

ATLANTIS JAPAN GROWTH FUND



| CUMULATIVE PERFORMANCE % (£) | YTD | 1M | 3M | 1Y | 3Y | 5Y | 2021 | 2020 | 2019 | 2018 | 2017 | ITD* |
|------------------------------|--------|-------|------|--------|--------|-------|--------|-------|-------|--------|-------|--------|
| AJG Price (total return) | -22.90 | 3.76 | 8.51 | -22.90 | -10.49 | -5.01 | -10.40 | 29.58 | 25.62 | -15.52 | 51.56 | 209.91 |
| AJG NAV (total return) | -22.53 | -2.32 | 6.62 | -22.53 | -13.09 | -1.27 | -9.58 | 24.07 | 33.60 | -14.97 | 42.94 | 259.01 |
| Topix Index (total return) | -4.45 | -0.08 | 4.82 | -4.45 | 6.12 | 12.25 | 2.14 | 8.73 | 16.05 | -8.85 | 15.63 | 76.95 |

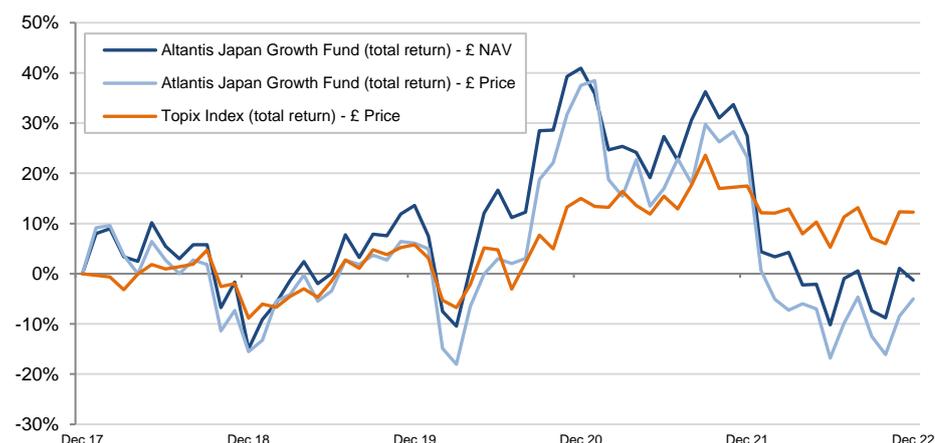
Sources: Northern Trust, Bloomberg and Quaero. The Fund's total return performance is calculated with dividends added back on ex-dividend date.
Notes: * Inception to date NAV return figure was converted to GBP based on the official USD NAV using Bloomberg FX rate.

DIVIDEND POLICY

At the 2019 AGM, shareholders of the Company approved the Board's recommendation to replace the six monthly redemption facility with a regular dividend paid to all shareholders on a quarterly basis set at 1% of the average net asset value per share during the final month of the preceding financial year.

The average daily NAV per share for April 2022 was 215p, thus the four payments in respect of the financial year ended 30 April 2022 will be at 2.15p per share payable at the end of September 2022, December 2022, March 2023 and June 2023. The quarterly interim dividend will be paid out of capital resources.

PERFORMANCE OVER 5 YEARS (£)



Sources: Northern Trust, Bloomberg and Quaero. The Fund's total return performance is calculated with dividends added back on ex-dividend date.
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

Performance Review

The Atlantis Japan Growth Fund lost 2.32% MoM in December versus the benchmark Topix Total Return (TR) Index which lost 0.08% MoM. In Japanese yen terms, the fund lost 6.70% MoM versus a loss of 4.57% MoM for its benchmark, the yen having gained 4.7% against sterling during the month.

December proved to be a rather eventful month and perhaps an inflection point in global central bank policy. The US Fed slowed the pace of tightening, raising the Fed Funds rate by only 0.5% in December, while ECB comments went as far as suggesting a possible easing in 2023. While the reopening of China has potential inflationary implications, the consensus is that we may have passed the peak and that

there are now growing concerns of economic recession in 2023.

This contrasted a week later with the Bank of Japan, in a surprise move, widening its yield target band on 10-year JGBs to 50 basis points. This caused the yen to strengthen from JPY 137/\$ to JPY 132/\$ and has effectively put a floor under the yen's weakening trend. The BOJ's move was met with a sell-off of exporters on the view that their currency profit gains would fall back going forward, while higher interest rate beneficiaries such as financials gained. Value once again outperformed growth in terms of style.

Sectors which outperformed for the fund included Banks and REITs - benefiting from strength in interest rate sensitive financials

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 | 01 May 2016 |
| Total Net Assets (TNA) | GBP 85m |
| Shares in issue | 41,117,070 |
| Share price | 179.5p |
| NAV per share | 205.7p |
| Discount(-)/Premium | -12.7% |
| Net gearing | 4.7% |
| Active Share | 93.6% |
| Inception date | 10 th May 1996 |

ADMINISTRATIVE & DEALING INFORMATION

| | |
|-------------------------|--|
| Financial Year End | 30 April |
| Company Domicile | Guernsey |
| Company Legal Structure | UK Investment Trust |
| Listing | London Stock Exchange |
| Valuation | Daily |
| Company Broker | Singer Capital Markets |
| Depository | Northern Trust |
| Administrator | Northern Trust |
| Auditor | Grant Thornton |
| Investment Manager | Quaero Capital LLP |
| Investment Adviser | Atlantis Investment Research Corporation |

