

M&G Japan Fund - USD Class A

Monthly Fund Review as at 31 January 2018

For investment professionals only



Highlights

- The fund recorded a positive return in January, and was ahead of a comparative index, the MSCI Japan Index.
- The top contributor was Chiyoda, an engineering company. Chiyoda was also the top contributor in December.
- Fund Manager Johan Du Preez closed the fund's position in semiconductor manufacturer Sanken Electric. Sanken has performed strongly over the past year, and in Johan's view, the 'episode' that was occurring in the shares has now unwound.

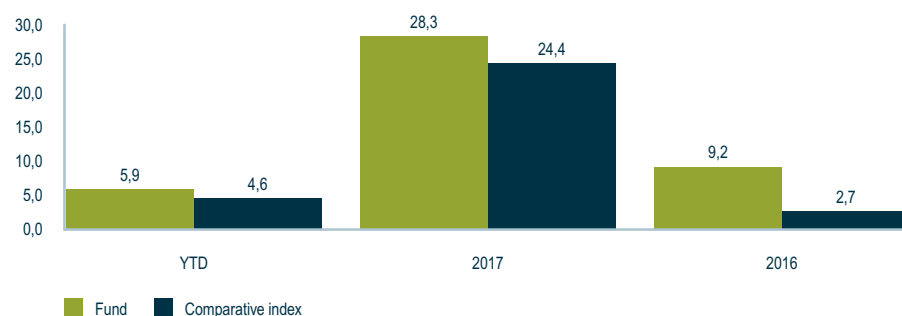
Performance since launch



Fund performance

	1 month (%)	3 months (%)	YTD (%)	1 year (%)	3 years (%) p.a.	5 years (%) p.a.	Since tenure (%) p.a.	Since inception (%) p.a.
Fund	+5.9	+11.4	+5.9	+30.3	N/A	N/A	+17.4	+17.4
Index	+4.6	+8.5	+4.6	+25.4	+12.8	+11.7	+14.3	+14.3
Sector	+4.7	+9.5	+4.7	+28.9	+13.7	+11.4	+15.7	+15.7

Annual performance (%)



The fund invests mainly in company shares and is therefore likely to experience larger price fluctuations than funds that invest in bonds and/or cash.

Key information

Fund manager	Johan Du Preez
Fund manager tenure from	1 September 2015
Deputy fund manager	John Lothian
Launch date	6 April 1971
Launch of share class	9 October 2015
Fund size (millions)	\$831.04
Fund type	OEIC, incorporated in the UK
Valuation currency	JPY
Comparative index	MSCI Japan Index
Comparative sector	Morningstar Japan Large-Cap Equity sector
Number of companies	33
Historic yield (Acc)	0.32%
Portfolio turnover over 12 months	58.7%
Share type	Accumulation
Ongoing charge	1.67%

The historic yield reflects distributions declared over the past twelve months as a percentage of the mid-market price, as at the date shown above. It does not include any preliminary charge and investors may be subject to tax on their distributions.

Risk characteristics

As at 31/12/17	
Alpha (%)	6.59
Information ratio	0.85
Sharpe ratio	1.69
Historic tracking error (%)	6.62
Beta	1.01
Standard deviation (%)	11.90
Forecast tracking error (active risk, %)	3.95
Active share	86.61

Alpha: Portfolio return less comparative index return, annualised. **Information ratio:** Risk-adjusted relative return, measured as the ratio of active return (difference between portfolio return and index return), divided by tracking error (standard deviation of active returns). **Sharpe ratio:** Risk-adjusted absolute return, measured as the ratio of portfolio excess return (difference between mean portfolio return and the risk-free rate) divided by the standard deviation of portfolio returns. **Historic tracking error:** Measure of the actual deviation of portfolio returns from comparative index returns. These four risk measures are calculated using realised, rolling, three-year fund returns. **Beta:** Forecast sensitivity of portfolio returns to the comparative index. **Standard deviation:** Forecast absolute volatility of portfolio returns. **Forecast tracking error (active risk):** Forecast standard deviation of a portfolio's returns relative to its comparative index. **Active share:** Sum of overweight and underweight positions within the portfolio away from the comparative index, divided by two. These four risk measures are calculated with reference to the returns of underlying securities portfolios, not fund returns. Numbers are based on four years of daily data using a 3-6 month horizon.

Industry breakdown (%)

	Fund	Index	Relative weight
Consumer discretionary	24.8	20.1	4.6
Industrials	22.0	21.8	0.1
Financials	19.9	12.7	7.3
Information technology	16.0	13.0	3.0
Materials	9.0	6.6	2.4
Real estate	4.0	4.0	0.0
Health care	2.8	7.0	-4.2
Utilities	0.0	1.6	-1.6
Telecommunication services	0.0	4.8	-4.8
Energy	0.0	1.1	-1.1
Consumer staples	0.0	7.4	-7.4
Cash	1.5	0.0	1.5

Largest holdings (%)

