

FOR INVESTMENT PROFESSIONALS ONLY

August 2017

The case for investing in the Neptune European Opportunities Fund

The following document makes the case for holding the Neptune European Opportunities Fund and shows how it compares with key peers.

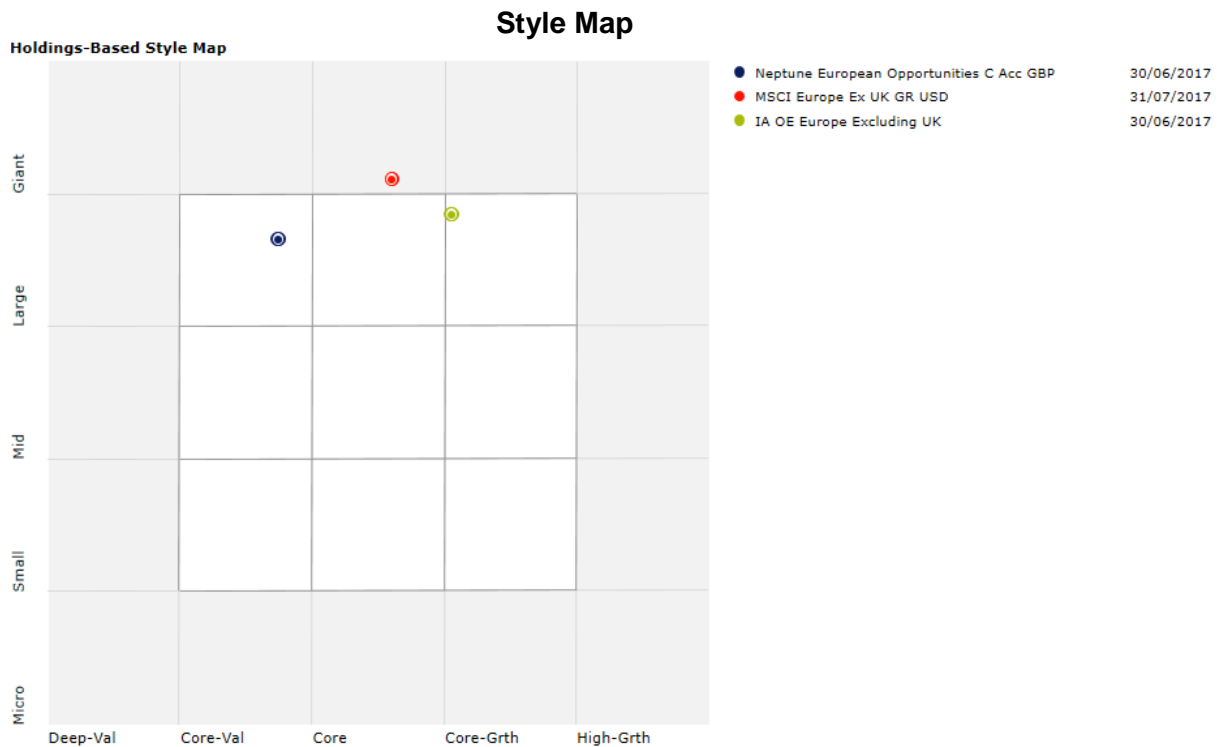
- The Neptune European Opportunities Fund's significant value tilt makes it highly differentiated from the vast majority of Europe ex UK funds
- Large overweights to banks and materials combined with underweights to consumer staples, healthcare and IT sets Neptune apart from its peers. This positioning has contributed significantly to the Fund's recent outperformance
- The Neptune European Opportunities Fund is the best performing Fund in the IA Europe ex UK sector over the last year, returning 52.0% in comparison to the MSCI Europe ex UK's gain of 24.2% and the IA Europe ex UK sector average return of 23.6%
- We believe the current macroeconomic and political backdrop are supportive of value's continued outperformance

Source: Morningstar Direct, 01/08/2016 – 31/07/2017, C Acc share class performance in pound sterling, net income reinvested and no initial charges. The performance of other share classes may differ and past performance is not a guide to future performance. Neptune funds are not tied to replicating a benchmark and holdings can therefore vary from those in the index quoted. For this reason the comparison index should be used for reference only.