DIVIDEND

| | |
|--------------------------|-------------------------------------|
| 12 months dividend yield | 5.6% |
| Quarterly interim paid | March, June, September and December |

COMPANY FEES & EXPENSES

| | |
|-----------------------|--|
| Ongoing Charges* | 1.65% |
| 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 |

* Based on the Company's Annual Financial Statements to 30 April 2022.

and continued recovery in inbound names - while sectors that detracted from performance included Information and Communications and Electrical Appliances. Stocks that outperformed in the Fund included Intloop (9556 JP), a freelance system/software support service, mega bank Sumitomo Mitsui Financial Group (8316 JP) and the mid-sized hotel REIT, Invincible Investment (8963 JP). Stocks that underperformed included last month's top performer EDP (7794 JP), the outsourced software testing company Shift Inc (3697 JP) and Cellsource (4880 JP) which is a specialist in regenerative medical technology.

Investment activity

After having reviewed the portfolio at the beginning of December we took the decision to cut some of our smaller, lower conviction names and to increase concentration into our higher conviction positions. As a result, the number of positions at the end of the month was 53, down from 61 held at the end of November.

Over the course of the month, the Company's weighting in the Electric Appliance sector continued to decline from 16.7% to 12.9%, while the weighting in Information and Communications fell from 22.5% to 21.0% as we shifted slightly away from more cyclical names. Meanwhile we increased our weighting in Services from 23.1% to 25.5% and in Banks from 3.4% to 4.9%.

We took profits and sold out of GMO Internet (9449 JP), Nittoku (6145 JP) a manufacturer of automatic winding machines, and other cyclical names. We increased our position in Invincible Investment Corporation (8963). This REIT stands to benefit substantially from the recovery of Japan's tourist industry, but its share price is still substantially below pre-COVID highs, and the return of Chinese inbound tourism is likely some time in 2023. The Fund is fully invested in equities and does not hold bonds, nor derivatives, and the currency is not hedged.

Outlook

The market's focus has shifted from inflation and rising interest rates to concerns of a looming recession in 2023. Inflation and supply chain disruptions remain risks particularly as China's abrupt end to its zero-Covid policy has resulted in a new wave of infections.

We would draw attention to Japan's nominal GDP level which has been flat for several decades. Nominal GDP is the basis for tax revenue, so the Ministry of Finance and by extension the Bank of Japan are keen to see this start to rise. Two of the main drivers are consumer spending and corporate capex. In order for consumer spending to increase, we need wage growth as well as a revival of "rational expectations" (of inflation). Corporate capex spending is driven by the need to increase efficiency, in the face of labour shortages, and to improve competitiveness. In the most recent Japanese GDP data for Q3 2022 which was down overall (reported on 8th December), nominal private sector domestic demand rose 7% YoY (i.e., consumer spending and corporate capex). This was the highest increase in many years which suggests a possible recovery and moderate inflation taking hold. Japan's PPI has already risen sharply (+9% YoY in November) far outpacing CPI (+3.8% in November) and we expect companies to gradually increase consumer-facing prices, perhaps with product and service upgrades to gain acceptance with the impression of adding value. Companies have reduced costs significantly during the pandemic and while currency gains could be pared going forward, commensurate cost reductions as well as price increases could more than offset. They are also cash-rich and have been increasing shareholder returns through dividend hikes and share buybacks. Valuations are attractive with the Topix Prime section forward PER of 13.0x, PBR of 1.11x and a dividend yield of 2.62% as of 30th December.

The dynamic of a stabilizing yen could also serve to improve foreign investor sentiment towards Japan particularly if they stop experiencing currency losses on their holdings as they have in the recent past.

The Fund continues in its long-term traditional bottom-up approach, based on solid fundamentals and daily interviews of company managements across the year. It is focused on structural growth areas of the economy such as those related to digital transformation and solutions for Japan's changing demographics, as well as new technological developments and companies that display unique business models with strong moats.

PORTFOLIO STATISTICS

MARKET EXPOSURE 104.7%

TOP 10 HOLDINGS (% TNA)

| | |
|-------------------------------|-----|
| Intloop | 3.8 |
| Japan Material | 3.6 |
| Internet Initiative Japan | 3.3 |
| Amvis Holdings | 3.0 |
| Sumitomo Mitsui Financial Grp | 3.0 |
| Shift | 3.0 |
| Oxide | 2.9 |
| Plus Alpha Consulting | 2.8 |
| Premium Group | 2.6 |
| EDP | 2.5 |

SECTOR BREAKDOWN (% TNA)

| | |
|------------------------|------|
| Consumer Discretionary | 10.1 |
| Consumer Staples | 2.1 |
| Financials | 10.2 |
| Health Care | 6.3 |
| Industrials | 27.8 |
| Information Technology | 34.3 |
| Materials | 2.1 |
| Real Estate | 6.1 |
| Communication Services | 5.8 |

MARKET CAPITALISATION (% TNA)

| | |
|---------|------|
| > 10bn | 17.3 |
| 5-10bn | 3.9 |
| 2-5bn | 14.0 |
| 0.5-2bn | 25.3 |
| < 0.5bn | 44.2 |

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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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