	Fund	Index	Relative weight
Mitsubishi UFJ	5.7	2.4	3.3
Honda Motor	5.5	1.6	3.9
Chiyoda	4.6	0.0	4.6
NEC	4.5	0.2	4.3
Sumitomo Mitsui	4.4	1.6	2.8
Nomura	4.1	0.8	3.3
Ricoh	3.7	0.2	3.5
Mazda Motor	3.7	0.2	3.5
Mitsubishi Heavy Industries	3.7	0.3	3.3
JSR	3.6	0.1	3.4

Largest overweights (%)

	Fund	Index	Relative weight
Chiyoda	4.6	0.0	4.6
NEC	4.5	0.2	4.3
Honda Motor	5.5	1.6	3.9
Ricoh	3.7	0.2	3.5
Mazda Motor	3.7	0.2	3.5
JSR	3.6	0.1	3.4
Mitsui OSK Lines	3.5	0.1	3.4
Mitsubishi Heavy Industries	3.7	0.3	3.3
Mitsubishi UFJ	5.7	2.4	3.3
Nomura	4.1	0.8	3.3

Largest underweights (%)

	Fund	Index	Relative weight
Toyota Motor	0.0	4.7	-4.7
Sprint Capital	0.0	1.8	-1.8
Sony	0.0	1.6	-1.6
Keyence Corp	0.0	1.6	-1.6
FANUC Corp	0.0	1.4	-1.4
Nintendo Co Ltd	0.0	1.3	-1.3
KDDI Corp	0.0	1.2	-1.2
Mizuho Financial	0.0	1.2	-1.2
Shin-Etsu Chemical Co Ltd	0.0	1.2	-1.2
Canon Inc	0.0	1.1	-1.1

Commentary

The fund recorded a positive return in January, and was ahead of a comparative index, the MSCI Japan Index.

Stockmarket performance in 2017 was characterised by investors displaying a preference for apparently 'safe earnings' streams (typically found within consumer staples and utilities, as well as within a select universe of growth names). Whilst they have been eager to participate in the equity rally, investors have been reluctant to take on equity risk.

While the fundamentals of these 'stable earners' have not materially changed through this cycle, their price has. In contrast, the prospective return from owning economically sensitive names, such as financials, has two important anchors: the stocks are cheap relative to their trend earnings and they have substantially improved both profits and shareholder returns. The resultant irrational price behaviour presents significant opportunities, as valuations across sectors become stretched.

The fund's top contributor in January was Chiyoda, an engineering company that specialises in industrial facilities, particularly oil and LNG (liquid natural gas) refineries. Chiyoda, which was also the top contributor in December, has benefited from a firmer oil price. During the month, the oil price reached its highest level in nearly three years. Johan believes the new management team is beginning to improve the quality of the company's order book and restructure its business. Furthermore, as the company has a strong balance sheet, it has the resources to do this.

A holding in materials company JSR also added value on the back of better-than-expected quarterly results. JSR's operating performance has benefited from an improvement in sales and margins at its Elastomer division. Furthermore, sales of semiconductor materials recorded their highest ever quarterly volumes, on the back of increased US smartphone-related demand.

Elsewhere, shares in Yamato, Japan's largest door-to-door delivery service company, rallied after the company raised guidance for revenues and profits for the year ending March 2018.

Conversely, holdings in Nikon and JFE Holdings held back relative returns. Shares in both companies fell back on profit-taking, having enjoyed strong performance in the second half of 2017.

Nikon specialises in cameras and imaging products, as well as optical equipment. The company is taking action to streamline its business and improve margins on digital single-lens reflex cameras. Furthermore, Nikon is benefiting from huge demand for high-end liquid crystal displays, an area of the market it dominates and is launching a new camera, for which there has been a large volume of pre-orders.

Key changes

Johan closed the fund's position in semiconductor manufacturer Sanken Electric during the month. When Johan first invested in Sanken, the company was unloved and dismissed by most investors. This was partly due to the company missing management forecasts for several years in a row. A new chief executive was brought in 2015, and since then working capital management has improved. Sanken's loss-making power module division has returned to profitability and there has been a positive shift towards higher margin products. Sanken's share price has risen sharply over the past year, and in Johan's view, the 'episode' that was occurring in the shares has now unwound.

Fund codes and charges

Share class	ISIN	Bloomberg	Annual management charge	Ongoing charge	Minimum initial investment	Minimum top up investment
USD A Acc	GB00BZ0FTQ89	MGJAPUA LN	1.50%	1.67%	\$1000	\$75
USD C Acc	GB00BZ0FTR96	MGJAPUC LN	0.75%	0.92%	\$500,000	\$50,000

The ongoing charge figures disclosed above include direct costs to the fund, such as the annual management charge (AMC), administration charge and custodian charge, but does not include portfolio transaction costs. They are based on expenses for the period ending 31 August 2017.

Please note that not all of the share classes listed above might be available in your country.

Important information

Cash may be held on deposit and/or in the Northern Trust Cash Funds, a range of collective investment schemes.

Source of performance data: Morningstar, Inc., as at 31 January 2018, USD Class A shares, net income reinvested, price to price basis. Past performance is not a guide to future performance. All other statistics from M&G internal sources, as at 31 January 2018 unless indicated otherwise.

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