



QUARTERLY REVIEW

**Japan Fund**

As of June 30, 2020

**PORTFOLIO HIGHLIGHTS**

The portfolio significantly outperformed the TOPIX Index Net for the three-month period ended June 30, 2020.

**Relative performance drivers:**

- Stock picks in information technology (IT) and services were by far the biggest contributor.
- An overweight holding in the machinery sector also added.
- However, our investments in electric appliances and precision instruments hurt slightly.

**Additional Highlights**

- The disparity in performance between quality defensive companies and cyclical has been extreme. In light of these differences, we have worked hard to identify quality cyclical companies that stand to outperform as earnings expectations improve from depressed levels.
- Japan is more exposed to the global economic cycle than many other markets. Therefore, we believe that the country is well positioned to benefit from the unprecedented fiscal and monetary easing measures implemented globally to support economies and an improvement in earnings from depressed levels as the global economy enters the recovery stage.

**FUND INFORMATION**

Symbol	PRJPX
CUSIP	77956H708
Inception Date of Fund	December 30, 1991
Benchmark	TOPIX Index Net
Expense Information (as of the most recent Prospectus)	0.97%
Fiscal Year End	October 31
12B-1 Fee	-
Total Assets (all share classes)	\$821,547,195
Percent of Portfolio in Cash	1.1%

**PERFORMANCE**

(NAV, total return)

	Three Months	Year-to-Date	One Year	Annualized			
				Three Years	Five Years	Ten Years	Fifteen Years
Japan Fund	20.00%	1.95%	14.68%	9.14%	10.40%	10.54%	5.70%
TOPIX Index Net	11.30	-7.69	2.56	2.25	3.60	6.29	3.88
MSCI Japan Index Net	11.61	-7.12	3.10	2.97	3.45	6.09	3.97

**CALENDAR YEAR PERFORMANCE**

(NAV, total return)

	Inception Date	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Japan Fund	Dec 30 1991	14.22%	-8.39%	10.69%	29.96%	-8.52%	14.89%	11.20%	32.66%	-12.17%	26.50%
TOPIX Index Net		15.73	-12.65	7.36	26.85	-3.63	11.36	3.12	26.15	-14.02	18.79
MSCI Japan Index Net		15.44	-14.33	8.18	27.16	-4.02	9.57	2.38	23.99	-12.88	19.61

**Performance data quoted represents past performance and is not a reliable indicator of future performance. Investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. To obtain the most recent month-end performance, visit [troweprice.com](http://troweprice.com). Consider the investment objectives, risks, and charges and expenses carefully before investing. For a prospectus or, if available, a summary prospectus containing this and other information, call 1-800-638-7780 or visit [troweprice.com](http://troweprice.com). Read it carefully.** The Fund's total return figures reflect the reinvestment of dividends and capital gains, if any.

The fund is subject to the inherent volatility of common stock investing and the unique risks of international investing. Because of its focus on a single country, the fund involves higher risk than a more geographically diverse international fund. Share prices are also subject to market risk as well as risks associated with unfavorable currency exchange rates and political or economic uncertainty abroad.

The fund(s) may have other share classes available that offer different investment minimums and fees. See the prospectus for details. For Sourcing Information, please see Additional Disclosures.

## PERFORMANCE REVIEW

### Japanese Equities Registered Strongest Quarterly Performance Since 2016

In these unprecedented times, the Japanese equity market rallied over the second quarter and registered its strongest quarterly performance since 2016. The huge amount of liquidity provided by the major central banks, signs of economic recovery in China, and economies reopening following the lifting of lockdown measures outweighed the impact of looming recessionary conditions and growth in the number of coronavirus cases in certain parts of the world.

In May, Japan's Prime Minister Shinzo Abe announced that he was lifting the state of emergency for the remaining five prefectures that were still on lockdown orders. Investors turned bullish on the news and stocks staged an impressive rally. The unveiling of stimulus packages that in total represent approximately 40% of Japan's annual GDP provided an additional boost to share prices.

In this environment, returns, but also sector and stock dispersion, were extreme. Pharmaceutical and electric appliances and precision instruments were among the top-performing sectors; pharmaceutical rallied because of the defensive, quality nature of the sector and its role in addressing the coronavirus pandemic, while electric appliances and precision instruments rebounded following precipitous falls in the first quarter. Overall, Japanese growth stocks outperformed value stocks. Electric power and gas and transportation and logistics were the worst performing and the only two sectors to register absolute losses.

