

Eastspring Investments – Japan Smaller Companies Fund

eastspring
investments

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KEY INFORMATION

Asset class	Equity
ISIN (Class C _G)	LU1235131007
Bloomberg ticker (Class C _G)	ESJSCCG LX
Fund size (mil)	29,850.2
Fund base currency	JPY
Share class dealing currency (Class C _G)	GBP
Net asset value (Class C _G)	GBP 14.604
Inception date (Class C _G)	18-May-15
Reference index (RI)	Russell/Nomura Mid-Small Cap Index
Domicile	Luxembourg
Fund type	UCITS
Investment manager	Eastspring Investments (Singapore) Limited

KEY MEASURES

Number of Securities	45
*3 year tracking error(%) (Class C _G)	6.7
*3 year sharpe ratio (Class C _G)	1.1
*3 year volatility(%) (Class C _G)	11.9

*Source: Morningstar

IMPORTANT INFORMATION

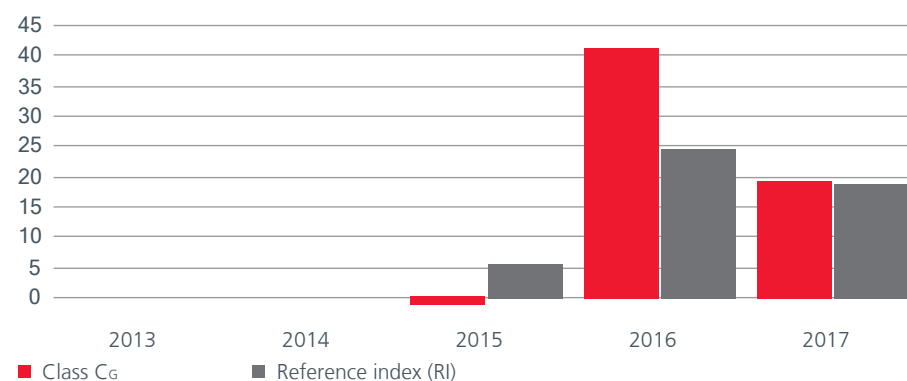
Prior to investing, Investors should read the Prospectus and Key Investor Information Document ("KIID").

INVESTMENT OBJECTIVE

This Sub-Fund aims to maximize long-term capital appreciation by investing primarily in equity and equity-related securities of corporations, which are incorporated in, or listed in, or operating principally from, or carrying on significant business in, or derive substantial revenue from, or whose subsidiaries, related or associated corporations derive substantial revenue from Japan. The investment universe is the bottom third in terms of total market capitalisation of all publicly listed equity in Japan. The Sub-Fund may also invest in medium sized and larger companies in order to enhance its liquidity. The Sub-Fund may also invest in depository receipts including ADRs and GDRs, debt securities convertible into common shares, preference shares and warrants.

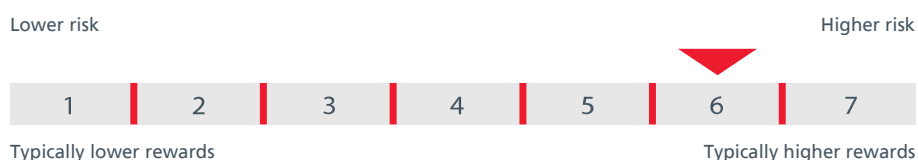
PERFORMANCE

Calendar year returns (%) (Class C_G)



Source: Eastspring Investments (Singapore) Limited. Past performances is not a guide to future performance and should not be the sole factor of consideration when selecting a product. The returns shown during the first year relate to the performance of the share class since its inception to the end of that calendar year. For full details, please refer to the performance disclosure.

SYNTHETIC RISK AND REWARD INDICATORS (SRI) (Class C_G)



MAIN RISKS:

Counterparty risk The Sub-Fund could lose money if an entity with which it does business becomes unwilling or unable to honor its obligations to the fund.

Derivatives risk Certain derivatives could behave unexpectedly or could expose the Sub-Fund to losses that are significantly greater than the cost of the derivative.

Focus risk To the extent that the Sub-Fund has exposure to an issuer, geographical area or type of security that is heavily affected by an adverse event, its value may fall.

Liquidity risk Certain securities could become hard to value, or to sell at a desired time and price.

Management risk Investment management techniques that have worked well in normal market conditions could prove ineffective or detrimental.

Operational risk In any market, but especially in emerging markets, the Sub-Fund could lose some or all of its investments through fraud, corruption, political or military actions, the seizure of assets, or other irregular events.

