Atlantis Japan Growth Fund (LSE: AJG)

Positive

Price / NAV (cum-fair)	**236.0p / 250.9p**
Discount (-) / Premium (+)	-5.9%
Yield	0%
Market cap	£116m
Net gearing (30 April 18)	2.4% (max 20% NAV)

Objective

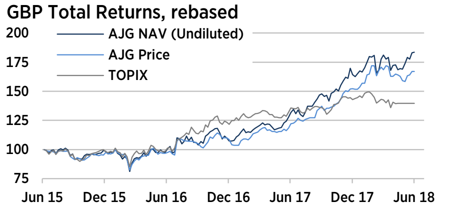
To provide investors with long term capital growth through investment wholly, or mainly, in listed Japanese equities

www.atlantisjapangrowthfund.com

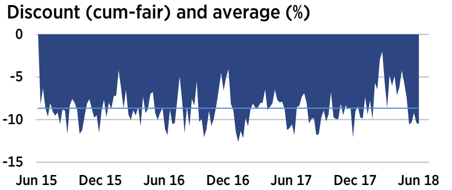
Benchmark	TOPIX
Listing / Domicile	Main Market / Guernsey
Fund inception	10 May 1996
Fund mgrs. / Advisers	Quaero Capital / AIRC
Discount control	Buybacks, continuation vote, redemption facility; 10% target
Annual mgmt. fee	1.00% p.a. of net assets
Performance fee	None
Ongoing charges (YE 30 Apr 2017)	1.52%

GBP total return, %	**6m**	**1yr**	**3yr**
AJG NAV (Undiluted)	11.4	35.0	80.9
AJG Price	10.5	37.6	69.2
TOPIX	*3.8*	*9.7*	*48.2*

GBP Total Returns, rebased



Discount (cum-fair) and average (%)



Source: Morningstar, Bloomberg, CFE Research. Data as of 06/06/2018. [1]**Covering the period 01/05/2016 to 05/06/2018, based on undiluted NAV returns. Source: Morningstar, Company data, CFE Research.**

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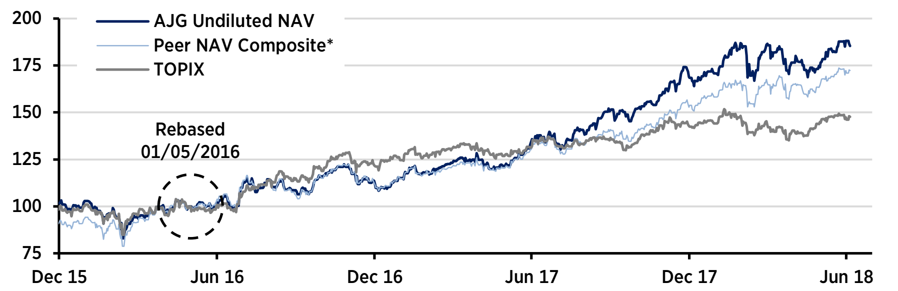
Performance sustained after two years at the helm

Atlantis Japan Growth Fund (AJG LN) recently passed the two year marker since Taeko Setaishi's appointment as lead adviser on 1 May 2016. We have updated our performance figures and observe that AJG's returns remain highly competitive with other closed-end fund peers. Nonetheless, AJG continues to trade at a substantial discount to its closest comparable peer, Baillie Gifford Shin Nippon, which trades on a premium of +2.9% against AJG's -5.9% discount, despite having comparable performance profiles since Taeko was appointed lead adviser to AJG.

Competitive performance continues under Taeko Setaishi as lead portfolio adviser

Undiluted NAV performance since Taeko Setaishi was appointed lead portfolio adviser remains competitive against peers, and was +37.6% and +31.1% ahead of both the TOPIX and MSCI Japan Small Cap indices respectively as at 5 June 2018.

GBP total returns, rebased to 100 from change of AJG's lead adviser on 1 May 2016



Source: Morningstar, Company data, CFE Research. Covers period 01/05/2016 to 05/06/2018. *Unweighted average NAV return for BGS, FJV, JPS.

