Monthly Fund Review

30 April 2016

M&G Japan Fund

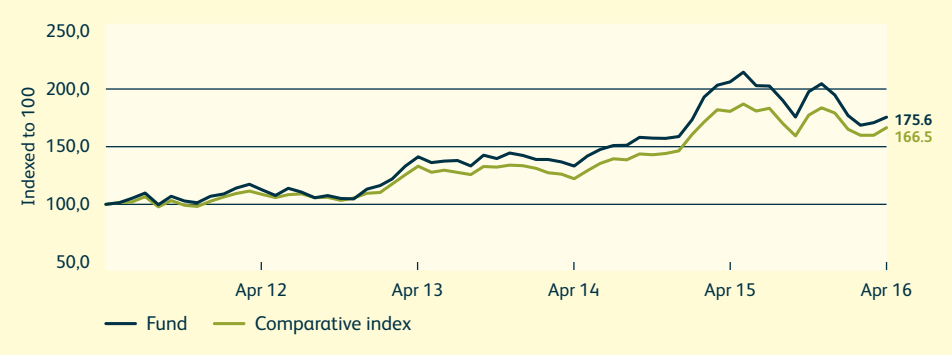
M&G INVESTMENTS

Euro Class A

Summary

- The Japanese stockmarket was little changed in April; however, returns to non-yen-based investors were enhanced by the strength of the yen.
- The fund generated a positive return, with stockpicking in consumer services and industrials adding value. On the other hand, holdings such as Nikon and JSR detracted.
- Fund Manager Johan Du Preez closed positions in Mitsubishi Corp., Showa Denko and Daiichi Sankyo.

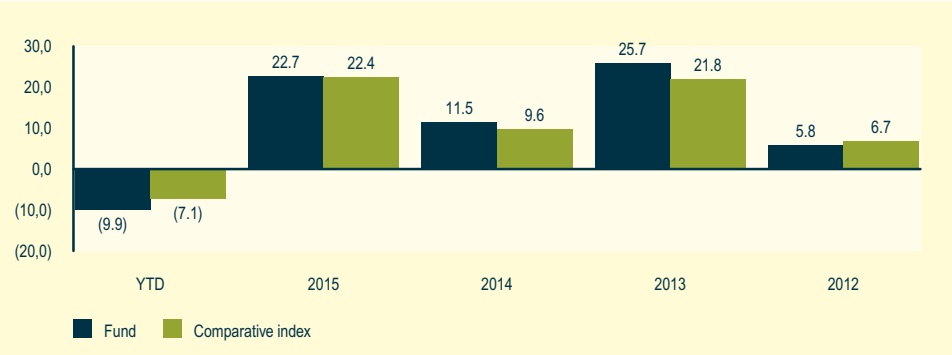
Performance over 5 years



Fund performance

	1 month (%)	3 months (%)	YTD (%)	1 year (%)	3 years (%) p.a.	5 years (%) p.a.	Since tenure (%)	Since inception (%) p.a.
Fund	+2,8	-0,8	-9,9	-14,9	+7,5	+11,9	-7,7	+3,3
Index	+4,1	+0,9	-7,1	-7,8	+7,7	+10,7	-2,2	+7,2
Sector	+2,9	+0,0	-7,3	-7,4	+6,8	+9,6	-2,6	+3,3
Ranking	66/105	64/105	82/105	97/101	33/92	12/88	91/103	1/1
Quartile ranking	3	3	4	4	2	1	4	1

Annual performance (%)



Past performance is not a guide to future performance.

The value of investments and the income from them will fluctuate. This will cause the fund price to fall as well as rise. There is no guarantee the fund objective will be achieved and you may not get back the original amount you invested.

Please note that returns titled 'since inception' are calculated from 31 December 1971, rather than the fund's official launch date. This is the earliest date that performance data is available from Morningstar for this share class.

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	28 November 2001
Fund size (millions)	€300,12
Fund type	OEIC, incorporated in the UK
Comparative index	MSCI Japan Index
Comparative sector	Morningstar Japan Large-Cap Equity sector
Number of companies	34
Historic yield	0,07 %
Portfolio turnover over 12 months	34,3 %
Share type	Accumulation
Ongoing charge	1,68 %

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.

Fund ratings

Overall Morningstar rating ★★★

Source: Morningstar, as at 31 March 2016

Ratings should not be taken as a recommendation.

Risk characteristics

As at 31/03/16	
Alpha:	3,01
Information ratio:	0,61
Sharpe ratio:	0,70
Historic tracking error:	4,69
Beta:	1,00
Standard deviation:	28,26
Forecast tracking error (active risk):	5,50
Active share	86,81

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.