- Against this backdrop, the portfolio generated a robust return and significantly outperformed its benchmark.
- Stock selection and, to a lesser extent, an overweight in information IT and services made the strongest contribution to relative returns, while machinery was a further area of strength.
- Conversely, stock selection in electric appliances and precision instruments hindered performance slightly.

### Strong Stock Selection in IT and Services

The stock that added the most value in the IT and services sector and the portfolio overall was SoftBank Group. The telecommunications and internet conglomerate performed in line with our investment thesis as it continued to sell assets and buy back stock to reduce the discount at which it trades relative to the intrinsic value of its assets. SoftBank Group announced Japan's largest-ever share buyback in the quarter.

Another key contributor was UT Group, a leading provider of temporary staffing services for domestic manufacturers; the company's engineering segment has remained profit generative, thanks to a higher utilization rate.

Elsewhere in the sector, GMO Payment Gateway, Japan's largest online payment processing company, released a good set of results, showing quarter-on-quarter improvement in both sales and operating profit. The company stands to benefit from the demonetization trend that is likely to be expedited by the coronavirus.

### Overweighting Machinery Added Further Value

Within the machinery sector, global elevator manufacturer Fujitec benefited from the reopening of economies, particularly China, which accounts for a portion of its sales.

Shares in boiler manufacturer Miura were also strong. The company has a dominant and stable cash-generative domestic business and a growth opportunity in China, which is gradually reopening after the coronavirus pandemic. Furthermore, index provider MSCI included Miura in its May rebalance, which boosted the stock.

Overweight positions in Daikin Industries, Hoshizaki, and Kubota all worked in the portfolio's favor. These cyclical stocks have gained from an improving global growth outlook and an uptick in sentiment.

### Electric Appliances and Precision Instruments an Area of Weakness

Conversely, only two sectors had a negative impact on relative performance, and even then, the effect was only marginal. Stock selection within electric appliances and precision instruments hurt the most, led by our overweight position in Mitsubishi Electric. Shares of this industrial electronics conglomerate engaged in factory automation equipment, elevators, autoparts, and air conditioners lagged in a weak near-term demand environment. We own the stock for its exposure to factory automation, which we believe will be expedited by the coronavirus pandemic, and on expectations of a recovery in its other businesses.

Overweight exposure to Shimadzu, a manufacturer of analytical and measuring instruments, also held back relative performance. The company's device sales have suffered amid a deterioration in business conditions at Japanese hospitals due to the coronavirus.

### Steel and Nonferrous Metals Sector Stock Pick Lagged

The other sector that worked against the portfolio was the steel and nonferrous metals sector, due to our only holding here: Sumitomo Electric Industries. Sumitomo Electric Industries is an electric wire producer and its main business is wiring harness and connectors for the automotive industry. The company saw autoparts sales decline 50% year on year in April and May. In addition, its flexible circuit board business suffered on lower demand due to the coronavirus.

## PORTFOLIO POSITIONING AND ACTIVITY

The disparity in performance between quality defensive companies and cyclicals has been extreme. In light of these differences, we have worked hard to identify quality cyclical companies that stand to outperform as earnings expectations improve from depressed levels. We have taken the decision to increase the portfolio's turnover as we look to take advantage of these performance disparities.

### Electric Appliances and Precision Instruments

We added to our cyclical exposure, particularly in the factory automation space; sentiment is depressed in this area at the moment, but we believe the demand for factory automation will be expedited by the pandemic. We increased our holding in automation solutions company FANUC. The company has highly automated and vertically integrated production facilities in Japan and a 50% share in computer control systems used extensively in the automotive industry. While FANUC's near-term earnings outlook has been negatively affected by the coronavirus, we believe the outlook over the long term remains positive.

We also increased our position in industrial company Mitsubishi Electric. While its near-term earnings will be affected by the coronavirus pandemic and associated lockdowns, the company is focused on automating factory production, a trend that we believe will be expedited by the current crisis.