Introduction

Rob Burnett's Neptune European Opportunities Fund is a high conviction multi-cap European equities portfolio with a significant value tilt. This makes it highly differentiated from the vast majority of its European ex UK peers, in particular to the high-growth strategy adopted by funds such as Jupiter European. We believe we have reached the end of a nine year bear market for value in Europe and, with global interest rates likely having reached their floor, are positioned for value to reassert its long-term trend of outperformance versus quality growth strategies.

Positioning



Source: Morningstar Direct, as at 03/08/2017. Neptune funds are not tied to replicating a benchmark and holdings can therefore vary from those in the index quoted.

A significant value tilt

The Neptune European Opportunities Fund’s value tilt is also reflected in its relative valuation; for example, the Fund has a notably lower price-to-book ratio in comparison to both the benchmark and peers. Manager Rob Burnett’s value approach means he looks for companies that have suffered difficulties that we believe are temporary, leading the Fund to invest in stocks trading on trough multiples whilst also operating at low margins in comparison to history. Rob aims to find a large margin of safety in the investments he makes, affording the Fund significant downside protection.

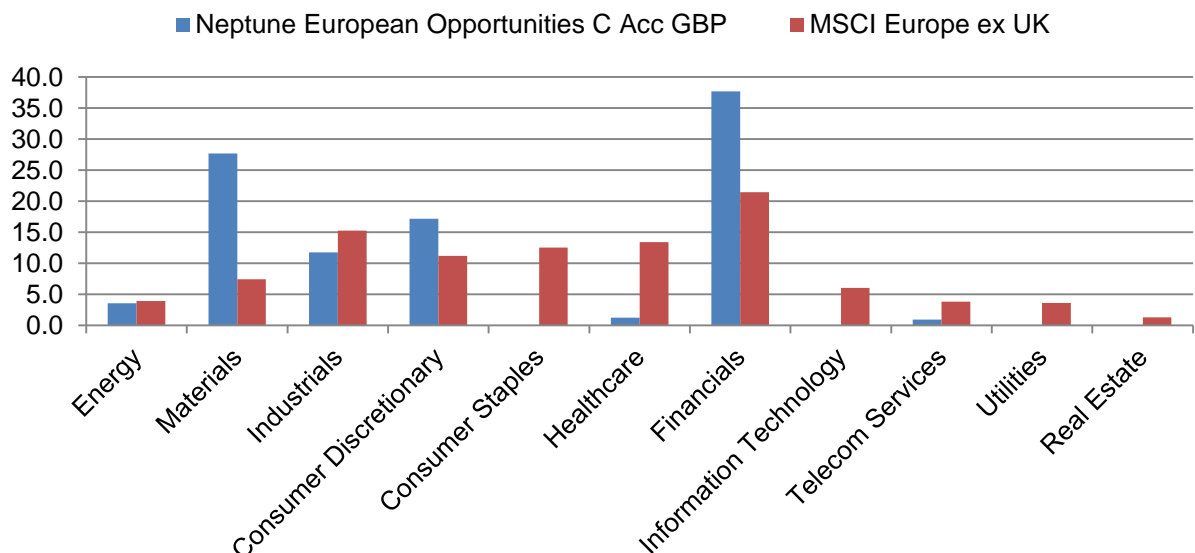
Relative valuation

	Trailing P/B	Trailing P/E	Forward P/E
Neptune European Opportunities	0.89	15.60	12.33
Henderson European Selected Opps	1.93	18.49	16.78
Schroder European Alpha Plus	2.00	16.74	14.88
BlackRock Continental European Income	2.21	17.51	16.40
Crux European Special Sits	2.74	19.35	17.59
Jupiter European	4.43	23.59	21.41
MSCI Europe Ex UK GR USD	1.79	17.89	16.17
IA Europe Excluding UK	2.10	19.24	17.03

Source: Morningstar Direct, as at 03/08/2017. Neptune funds are not tied to replicating a benchmark and holdings can therefore vary from those in the index quoted. Past performance is not a guide to future performance.