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Industry breakdown (%)

	Fund	Index	Relative weight
Industrials	25,0	19,5	5,5
Consumer discretionary	24,3	20,5	3,8
Financials	23,1	17,7	5,4
Information technology	19,6	10,5	9,2
Materials	6,2	5,5	0,7
Telecommunications	1,6	6,1	-4,5
Consumer staples	0,0	8,1	-8,1
Energy	0,0	0,9	-0,9
Healthcare	0,0	8,8	-8,8
Utilities	0,0	2,4	-2,4
Cash	0,2	0,0	0,2

Largest holdings (%)

	Fund	Index	Relative weight
Mitsubishi UFJ	6,0	2,2	3,8
Honda Motor	5,7	1,6	4,1
Ricoh	5,4	0,3	5,1
Sumitomo Mitsui	5,1	1,4	3,6
Asahi Glass	4,4	0,2	4,2
Nikon	4,3	0,2	4,1
NEC	4,2	0,2	4,0
Toshiba	4,1	0,3	3,8
Sumitomo Mitsui Trust	4,1	0,4	3,7
Sumitomo Electric Industries	3,5	0,3	3,2

Largest overweights (%)

	Fund	Index	Relative weight
Ricoh	5,4	0,3	5,1
Asahi Glass	4,4	0,2	4,2
Nikon	4,3	0,2	4,1
Honda Motor	5,7	1,6	4,1
NEC	4,2	0,2	4,0
Toshiba	4,1	0,3	3,8
Mitsubishi UFJ	6,0	2,2	3,8
Sumitomo Mitsui Trust	4,1	0,4	3,7
Sumitomo Mitsui	5,1	1,4	3,6
JSR	3,4	0,1	3,3

Largest underweights (%)

	Fund	Index	Relative weight
Toyota Motor	0,0	5,1	-5,1
Softbank Group	0,0	1,9	-1,9
Kddi	0,0	1,8	-1,8
Japan Tobacco	0,0	1,7	-1,7
Takeda Pharmaceutical	0,0	1,4	-1,4
Mizuho Financial	0,0	1,3	-1,3
Sony	0,0	1,3	-1,3
NTT Docomo	0,0	1,2	-1,2
Seven & i	0,0	1,1	-1,1
Canon	0,0	1,1	-1,1

Performance review

The Japanese stockmarket was little changed in April; however, returns to non-yen-based investors were enhanced by the strength of the Japanese currency. The yen rose sharply during April following the Bank of Japan's announcement that it would not expand monetary stimulus for the time being.

Stockpicking in consumer services (**Komeri** and positioning in the automobile sector) and industrials (**Toshiba** and **Asahi Glass**) added value. Shares in DIY-retailer Komeri rallied sharply following the announcement of solid results, which showed like-for-like sales recovering. Furthermore, operating margins should benefit from the recent strength of the yen, which lowers the cost of Komeri's imported goods. Johan believes investors have yet to fully recognise the improvement in sales mix at the company, in particular, the increase in sales of branded goods which command higher margins.

Relative returns were also supported by the fund's positioning in the automobiles sector, where it is underweight in **Toyota Motor** and overweight in **Honda Motor**, which Johan believes is more attractively valued.

In March, Toshiba, whose main businesses are the construction and maintenance of nuclear power plants and NAND semiconductor manufacturing, announced the sale of its medical devices business to Canon. The news was well received by investors, and the company's shares have continued to rally. Toshiba had experienced a disappointing start to the year due to concerns over poor financial disclosure.

The share price of industrial group **Asahi Glass** made further gains in April, having performed strongly in the previous month. The company is benefiting from the news that LCD glass substrate prices have stabilised (prices had been falling for some time). Strong volume growth, as the unit size of LCD glass increases, has also boosted margins. In addition, the company is benefiting from a return of pricing power in architectural glass, and continued growth in automotive glass.

On the other hand, consumer goods stock **Nikon** detracted. The share price of the camera and optical equipment manufacturer fell back after enjoying a strong run recently. There is a perception that Nikon's camera business is struggling; however, recent operational performance at the company suggests otherwise. Nikon is taking action to streamline its business and improve margins on Digital Single Lens Reflex cameras. The company is also benefiting from huge demand for high-end liquid crystal displays, an area of the market it dominates.

Stockpicking in technology (**NEC**) and materials (**JSR**) detracted as well. Shares in NEC have been suffering on news the government order book has shrunk – a function of new contracts not replacing completed contracts at a sufficiently fast pace. However, NEC's core business is doing well, and Johan believes investors have yet to fully recognise the significant improvement in earnings power at the company, brought about by a change in its business mix.

The share price of JSR remains volatile as the market struggles to price a cyclical downturn in semiconductors, the end-market for the company's high value-added technology materials business. At the current share price, however, Johan sees considerable value for what is a high-quality growth company.

Not holding telecommunications and internet company **Softbank**, whose shares rallied sharply, also detracted.

Key changes

The positions in **Mitsubishi Corp.**, **Showa Denko** and **Daiichi Sankyo** were closed and the proceeds reinvested in more attractive opportunities elsewhere in the portfolio.

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Fund codes and charges

Share class	ISIN	Bloomberg	Annual management charge	Ongoing charge	Minimum initial investment	Minimum top up investment
Euro A Acc	GB0030938582	MGJAEAA LN	1,50 %	1,68 %	€1.000	€75
Euro C Acc	GB0030938699	MGJAECA LN	0,75 %	0,93 %	€500.000	€50.000

The ongoing charge figures disclosed above include direct costs to the fund, such as the annual management charge (AMC), custodian charge and administration fee. They are based on expenses for the period ending 29 February 2016. 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 30 April 2016, Euro Class A shares, net income reinvested, bid to bid basis. Past performance is not a guide to future performance. All other statistics from M&G internal sources, as at 30 April 2016 unless indicated otherwise.

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