#### **Machinery**

We also increased our machinery exposure. Hoshizaki is a commercial kitchen manufacturer with a large domestic presence but also the potential to grow overseas. The coronavirus pandemic has adversely affected the company's earnings and growth prospects in 2020. However, we believe earnings will recover sharply from here as companies look to automate and improve kitchen services in response to the pandemic.

#### **IT and Services**

We reduced our overweight exposure to IT and services, although it remains the portfolio's largest sector allocation on an absolute basis. We sold our holding in NTT DoCoMo, the largest mobile carrier in Japan. It is a relatively defensive stock at this point in the recovery from the coronavirus crisis, and our preference is for other companies in the sector, which we added exposure to as a result of this sale.

#### **Pharmaceutical**

We locked in some profits in Chugai Pharmaceutical and Takeda Pharmaceutical after the sector rallied amid the global coronavirus pandemic. We are looking to add to more cyclical names that have sold off sharply recently.

## **MANAGER'S OUTLOOK**

Japan is more exposed to the global economic cycle than many other markets. Therefore, we believe that the country is well positioned to benefit from the unprecedented fiscal and monetary easing measures implemented globally to support economies and an improvement in earnings from depressed levels as the global economy enters the recovery stage.

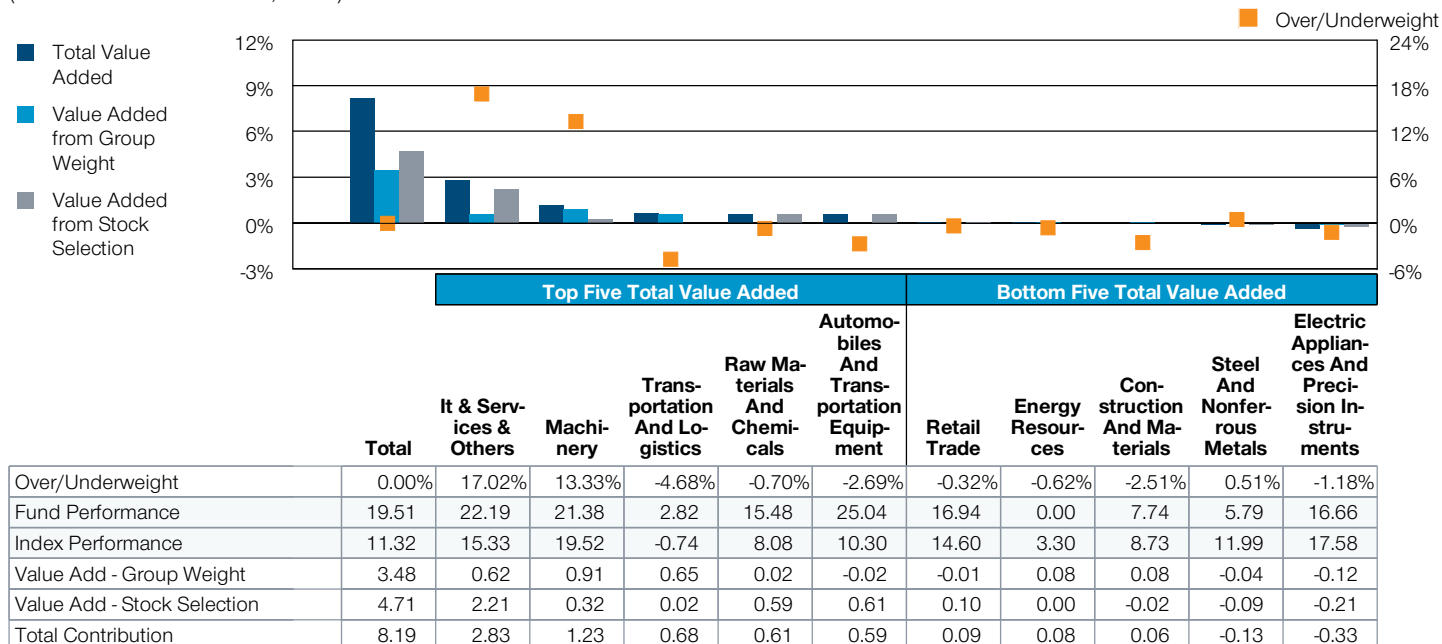
Japanese corporates are also cash rich; this should help them weather the near-term crisis and also make progress in ongoing corporate governance reform.

