



QUARTERLY REVIEW

**Japan Fund**

As of September 30, 2019

**PORTFOLIO HIGHLIGHTS**

The portfolio underperformed the TOPIX Index Net for the three-month period ended September 30, 2019.

**Relative performance drivers**

- Key detractors included stock selection in the automobiles and transportation equipment sector.
- Stock selection and overweighting information technology (IT) and services also dragged.
- Positive contributors included our choice of securities in retail trade and real estate.

**Additional Highlights**

- Sector-level exposures were broadly unchanged-IT and services remained the portfolio's largest overweight, while banks is our biggest underweight. We bought and sold holdings across a number of sectors, notably retail trade and electric appliances and precision instruments.
- We remain cognizant and concerned about an escalation in the ongoing U.S.-China trade war. However, our quality bias should hold us in good stead if the trade wars jeopardize the supportive growth environment.

**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)*	0.96% (Gross) 0.95% (Net)
Fiscal Year End	October 31
12B-1 Fee	-
Total Assets (all share classes)	\$740,987,463
Percent of Portfolio in Cash	2.0%

\*As a result of other class' contractual expense limitations, T. Rowe Price Associates, Inc. waived fund-level expenses proportionately across all classes. There is no guarantee that these impacts on this share class will continue for the length of the contractual waiver in place on the other class.

**PERFORMANCE**

(NAV, total return)

	Three Months	Year-to-Date	One Year	Annualized			
				Three Years	Five Years	Ten Years	Fifteen Years
Japan Fund	1.94%	14.64%	-6.32%	8.39%	9.93%	8.74%	5.43%
TOPIX Index Net	2.92	10.04	-6.17	6.00	5.90	5.72	4.37
MSCI Japan Index Net	3.13	11.12	-4.69	6.22	5.61	5.51	4.41

**CALENDAR YEAR PERFORMANCE**

(NAV, total return)

	Inception Date	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Japan Fund	Dec 30 1991	0.84%	14.22%	-8.39%	10.69%	29.96%	-8.52%	14.89%	11.20%	32.66%	-12.17%
TOPIX Index Net		4.66	15.73	-12.65	7.36	26.85	-3.63	11.36	3.12	26.15	-14.02
MSCI Japan Index Net		6.25	15.44	-14.33	8.18	27.16	-4.02	9.57	2.38	23.99	-12.88

**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.

## PERFORMANCE REVIEW

### Japanese Equities Outperformed Developed Market Peers

Japanese equities rose in the quarter, outperforming their developed market peers. Sentiment was shaped by the ongoing trade conflict between the U.S. and China. As things stand, further tariffs are due to come into effect by the end of the year unless there is adequate progress in the talks.

While the Bank of Japan (BoJ) refrained from undertaking further monetary easing measures over the quarter, risk appetites were buoyed by speculation that it would follow other major central banks' more dovish stance. The BoJ said it would review the outlook at its next meeting, possibly hinting at a policy adjustment to come.

However, confidence was kept in check by Japan's second-quarter GDP growth data, which were revised downward to an annualized pace of 1.3%, weaker than the previous reading of 1.8% and down from 2.2% growth in the first quarter. October's hike in Japan's consumption tax, to 10% from 8%, was set to go ahead as planned.

### Automobiles and Transportation Equipment Dragged

Relative performance was held back by our stock selection in the automobiles and transportation equipment sector over the quarter. Our overweight holdings in Suzuki Motor detracted. The car manufacturer underperformed on concerns about consumer demand in India.

### IT and Services Sector Holdings Lagged

Stock selection and an overweight position in IT and services also worked against us. Our overweight position in Softbank was the biggest laggard in the sector and the overall portfolio over the quarter. The company owns nearly a third of WeWork—the coworking startup that withdrew its initial public offering plans and saw its CEO resign in the quarter—weighing on Softbank's shares.

Elsewhere in the sector, Sansan, which operates in the business card management market (a business unique to Japan where people exchange cards very frequently), also lagged. Investors grew concerned about the company's ability to pursue data monetization, given the struggles of industry peer Recruit Career.

### Machinery an Area of Weakness

The machinery sector was another area of weakness in the quarter as a result of our stock selection and, to a lesser extent, group allocation. Our overweight position in Miura was a major detractor here and in the overall portfolio. This manufacturer and seller of boilers failed to capitalize on new ballast water regulations because it took too long to obtain certification. Strong domestic boiler demand should lend support to the stock over the longer term, however.

