A member of Prudential plc (UK)

FUND INSIGHTS

EASTSPRING INVESTMENTS – JAPAN DYNAMIC FUND (THE "FUND") ANNUAL COMMENTARY

JANUARY 2017

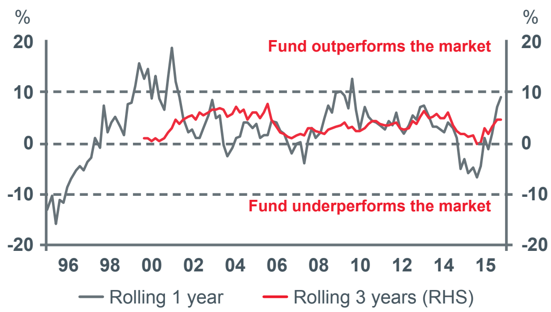
PATIENCE AND A DISCIPLINE AROUND VALUATION PAY OFF IN 2016

We believe in order to outperform the market you need to invest differently to the market. We do this by responding to the market's (mis)behaviour and its impact on share prices.

2016 may be characterized by extreme market behaviour, with violent share price movement driven by sudden shifts in risk preferences. It will also be remembered by the Japan Equity Team as a particularly strong example of why it really pays to focus on what matters most. For us, this means being humble, know the limitations to our knowledge, and firmly adhere to our stated investment principles.

Amid the wild swings evident in the market, remaining true to our principles may be emotionally hard at times, but above all, we recognize that this pays the greatest rewards. Our approach is willing to look through shorter term volatility in order to achieve longer term outperformance of the market.

Fig.1. Our patient approach may diverge materially from the market performance in the shorter term[1] (as at 31 December 2016)



Exuberance for popular market themes can drive unrealistic return expectations and a total disregard of the starting price of an investment. In this environment, investors often overpay for perceived comfort, but overlook more attractively valued opportunities. Our priority is to understand what information is in the price we pay, and in doing so, this process leads us to opportunities that are often ignored by the market.

In recent years, the market environment has been typified by global macroeconomic uncertainty combined with growing market skepticism for the effectiveness of central bank policy. Over time, market beliefs had become entrenched around the likelihood that the global macroeconomic environment would remain permanently in a state of low growth, low inflation and low interest rates.

In turn, this entrenched market belief led to a very strong market preference for a very narrow range of assets. For much of 2016, the entrenched beliefs around global growth prospects, the low (or negative) interest rate environment, the mad chase for yield and a preference low volatility of returns, had led the market to significantly overpay for companies that appear to be "safe", "defensive", or offer "shorter term earnings certainty", with share prices being driven to extremes of expensive.

Relative valuations for Defensive stocks, including price-to-book and dividend yield, far exceeded the extremely expensive levels last observed during the financial crisis of 2008, as well as another period of significant systemic risk in 1998, when Japanese banks' solvency was being seriously questioned. The market was paying far more for "comfort" at a time of arguably far less systemic market risk than compared with 2008 and 1998.

Whilst this strategy has been beneficial for some investors, owning assets that have delivered good historic returns but are now expensive is a very risky strategy. The Fund performance lagged the market in the first part of 2016 as we maintained our valuation discipline and avoided holding expensively valued shares.

Fig.2. Expensive Defensives – price to book relative to TOPIX[2] (as at 30 June 2016)

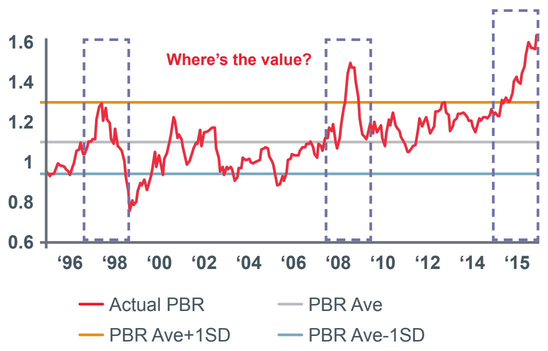
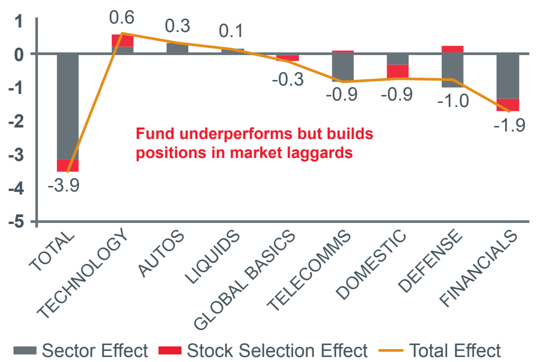