Relative value v. closest comparable peer (Baillie Gifford Shin Nippon) persists

Despite re-rating to around par in the first quarter of 2018 AJG once again trades at a substantial discount to its closest peer, BGS, which trades on a premium of +2.9% and is a substantial spread over AJG's -5.9% discount.

Subscription right mechanism discontinued but dilution baked into historical figures

Although over six months have now passed since the last subscription rights exercise in October 2017, the dilutive impact remains just as significant as before. We calculate the undiluted NAV returns to be c. +11.9%pts ahead of Morningstar's figure[1], and highlight that the undiluted NAV returns are a far better reflection of returns achieved by the Investment Adviser (see p.9).

Significant growth in asset base delivering cost savings

We highlight the progress made when comparing AJG's ongoing charges of 2.07% for the year to 30 April 2015 against the 1.52% for the year to 30 April 2017, and the market capitalisation having increased from £53m as at 30 April 2015 to £116m at the time of writing. Further, we would expect the ongoing charges to fall further in the upcoming results for the year to 30 April 2018, as a result of the strong performance and October 2017 subscription right exercise.

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Past Performance

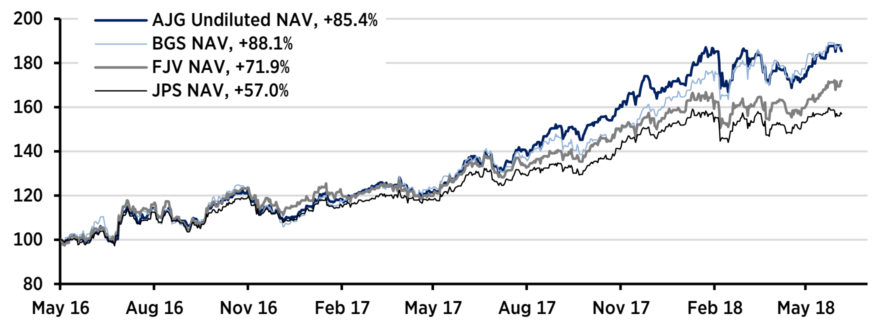
Competitive returns v. peers

Performance since Taeko Setaishi was appointed lead adviser, adjusted to remove the impact of subscription share dilutions, places AJG's NAV total return c. 11.9%pts ahead of the diluted figure[1]. This is a non-trivial difference in our view, which leaves AJG's performance highly competitive with peers, and only slightly behind the premium rated Baillie Gifford Shin Nippon (BGS).

[1]Covering the period 01/05/2016 to 05/06/2018 based on undiluted NAV returns.

Source: Morningstar, Company data, CFE Research

GBP total returns, rebased to 100 from date of Taeko Setaishi's appointment as lead manager



Source: Morningstar, Company data, CFE Research. Covers period 01/05/2016 to 05/06/2018.

FJV to drop out of peer group – switching focus to an all-cap strategy

Note that we will be removing Fidelity Japan Trust (FJV - formerly Fidelity Japanese Values) from future comparisons as, following the May 2018 AGM, FJV is focusing on an all-cap strategy, reducing comparability with AJG. FJV also be moved out of the AIC Japan Smaller Companies peer group, and into the AIC Japan peer group.

Taeko highly rated on longer open-ended fund tenure

In addition to AJG's relatively recent success, Taeko has also built up an impressive track record as lead manager on the open-ended sister Atlantis Japan Opportunities fund since October 2003. The open-ended fund was awarded a five star rating for its 10-year, and a 4 star rating for its 3- and 5-year performance records by Morningstar, as at 30 April 2018. The overlap between AJG and the open-ended fund typically sits around the 60% level, and the difference largely results from AJG's ability to invest in less liquid areas of the market, alongside the impact of gearing.