### Good Gains in Retail Trade

On the positive side, Zozo boosted relative performance in the retail trade sector and was a key contributor overall. We locked in sizable gains over the quarter by selling our position in September following a takeover bid for the company from Yahoo! Japan. We anticipate that Zozo will become more bureaucratic and less innovative as a result of a change in ownership.

An overweight holding in Welcia was also beneficial for relative returns. Japan's largest drugstore chain reported a decent rise in same-store sales in August, while footfall continued to rise as a result of the opening of dispensing pharmacies within drugstores.

### Real Estate Outperformed

The real estate sector provided an additional boost to relative returns over the quarter, largely due to stock selection. Positive contributors included Mitsui Fudosan Logistics Park, an investor in logistics facilities who remains dedicated to diversifying investments internationally; there are hopes that its corporate governance will improve.

Mori Hills REIT Investment also added to relative performance, as the office-focused real estate investment trust (REIT) continued to benefit from high-fixed-rent exposure and a quality portfolio of assets in central Tokyo.

## PORTFOLIO POSITIONING AND ACTIVITY

Sector-level exposures were broadly unchanged—IT and services remains the portfolio's largest overweight, while banks is the biggest underweight. We bought and sold holdings across a number of sectors, notably retail trade, electric appliances and precision instruments, and automobiles and transportation equipment.

### IT and Services

We have maintained the broad IT and services as the portfolio's largest overweight, with significant positions in communication names Softbank, Nippon Telegraph & Telecommunications, and NTT Docomo. We are bullish on the industry, specifically the scope for improving earnings, while valuations also look attractive.

Elsewhere within the sector, we remain overweight staffing agencies. Signs of a tightening labor market are a key positive for the industry and one of the key themes in our positioning.

### Banks

Banks remain our largest underweight by a significant margin, and we continue to have no holdings in this space. Intense competition in the sector means that there is an almost unlimited supply of loans at very low rates. Demand is improving for these loans, but they are being offered at the rate of Japanese government bonds in some instances. Net interest margin compression is easing but the benefits from this are being given up as banks try and gain market share. Furthermore, with the introduction of negative interest rates on excess holdings and with speculation that this could increase further, the outlook looks very challenging for the foreseeable future.

### Retail Trade

The portfolio moved underweight the retail trade sector in the quarter. We sold Zozo, which operates Japan's leading online fashion apparel site, ZOZOTOWN. We have eliminated the name after the partial takeover by Yahoo! Japan and the strong outperformance afterward. The company is likely to become less innovative after the deal, and we believe minority shareholders will eventually be taken out.

We also sold VT Holdings, which operates car dealerships and offers related auto services. The stock is cheap from a valuation perspective, but we are concerned that the name could be a value trap and, given our lower conviction, we chose to sell.

Elsewhere in the sector, we increased our position in Pan Pacific International, Japan's leading discount retailer that operates 651 stores in Japan as of June 2019 and 42 overseas. The stock has sold off on concerns that the Korean diplomatic frictions will negatively affect tourism. However, this created a buying opportunity, and we believe the long-term drivers for the stock will be Chinese inbound tourism and the company taking market share domestically.

#### **Electric Appliances and Precision Instruments**

We increased our position in Keyence, which produces vision and laser sensors used in factory automation. It is a high returns business in an industry that is secularly growing, and its domestic business share is very strong, as has been growth outside of Japan. The name has been sold off on concerns about global growth and the outlook for the semiconductor sector, and this sell-off provided an opportunity to add to a very good business that often trades at rich multiples.

Conversely, we sold Renesas Electronics, a designer, developer, manufacturer, and seller of the servicing of semiconductor products, as we grew more concerned about its medium-term growth potential and unattractive valuation.

#### **Automobiles and Transportation Equipment**

In the automobiles and transportation equipment sector, we added to our holding in Nippon Seiki, a manufacturer of instrument panels for automobiles, boats, farm tractors, and construction machines. We believe the company should generate strong growth from its auto segment, but its conservative guidance and low payout ratio will hold the stock back in the near term. Longer term, this should improve as it moves to the TOPIX Index and its payout ratio improves.