Fig.3. Fund Attribution – six months to 30 June 2016[2]



On the other hand, the market had avoided a wide range of companies on the thematic belief that any company with cyclical earnings was too "risky" and these stocks became extremely cheap. We call times like these behavioural price episodes, and this is a time of opportunity for our investment approach. During the period of underperformance in 2016, the Fund continued to add to positions in stocks that had been identified as extremely mispriced as a result of the market's narrow preferences.

FORGET YOUR FAVOURITE THEME, FOCUS ON THE PRICE!

Our approach is not reliant on forecast accuracy. Instead we require a significant trend valuation upside to compensate us for two key risks:

1. The future is inherently uncertain and this requires our approach to adopt a significant a margin for safety in estimating the trend valuation upside

2. The application of patient capital means it may take some time for the market to realise value in a stock, which may be out of favour

In recent months, there has been a rapid shift in market risk preferences which has favoured equities. This shift reflected a positive change in market expectations, which has coincided with global macroeconomic news flow and the likelihood for changes to government and central bank policy. For example, after the US presidential election in November 2016 there was significant price action in global equity and foreign exchange markets. Fundamentally, the shift in market expectations represents the softening of entrenched market beliefs around a global macroeconomic environment characterised by permanently low growth, low inflation and low interest rates.

When valuations move to extremes of both expensive and cheap, any market surprise that challenges the status quo can create a rapid and sizeable shift in prices, and this is what has been recently observed. Towards the latter part of 2016, the change in market risk preferences led to a rotation away from the perceived safety of expensive defensive assets towards the kind of underappreciated stocks held in the Fund and this has been very supportive for the Fund's performance.

Fig.4. Expensive Defensives – price to book relative to TOPIX[3] (as at 31 December 2016)

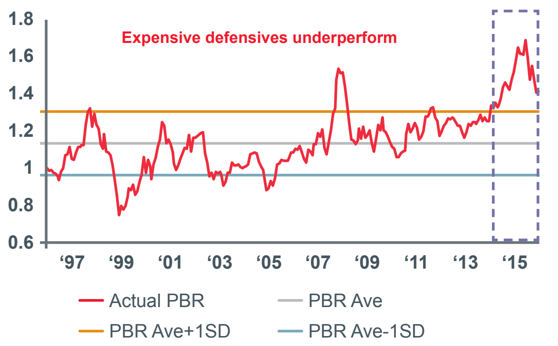
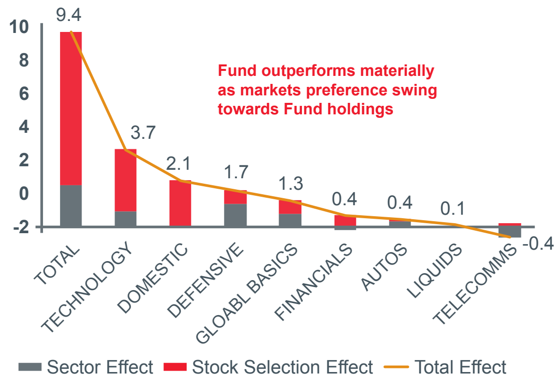


Fig.5. Fund Attribution – 1 Year to 31 December 2016[3]



NOTABLE CONTRIBUTORS TO PERFORMANCE[4]

COMPANY Toshiba Corp
ACTIVITY IN 2016 Aggressively taking profits in latter months of 2016. Position size reduced materially prior to end of 2016.
For much of 2016, Toshiba has performed well on the back of announcements relating to its ongoing restructuring of non-core businesses, such as its medical and home appliances businesses. In recent months the Fund has been taking profit in order to manage the position size relative to the valuation opportunity. The ongoing restructuring efforts to date have significant balance sheet impact, but are also supportive for future profitability and cashflow generation. Additionally, the recent news flow surrounding CB&I's nuclear business acquisition was a risk and a likely scenario discussed by the team as part of our original due diligence. The longer term trend assumptions in the valuation model therefore allowed for a significant level of dilution to capture this risk. We continue to assess the restructuring measures the company is undertaking and the likely impact on Toshiba's balance sheet, in relation to our trend assumptions.