We believe that the coronavirus pandemic will lead to an acceleration in trends that we are already seeing, such as the shift from offline to online in the form of e-commerce and factory automation. We also see opportunities in companies with exposure to China, where the economy appears to be reopening.

## QUARTERLY ATTRIBUTION

### SECTOR ATTRIBUTION DATA VS. TOPIX INDEX (TOP AND BOTTOM 5 BY TOTAL VALUE ADDED)

(3 months ended June 30, 2020)



### TOP 5 RELATIVE CONTRIBUTORS VS. TOPIX INDEX

(3 months ended June 30, 2020)

Security	% of Equities	Net Contribution (Basis Points)
Softbank Group Corp.	5.6%	109
Chugai Pharmaceutical Co., Ltd.	2.3	97
Gmo Payment Gateway, Inc.	1.4	87
Miura Co., Ltd.	3.8	82
Keyence Corporation	4.8	78

### TOP 5 RELATIVE DETRACTORS VS. TOPIX INDEX

(3 months ended June 30, 2020)

Security	% of Equities	Net Contribution (Basis Points)
Sony Corporation	0.0%	-31
Ntt Docomo, Inc.	0.0	-22
Daiichi Sankyo Company, Limited	0.0	-20
Tokyo Electron Ltd.	0.0	-20
Shin-Etsu Chemical Co., Ltd.	0.0	-16

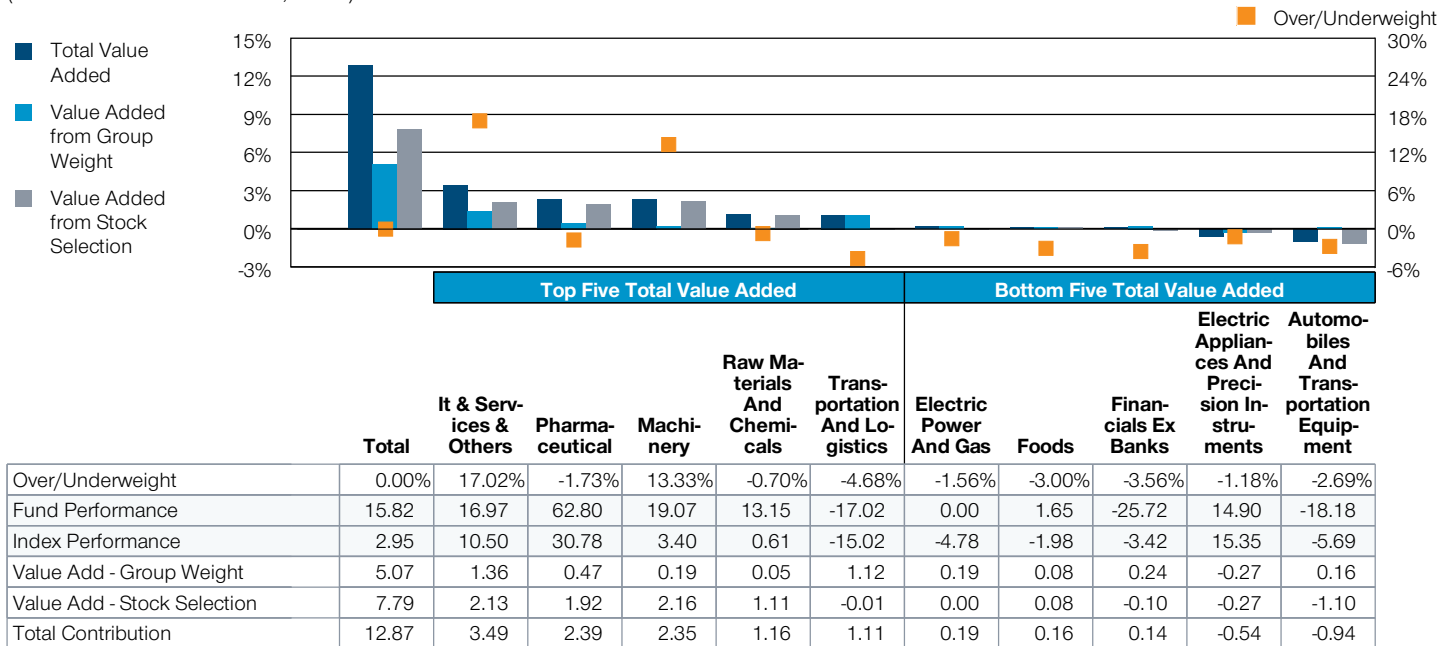
Net contribution is calculated versus a specific benchmark. It is the difference between the security's absolute contribution to the portfolio and the security's absolute contribution to the benchmark. This reflects the amount the security has impacted relative return.