Hedging risk Currency hedging (where applicable) may not completely eliminate currency risk and, therefore, may affect the performance of your shares.

PERFORMANCE

	Cumulative returns (%)				Annualised returns (%)			
	1 m	3 m	YTD	1 y	3 y (p.a.)	5 y (p.a.)	10 y (p.a.)	Since inception (p.a.)
Class C _G	-0.4	-7.9	-12.0	-10.6	13.4	–	–	11.3
Reference index (RI)	2.3	-3.2	-2.4	-0.9	13.9	–	–	12.5
Relative	-2.7	-4.7	-9.6	-9.7	-0.5	–	–	-1.2

	Rolling 12-month returns (%)					
	From	30 Nov 2017	30 Nov 2016	30 Nov 2015	30 Nov 2014	30 Nov 2013
To	30 Nov 2018	30 Nov 2017	30 Nov 2016	30 Nov 2015	30 Nov 2014	30 Nov 2013
Class C _G		-10.6	19.0	37.1	–	–
Reference index (RI)		-0.9	20.4	23.8	–	–
Relative		-9.7	-1.4	13.3	–	–

Performance Disclosure:

(p.a.): per annum. **Source: Eastspring Investments (Singapore) Limited.** Returns are based in share class currency and computed on NAV-NAV basis with net income reinvested, if any. Since inception returns for periods less than a year are not annualised. The reference index for the hedged share classes, if any, is also calculated on a hedged basis. Reference index is for information purposes only unless specifically referenced in the Investment Objective. Wef July 2018, the monthly fund and benchmark returns calculated are aligned to the last NAV date of the fund for the month. **Past performances is not a guide to future performance and should not be the sole factor of consideration when selecting a product.**

TOP 10 HOLDINGS (%)

1.	OKI ELECTRIC INDUSTRY LTD	3.7
2.	TOKYO KIRABOSHI FINANCIAL GROUP INC	3.5
3.	NHK SPRING LTD	3.5
4.	CHIBA BANK LTD	3.2
5.	NOK CORP	3.2
6.	LEOPALACE21 CORP	3.1
7.	MITSUI OSK LINES LTD	3.1
8.	KOBE STEEL LTD	3.1
9.	SUMITOMO RIKO LTD	3.1
10.	HITACHI ZOSEN CORP	3.0

SECTOR WEIGHTS (%)

Consumer discretionary	31.6
Industrials	25.8
Financials	22.8
Materials	9.6
Communications	6.5
Technology	2.9
Cash and cash equivalents	0.8

Due to rounding, the allocation table may not add up to 100% or may be negative.

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SHARE CLASS DETAILS

Share class	Currency	Bloomberg ticker	ISIN	Inception date	Initial sales charges % (max)	Annual management fee% (max)	Annual admin fee % (max)	*Minimum initial investment	*Minimum subsequent investment	Distribution frequency	Ex-date	Dividend per share	Annual dividend yield %
A	USD	IOFJSAU LX	LU0354059841	26-Mar-08	5.000	1.500	0.500	USD500	USD50	N.A.	N.A.	N.A.	N.A.
C_G	GBP	ESJSCCG LX	LU1235131007	18-May-15	5.000	0.875	Nil	USD10 Mil	USD1,000	N.A.	N.A.	N.A.	N.A.
C_J	JPY	ESJSCCJ LX	LU0865491319	14-Dec-12	5.000	0.875	Nil	USD10 Mil	USD1,000	N.A.	N.A.	N.A.	N.A.
R_G	GBP	ESJSRCG LX	LU1235131262	18-May-15	5.000	0.750	0.500	USD500	USD50	N.A.	N.A.	N.A.	N.A.
R_J	JPY	ESJSRCJ LX	LU1235131692	18-May-15	5.000	0.750	0.500	USD500	USD50	N.A.	N.A.	N.A.	N.A.

Distributions are not guaranteed and may fluctuate. Past distributions are not necessarily indicative of future trends, which may be lower. Distribution payouts and its frequency are determined by the Board of Directors, and can be made out of (a) income; or (b) net capital gains; or (c) capital of the Fund or a combination of any of (a) and/or (b) and/or (c). The payment of distributions should not be confused with the Fund's performance, rate of return or yield. Any payment of distributions by the Fund may result in an immediate decrease in the net asset value per share. Funds with Monthly and Quarterly Distribution Frequency: Annual Dividend Yield = (Dividend amount / Reference NAV) x (No. of calendar days in a year / No. of calendar days in distribution period) x 100%. Funds with Yearly Distribution Frequency: Annual Dividend Yield = (Dividend amount / Total Net Assets) x (No. of calendar days in a year / No. of calendar days in distribution period) x 100%. *Or their near equivalent in any major freely convertible currency of the amounts specified. "N.A.": This share class does not distribute dividends.