COMPANY: Advantest Corp
ACTIVITY IN 2016: Aggressively taking profits in 2016. Position size reduced materially prior to end of 2016.
Advantest Corp is a manufacturer of semiconductor testing equipment.
The Portfolio Manager built a position during a period where market sentiment was increasingly negative amid tough cyclical headwinds. In particular, the fund manager tested the level of conviction for the trend assumptions relating to Advantest's market position and revenue growth in its core business of semi conductor testers, growth in other businesses, its ongoing R&D spending, and how it continues to address costs. Since then, the market has become more positive for Advantest, and shares have been outperforming. As a result the Fund has been taking profit in order to reduce the position size.

COMPANY: Hitachi Ltd
ACTIVITY IN 2016: Maintained the high conviction position size by taking profits during periods of good relative performance.
Hitachi Ltd is a diversified industrial conglomerate and has materially underperformed relative to the market over the past year. Market sentiment is focused on the apparent cyclical pressures Hitachi is facing amid strong global competition. However it has been making observable progress in its ongoing structural reform process. For example, it has recently announced it will de-consolidate its finance business which is aimed at improving its balance sheet structure. Hitachi

aims to gain synergies across businesses and to increase operating margins by exiting any business with an operating margin of less than 5% and invest in acquisitions and technology development to challenge international rivals. Whilst it may take some time before the outcomes of structural reform can be fully assessed, the Fund is being more than compensated for any associated risks by the significant valuation support, based on our conservative assumptions.

COMPANY: Sumitomo Heavy Industries Ltd
ACTIVITY IN 2016: Maintained the high conviction position size by taking profits during periods of good relative performance.
Sumitomo Heavy Industries (SHI) de-rated in recent years with the weakening global cycle. With a new management team in place and a renewed focus on the profitable segments of the business, SHI is attractively valued relative to the sustainable earnings it can generate over the medium term. The Fund continues to respond to share price movement by managing the position size relative to valuation support.

COMPANY: Sumitomo Corp
ACTIVITY IN 2016: Maintained the high conviction position size by taking profits during periods of good relative performance.
Sumitomo Corp is a significant valuation outlier which more than compensates the Fund for holding a position. Our detailed due diligence applies conservative assumptions to build our understanding of the likely level of sustainable returns for Sumitomo Corp. Amongst the matters our team analysis and debate has considered included issues relating to Senior Management and board oversight of operational level decision making. Sumitomo Corp is putting in place new oversight and control mechanism. The expected value-add is a much better test of risk of an investment or project. Sumitomo Corp continues to make progress with restructuring and have delivered cash earnings ahead our conservative trend assumptions.

NOTABLE DETRACTORS TO PERFORMANCE[4]

COMPANY: Ricoh
ACTIVITY IN 2016: Remains a high conviction position. Maintained position size by responding to share price movement in a contrarian manner.
Ricoh is a high conviction position and remains attractively valued compared to the company's likely level of sustainable earnings it could generate over the medium to long term. Ricoh stands to benefit from the process of aggressive restructuring, including their domestic production and sales operations. Ricoh has a mature core business with two growth areas. It has been moving to a higher margin bundled service model to diversify from its core manufacturing business. Ricoh is one of three major competitors and has one of the best networks for corporate sales in developed markets. It enhanced its service model with the purchase of US-based Ikon to gain greater access to US market.

COMPANY: Kaneka Corp
ACTIVITY IN 2016: Had previously reduced the position size by taking material profits after strong relative performance in 2015.
Kaneka Corp is a global leader in a number of niche products including plastic modifiers and specialty fibres. It has restructured commodity businesses and is renewing its focus on strong niche businesses. The market has been focused on cyclical weakness in earnings and the restructuring costs associated with its solar cell business. We had been building a position when shares had significantly de-rated on the market's overemphasis of shorter term issues. Our deep due diligence focused on understanding in Kaneka's mix shift in chemicals to higher value added products; its ability to grow an already strong position in modifiers; the sustainability of synthetic fibres business; and an improvement in profits of electronics and the efficiency of its R&D.

COMPANY: Honda Motor Co Ltd
ACTIVITY IN 2016: Remains a high conviction position. Marginally increased position size by responding to share price movement in a contrarian manner.
The market has been focused on issues relating

to the cost of Honda's capacity expansion; some underperforming models; and airbag related recalls. Our analysis assessed risks associated with ongoing capex spending and fixed cost risk; the trend mix shift and pursuit of volumes over profitability; and deteriorating competitive environment in the US. Our assumptions have higher capex and lower trend margins than implied by consensus, which has built a significant margin for error in the valuation.

