

# ATLANTIS JAPAN GROWTH FUND



CUMULATIVE PERFORMANCE % (£)	YTD	1M	3M	1Y	3Y	5Y	2021	2020	2019	2018	2017	ITD*
AJG Price (total return)	-22.58	5.79	2.56	-19.15	-6.33	9.08	-10.40	29.58	25.62	-15.52	51.56	211.19
AJG NAV (total return)	-21.11	1.51	2.72	-23.05	-2.62	9.55	-9.58	24.07	33.60	-14.97	42.94	265.59
Topix Index (total return)	-3.66	1.69	2.59	-3.82	11.96	20.37	2.14	8.73	16.05	-8.85	15.63	78.42

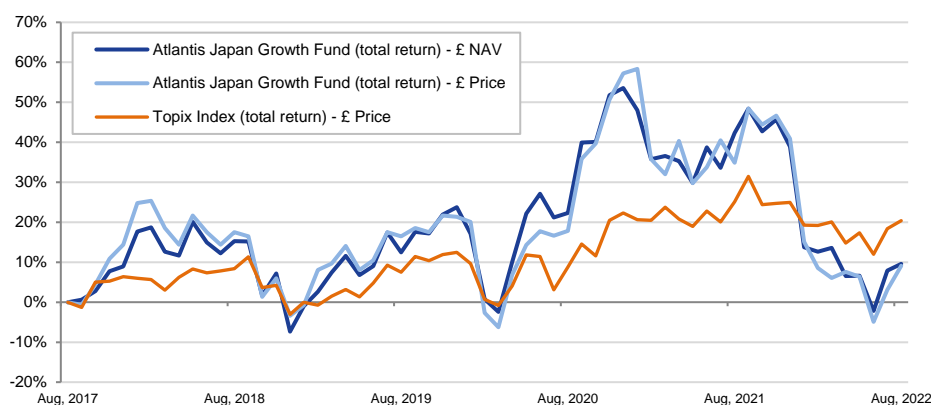
Sources: Northern Trust, Bloomberg and Quaero. The Fund's total return performance is calculated with dividends added back on ex-dividend date.  
Notes: \* Inception to date NAV return figure was converted to GBP based on the official USD NAV using Bloomberg FX rate.

## 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

During the month of August, the Atlantis Japan Growth Fund rose 1.51% MoM on a total return basis versus the Topix Total Return (TR) Index gain of 1.69% MoM, both in sterling terms. The main event was US Federal Reserve comments at Jackson Hole on 26 August, clarifying its hawkish stance on inflation to quell expectations that interest rate hikes would soon peak. Investors' initial risk-on mood had propelled the market to its mid-month highs only to dissipate into the second half of the month. On the domestic political front, Japanese Prime Minister Fumio Kishida's new cabinet selection following Upper House elections was less than inspiring and his approval rating started to decline in the polls. Concerns of a potential slowdown in the US economy, worsening economic conditions in China, the

Taiwan issue, and an impending energy crisis in Europe also conspired against sentiment. These resulted in a more defensive stance in the market with the Topix Value (TR) Index gain of 2.28% outperforming the Topix Growth (TR) index rise of only 1.04%, in sterling over the month. As would be expected by the implied widening interest rate differential between Japan and the US, the yen weakened steadily throughout the month ending near the JPY139/USD level.

Other Financing Business, Services and Electric Appliances sectors outperformed while Information Technology, Nonferrous Metals, and Construction sectors underperformed during the month. Mirroring the sector moves, stocks that contributed the most included pre-owned car financing and

## 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 87m
Shares in issue	41,273,070
Share price	182.5p
NAV per share	211.6p
Discount(-)/Premium	-13.7%
Net gearing	4.4%
Active Share	91.9%
Inception date	10 <sup>th</sup> 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	7.5%
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.

warranty specialist Premium Group (7199 JP), nursing care and hospice provider Amvis Holdings (7071 JP) as well as public relations firm PR Times (3922 JP). Stocks that underperformed included data visualization specialist Plus Alpha Consulting (4071 JP) and niche camping equipment maker Snow Peak (7816 JP).