Significant discount to closest peer BGS remains

Despite re-rating to around par during the first quarter of 2018, as we have highlighted before, AJG once again sits on a substantial discount to its closest comparable peer; BGS (which has a similar return profile and bias toward small-cap growth companies) was trading on a premium of +2.9%, which is a substantial spread over AJG's -5.9% discount. Therefore AJG still presents a significant relative value opportunity in our view.

Multiplicative impact of subscription right dilution on historical returns

On p.9 we show the impact of the two subscription right exercise dates that were 'in the money', and highlight that these are multiplicative on AJG's NAV returns for return measurement periods that includes either or both of the below.

For periods spanning both dilution events (October 2016 and October 2017) we estimate the adjustment factor to be c. 1.07. An illustrative return of +50% would thus become an adjusted return of +61%, as a result of multiplying the ending balance (1.50) by the adjustment factor (1.07) followed by subtracting the initial investment (1.00).

Portfolio Analysis

The portfolio has been further trimmed and contained a total of 61 investments as of 30 April 2018, down from the 69 as of 30 October 2017 at our last time of writing. The portfolio comprised listed Japanese equities and cash, without any foreign exchange hedging in place, also as at 30 April 2018.

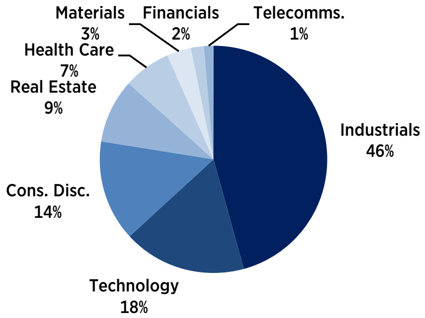
Key portfolio themes unchanged

Although the Investment Adviser focuses on stock selection, there are often common themes that emerge across the portfolio. These are not short-term or 'fashionable' in nature and take a multi-year view on profitable trends that have been identified. Grouping stocks into themes also has use from a risk control perspective.

- **Out-sourcing:** The Investment Adviser sees an opportunity in the rising demand for out-sourced corporate services as a result of the tight labour market, such as companies providing employee benefit and welfare programs.
- **Factory automation:** Japan is a global leader in producing automation hardware and systems, which provides exposure to the global automation trend within the manufacturing and logistics sectors.
- **Healthcare:** The Investment Adviser seeks to capitalise on Japan's ageing population trend through equipment suppliers and drug developers. These are typically specialist businesses operating within niche areas of the healthcare market.
- **Semiconductor production equipment:** The Investment Adviser has identified the rising global demand for chip miniaturisation, and the required investment in production lines, as a key driver of demand for the production equipment involved.

Unsurprisingly, the above themes result in a substantial weighting towards the industrials and technology sectors (factory automation and semiconductor production equipment), consumer discretionary (out-sourcing), and healthcare:

Sector breakdown, %



Source: Company data

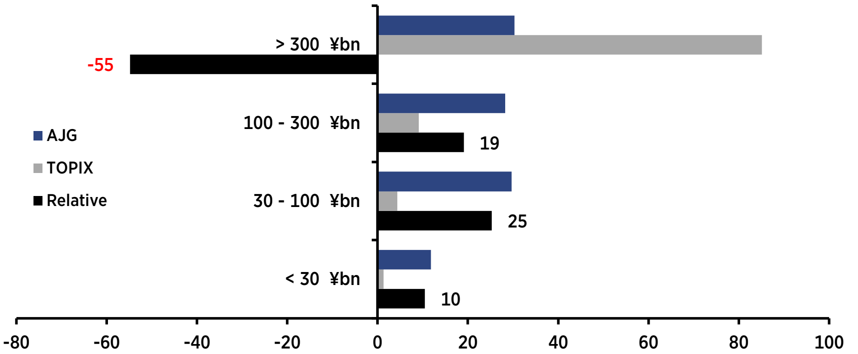
Active share highlights differentiation from the benchmark

The Investment Adviser's stock picking and benchmark agnostic approach is well expressed in its active share against the benchmark TOPIX index, which stood at 95.1% as at 30 April 2018.