The Neptune European Opportunities Fund invests in a diverse array of value companies and seeks to generate outperformance both from the companies it invests in as well as the companies it avoids. As a result, Neptune's holdings are more heavily concentrated in the areas where Rob sees the greatest upside; currently the Fund's key strategic overweights are in financials, materials and energy.

Sector Exposure (%)



Source: Morningstar Direct, as at 15/08/2017. Past performance is not a guide to future performance. Neptune funds are not tied to replicating a benchmark and holdings can therefore vary from those in the index quoted.

Key overweights

Based on our view of stable to higher interest rates, we are currently finding the greatest opportunities in **financials**. We believe European banks, in particular, are among the few companies that could experience both an earnings and a multiple expansion, as it is the only large sector that can hedge a rising cost of capital. The Fund currently has the highest financials weighting (36.6%) in the IA Europe ex UK sector.

Materials were a major source of outperformance for the Fund in 2016; Neptune's large overweight here is a key differentiator in an area that continues to be underrepresented by many of our peers. In the materials space, we find many cheap, fast growing, high dividend paying companies, predominantly in the chemicals sub-sector, where Rob is particularly excited by the agricultural outlook. Huge price declines in commodities since 2011 have caused significant profit declines and share price falls for these companies and with some self-help or higher commodity prices, we see the potential for significant upside from here.

Avoiding price risk

Rob's strict focus on valuation means he also seeks to avoid expensive areas of the market, such as consumer staples and healthcare. Whilst home to some of the very best companies in the world, we believe these quality growth companies are vulnerable to multiple compression as interest rates begin to rise. Neptune has limited exposure as a result, which complements the high weightings of Henderson and Jupiter in particular.

For quality growth to continue to thrive, these companies will have to rely solely on generating tremendous organic growth and can no longer rely on elevated multiples on the basis of their earnings consistency. Due to their high valuations, only slight earnings disappointments have the potential to cause share prices to fall heavily. For example, Novozymes – the Danish healthcare company and quality growth darling – lowered its forecast for organic sales growth in 2016 from 3 – 5% to 2 – 4% and the stock fell 11% in a single day. We believe a number of expensive quality growth companies are at risk of similar falls from grace.

In our view, value sectors are in a sweet spot, not only for providing a defence against excessive valuations, but also in their potential for generating alpha.

Top 10 Holdings

Rank	Name	%
1	Intesa SanPaulo	4.22
2	Unicredit	3.93
3	Commerzbank	3.29
4	Rio Tinto	3.10
5	SKF	3.10
6	BNP Paribas	3.03
7	Yara International	3.03
8	Continental	2.99
9	Volkswagen	2.94
10	Deutsche Bank	2.93
Total		32.33