Elsewhere in the sector, we sold Jamco, which produces interior equipment, such as seats and toilets, for airplanes. This was due primarily to our lower conviction in the stock and the lack of near-term catalysts to drive share price performance.

#### **Pharmaceuticals**

In the pharmaceuticals sector, we established a new position in Kyowa Hakko Kirin, which is a domestic Japanese pharmaceutical company with two divisions: pharmaceuticals and biochemicals. We believe Kyowa Hakko Kirin is a transformational product story driven by the regulatory approval of three antibodies. The market is underestimating the operating growth to come from this, providing us with a compelling entry point.

#### **Financials Excluding Banks**

In the financials excluding banks sector, Zenkoku Hoshu (which translates as "national guarantee") is an independent home mortgage guarantor company in Japan. The company listed its shares in December 2012 and is the only pure play mortgage guarantor listed in Japan. The company has disappointed on taking market share, which was a key thesis for the stock, and the uptake from banks has disappointed—we have sold the stock as a result.

## **MANAGER'S OUTLOOK**

The Shinzo Abe-led Liberal Democratic Party (LDP) has successfully broken the long-held tradition of policy inertia via its attempts to jump-start the economy and equity markets with the magnitude of its policy intent. Abe is also attempting to deal with the economy's structural challenges: Corporate tax rates have been lowered, an

enhanced corporate governance code has been implemented, while initiatives to encourage married women and foreign workers into the labor force have also been announced.

Against this backdrop of change, an increasing number of Japanese companies are defying skeptics by transforming business practices and governance standards. We believe this can help corporate profit growth and generate improving shareholder returns. The volume of shareholder buybacks is increasing while merger and acquisition activity also shows promise.

We firmly believe that the valuation case for Japan still holds and that Japanese corporate earnings growth is likely to exceed global peers. This view underlies many of our preferred stock ideas today.

Our long-held view that the Bank of Japan's policy decisions would weaken the yen over time has softened given the backdrop of an increasingly unpredictable currency outlook. We continue to believe the outlook for the currency is one of uncertainty and volatility.

However, we are cognizant and concerned about the escalation of the trade war rhetoric that is coming from world's largest trading partners. We continue to hope that sanctions and trade war concerns will subside but our quality bias within the portfolio should hold us in good stead should trade wars jeopardize the supportive growth environment.

Over the past five years, for example, the return on equity from Japanese companies has almost doubled. Companies are allocating capital more efficiently, paying higher dividends, and increasing share buybacks, and these improved returns are attracting greater foreign investment.

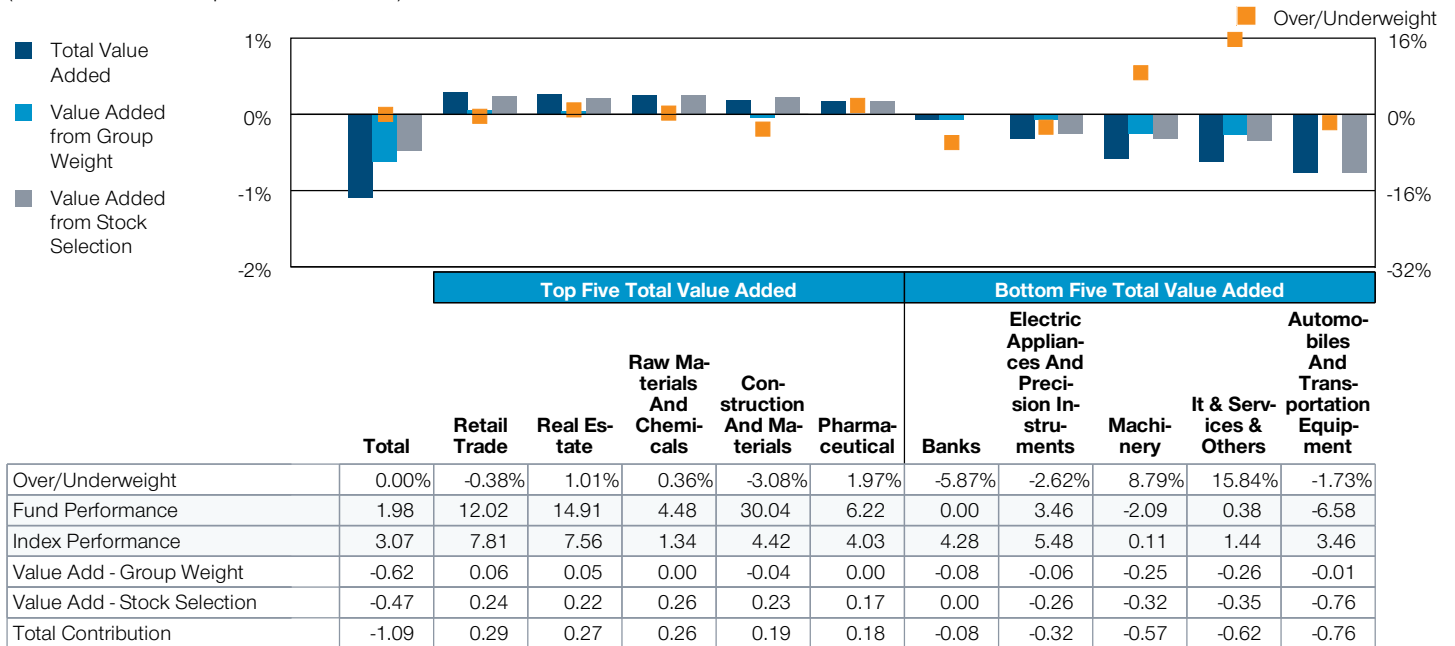
As well as market specific drivers, the condition of the global economy remains a key factor supporting the Japanese equity market. An environment of modest global growth should continue to help corporate Japan perform well.

