

# ATLANTIS JAPAN GROWTH FUND

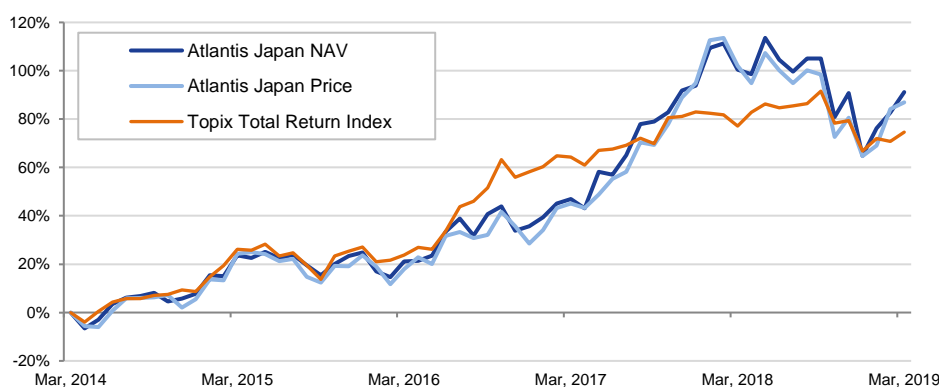


CUMULATIVE PERFORMANCE % (£)	YTD	1M	3M	1Y	3Y	5Y	2018	2017	2016	2015	2014	ITD*
AJG Share Price	13.51	1.45	13.51	-7.49	58.49	86.87	-15.53	51.56	3.96	17.30	0.42	212.24
AJG Share NAV	16.00	4.69	16.00	-4.59	57.79	91.22	-14.97	42.94	8.61	15.94	-0.33	257.98
Topix TR Index	4.71	2.28	4.71	-1.43	41.10	74.65	-8.85	15.63	24.47	16.92	2.87	50.46

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

Investor interest in Japanese equities waned in March as the TOPIX index in the local currency was slightly higher. TSE Mothers was well supported (+4.1%) but other indices based on smaller capitalised stocks traded without focus and within narrow ranges; the TSE-2 (-0.8%) was marginally bested by JASDAQ (+0.7%). Investors were particularly concerned by the yield curve inversion that materialised in the U.S. suggesting an economic slowdown could be in the offing, the lingering Brexit saga, slow progress with the U.S.-China trade negotiations, and the prospects for pedestrian Japanese corporate earnings growth through FY 3/20.

During the month, in GBP and on a total return basis, the Fund gained 4.69% compared to TOPIX's 2.28% GBP denominated gain. Calendar year 2019 to date in GBP, the Fund has appreciated 16.00% while TOPIX has appreciated 4.71%.

The Fund's March outperformance can be attributed to the portfolio's growth bias and its strategic overweight in small and medium capitalised stocks. Throughout March, the Fund was overweight the services, real estate, and machinery sectors all of which outpaced the market's advance during the month. Stocks that made significant

contributions to the Fund's performance included Money Forward (3994), Lasertec (6920), S-Pool (2471), CRI Middleware (3698), and Vision (9416) whilst Japan Investment Adviser (7172) and Aoyama Zaisan Networks (8929) were all detractors.

March investor data indicated non-resident investors were, for the seventh 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; and on a combined basis they were net buyers. There was little consistency found amongst domestic investors with individuals and non-financial institutions being net buyers. Investment trusts and trust banks sold equity holdings. Although below its monthly budget of JPY 600bn, the BoJ was a net buyer of JPY 491bn via ETF purchases. Daily trading value in Tokyo averaged JPY2.28tn in March, level with February's average daily turnover.

Sector performance data for March illustrated the market's lack of conviction over stock selection. Sixteen of the TSE's 33 sectors rose while the other seventeen declined. Both the best (fishery/ agricultural and real estate) and worst performing sectors (marine transport and rubber products) were

## 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 107m
Shares in issue	46,077,772
Share price	210.0p
NAV per share	233.2p
Discount(-)/Premium	-10.0%
Net gearing	0.9%
Active Share	95.3%
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

populated by external demand and domestic sensitive companies suggesting a lack of thematic interest running through the market.

Borrowings by the Fund were unchanged from February's JPY1bn which translated into a net gearing of 0.9%. 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 March the JPY rate against the GBP was 144.25, a gain of 2.18% from February's 147.40 close.

The economic data released recently has not been encouraging. The BoJ Tankan Survey Diffusion Index for large manufacturers dropped 7 points to 12 while that for large non-manufactures declined 3 points to 21. Sluggish export demand, especially for semiconductors and SPE, was primarily responsible for the sharp fall in the manufacturing Diffusion Index. The March Economy Watchers Survey also showed declines across the board for household activity, corporate activity, and employment related indices. Other recent data – manufacturing industrial production, retail sales, and employment/wage growth – displayed the characteristics of an economy struggling to gain sustained forward momentum. Despite this, corporate Japan appears committed to sustained investment in plant and equipment. Capital stock, as a share of GDP, is at its historic lowest level and if past survey patterns are maintained, private sector capital expenditure could expand by approximately 4%-5% in FY 3/20.

The Investment Adviser believes 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 of the scheduled October 2019 consumption tax increase. In order to offset this negative impact, the government is proposing fiscal stimuli packages that include higher public spending and tax breaks. These measures are expected to offset the JPY5.7tn direct burden imposed on the economy by the higher consumption tax.

The Investment Adviser further believes a short-term risk to the equity market is the likelihood of subdued FY 3/20 corporate estimates owing to sluggish global trade, lower manufacturing operating rates, and diminished consumer confidence. In addition, given the short-term economic outlook, Japanese companies will probably announce very conservative earnings expectations for FY 3/20.

Consensus FY 3/19 TOPIX pre-tax profits for all companies 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, and 9.0% ROE the Investment Adviser believes the current Tokyo market is fairly priced from a medium-term investment perspective.

At the end of March, the Company held 62 stocks, two fewer than that at the conclusion of the previous month. There were no additions made to the portfolio; Japan Investment Adviser (7172) and Takasago Thermal Engineering (1969) were sold over the course of the month.

## PORTFOLIO STATISTICS

**MARKET EXPOSURE** 100.9%

### TOP 10 HOLDINGS (% TNA)

Japan Elevator Service	3.3
Nidec	3.0
Nittoku Engineering	2.8
Hikari Tsushin	2.7
Asahi Intecc	2.7
Keyence	2.7
Vision	2.7
Benefit One	2.6
Peptidream	2.6
Creek & River	2.6

### SECTOR BREAKDOWN (% TNA)

Consumer Discretionary	15.5
Financials	2.5
Health Care	8.6
Industrials	42.8
Information Technology	21.2
Materials	1.9
Real Estate	4.4
Communication Services	3.8

### MARKET CAPITALISATION (% TNA)

> 10bn	10.0
5-10bn	5.6
2-5bn	11.4
0.5-2bn	44.5
< 0.5bn	29.5

## CONTACTS

### INVESTOR RELATIONS

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### FUND BROKER

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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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