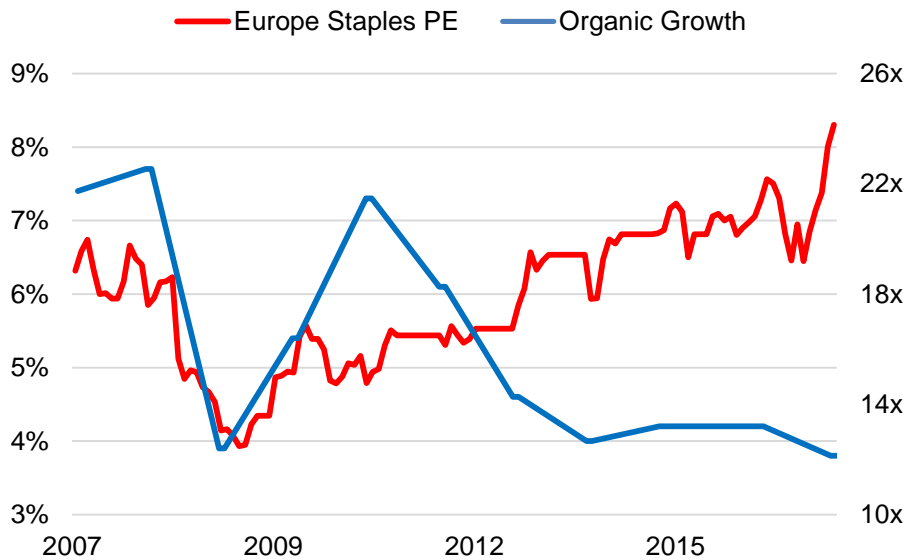
Source: Neptune, holdings as at 31/07/2017. References to specific securities and sectors are for illustration purposes only and should not be taken as a solicitation to buy or sell these securities. Past performance is not a guide to future performance

Is value risky?

Having a value bias in Europe has been considered a risky strategy in recent years, for the simple reason that value has underperformed since the financial crisis. Evidence today strongly argues that European value will be a safe haven in the coming years, in comparison to more traditionally defensive investments like bonds and bond proxies. Ultra-low interest rates, QE and fears of deflation have made the latter more expensive than fundamentals suggest; in our view, price-risk now trumps earnings-risk given current market dynamics.

As interest rates start to rise, we think it is highly likely that the sectors investors have been rewarded for owning in the recent past, such as consumer staples, now represent the greater risk. As the outlook for European equities continues to strengthen, investors are highly unlikely to keep paying such a high premium for earnings visibility.

Staples Organic Growth vs PE Ratio



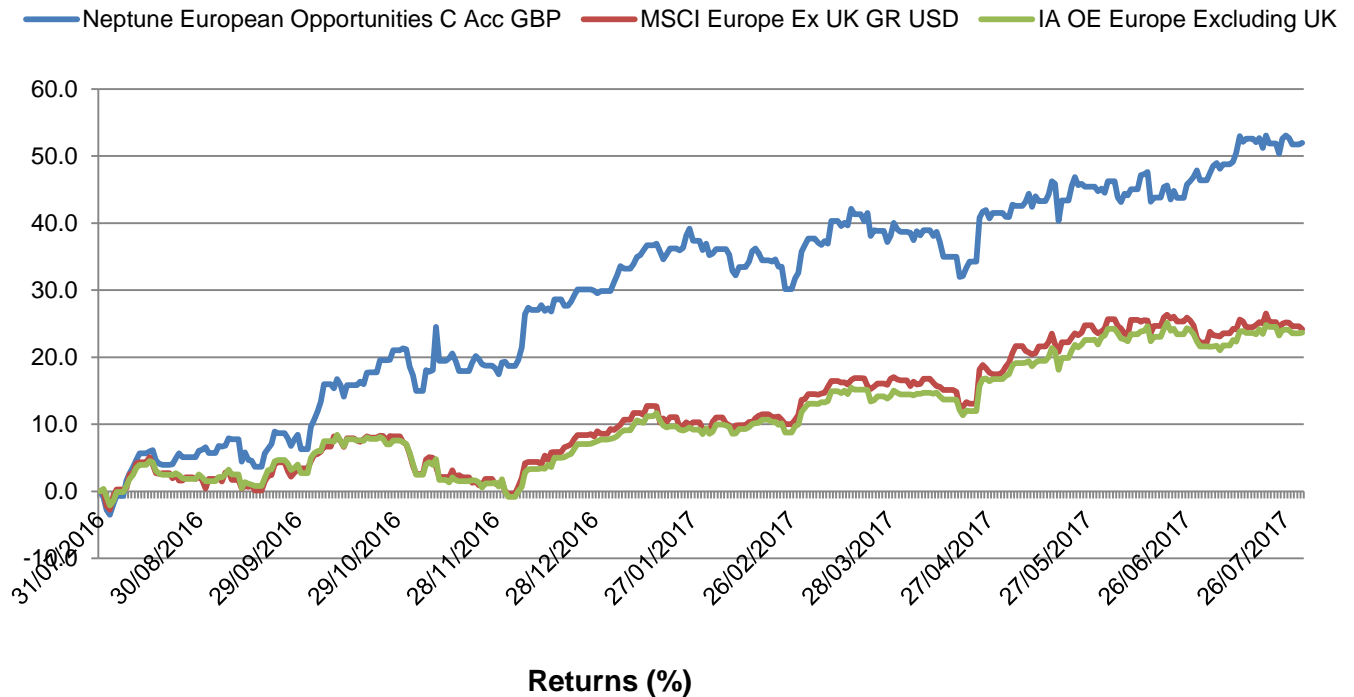
Source: Neptune and Bloomberg, as at 30/06/2017. Past performance is not a guide to future performance. Please remember that forecasts are not a reliable indicator of future performance.