Share class	Currency	Cumulative returns (%)				Annualised returns (%)				Rolling 12-month returns (%)				
		1 m	3 m	YTD	1 y	3 y (p.a.)	5 y (p.a.)	10 y (p.a.)	Since inception (p.a.)	30 Nov 2017 - 2018	30 Nov 2016 - 2017	30 Nov 2015 - 2016	30 Nov 2014 - 2015	30 Nov 2013 - 2014
A														
Fund	USD	-0.8	-9.8	-18.0	-16.6	6.1	6.6	13.2	9.2	-16.6	27.7	12.1	13.5	1.7
Reference index (RI)	USD	2.2	-5.0	-8.0	-6.6	7.8	7.6	8.9	5.3	-6.6	30.4	2.8	14.3	1.0
Relative	USD	-3.0	-4.8	-10.0	-10.0	-1.7	-1.0	4.3	3.9	-10.0	-2.7	9.3	-0.8	0.7
C_G														
Fund	GBP	-0.4	-7.9	-12.0	-10.6	13.4	-	-	11.3	-10.6	19.0	37.1	-	-
Reference index (RI)	GBP	2.3	-3.2	-2.4	-0.9	13.9	-	-	12.5	-0.9	20.4	23.8	-	-
Relative	GBP	-2.7	-4.7	-9.6	-9.7	-0.5	-	-	-1.2	-9.7	-1.4	13.3	-	-
C_J														
Fund	JPY	-0.3	-7.3	-16.3	-14.3	4.5	10.1	-	18.7	-14.3	27.2	4.6	19.3	19.2
Reference index (RI)	JPY	2.8	-2.7	-7.2	-5.2	4.9	9.9	-	16.9	-5.2	28.1	-5.0	18.7	17.1
Relative	JPY	-3.1	-4.6	-9.1	-9.1	-0.4	0.2	-	1.8	-9.1	-0.9	9.6	0.6	2.1
R_G														
Fund	GBP	-0.5	-8.0	-12.2	-10.7	13.1	-	-	11.0	-10.7	18.7	36.8	-	-
Reference index (RI)	GBP	2.3	-3.2	-2.4	-0.9	13.9	-	-	12.5	-0.9	20.4	23.8	-	-
Relative	GBP	-2.8	-4.8	-9.8	-9.8	-0.8	-	-	-1.5	-9.8	-1.7	13.0	-	-
R_J														
Fund	JPY	-0.4	-7.4	-16.5	-14.5	4.2	-	-	3.2	-14.5	26.9	4.5	-	-
Reference index (RI)	JPY	2.8	-2.7	-7.2	-5.2	4.9	-	-	4.5	-5.2	28.1	-5.0	-	-
Relative	JPY	-3.2	-4.7	-9.3	-9.3	-0.7	-	-	-1.3	-9.3	-1.2	9.5	-	-

(p.a.): per annum. Source: Eastspring Investments (Singapore) Limited. Past performances is not a guide to future performance and should not be the sole factor of consideration when selecting a product. For full details, please refer to the performance disclosure.

Commentary sources

1. Eastspring Investments (Singapore) Limited

COMMENTARY

Performance Review

Global equities were volatile but marginally recovered towards month's end and Russell Nomura Mid-Small Index returned 2.82% in JPY terms. In recent months, global equity performance has reflected uncertainty and changing risk preferences, which have been influenced by ongoing macroeconomic and geopolitical news flow. In response to uncertainty and volatility, market risk preferences swung towards more defensive companies with perceived shorter-term earnings certainty and earnings visibility. During the month, Japan's Q3 GDP contracted by 1.2% year-on-year largely on the back of weather-related incidents.

Amid this backdrop of shorter-term price swings, we continue to observe improving structural trends in the fundamental health in corporate Japan, which has yet to be fully priced by the market. Corporate restructuring in Japan has been accelerating to reflect higher operational efficiency and improved trend profitability. We also observe a continued uptrend in corporate spending to improve productivity. In the latest September financial quarter, net profits continued to exceed expectations on a trend basis. There is also increasing evidence of improving market practice relating to corporate governance and further alignment with shareholder interests.

Additionally, we observe that Japan's economic output has been operating above its potential for some time, as measured by a positive output gap, which if persists is likely to add to inflationary pressure. The labour market conditions continue to improve, and as a result have observed a gradual upward pressure on nominal labour income YTD. Notably, strong corporate profits have also buoyed household incomes through bonuses. Recently announced summer bonuses jumped to its highest increase since 1991.

