflate the Yen further.

Investing in Japan is not just about the Yen but actually what Robert was saying is that over this period there have been some great companies but their valuations are seriously damaged and this is where the fund goes.

Its style is large cap and it plays in a field of about 300 stocks. They are contrarian investors and look to buy beaten up stocks at the bottom of the cycle as they get more beat up they buy more! So effectively the highest holding is at the bottom of the cycle and as it lifts out of the cycle they will start to reduce the holding in favour of other opportunities.

As managers they prefer domestic and financial plays. So the fund doesn't hold the likes of Toyota which it believes to be overpriced. Just because a company is low value it doesn't mean it's not a good company it is just unloved.

The fund includes holdings like Sony, Mitsubishi UFJ Financial, Sumitomo Mitsui Financial et el. It is a a conviction stock pickers fund with the top ten making up nearly 50% of the fund.

The fund underperformed it's pears in 2011 and 2012 but its style has benefited from the change in Japan and particular stocks like financials. Since inception in 2006 it is the second best performing fund in its sector.

Conclusion

In the portfolios we have opted for the Neptune Japan Opportunities Fund which has a currency play which we believe has the potential to provide from the devaluation of the Yen. The GLG Fund effectively acts as a currency airbag should the reverse happen. We also believe that the style of management and they stocks they invest in reflects a different approach to the Neptune Fund so although it won't necessarily benefit from the currency upside it should benefit from the upward curve as these companies come up from the bottom of their cycle.

Of course we have seen this before in Japan but the signs are very different to before, Robert believes the bear market came to an end in June 2012. One other side and the return to the bull market is evident in the pension market in Japan, for a long time they have been sellers of equities once this slows or stops or reverses then you have a bull market.

Of course this could be a final roll of the dice but the Japan of 1990 is very similar to the Europe of today, the Japan of today is very different and stability of a government, a growing economy and a desire to change signals the potential for the dice to roll in favour of Japan.

The source of information in this note has been provided by GLG and is correct as at 24 April. 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.