**Past performance is not a reliable indicator of future performance.** Numbers may not total due to rounding; all other numbers are percentages. Analysis represents the total performance of the portfolio as calculated by the FactSet attribution model and is inclusive of other assets that will not receive a classification assignment in the detailed structure shown. Returns will not match official T. Rowe Price performance because FactSet uses different exchange rate sources and does not capture intra-day trading. Performance for each security is obtained in the local currency and, if necessary, is converted using an exchange rate determined by an independent third party. Figures are shown with gross dividends reinvested. Sources: Financial data and analytics provider FactSet. Copyright 2020 FactSet. All Rights Reserved. Source: FT Interactive, IDC via FactSet.; Analysis by T. Rowe Price Associates, Inc. T. Rowe Price uses the TOPIX sectors and industries for sector and industry reporting for this product. Figures are shown gross of fees. Returns would be lower as a result of the deduction of such fees. Performance returns are in USD. For Sourcing Information, please see Additional Disclosures.

## 12-MONTH ATTRIBUTION

### SECTOR ATTRIBUTION DATA VS. TOPIX INDEX (TOP AND BOTTOM 5 BY TOTAL VALUE ADDED)

(12 months ended June 30, 2020)



### TOP 5 RELATIVE CONTRIBUTORS VS. TOPIX INDEX

(12 months ended June 30, 2020)

Security	% of Equities	Net Contribution (Basis Points)
Chugai Pharmaceutical Co., Ltd.	2.3%	263
Miura Co., Ltd.	3.8	148
Keyence Corporation	4.8	92
Gmo Payment Gateway, Inc.	1.4	89
Freee Kk Lockup Shs Pp	0.0	85

### TOP 5 RELATIVE DETRACTORS VS. TOPIX INDEX

(12 months ended June 30, 2020)

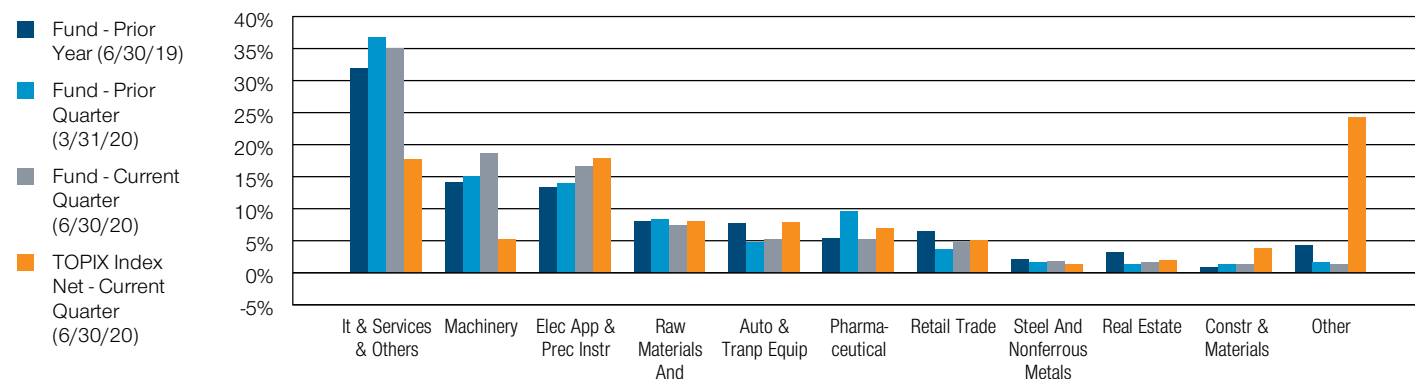
Security	% of Equities	Net Contribution (Basis Points)
Suzuki Motor Corp.	4.4%	-71
Sony Corporation	0.0	-52
Mitsubishi Motors Corporation	0.0	-43
Daiichi Sankyo Company, Limited	0.0	-42
Tokyo Electron Ltd.	0.0	-35