COMPANY: NEC Corp
ACTIVITY IN 2016: Remains a high conviction position. Increased position size by responding to share price movement in a contrarian manner.
NEC remains a valuation outlier, despite the significant restructuring it has undertaken undertaken, which has been supportive for trend earnings. NEC has undertaken a significant shift in their business portfolio, exiting capital intensive and underperforming businesses such as semiconductors, PCs and LCDs. NEC has also demonstrated clearly improved discipline by selling a profitable non-core business.

COMPANY: Credit Saison
ACTIVITY IN 2016: The high conviction position was gradually increased by responding to share price movement in a contrarian manner.
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.

JAPAN REMAINS ATTRACTIVELY VALUED

We believe starting valuation matters most when investing. Despite a period of good performance Japan equities remains attractively valued on a range of metrics versus other major markets. This may be supportive for the patient investor.

Fig.6. Cash Earnings Yield (%)[5] (as at 31 December 2016)

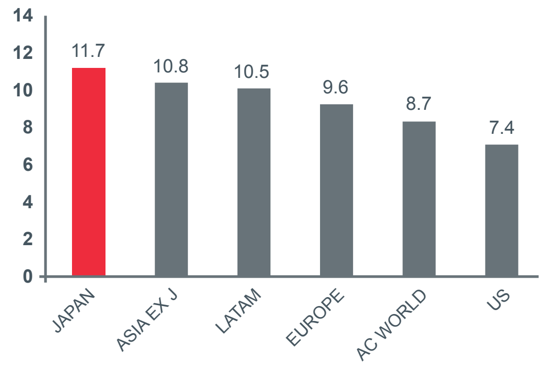
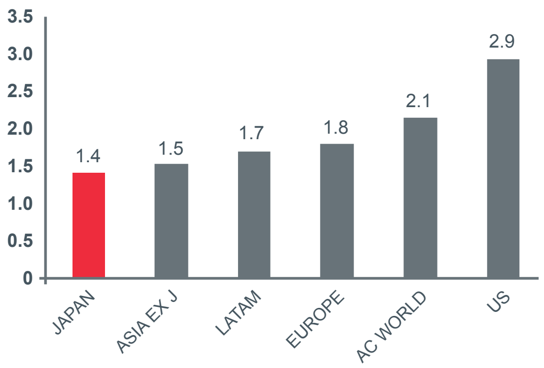


Fig.7. Price to Book Value (x)[5] (as at 31 December 2016)

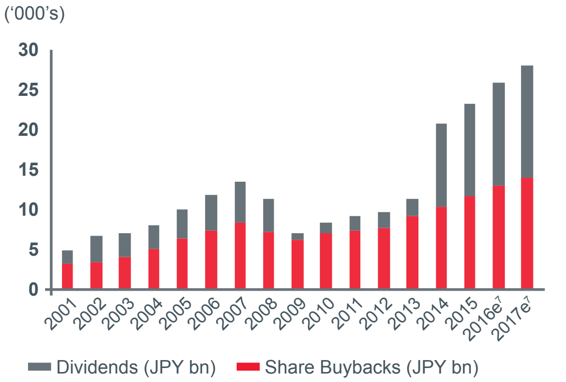


UNLOCKING VALUE IN JAPAN

Encouragingly for shareholders, more companies are returning value in the form of dividends and buybacks. There is large scope for improvement but this change in corporate attitudes is setting a new tone for the Japanese corporate landscape.

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 bond holders, there is an even stronger economic imperative for companies to improve capital efficiency encouraging shareholder oriented behaviour.

Fig.8. Dividends and buybacks are rising[6]



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.

WHERE ARE TREND VALUATION SIGNALS TAKING US?

There are unexpected investment opportunities in Japan - if you are willing to avoid the herd, let cheap share prices take you to opportunities, confirm that value exists and be patient.

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 major banks as well as non-bank financials; consumer electronics and information technology; specialist materials and industrials names. These names represent a wide range of industries, from more domestically focused to export related.