Whilst Japan is not immune from the global cycle, or cyclical nature of earnings, we continue to observe the kinds of improved economic trends being reflected on a bottom up, company by company basis. We observe that improved trend earnings in Japan are being delivered, but not yet priced by the market. As such, we continue to find mispriced contrarian investment opportunities where the market's risk perceptions and expectations have caused a meaningful dislocation between the share price and company valuation.

Key Contributors

Month-to-date, Sumitomo Riko Company, Tokyo Kiraboshi Financial Group and Kurita Water Industries aided absolute performance. Sumitomo Riko Company is a manufacturer of high performance rubber-based components for the auto and consumer electronics industries. It has a strong market share of the Japanese auto industry demand for anti-vibration hose and other rubber parts. It also has an ability to retain improvements in raw materials costs, such as oil and natural rubber. It is a longer term holding and the position was built during a weak global cyclical environment where shares had derated along with the auto industry. Our analysis suggests it remains attractively valued compared to the likely level of sustainable earnings the company can generate over the medium term. In particular, our analysis suggests that improvements in its loss making European operations will start to contribute to trend profitability.

Tokyo Kiraboshi Financial Group is a regional bank created by the merger of several banks. It has been operating amid a tough low interest rate environment for a long time. However, shares for Tokyo Kiraboshi Financial Group are attractively valued compared to the likely level of sustainable earnings it can generate. In particular, the bank is undergoing a programme of significant reduction in operating costs as it eliminates overlapping cost areas and cuts staff numbers. This should drive earnings growth over the next several years. Meanwhile its loan book is well diversified by industry and maintains a relatively high exposure in growing higher margin loans to the small to medium enterprise market segment. The bank is also located in the growing Tokyo economic area and has been a consolidator of other banks, these M&A activities have the potential to continue. Since the BOJ announced a move to a negative interest rate policy, our analysis suggests that the market's pessimistic expectations have already priced in a significant contraction in domestic net interest margin whereas in fact the bank's spot loan rates appear to have bottomed out. By applying conservative trend assumptions, we find significant valuation upside which more than compensates us for the apparent risks. Since the end of October, strong 1H earnings result has led to a rebound in share price.

Kurita Water Industries specialises in water treatment and related chemicals. Its historic decline in trend earnings is well understood by the market, and its ability to deliver good ongoing cash generation is being recognised by the market. It has been successful in winning overseas contracts for its water treatment facilities business and is also making progress in its chemicals and services businesses. It has a low correlation to other positions in the portfolio.

Key Detractors

Month-to-date, Credit Saison, Lixil Group and Hitachi Zosen Corp were main drags on absolute performance. Credit Saison has underperformed the market over the past three years and as result is now attractively valued. Additionally, the issues facing Credit Saison and the consumer finance industry in general, are well known to the market and are more than priced in with significant valuation support. Our conservative trend assumptions have taken into consideration amongst other things, the likelihood of rising costs associated with IT infrastructure spending; the potential for rising trend credit costs from historic low NPL levels; ongoing liabilities stemming from legacy claims on the consumer finance industry; and the potential impact from a change in significant shareholders. The trend shift in its business mix away from an interest rate sensitive consumer finance business to a fee generating transaction processing business appears to have been overlooked by the market. However, this is supportive for our high conviction for the likely level of sustainable trend earnings that could be generated.

Lixil Group has diversified its business domain in terms of geographies, products and brands through the acquisition of such companies as Grohe and American Standard. The company is currently working to extract synergies from these acquisitions by streamlining management, use of common resources and cross-selling in different geographies. The company is also proactively engaged in managing its cashflows and balance sheet, as well as allocating capital in areas of strength and growth, as sanitary products. There are concerns related to long-term housing product demand and lack of discipline in the housing building materials market in Japan, where manufacturers see low and volatile returns. Lixil is working proactively to change its production structure of such products to make the business withstand meaningful demand contractions. The market remains skeptical of such efforts. There is sufficient valuation support for a position in the fund, and we have been adding to the position in the wake of share price weakness.