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## PORTFOLIO POSITIONING

### SECTOR DIVERSIFICATION – CHANGES OVER TIME



### LARGEST PURCHASES

Issuer	Sector	% of Fund Current Quarter 6/30/20	% of Fund Prior Quarter 3/31/20
Hoshizaki	Machinery	5.3%	2.5%
Suzuki Motor	Automobiles And Transportation Equipment	4.4	1.5
Mitsubishi Electric	Electric Appliances And Precision Instruments	3.7	2.1
FANUC	Electric Appliances And Precision Instruments	3.6	1.6
Kubota	Machinery	2.8	1.5
Fast Retailing	Retail Trade	2.6	0.6
Softbank Corp	It & Services & Others	2.1	1.5
UT	It & Services & Others	2.1	0.6
Fujitec	Machinery	2.0	1.0
Sumitomo Electric Industries	Steel And Nonferrous Metals	1.8	1.0

(E) Eliminated

### LARGEST SALES

Issuer	Sector	% of Fund Current Quarter 6/30/20	% of Fund Prior Quarter 3/31/20
Miura	Machinery	3.7%	4.9%
Takeda Pharmaceutical	Pharmaceutical	1.5	2.5
GMO Payment Gateway	It & Services & Others	1.4	1.9
Kyowa Kirin	Pharmaceutical	1.3	2.3
CyberAgent	It & Services & Others	0.8	1.3
Nippon Paint Holdings	Raw Materials And Chemicals	0.8	1.4
Benefit One	It & Services & Others	0.7	1.0
NTT DOCOMO (E)	It & Services & Others	0.0	3.6
Shimano (E)	Automobiles And Transportation Equipment	0.0	1.4
Mabuchi Motor (E)	Electric Appliances And Precision Instruments	0.0	0.8

For Sourcing Information, please see Additional Disclosures.

## HOLDINGS

### TOP 10 ISSUERS

Issuer	Industry	% of Fund	% of TOPIX Index Net
SOFTBANK GROUP CORP	Information & Communication	5.5%	1.9%
Hoshizaki	Machinery	5.3	0.1
Keyence	Electric Appliances	4.8	1.9
Suzuki Motor	Transportation Equipment	4.4	0.3
Miura	Machinery	3.7	0.1
Mitsubishi Electric	Electric Appliances	3.7	0.6
Nippon Telegraph & Telephone	Information & Communication	3.6	1.5
FANUC	Electric Appliances	3.6	0.8
Daikin Industries	Machinery	3.4	1.0
Daio Paper	Pulp And Paper	2.8	0.0

### TOP 5 OVER/UNDERWEIGHT POSITIONS VS. TOPIX INDEX NET

Issuer	Industry	% of Fund	% of TOP-IX Index Net	Over/Underweight
Hoshizaki	Machinery	5.3%	0.1%	5.2%
Suzuki Motor	Transportation Equipment	4.4	0.3	4.1
Miura	Machinery	3.7	0.1	3.6
SOFTBANK GROUP CORP	Information & Communication	5.5	1.9	3.6
Mitsubishi Electric	Electric Appliances	3.7	0.6	3.0
Toyota Motor	Transportation Equipment	0.0	3.5	-3.5
Sony	Electric Appliances	0.0	2.1	-2.1
Mitsubishi UFJ Financial	Banks	0.0	1.3	-1.3
Daiichi Sankyo	Pharmaceutical	0.0	1.2	-1.2
KDDI	Information & Communication	0.0	1.1	-1.1

## PORTFOLIO MANAGEMENT



**Portfolio Manager:**  
Archibald Ciganer

**Managed Fund Since:**  
2013

**Joined Firm:**  
2007

For Sourcing Information, please see Additional Disclosures.

## Additional Disclosures

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Unless otherwise noted, index returns are shown with gross dividends reinvested.

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T. Rowe Price uses TOPIX sectors and industries for sector and industry reporting for this product.

Source: Tokyo Stock Exchange.

Diversification exhibits may not add to 100% due to exclusion or inclusion of cash.

"Other" includes any categories not explicitly mentioned.

Certain numbers in this report may not equal stated totals due to rounding. Unless otherwise stated, data is as of the report date.

Unless indicated otherwise the source of all data is T. Rowe Price.

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