FUND POSITIONING AS AT 31 DECEMBER 2016[8]

Top 10 Positions	Portfolio (%)
Honda Motor	5.9
Hitachi	5.6
Mitsubishi UFJ Financial Group	5.5
Sumitomo Mitsui Financial Group	5.1
Sumitomo Corp	4.7
Ricoh	4.6
Sumitomo Heavy Industries	3.8
JSR	3.8
NEC	3.7
Asahi Glass	3.5

Sector	Portfolio (%)	BMK (%)	Active (%)
Financials	24.2	14.3	9.9
Technology	28.4	19.8	8.6
Global Basics	16.9	9.2	7.7
Autos	10.7	13.0	-2.2
Domestic	16.1	21.8	-5.6
Telecoms	0.0	5.9	-5.9
Defensive	2.8	16.0	-13.2

Sources

[1]Eastspring Investments, as at 31 December 2016, in USD. Inception Date: 05/07/2006. Benchmark is the MSCI Japan Index. Prior to 1 May 2012, benchmark returns were on a Gross Dividend basis. With effect from 1 May 2012, the benchmark returns are on a Net Dividend basis. The two series are chain-linked to derive the longer period benchmark returns. The chart above is included for illustrative purposes only. Past performance is not necessarily indicative of the future or likely performance of the Fund. 3-year performance is annualized.

[2]Nomura, as at 30 June 2016. Defensive stocks include Consumer staples, Rail companies, Pharmaceuticals and Utilities. PBR: price-to-book relative to TOPIX. Ave: average. SD: standard deviation. Fund Attribution: Eastspring Investments, as at 30 June 2016.

[3]Nomura, as at 31 December 2016. Defensive stocks include Consumer staples, Rail companies, Pharmaceuticals and Utilities. PBR: price-to-book relative to TOPIX. Ave: average. SD: standard deviation. Fund Attribution: Eastspring Investments, as at 31 December 2016.

[4]Eastspring Investments, as at 31 December 2016.

[5]Eastspring Investments, IBES MSCI Indices, Thomson Reuters Datastream, as at 31 December 2016.

[6]Nomura based on company's data and Toyokeizai data, as at 31 December 2016.

[7]Estimates.

[8]Eastspring Investments, as at 31 December 2016. The information provided herein are subject to change at the discretion of the Investment Manager without prior notice.

Disclaimer

This document is issued by Eastspring Investments (Singapore) Limited (UEN: 199407631H).

Eastspring Investments (Singapore) Limited is the appointed Singapore Representative and agent for service of process in Singapore. This document has not been reviewed by the Monetary Authority of Singapore.

The Fund is a sub-fund of **Eastspring Investments**, an open-ended investment company with variable capital (Société d'Investissement à Capital Variable or SICAV) registered in the Grand Duchy of Luxembourg, which qualifies as an Undertaking for Collective in Transferable Securities ("UCITS") under relevant EU legislation. The Management Company of the SICAV is **Eastspring Investments** (Luxembourg) S.A., Grand-Duchy of Luxembourg.

All transactions into the Fund should be based on the Singapore Prospectus and Product Highlights Sheet ("PHS"). Such documents, together with the articles of incorporation of the SICAV and the most recent financial reports, may be obtained free of charge from **Eastspring Investments** (Luxembourg) S.A., or at relevant **Eastspring Investments** business units/ website and their distribution partners.

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 and redemption, product features, risk factors and seek professional advice before making any investment decision. An investment in the Fund is subject to investment risks, including the possible loss of the principal amount invested. The value of shares in the Fund 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 the Fund, 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 the Fund. In the event that an investor may choose not to seek advice from a financial adviser, the latter should consider carefully whether the 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 Eastspring Investments or any of the funds managed by **Eastspring Investments**. There are limitations to the use of indices as proxies for the past performance in the respective asset classes/sector.

The Fund may use derivative instruments for efficient portfolio management and hedging purposes.

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.

The preceding paragraph is only applicable if the Fund intends to pay dividends/distributions.

Eastspring Singapore is an ultimately wholly-owned subsidiary of Prudential plc of the United Kingdom. Eastspring Singapore and Prudential plc are not affiliated in any manner with Prudential Financial, Inc., a company whose principal place of business is in the United States of America.

eastspring investments

A member of Prudential plc (UK)

Chicago | Ho Chi Minh City | Hong Kong | Jakarta | Kuala Lumpur | London | Luxembourg | Mumbai | Seoul | Shanghai | Singapore | Taipei | Tokyo