

ATLANTIS JAPAN GROWTH FUND



CUMULATIVE PERFORMANCE % (£)	YTD	1M	3M	1Y	3Y	5Y	2018	2017	2016	2015	2014	ITD*
AJG Share Price	24.32	-1.29	1.32	24.32	59.17	94.09	-15.53	51.56	3.96	17.30	0.42	241.98
AJG Share NAV	32.39	0.60	4.33	32.39	60.91	102.63	-14.97	42.94	8.61	15.94	-0.33	308.58
Topix TR Index	16.05	0.53	0.97	16.05	22.31	77.99	-8.85	15.63	24.47	16.92	2.87	66.75

Sources: Northern Trust and Bloomberg.

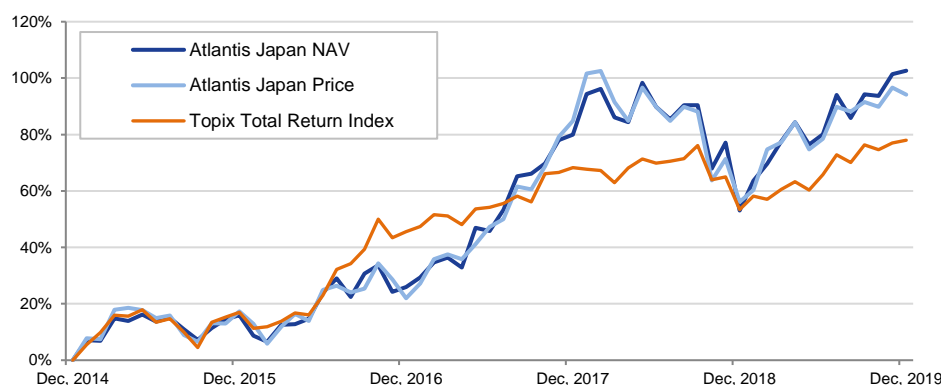
Notes: * Inception to date NAV return figure was converted to GBP based on the official USD NAV using Bloomberg FX rate.

NEW DIVIDEND POLICY

At the 2019 AGM, shareholders approved the Board's recommendation to replace the redemption facility with a regular dividend paid to all shareholders on a quarterly basis set at 1% of net asset value at the close of the preceding financial year.

The quarterly dividend will be paid out of capital resources at the end of each calendar quarter. The current dividend rate for quarterly payments through to June 2020 is 2.37p per share, being 1% of the average daily NAV per share in the final month of the Company's financial year ended 30 April 2019.

PERFORMANCE OVER 5 YEARS (£)



Sources: Northern Trust and Bloomberg.

Notes: The figures in the above table and chart refer to past performance which is not a reliable indicator of future results. An investment in the Fund would place an investor's capital at risk. Figures shown are net of all fees.

MANAGER'S COMMENTARY

The Japanese equity market in December moved higher in relatively thin and unfocused trading. Investor interest remained rooted in small capitalized companies, particularly those in the technology space. Traders positively responded to reported progress on the continuing negotiations between China and the United States on bilateral trade issues. Other major equity markets challenged 2019, if not historic, highs and the prospects of continued relaxed monetary policy. The market's advance was relatively broadly based in regard to sector selection and there was a degree of outperformance by smaller and mid-capitalized stocks. At the end of the month the TOPIX and Nikkei 225 indices breached their respective 2019 highs.

The Fund, in GBP and on a total return basis, gained 0.60% in December whilst the TOPIX (TR) and Nikkei 225 rose by 0.53%

and 0.63% respectively. The Fund's performance was superior to the TSE-2 (-0.34%) but was outdone by the Nikkei OTC Average (+3.76%). In calendar year 2019 the Fund appreciated 32.39% in GBP, exceeding the performance of both TOPIX (+16.06%) and the Nikkei 225 (+16.12%).

Stocks that made positive contributions to performance over the course of the month included SPE assembler Lasertec (6920), specialist outsourcer S-Pool (2471), semiconductor production material supplier Japan Material (6055), drug discovery enabler Peptidream (4587), and light source test device maker Inter Action (7725). Performance was negatively affected by holdings in Japan Elevator Service Holdings (6544), Nidec Corporation (6594), and TKP Corporation (3479).

KEY FACTS

INVESTMENT OBJECTIVE

Aims to achieve long-term capital growth through investment wholly or mainly in listed Japanese equities.

FUND INFORMATION

Lead portfolio adviser	Taeko Setaishi
Lead adviser start date	1 st May 2016
Total Net Assets (TNA)	GBP 111m
Shares in issue	41,794,570
Share price	230.0p
NAV per share	266.2p
Discount(-)/Premium	-13.6%
Net gearing	1.9%
Active Share	96.9%
Inception date	10 th May 1996

ADMINISTRATIVE & DEALING INFORMATION

Financial Year End	30 th April
Company Domicile	Guernsey
Company Legal Structure	UK Investment Trust
Listing	London Stock Exchange
Valuation	Daily
Company Broker	Cantor Fitzgerald
Depository	Northern Trust
Administrator	Northern Trust
Auditor	PricewaterhouseCoopers
Investment Manager	Quaero Capital LLP
Investment Adviser	Atlantis Investment Research Corporation

DIVIDEND

Prospective dividend yield*	4.1%
Dividends paid	March, June, September and December

COMPANY FEES & EXPENSES

Ongoing Charges**	1.63%
Annual Management Fee	1.00% up to £125m 0.85% between £125m-£175m 0.70% greater than £175m

FUND CODES

Bloomberg	AJG LN
SEDOL	B61ND55
ISIN	GG00B61ND550

* Annualised dividend yield based on indicated dividend payments in respect of the two quarters ending 31 March 2020 and 30 June 2020. Not a profit forecast.