Market cap bias reflects focus on less covered, higher growth opportunities

The portfolio is biased away from mega-caps which reflects the Investment Adviser's focus on identifying high growth opportunities that are less covered from a research perspective, which are typically found in the smaller end of the market.

Market cap exposure, %



Source: AJG, Bloomberg, CFE Research

Positive on portfolio growth, cautiously optimistic on Japanese macro

Although the portfolio is constructed on a bottom-up basis, the Investment Adviser monitors the macroeconomic backdrop particularly when undertaking individual stock research. Whilst positive on the growth prospects for the portfolio companies, some recent disappointing macroeconomic data leads the Investment Adviser to be cautiously optimistic.

We highlight that disappointing leading economic indicators, such as wage growth v. inflation, are not necessarily disadvantageous for listed Japanese equities. Indeed, one of the Investment Adviser's themes stands to benefit from prolonged tightness in the labour market, and companies with significant export revenues are less sensitive to domestic economic developments. Further, the Bank of Japan continues to buy Japanese equities via ETFs at a significant pace - ¥833bn or c. $7.8bn in March 2018 alone – which provides demand support, despite not directly benefitting the smaller end of the market.

Top 10 portfolio positions, 30 April 2018

Holding	Weight (%)	Mkt Cap (¥bn)	Sector	Description
Nittoku Engineering	3.7	69	Machinery	Global assembler and distributor of machines for producing coils, transformers, and motors
Nidec	3.6	5110	Elec. Comp.	World's leading manufacturer of small precision motors used in HDD and optical disk drives
Star Mica	3.0	46	Real Estate	Renovator of apartments expanding into brokerage and advisory services
Yamashin-Filter	3.0	83	Machinery	Manufacturer and distributor of filters for multiple industrial purposes
Daifuku	2.8	745	Machinery	Manufacturer of automation equipment used in manufacturing and distribution
TKP	2.6	164	Comm. Serv.	Provider of hospitality services including event management and equipment rental
Idec	2.5	84	Electronics	Manufacturer of controlling devices such as switches, relays, and timers
Fullcast Holdings	2.5	91	Comm. Serv.	Personnel staffing service provider for both short-term and full-time positions
Japan Material	2.4	153	Semicond.	Service provider for semiconductior and liquid-crystal factories
Nihon M&A Center	2.3	526	Comm. Serv.	SME advisor and consultant matching growth oriented companies with SMEs seeking a buyer
Total	*28.4*			

Source: Company data, Bloomberg, CFE Research

Company Details

Atlantis Japan Growth Fund Limited (AJG - the “Company”) is a Guernsey registered closed-end investment company with UK investment trust status traded on the Main Market of the London Stock Exchange. The Company was launched on 10 May 1996 and has been advised by Atlantis Investment Research Corporation (“AIRC”) since launch, with Quaero Capital LLP (known as Tiburon Partners prior to the merger with QUAERO CAPITAL in April 2018) having been the appointed Investment Manager since August 2014.

Investment Objective

The investment objective of the Company is to provide investors with long term capital growth through investment wholly, or mainly, in listed Japanese equities.

Investment Policy

The Company’s investment policy is flexible, however the portfolio will predominantly consist of listed equities, despite having the ability to also invest in debt and:

- up to 20% of NAV in companies listed outside of Japan that are either controlled or managed from Japan, or with material exposure to the Japanese economy;
- up to 10% of NAV in unlisted securities;
- up to 20% of NAV in equity warrants and convertible debt; and
- up to 10% of total assets in other closed-end investment funds that do not themselves limit exposure to other closed-end investment funds to 15% of total assets, otherwise up to 15% of total assets.

Derivatives will not be used save for the purpose of efficient portfolio management, and no more than 10% of the Company may be invested in any class of securities of an investee company.

Investment Philosophy

Fundamentals driven stock-picking
The team at AIRC believe earnings growth drives long term performance, and focus on stock-picking to identify under-researched and undervalued growth companies.

