

# ATLANTIS JAPAN GROWTH FUND

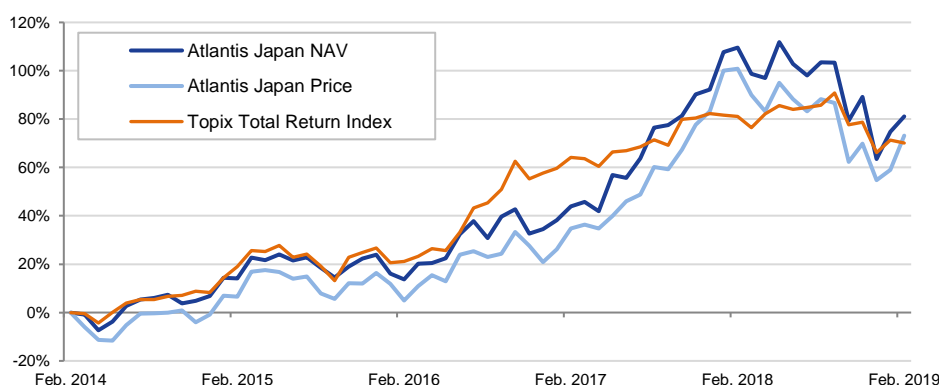


CUMULATIVE PERFORMANCE % (£)	YTD	1M	3M	1Y	3Y	5Y	2018	2017	2016	2015	2014	ITD*
AJG Share Price	11.89	8.95	1.97	-13.75	64.94	73.22	-15.53	51.56	3.96	17.30	0.42	207.78
AJG Share NAV	10.80	3.67	-4.23	-13.53	59.24	81.16	-14.97	42.94	8.61	15.94	-0.33	241.96
Topix TR Index	2.38	-0.69	-4.80	-6.08	40.35	70.10	-8.85	15.63	24.47	16.92	2.87	47.12

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.

## 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

Tokyo equity market investors chose to ignore a stream of underwhelming economic data in February and, preferring to focus on the positive, took the TOPIX index 2.6% higher. Investors enthusiastically reacted to indications of a settlement of the U.S.-China trade dispute, the yen's depreciation against the dollar, and announcements of sizable share buybacks from Sony (6758) and Softbank (9984).

The TSE-2 index (+2.3%) underperformed against TOPIX but other small cap company indices were well supported for the second consecutive month as JASDAQ gained 4.7% and TOPIX Small rose 5.0%. TSE Mothers rose by 2.3% which followed a +10.5% jump in January. Large cap stock indices, such as Core30, generally closed 2.0%-2.5% higher for the month.

During February, in GBP and on a total return basis, the Fund gained 3.67% compared to TOPIX's 0.69% decline. In local currency terms (JPY) the Fund rose 7.10% against TOPIX's 2.60% gain. Calendar year 2019 to date in GBP, the Fund has appreciated 10.80% while TOPIX has increased 2.38%.

February's advance was broadly based with 28 of TSE's 33 sectors moving higher.

Investor selectivity was particularly attuned to positive corporate earnings results as the best performing sectors included earnings rich precision instruments, information and communication, pharmaceuticals, and services. Five sectors booked negative returns for the month with the steepest declines logged by oil/coal, other products, marine transportation, and banks.

The Fund's February outperformance can be attributed to the portfolio's growth bias and its strategic overweight in small and medium cap stocks. Throughout February, the Fund was overweight the services, information/communication, and machinery sectors all of which outpaced the market's advance during the month. Stocks that made significant contributions to the Company's performance in February included Japan Elevator Service (6544), management consulting firm Funai Soken (9757), corporate benefits administrator Benefit One (2412), control equipment maker Keyence (6861), and recreational services and hotel operator Fuji Kyuko (9010). Japan Investment Adviser (7172), Bplats (4381), and Istyle (3660) detracted from the Fund's performance.

