Fund Update

Invesco Japanese Equity Core Fund

April 2018 (covering 3 months ending 31 March)

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Market and Economic Comment

Japan's equity market ended the first quarter lower, after a period of sustained strong performance. An inflation scare in the US triggered a global market sell-off, from which the Japanese market struggled to rebound, largely due to the strength of the yen, concerns over escalating global trade tensions, some mixed economic data and domestic political uncertainty. This more than offset a strong set of corporate earnings results, and better than expected 4Q GDP growth.

Fund Performance Review *

In yen terms, the fund returned -8.0% over the period, compared to the benchmark TOPIX Index and the Morningstar GIFS Japan Large Cap Equity sector, which returned -4.7% and -5.5% respectively.

Performance to 31 March 2018 (% growth)*

	Fund	Topix	Sector	Quartile
2017	17.5	22.2	22.3	4
2016	1.1	0.3	-0.4	1
2015	10.0	12.1	9.9	2
2014	3.6	10.3	7.9	4
2013	60.3	54.4	54.6	1
3 months	-8.0	-4.7	-5.5	4
6 months	0.8	3.6	3.2	4
1 year	8.0	15.9	15.0	4
3 years	9.3	18.5	15.4	3
5 years	63.2	83.6	73.7	3

Standardised rolling 12-month performance (% growth)*

	31.3.13 31.3.14	31.3.14 31.3.15	31.3.15 31.3.16	31.3.16 31.3.17	31.3.17 31.3.18
Fund	17.6	27.0	-9.0	11.3	8.0
Topix	18.6	30.7	-10.8	14.7	15.9
Sector	17.3	28.3	-11.7	13.6	15.0

This information is updated on a calendar quarterly basis. Up-to-date information is available on our website www.invescoperpetual.co.uk

Past performance is not a guide to future returns

The biggest detractors from relative performance came from the more economically sensitive areas of the market, to which the strategy is tilted. The fund's exposure to steel manufacturers was the biggest detractor as the US introduced tariffs on steel and aluminium imports, while there were also concerns over rising raw material prices. Hitachi Metals reported slightly weaker than expected earnings and was the biggest detractor, while Nippon Steel pulled back from recent highs after it reported a production shortfall for the most recent quarter, although growth is expected to recover later this year. Sentiment towards steel manufacturers has since improved as fears over the potential for a trade war have eased, while the outlook for steel prices and profit growth remains positive, given continued supply-side reform in China.

Other notable detractors included banks such as Mitsubishi UFJ Financial Group, given yen strength and the Bank of Japan's firm commitment to QQE, with concerns over extended pressure on loan deposit spreads and translated revenue from overseas markets. Cosmo Energy and Inpex gave back some of their recent outperformance, with the oil price retreating from recent highs.

Meanwhile, exposure to real estate companies such as NTT Urban and the Invincible Investment REIT contributed positively, thanks in part to an uptick in inflation expectations. Precision ball bearing manufacturer Tsubaki Nakashima also added value, benefiting from the supportive macro backdrop and positive expectations for synergies from a recent acquisition. Finally, Japan Post Holdings proved relatively resilient thanks to a robust set of earnings, with the company revising FY earnings guidance upwards for its postal business.

Attribution - sector & stock level (%)*

Sector		Stock	
Top five			
Machinery	0.6	NTT Urban Development	0.2
Electric Power & Gas	0.1	Japan Post	0.2
Glass & Ceramics Products	0.1	Tsubaki Nakashima	0.2
Construction	0.1	Invincible Investment	0.1
Insurance	0.1	Sato Holdings	0.1
Bottom five			
Iron & Steel	-1.4	Hitachi Metals	-0.8
Pharmaceutical	-0.5	Mitsubishi UFJ Financial	-0.4
Marine Transportation	-0.4	Nippon Steel	-0.3
Banks	-0.3	JFE Holdings	-0.3
Other Products	-0.2	Cosmo Energy	-0.3

Attribution measures the relative outperformance or underperformance of sectors and stocks in the fund compared to those in the reference index, including the relative impact of reference index holdings that are not held in the fund. Three-month figures.