Typical Portfolio Characteristics

Small- and mid-cap bias likely, portfolio a result of stock selection
Although the Company is managed to an all-cap mandate, a small- and mid-cap bias may emerge since under-researched companies are often found in those areas. The portfolio will typically comprise 60 to 70 holdings, and sector allocations will be a result of individual stock selections rather than top-down views.

www.quaerocapital.uk

The Investment Manager

Quaero Capital

Quaero Capital LLP (known as Tiburon Partners prior to the merger with QUAERO CAPITAL in April 2018) has been the appointed Investment Manager since August 2014. AIRC (detailed below) perform the day to day stock picking role under an Investment Advisory Agreement with Quaero Capital LLP. The day-to-day operations and investment management process for AJG were unchanged as a result of the merger of Tiburon Partners with QUAERO CAPITAL.

The Investment Adviser

Atlantis Investment Research Corporation (AIRC)

AIRC was founded in 1996 as an independent boutique fund adviser based in Tokyo, and has been advising AJG's Investment Manager since launch in May 1996. AIRC follow a team approach and have a four person investment team (detailed below). Fund administration and compliance, alongside financial controls are managed in-house, whilst all other legal, back and middle office functions are outsourced.

Investment Adviser: Key Personnel

Taeko Setaishi (Director, lead portfolio adviser since 1 May 2016)

Taeko Setaishi joined AIRC in 1996 from Schroder Investment Management and served as deputy fund adviser to Ed Merner before taking lead on 1 May 2016. Prior to joining AIRC she was a Japan equity analyst for James Capel Securities and Schroder Securities. She also advises the open-ended Atlantis Japan Opportunities Fund and several segregated accounts.

Ed Merner (CEO, portfolio adviser)

Ed Merner is one of the pioneers in Japanese equity investment. He founded AIRC in 1996 having previously been the manager of the Schroder Japan Smaller Companies Fund for 22 years. He has been resident in Japan for over 40 years and is fluent in Japanese.

Robert Burghart (Director, portfolio adviser)

Robert Burghart joined AIRC in 2013 with over 30 years on the buy and sell side with ING Barings Securities, Macquarie Securities, and Wardley Investment Services. He also advises the Essor Japon Opportunités Fond (a French SIVAC) and several segregated accounts.

Kyomi Ando (Analyst)

Kyomi Ando joined AIRC in 2010 and has 29 years' experience in the industry. She joined James Capel in 1985 as a member of the start-up warrants team in Japan. Following this she worked for several large brokerage houses, including Jefferies and Commerz Securities, as a micro-cap analyst. Kyomi later worked as an IPO analyst and PR manager for KBC Securities, before joining AIRC.

Management Fees

The Investment Manager is entitled to a management fee of 1.00% of net assets. There is no performance fee.

Ongoing charges were 1.52% for the year ending 30 April 2017 (YE 30 April 2016: 1.91%).

Dividend Policy

No distributions were made in each of the last five financial years ending with the year to 30 April 2017.

As income is not a part of the investment objective, there is no dividend policy beyond that dictated by the investment trust income retention provisions.

Gearing

Net gearing stood at 2.4% as at 30 April 2018

Tactical gearing, maximum 20% NAV

The Board has overall responsibility for determining the gearing strategy, which is used tactically to enhance returns where this is considered appropriate to do so; the current maximum limit is 20% of NAV at the time of borrowing.

Gearing is provided via a ¥1.5bn three year variable rate credit facility with Royal Bank of Scotland International Limited, and is subject at all times to the portfolio containing at least 60 investments (at least 50 of which listed), the amount drawn not exceeding 25% of the portfolio's value, and AJG's NAV not falling below $58m.

Discount Management

The Board's intention is that a discount of less than 10% will be maintained over the longer term under normal market conditions. This is dealt with in a number of ways:

1,172,500 shares were bought back in the financial year to 30 April 2017 outside of the redemption facility. No further shares have been bought back following period end to date outside of the September 2017 and March 2018 redemption points.