February investor data indicated non-resident investors were, for the seventh

## 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 <sup>st</sup> May 2016
Total Net Assets (TNA)	GBP 103m
Shares in issue	46,077,772
Share price	207.0p
NAV per share	222.8p
Discount(-)/Premium	-7.1%
Net gearing	2.9%
Active Share	97.6%
Inception date	10 <sup>th</sup> May 1996

### ADMINISTRATIVE & DEALING INFORMATION

Financial Year End	30 <sup>th</sup> 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

### FUND CODES

Bloomberg	AJG LN
SEDOL	B61ND55
ISIN	GG00B61ND550

### COMPANY FEES & EXPENSES

Ongoing Charges (30 <sup>th</sup> April 2018)	1.57%
- Annual Management Fee	1.00%
- Operating & Administrative Fees	0.57%
Performance Fee	None

consecutive month, sellers of Japanese equities on a cash basis. However, as in the two previous months, non-resident investors were net purchasers of futures; on a combined basis (cash and futures) they were net buyers. There was little consistency to be found amongst domestic investors with trust banks and non-financial institutions being net buyers whereas investment trusts and individuals sold equity holdings. Daily trading value in Tokyo averaged JPY2.28tn in February, level with January's volume.

Borrowings by the Fund were unchanged from January's JPY1bn which translated into a net gearing of 2.9%. 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 February the JPY rate against the GBP was 147.40, a loss of 3.20% from January's 142.68 close.

Economic data released over the course of the month was mixed. Early indicators for the January-March quarter – both hard data and sentiment surveys – were disappointing. Good news was provided by the MoF's quarterly corporate survey which indicated manufacturers are revising upward their capital expenditure estimates. The survey also suggested corporate sales have risen for five consecutive quarters and growth is running at an annualised 3.7% rate. Unfortunately, OP margins (5.3%) have slipped back from the spring 2018 6.7% cyclical high. Other data – manufacturing industrial production, retail sales, employment, and housing starts – displayed the characteristics of an economy struggling to gain sustained forward momentum. The Investment Adviser assumes the Japanese

economy over the medium term can produce annual growth of approximately 0.5%-1.0%. GDP growth in FY 3/20 may be at the bottom of that range due to the negative impact on consumer spending by the scheduled October 2019 consumption tax increase. In order to offset this negative impact, the government is proposing fiscal stimuli packages that in total include higher public spending and tax breaks. These measures are expected to fully offset the JPY5.7tn direct burden imposed on the economy by the higher consumption tax.

The Investment Adviser believes a short term risk to the equity market is the likelihood of downward revisions to FY3/19 corporate estimates owing to slumping global trade, lower manufacturing operating rates, and diminished consumer confidence. In addition, given the short term economic outlook, companies will probably adopt very conservative stances regarding earnings expectations for FY 3/20.

Consensus FY 3/19 TOPIX pre-tax profits for all companies (excluding financials) based on a USD/JPY exchange rate of JPY105 suggest 4.4% pre-tax profits growth followed by a 6.6% increase in the following year. Given the equity market's 13.4x forward PER, 1.3x PBR, 2.4% yield, the Investment Adviser believes the current Tokyo market is fairly priced from a medium-term investment perspective,

At the end of February, the Company held 64 stocks, two fewer than that at end of the previous month. The household service web site Sharingtechnology (3989) was added to the portfolio while Istyle (3660), Yonex (7906) and Star Mica (3230) were sold over the course of February.

## PORTFOLIO STATISTICS

**MARKET EXPOSURE** 102.9%

### TOP 10 HOLDINGS (% TNA)

Japan Elevator Service Holds	3.1
Nidec	2.9
Asahi Intecc	2.8
Nittoku Engineering	2.8
Benefit One	2.7
Creek & River	2.7
Hikari Tsushin	2.6
Peptidream	2.6
Keyence	2.6
Nihon M&A Center	2.4

### SECTOR BREAKDOWN (% TNA)

Consumer Discretionary	16.5
Financials	2.8
Health Care	8.7
Industrials	44.4
Information Technology	20.3
Materials	2.1
Real Estate	4.6
Communication Services	3.4

### MARKET CAPITALISATION (% TNA)

> 10bn	9.8
5-10bn	3.5
2-5bn	13.5
0.5-2bn	45.3
< 0.5bn	30.9

## CONTACTS

### INVESTOR RELATIONS

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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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