Increasing stock-specific dispersion will need to be navigated in the near term as the market digests subtle changes in the top-down investment case and reacts to the surprise and disappointment always inherent in Japan. Over the medium term, we remain upbeat, especially regarding those stocks central to Japan's evolution. We believe that investing in durable and improving businesses capable of weathering economic turbulence remains an advantaged approach to Japanese equity investing.

## QUARTERLY ATTRIBUTION

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

(3 months ended September 30, 2019)



### TOP 5 RELATIVE CONTRIBUTORS VS. TOPIX INDEX

(3 months ended September 30, 2019)

Security	% of Equities	Net Contribution (Basis Points)
Solasto Corp.	2.6%	59
Chugai Pharmaceutical Co., Ltd.	2.8	39
Zozo, Inc.	0.0	38
Sumitomo Densetsu Co., Ltd.	1.2	28
Mitsui Fudosan Logistics Park, Inc.	1.4	28

### TOP 5 RELATIVE DETRACTORS VS. TOPIX INDEX

(3 months ended September 30, 2019)

Security	% of Equities	Net Contribution (Basis Points)
Softbank Group Corp.	3.7%	-49
Miura Co., Ltd.	3.3	-34
Toyota Motor Corp.	0.0	-30
Sansan Inc Lockup Shs Pp	0.6	-23
Sony Corporation	0.0	-21

