

Neptune Japan Opportunities Fund Update

**By Chris Taylor, Fund Manager and Head of Research
- June 2009**

After three years of pessimism, there are now three reasons as to why we have turned bullish on the Japanese market:

1. The US credit crunch is past its worst and the banks there have adequate financial reserves to see them through another 20 – 25% fall in US house prices from the end of 2008
2. Globally, corporate earnings will have bottomed in 2009 as operating rates hit their nadir and restructuring-derived extraordinary costs are incurred. 2010 operating results will be higher due to either lowered breakeven points and/or better throughput volumes. Here, management experience of downsizing will be critical to earnings recovery
3. A global recovery has begun, but will be led by the BRIC countries with the OECD making a weaker than usual contribution as their consumer activity will remain constrained by the prevailing levels of debt already incurred

Japan is best placed to exploit these three trends as its companies generally have a higher exposure to non-OECD markets, a corporate management cadre that has the most experience of cost-cutting and the Yen's weakness providing them with a further competitive advantage. Given Japan's downturn throughout the 1990s, it therefore comes as no surprise that across many sectors, Japanese firms have been the most active in restructuring, cutting deeper and faster than their foreign competitors.

That said, little support will come from the domestic economy given the prevailing negative entrenched demographics and the absence of any coherent relevant policies irrespective of which party is in power.

So the Neptune Japan Opportunities Fund has moved to a fully invested position with a substantially overweight position in both multinationals and financials companies, having first removed the short futures position that had hedged the equity holdings against any further market declines. In addition, the Fund has hedged out the bulk of its Yen currency exposure to avoid capital losing the equity gains through currency depreciation.