Hitachi Zosen Corp has a wide range of industrial business segments which supply products for environmental systems, industrial plants, water treatment, machinery and infrastructure. Whilst its management has had a history of poor capital discipline, its stated plan is to focus resources on the environmental systems business and other high return businesses with growth potential, and to restrict

COMMENTARY

capital to loss making businesses and restructure other businesses if necessary. The main focus for the mainstay environmental systems division is the replacement market for domestic rubbish incineration plants, where a significant replacement cycle is now emerging which has created structural improvements to earnings for the industry as a whole. Operations and maintenance services, traditionally done in house by local Government, are another new profit stream for manufacturers like Hitachi Zosen. As one of the remaining key players in this space, this structural improvement should be supportive for the longer term sustainable earnings that Hitachi Zosen can generate. Recently, however, the strengths of the domestic environmental systems business have been largely offset by repeated negative surprises from significant cost overruns at Inova, the European environmental plant constructor purchased in 2011. However, our concerns have been reassured by senior management, and believe that should drastic changes to the Inova business, in particular focusing on Engineering and Procurement and finding local partners to take the risk of Construction cost overruns on future projects, be implemented, this could help stem losses going forward in trend terms. We continue to believe that the shares have significant upside.

Fund Activity

During the month, the portfolio manager sold shares in companies where valuations look relatively less compelling compared to other high conviction positions. Notable trades included exiting fully from Daikyo Inc and United Arrows Ltd. The Fund added to positions in Fujitsu General, NOK Corp and Relia Inc.

Outlook

The market's shorter-term focus on thematic macroeconomic news flow can drive significant share price anomalies for the Fund to exploit. There remains a tail of stocks, which are often ignored by the market and as a result may be mispriced by the market. This market dynamic presents opportunities for our valuation discipline to exploit.

However, we note that there are many companies in strong financial health and observe that companies' restructuring efforts are continuing and in some cases have accelerated. With the onset of negative interest rates for bondholders, there is an even stronger economic imperative for companies to improve capital efficiency encouraging shareholder oriented behaviour. We continue to observe supportive trend fundamentals at a company level, and this is a significant driving factor in the longer term re-rating for Japan.

We do not allocate on a sector basis. However, we have found, on a stock-by-stock basis, high conviction names with strong valuation signals across much of the market. Included are investment opportunities in retail and property-related names; regional banks as well as non-bank financials; electronic and auto component manufacturers; specialist materials and industrials names. These names represent a wide range of industries, from more domestically focused to export related.

DISCLAIMER

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“Professional Investors” refers to definition provided in Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004, the “MiFID Directive” as amended).

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All transactions into the SICAV should be based on the current Prospectus and the Key Investor Information Document (“KIID”) of the relevant sub-fund in applicable local language. Such documents, together with the articles of incorporation, the latest annual and semi-annual reports of the SICAV, may be obtained free of charge from the Management Company.

Prospective investors are invited to further consider the risk warnings section of the Prospectus. This document is solely for information and does not have any regard to the specific investment objectives, financial or tax situation and the particular needs of any specific person who may receive this document. This document is not intended as an offer, a solicitation of offer or a recommendation, to deal in shares of securities or any financial instruments.

Please refer to the offering documents for details on fees and charges, dealing & redemption, product features, risk factors and seek professional advice before making any investment decision. **An investment in the SICAV is subject to investment risks, including the possible loss of the principal amount invested.** The value of shares in any sub-fund of the SICAV and the income accruing to the shares, if any, may fall or rise. Where an investment is denominated in a currency other than the base currency of a sub-fund of the SICAV, exchange rates may have an adverse effect on the value price or income of that investment. Investors should not make any investment decision solely based on this document. Investors may wish to seek advice from a financial adviser before purchasing shares of any sub-fund of the SICAV. In the event that an investor may choose not to seek advice from a financial adviser, the latter should consider carefully whether the sub-fund in question is suitable for him.


Past performance and the predictions, projections, or forecasts on the economy, securities markets or the economic trends of the markets are not necessarily indicative of the future or likely performance of the SICAV. There are limitations to the use of indices as proxies for the past performance in the respective asset classes/sector.

Any sub-fund of the SICAV may use derivative instruments for efficient portfolio management and hedging purposes.

This paragraph is only applicable to sub-funds of the SICAV, which distribute dividends. Any sub-fund of the SICAV may, at its discretion, pay dividends out of capital or gross income while charging all or part of its fees and expenses to its capital, resulting in higher distributable income. Thus, any sub-fund of the SICAV may effectively pay dividends out of capital. Payment of dividends out of capital (effective or not) amounts to a return or withdrawal of part of an investor’s original investment or from any capital gains attributable to that original investment, which may result in an immediate reduction of the net asset value per share. The distributions, including amounts and frequency, are not guaranteed and are subject to the discretion of the SICAV’s Board of Directors. Past dividends are not a forecast or projection of future distributions.

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A member of Prudential plc (UK) 

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