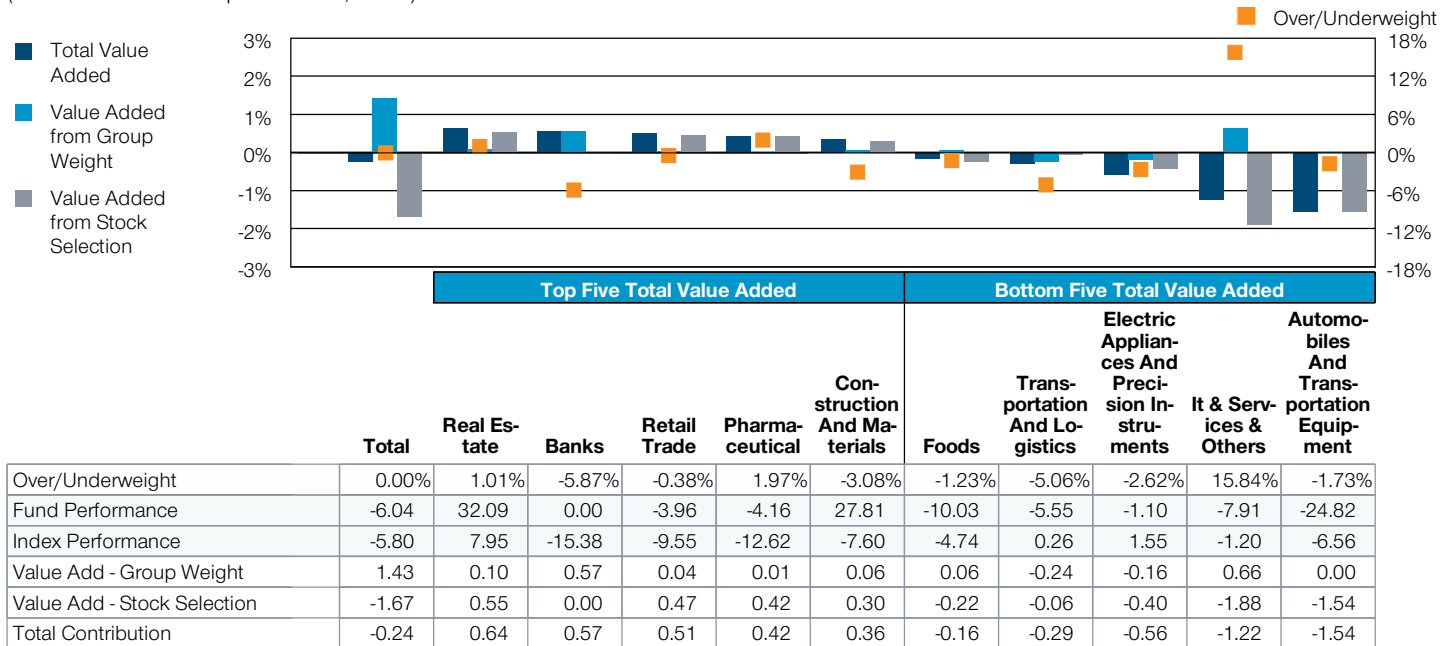
Net contribution is calculated versus a specific benchmark. It is the difference between the security's absolute contribution to the portfolio and the security's absolute contribution to the benchmark. This reflects the amount the security has impacted relative return.

**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 2019 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.

## 12-MONTH ATTRIBUTION

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

(12 months ended September 30, 2019)



### TOP 5 RELATIVE CONTRIBUTORS VS. TOPIX INDEX

(12 months ended September 30, 2019)

Security	% of Equities	Net Contribution (Basis Points)
Mitsui Fudosan Logistics Park, Inc.	1.4%	45
Chugai Pharmaceutical Co., Ltd.	2.8	45
Sms Co., Ltd.	2.4	40
Gmo Payment Gateway, Inc.	2.0	33
Kansai Paint Co., Ltd.	1.6	30

### TOP 5 RELATIVE DETRACTORS VS. TOPIX INDEX

(12 months ended September 30, 2019)

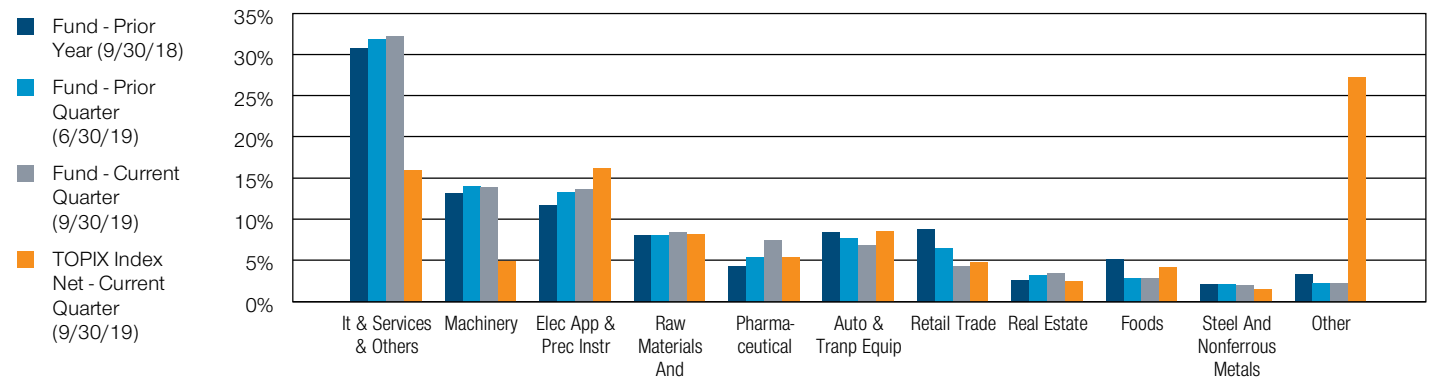
Security	% of Equities	Net Contribution (Basis Points)
Suzuki Motor Corp.	2.3%	-55
Softbank Group Corp.	3.7	-53
Mitsubishi Motors Corporation	1.0	-47
Yume No Machi Souzou linkai Co., Ltd.	0.4	-47
Ut Group Co.,Ltd.	1.1	-45