At the September 2017 and March 2018 redemption points 1,165,502 and 2,579,525 ordinary shares were redeemed, representing c. 2.64% and c. 5.0% of shares in issue at that time.

Share buy-backs

At each AGM, the Company seeks shareholder approval to repurchase up to 14.99% of the shares in issue, lasting until the next AGM. Shares bought can be held in treasury for resale at a premium to NAV, or they can be cancelled. Buy-backs are at the discretion of the Board, with regard to what they believe to be in the best interests of shareholders as a whole.

Redemption facility, unchanged following September 2017 review

Each 31 March and 30 September, the Board operate a redemption facility to provide enhanced liquidity for shareholders wishing to redeem, limited to an overall maximum of 5% of the issued share capital and subject to a 4% exit charge. Shareholders may request in excess of their 5% basic entitlement should others not take up their basic entitlement, however the exit charge applied to the excess will be the rolling 90 day average discount (in-line with the continuation vote trigger below), subject to a 10% cap.

Continuation vote

Should the rolling 90 day average discount be more than 10% at any point, in normal market conditions, a continuation vote will be triggered and held no later than the next practicable AGM. This has not been triggered as of yet. Further, there will be a continuation vote held at the 2019 AGM, introduced in 2016.

Capital Structure

52,886,314 ordinary shares as of 30 April 2018 (3,874,186 of which in treasury).

In October 2014 the Board proposed an annual 1-for-5 embedded subscription right (exercise price set at prior year's undiluted NAV), with the aim of growing the Company in order to improve liquidity and reduce ongoing charges.

In both October 2016 and 2017 the subscription rights ended 'in the money' with 7,614,446 and 8,598,577 new ordinary shares issued respectively for an aggregate of c. £26m.

Subscription rights discontinued following September 2017 review

In September 2017 the Board reviewed the subscription rights mechanism and concluded that, should the 2017 subscription rights be exercised in full (which was the case), the mechanism should be discontinued having achieved the Board's target of being exercised in two of the five years. The discontinuation was approved at the November 2017 General Meeting and we believe this is a positive, and greatly simplifies the capital structure and return profile going forward.

Why diluted returns are not fully representative: the investor's experience

Firstly, it is useful to highlight that the subscription rights were embedded meaning that an investor was unable to sell the rights separately into the market. Therefore an investor essentially had one of two choices:

- Participate in the subscription right exercise and purchase one new share at the strike price for every five held; or
- Leave their subscription right unexercised and, should the right expire 'in the money', be partially compensated for the dilution by the net proceeds from secondary market sale of any shares issued on their behalf.

We explore both of these options for an investor that held a notional 1000 shares, using October 2016 as an example since the 2016 subscription rights were 'in the money' (the 176.45p undiluted NAV was higher than the 143.76p strike price):

2016 subscription rights exercise - an illustrative example

Description	Pricing	Exercising	Not Exercising	Notes
Number of shares initially		1000	1000	Both shareholders start with a notional 1000 shares
Undiluted NAV	176.45p			Worth the undiluted NAV
Pre-exercise NAV		£1,764.50	£1,764.50	Giving a pre-exercise NAV balance
Number of shares bought at strike		200	0	The 1-for-5 exercising shareholder buys 200 shares at the strike price
Strike price	143.76p			
Extra cost		£287.52	£0.00	Giving an extra cost figure
Total number of shares		1200	1000	
Diluted NAV	171.19p			All shares are now worth the diluted NAV
Post-exercise NAV		£2,054.28	£1,711.90	Giving a post-exercise NAV balance
Number of shares sold on behalf of unexercised subscription rights		0	200	The 'not exercising' shareholder's subscription rights are exercised and sold into the secondary market by the trustee
Net proceeds per share sold on behalf of unexercised subscription rights	2.92p			With net of cost proceeds distributed to the 'not exercising' shareholder
Net proceeds		£0.00	£5.84	Giving a net proceeds figure
Total post-exercise NAV		£2,054.28	£1,717.74	Add the net proceeds to the post-exercise NAV
Total post-exercise NAV less extra costs ("final NAV")		£1,766.76	£1,717.74	Adjust for the extra costs incurred by the 'exercising' shareholder when exercising

Source: Company data, CFE Research

It is notable that the 'exercising' option results in a final NAV of £1,766.76 which, when considering rounding error, is roughly equal to the pre-exercise NAV of £1,764.50. Also, the 'not exercising' final NAV of £1,717.74 is -2.65% lower than the pre-exercise NAV of £1,764.50, which is a smaller impact than the -2.98% shown below.