** Based on the Company's Annual Financial Statements to 30 April 2019.

At the end of December the Company held 62 stocks, a net increase of one stock over the course of the month. Construction machinery assembler Giken (6289), independent auto component manufacturer Sanden Holdings (6444), and regenerative medical service provider CellSource (4880) were added to the portfolio. Tow (4767) and Monogatari Corporation (3097) were sold.

Investor data for December indicate non-resident investors continued to accumulate Japanese equities on both the futures and cash markets. However, their activity was clearly influenced by the pending year-end holidays; non-resident net purchases in December shrank from the previous month's JPY1.63tn to JPY69bn. Over the course of the month individual investors were net sellers. Investment banks were net buyers, as were non-financial business corporations, but investment trusts turned net sellers. Given the institutional support for equities, the BoJ stepped away from the market and executed modest net ETF purchases of JPY211.8bn, far short of the targeted monthly JPY600bn run rate. As traders drifted away for the year-end holiday period, trading tapered off and Tokyo's December average daily turnover shrank to JPY1.87tn (November JPY2.24tn). The average daily turnover value for CY2019 (JPY2.13tn) was also sharply reduced from the previous year's JPY2.62tn.

The market's December performance was broadly based with gains recorded by 26 out of the TSE's 33 sectors. Stock selection appeared to be company specific rather than sector thematic driven. The best performing sectors were mining, marine transportation, information/communication, and metal products. Among the worst performing sectors were rubber products (reflecting sluggish global sales), land transportation, and paper/pulp. Over the course of CY2019, 28 sector indices increased with precision instruments, electric appliances, services, and information/communication standing as the top performing sectors.

The Fund's net gearing at the end of December was 1.90%. Excluding cash, the Fund was entirely invested in equities of publicly listed Japanese companies and J-REITs. The Fund had no exposure to any structured financial product, nor did it have any currency hedges in place during the month. At the end of December, the JPY rate against the GBP was 142.69, a loss of

0.91% from November's 141.40 close.

Coincident economic data and survey results recently released present the picture of an economy adjusting to a series of one-off shocks (typhoons, sales tax hike, trade friction/boycotts) that have temporarily depressed final demand. However, labour conditions are tight and this may yet translate into wage growth. The outlook for industrial production and exports is subdued, but the corporate sector continues to invest in plant and systems. The Investment Adviser is encouraged by the government's pro-active stance toward the economy as exemplified by the introduction of a JPY26tn supplementary budget. The BoJ has limited monetary tools left in its toolbox to foster growth, which has moved the authorities to a stronger commitment to fiscal action.

The Investment Adviser observes that over the medium term Japan's aggregate GDP growth is expected to remain in the 0.5%-0.8% range but after adjusting for depopulation, Japan's per capita GDP growth over the past decade has averaged 0.65%, globally matched only by the U.S. It should also be noted that in addition to a substantial current account surplus, Japan possesses a rich, deep flow of intellectual property that could be monetized over the longer term. Data from the World Intellectual Property Organization show that Japan accounted for a global leading 24% of the average number of patents awarded annually over 2000-2018, topping the U.S. (22%), Germany (11%), and China (10%).

Research house consensus pre-tax earnings growth estimates for FY 3/20 call for a 3%-4% drop followed by a 6%-8% expansion in FY3/21. On these estimates the Tokyo market currently is priced on a 14.8x forward PER and a 1.3x PBR while yielding 2.32%. The Investment Adviser believes that, as the outlook for FY 3/21 comes into clearer focus for traders, the market will begin to discount the prospects for more robust equity earnings.

The Company's Investment Adviser is committed to a growth oriented, bottom-up, stock-picking investment style with investment decisions based on proprietary fundamental research. The objective is to identify attractively priced, long term investment opportunities particularly in, but not limited to, technology, health care, and services.

PORTFOLIO STATISTICS

MARKET EXPOSURE 101.9%

TOP 10 HOLDINGS (% TNA)

Lasertec	5.1
Hikari Tsushin	3.4
S-Pool	3.3
Nidec	3.1
Asahi Intecc	3.0
Nihon M&A Center	2.9
Keyence	2.9
Tokyo Electron	2.8
Nittoku	2.7
Tri Chemical Laboratories	2.7

SECTOR BREAKDOWN (% TNA)

Consumer Discretionary	12.4
Financials	0.8
Health Care	10.4
Industrials	42.9
Information Technology	21.6
Materials	1.4
Real Estate	6.3
Communication Services	5.0
Utilities	1.2

MARKET CAPITALISATION (% TNA)

> 10bn	12.4
5-10bn	10.7
2-5bn	14.4
0.5-2bn	31.0
< 0.5bn	33.4

CONTACTS

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KEY RISKS

- » Past performance is not a reliable indicator of future results. The value of your investment may go down as well as up and you may not get back the amount originally invested.
- » The Fund may be invested in securities denominated in currencies other than Sterling. Changes in exchange rates may cause your investment to decrease or increase in value.
- » The Fund, as an investment trust, is a public limited company, the shares of which are traded on the London Stock Exchange. Investment trusts are not authorised and regulated by the Financial Conduct Authority.
- » Investment trusts may borrow money in order to make further investments. This is known as 'gearing' or 'leverage'. The effect of gearing can enhance returns to shareholders in rising markets but will have the opposite effect on returns in falling markets.
- » The Fund may invest in smaller companies which are generally considered to carry a higher degree of risk as the market for their shares is often less liquid than that for larger companies.
- » An investment trust's exposure to a single market and currency may increase the level of risk.

IMPORTANT INFORMATION

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