Fund Strategy

The fund has a tilt towards more economically sensitive areas of the market, including manufacturers, oil companies and exporters, as well as some exposure to more domestically driven sectors, with significant positions in banks and real estate companies. We have taken profits from recent outperformers, including retailers, and continued to shift the fund towards those areas of the market more sensitive to global growth. This is where we are able to find the most attractive valuations, which stand in marked contrast to more growth oriented areas of the market, where we believe valuations in some cases look stretched.

New holdings introduced over the quarter included: Kao Corp, a household products and cosmetics manufacturer with a strong line-up of high profile brands; TDK which has shifted its focus from consumer electronics to automotive products; and Minebea Mitsumi, the ball bearing manufacturer. In turn, we sold Murata Manufacturing and took profits from Sato Holdings, the global barcode and product identification experts. Elsewhere, we introduced: Nissan Chemical Industries, which has sustainable earnings growth prospects supported by demand for its LCD screen materials, veterinary pharmaceuticals and agrochemicals; and Mitsui Engineering & Shipbuilding, which has restructured its engineering business to lower the risks of unprofitable projects while the ship building segment appears to be recovering from difficult market conditions.

We took some profits from Mizuho Financial Group and NTT Urban Development. In turn, we introduced holdings in: a real estate renovation and management company as well as East Japan Railway, which also has a significant real estate business. We added to Mitsubishi Corp, with the well diversified trading company able to capitalise on the current growth in the global economy while delivering strong levels of free cash flow and dividend growth. Finally, in steel and metals manufacturers, we sold Nippon Steel and aluminium manufacturer UACJ, and reduced exposure to Hitachi Metals, preferring to add to JFE Holdings.

Sector breakdown (%)*

Most overweight	Fund	Topix	Active
Banks	18.7	7.0	11.7
Transportation Equipment	16.9	8.8	8.1
Real Estate	8.8	2.4	6.5
Mining	6.4	0.3	6.1
Iron & Steel	6.2	1.1	5.1
Most underweight			
Electric Appliances	5.7	13.9	-8.2
Information & Communication	1.1	7.3	-6.2
Pharmaceutical	0.1	4.7	-4.6
Retail Trade	1.1	4.9	-3.8
Chemicals	3.6	7.3	-3.7

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Outlook

There are a number of reasons for remaining optimistic on the near-term outlook for Japan's economy and equity market. The economy is in a run of eight consecutive quarters of GDP growth, the best performance for more than a decade. Inflation is positive and has been slowly rising and while wage growth has been modest so far, it should be supported by a very low unemployment rate. Against this backdrop, we expect to see companies report robust corporate earnings for the fiscal year that ended in March. Looking further ahead, we find that the outlook is less clear. The potential introduction of protectionist trade policies by the US administration could be a risk for global trade, while the gradual reversal of central bank stimulus represents another uncertainty. Meanwhile, corporate governance in Japan continues to improve, with shareholders' returns rising as more companies pay a higher proportion of their earnings out in dividends and continue to buy back their own shares.

Investment Risks:

The value of investments and any income will fluctuate (this may partly be the result of exchange-rate fluctuations) and investors may not get back the full amount invested.

Important information:

*All data is as at 31/03/18, sourced from Invesco unless otherwise stated. Fund (A Acc-JPY class) performance figures are sourced from Morningstar, shown in Japanese yen converted from US dollars, inclusive of reinvested income and net of the ongoing charges and portfolio transaction costs. The figures do not reflect the entry charge paid by individual investors. Sector average performance is calculated on an equivalent basis. The benchmark information is sourced from Thomson Reuters Datastream, total return, Japanese yen.

The attribution figures are estimates and should be used for indicative purposes only. Data cleansing and retrospective information availability may cause changes.

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