### Investment Activity

Within the Fund's top ten holdings, two new names appeared: the internet service provider and digital transformation play Internet Initiative Japan (3774 JP) entered the list in 7th place; and PR Times (3922 JP) became the 10th largest holding. One characteristic of the top 10 holdings is that apart from two global technology players, Nidec (6594 JP) and Disco (6146 JP), most of the companies operate mainly in Japan, either in niche markets or in dominant positions which we refer to as "defensive growth" profiles. These are well run companies with high market share, unique business models, high barriers to entry or other advantages which enable them to grow relatively insulated from macro-economic trends.

For example, Internet Initiative Japan (IIJ) was Japan's first ISP (internet service provider) which gave it a first mover advantage. It initially worked closely with NTT, Japan's main telecom provider and largest shareholder which helped establish the firm as the go-to ISP for Japan's leading enterprises giving it a large Rolodex of major companies as customers. IIJ's main businesses are now split between Network Services and System Integration. Its services cover the entire gamut from highly sophisticated cloud software and cyber security to general connectivity infrastructure and MVNO (discount mobile virtual network operator) offerings to support the digital transformation needs of major multi-national corporations to smaller enterprises. The company is well positioned for stable double-digit growth over the coming years.

The Fund held 63 stocks at the end of the month, down from 68 in July, and is fully invested in equities including some REITS. The Fund does not invest in bonds or derivatives of any kind, currency hedges are not employed, and leverage is minimal.

### Outlook

The uncertainty brought on by the war in Ukraine and Covid lockdowns in regions essential to the global manufacturing supply chain has become a constant and continues to impact the economic environment. Although some commodities prices have come off highs, inflationary pressures remain a threat particularly with regards to gas and food in many countries. This was reflected in the positions of global central banks although a dichotomy is emerging between the US, UK, Europe and parts of South East Asia on the hawkish side and Japan on the accommodative side recently joined by China cutting rates to mitigate its slowing growth.

We continue to monitor the situation carefully while focusing on our core bottom-up fundamental approach. The Japanese economy has been relatively stable and inflationary indicators such as the CPI continue to edge up but employment is stable, and corporate earnings in the latest quarter reported during July and August were acceptable. However, company guidance remains cautious and there are concerns of possible downward revisions later in the year. There are also concerns that semiconductor end-user consumer markets such as for smartphones, PCs and other devices are entering an inventory adjustment period. This should clear up within 6 months and could be offset by upcoming next-generation chips and operating system upgrade cycles. As we have noted previously, Japanese companies remain well positioned with healthy balance sheets, relatively strong cash positions and attractive valuations with the Topix Index average forward PER at 13.76x and PBR at 1.19x. Supply chain shortages are also ameliorating which should support manufacturing, and travel restrictions are being further eased.

The Investment Adviser's objective is to invest in companies that can grow profits, with strong management and financial standing, and that operate in structural growth areas or have other advantages such as unique technologies with high market share. Themes we focus on include digital transformation, labour savings, new business models, infrastructure plays and healthcare.

## PORTFOLIO STATISTICS

**MARKET EXPOSURE** 104.4%

### TOP 10 HOLDINGS (% TNA)

Nidec	3.6
Premium Group	3.5
Japan Material	3.4
Shift	2.4
Disco	2.4
Cellsource	2.3
Internet Initiative Japan	2.3
Bellsystem24 Holdings	2.3
S-Pool	2.3
PR Times	2.3

### SECTOR BREAKDOWN (% TNA)

Consumer Discretionary	9.2
Financials	5.7
Health Care	6.2
Industrials	28.9
Information Technology	41.0
Materials	1.2
Real Estate	6.2
Communication Services	6.0

### MARKET CAPITALISATION (% TNA)

> 10bn	17.7
5-10bn	4.6
2-5bn	11.2
0.5-2bn	33.0
< 0.5bn	37.8

## 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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