The risk in quality growth sectors such as European consumer staples is heightened by the fact that share price appreciation has been driven by multiple expansion more than earnings growth in recent years. With record multiples for this sector, there is little safety net for this supposed safe haven. High valuations for growth stocks means high drawdown risk, in contrast to the price support offered by value stocks.

Performance

Since the end of the second quarter of 2016, the Neptune European Opportunities Fund has enjoyed a particularly strong period of performance versus its benchmark and peers. Value's resurgence has enabled the Neptune European Opportunities Fund to significantly outperform, ranking as the best performing Europe ex UK fund over the last year, returning 52.0% in comparison to the MSCI Europe ex UK's return of 24.2% and the IA Europe ex UK sector average gain of 23.6%.

1 year performance



	1 Year	3 Years	5 Years
Neptune European Opportunities C Acc	51.98	50.58	108.84
MSCI Europe Ex UK GR USD	24.20	46.21	108.07
IA Europe Excluding UK	23.65	48.31	107.34

Source: Morningstar Direct, data to 31/07/2017, primary share class performance in pound sterling, net income reinvested and no initial charges. The performance of other share classes may differ and past performance is not a guide to future performance. Neptune funds are not tied to replicating a benchmark and holdings can therefore vary from those in the index quoted. For this reason the comparison index should be used for reference only.

The outlook for value

Whilst value has experienced a sharp rebound – to put the moves into context – the market’s bounce is still yet to correct value’s underperformance over 2015. Rob continues to find new, cheap ideas, taking profits in well-performing individual stocks to fund later-cycle companies benefitting from the same themes. For example, trimming positions in banks such as KBC and BNP Paribas, which have already rerated significantly, to move into stocks earlier in their rehabilitation, such as

Caixabank and UniCredit. For this reason, we believe the Fund's performance can continue to go from strength to strength.

Now that political fears have receded, rates have hit a floor and the path to tapering is clear, we believe value sectors are well positioned for a long-term renaissance.

Important Information

For Professional Investors only.

Investment risks

This Fund may have a high volatility rating and past performance is not a guide to future performance. The value of an investment and any income from it can fall as well as rise as a result of market and currency fluctuations and your clients may not get back the original amount invested. References to specific securities are for illustration purposes only and should not be taken as a solicitation to buy or sell these securities. Neptune funds are not tied to replicating a benchmark and holdings can therefore vary from those in the index quoted. For this reason the comparison index should be used for reference only. Please remember that forecasts are not a reliable indicator of future performance. The content of this document is formed from Neptune's views as at the date of issue. We do not undertake to advise you as to any change of our views. Neptune does not give investment advice and only provides information on Neptune products. Please refer to the prospectus for further details.