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.

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## PORTFOLIO POSITIONING

### SECTOR DIVERSIFICATION – CHANGES OVER TIME



### LARGEST PURCHASES

Issuer	Sector	% of Fund Current Quarter 9/30/19	% of Fund Prior Quarter 6/30/19
SOFTBANK GROUP CORP	It & Services & Others	3.7%	4.4%
Nippon Telegraph & Telephone	It & Services & Others	3.5	3.4
Keyence	Electric Appliances And Precision Instruments	3.4	3.1
Miura	Machinery	3.3	3.7
Chugai Pharmaceutical	Pharmaceutical	2.8	2.3
Daikin Industries	Machinery	2.6	2.6
Daio Paper	Raw Materials And Chemicals	2.5	2.2
Takeda Pharmaceutical	Pharmaceutical	2.4	2.5
Recruit Holdings	It & Services & Others	2.3	2.5
Kyowa Kirin (N)	Pharmaceutical	1.7	0.0

(N) New Position  
(E) Eliminated

### LARGEST SALES

Issuer	Sector	% of Fund Current Quarter 9/30/19	% of Fund Prior Quarter 6/30/19
SOFTBANK GROUP CORP	It & Services & Others	3.7%	4.4%
Nippon Telegraph & Telephone	It & Services & Others	3.5	3.4
Keyence	Electric Appliances And Precision Instruments	3.4	3.1
Miura	Machinery	3.3	3.7
Mori Hills REIT Investment	Real Estate	0.7	0.8
ZOZO (E)	Retail Trade	0.0	1.8
Zenkoku Hosho (E)	Financials Ex Banks	0.0	0.4
Jamco (E)	Automobiles And Transportation Equipment	0.0	0.5
Renesas Electronics (E)	Electric Appliances And Precision Instruments	0.0	0.3
VT Holdings (E)	Retail Trade	0.0	0.3

## HOLDINGS

### TOP 10 ISSUERS

Issuer	Industry	% of Fund	% of TOPIX Index Net
SOFTBANK GROUP CORP	Information & Communication	3.7%	1.5%
Nippon Telegraph & Telephone	Information & Communication	3.5	1.5
Keyence	Electric Appliances	3.4	1.4
Miura	Machinery	3.3	0.1
Chugai Pharmaceutical	Pharmaceutical	2.8	0.4
Daikin Industries	Machinery	2.6	0.9
Solasto	Services	2.6	0.0
NTT DOCOMO	Information & Communication	2.5	0.8
Daio Paper	Pulp And Paper	2.5	0.0
SMS	Services	2.4	0.0

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

Issuer	Industry	% of Fund	% of TOP-IX Index Net	Over/Underweight
Miura	Machinery	3.3%	0.1%	3.3%
Solasto	Services	2.6	0.0	2.6
Daio Paper	Pulp And Paper	2.5	0.0	2.5
Chugai Pharmaceutical	Pharmaceutical	2.8	0.4	2.4
SMS	Services	2.4	0.0	2.4
Toyota Motor	Transportation Equipment	0.0	3.5	-3.5
Sony	Electric Appliances	0.0	1.9	-1.9
Mitsubishi UFJ Financial	Banks	0.0	1.6	-1.6
Sumitomo Mitsui Financial	Banks	0.0	1.1	-1.1
Honda Motor	Transportation Equipment	0.0	1.0	-1.0

## PORTFOLIO MANAGEMENT



**Portfolio Manager:**  
Archibald Ciganer

**Managed Fund Since:**  
2013

**Joined Firm:**  
2007

## Additional Disclosures

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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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201910-968765