

# Man Japan CoreAlpha

## Opinion

- This Recommended fund is a distinctive offering in the IA Japan sector. Its value-biased, contrarian and disciplined approach requires experience, patience and courage of conviction.
- The team are very experienced. They have the courage required to remain invested in stocks as they become increasingly unloved but are objective enough to recognise if they have made a fundamental error of judgement.
- Their large-cap, value approach has stood the test of time, notwithstanding the variability of the fund's relative performance profile, which is a natural consequence of their investment style moving in and out of favour.

## Characteristics and Utility

- This approach can result in meaningful variability in the risk and return of the fund compared to the index and peer group.
- Just as the team has patience and a long-term investment time horizon, so should the fund's investors.
- Investors have been rewarded over time, particularly those who had the courage to buy the fund during underperforming periods.
- The fund can be a challenging holding for index-aware investors and thus may be better utilised as a complementary holding within a blend for those who are concerned about relative returns.

## Risk Commentary

The fund's KIID Synthetic Risk and Reward Indicator (SRRI) is 6. This is a regulatory measurement that is, where possible, calculated from the volatility of its weekly performance over a five-year period. A score of 6 means the fund's historic volatility is between 15% and 25%.

Most funds in the peer group have an SRRI score of 6, but it is important to note that the fund demonstrates elevated volatility, both in an absolute and a relative sense. As the managers believe in the mean-reversion tendencies of the market, they rotate the portfolio meaningfully over time in search of the cheapest areas of the market. This causes the fund's beta and tracking error to vary significantly. Different share classes could have differing SRRI scores.



## Key Fund Facts

<b>Inception Date:</b>	29 November 1999
<b>Manager(s) Since:</b>	Jeff Atherton (Mar 11) Adrian Edwards (Jun 14), Emily Badger (Jan 23) Stephen Harget (Jan 23)
<b>Fund Domicile:</b>	United Kingdom
<b>Base Currency:</b>	£ Sterling
<b>Fund Benchmark:</b>	Topix
<b>IA Sector:</b>	Japan

Formal documentation, including the fund prospectus and the KIID, should be sought directly from the asset manager. A link to the asset manager's website can be found on the relevant fund page at [theadvisercentre.co.uk](http://theadvisercentre.co.uk). An asset manager adviser factsheet is also provided there.

## Fund Snapshot

A long-established Japanese equity fund investing primarily in large-cap companies. The team is highly disciplined in the search for undervalued stocks and hence, the fund has a permanent value/contrarian style. Within its sector, the fund features in our 'Larger-Cap, Value' category.

## Investment Team

Jeffrey Atherton is the Head of Japanese Equities and is extremely experienced, having managed Japanese funds since 1990. Mr Atherton joined the Japan CoreAlpha team in March 2011 and took over as lead portfolio manager in January 2021. He has over 30 years of experience in Japanese equities. Mr Atherton works with a well-resourced investment team, which includes portfolio managers Adrian Edwards, Emily Badger and Stephen Harget. Mr Edwards joined the firm in June 2014 and has over 15 years of experience in the Japanese market. Ms Badger and Mr Harget joined the Japan CoreAlpha team in August 2015.

## Investment Philosophy

The team believes that attractive total returns can be achieved by investing in large cap stocks that have become undervalued and unloved. Their experience tells them that cyclicality is a strong influence in almost every sector of the market and that great opportunity exists by exploiting extremes of valuation.

## Investment Process

The team seeks out companies that are of high quality, as defined by market position and management, but are undervalued on the basis of relative price, relative price-to-book ratio and relative dividend yield. They find that the price-to-book ratio is particularly informative from an analytical perspective and the portfolio is biased towards low price-to-book stocks. This approach leads them to invest in stocks when they are unloved and they are prepared to wait for value to be realised, as reflected by their long-term, patient and high conviction approach.

Such stocks are identified by means of a screen that compares the top 300 companies in the TSE1 index and their aim is to be exposed to those that are cheapest. Screens are initially run to analyse relative performance over various time periods and subsequent valuation screens narrow their search further. Additional analysis takes place to ensure that investment candidates have adequate balance sheet strength and other information is acquired as necessary to give them sufficient confidence in the scope for the share price to revert to the mean. Finally, they undertake credit analysis to assess a company's ability to weather challenging conditions. Their objective approach leads to extensive market analysis and their search for value highlights clusters of stocks where they foresee opportunities. They are comfortable with the biases that emerge from this process.

## Portfolio Construction and Risk Controls

The fund is typically fully invested and is composed of fewer than 70 holdings. The size of individual holdings is primarily dependent upon their conviction and the team is comfortable to add to positions as share prices fall. The maximum permitted stock weight at purchase is 8%, with 10% the maximum position size. Substantial deviations from the index are permitted, with up to +/- 15% relative sector weights allowed. The risk characteristics can vary substantially over time as the fund is continuously orientated to those sectors that offer greatest value.

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