Calculating the multiplicative adjustment factor

We arrive at the estimated adjustment factor of c. 1.07 mentioned on p.3 by chaining the dilution impacts of -2.98% and -3.59% to arrive at a combined -6.46% impact. Taking the reciprocal of (1 - 0.0646) gives us a multiplicative adjustment factor of 1.069, which we have then rounded to 1.07.

Impact of the two subscription right dilutions, as referred to on p.3

Date	Diluted NAV	Diluted NAV return	Undiluted NAV	Undiluted NAV return	Impact of dilution
10/10/2016	171.19		176.45		
11/10/2016	171.23	+0.02%	171.23	-2.96%	-2.98%
09/10/2017	212.27		220.17		
10/10/2017	214.51	+1.06%	214.51	-2.57%	-3.59%

Source: Company data, CFE Research

The Board

Noel Lamb (Chairman since May 2014, appointed to Board February 2011)

Noel Lamb graduated from Exeter College, Oxford University and is a barrister-at-law. He joined Lazard Brothers & Co Limited in 1987 and from 1992 to 1997 he was the managing director of Lazard Japan Asset Management where he was the fund manager for their Japanese equities. In 1997, he moved to the Russell Investment Group where he established the investment management capability of Russell in London. In 2002, he was promoted to Chief Investment Officer in North America where he managed assets of $150bn until his departure in 2008.

Philip Ehrmann, FCSI (appointed October 2013)

Philip Ehrmann graduated from the London School of Economics with a BSc in Economics. He started his investment career in 1981 specialising in the North American market before heading up Emerging Markets for Invesco Asset Management. In 1995, he joined Gartmore Investment Management to undertake a similar role, before becoming Head of Pacific & Emerging Markets. Whilst at Gartmore he managed the Gartmore Asia Pacific Trust Plc, a pan-Asian Investment Trust. In 2006 he moved to Jupiter Asset Management where he was Co-Head of Asia. At the beginning of 2015 he joined Manulife Asset Management as a Senior Managing Director, responsible for overseeing Global Emerging Markets equity portfolios.

Richard Pavry (appointed August 2016)

Richard Pavry is head of investment trusts at Jupiter Asset Management, where he has served in that capacity since 2000. Prior to joining Jupiter, Richard acted as a corporate finance executive within the investment trusts team at Warburg Dillon Read following his qualification as a solicitor within the financial services team at Simmons & Simmons. Richard was formerly a non-executive director of Jupiter Second Split Trust PLC, a UK investment trust, and he is a director of various other companies. He studied natural sciences at Cambridge University and law at City University in London.

Michael Moule (appointed February 2018)

Michael Moule is an experienced Investment Trust manager and director. During a 40 year career in the City of London (1963-2003) he spent 23 years with Touche Remnant (1969-1992) and a further 11 years with Henderson Global Investors until his retirement from active fund management in 2003. He was the manager of Bankers Investment Trust for 27 years, Law Debenture Corporation for 15 years, and City of London Investment Trust for nine years. He has recently retired as Chairman of Polar Capital Technology Trust and is currently a director of The European Investment Trust and is a member of the investment committees of the British Heart Foundation and The Open University.

Top Shareholders

Significant shareholders, 30 April 2018

Name	% holding
Wells Fargo & Company	21.0%
1607 Capital LLC	16.5%
Hargreaves Lansdown	6.1%
Lazard	5.7%
Miton Group	4.0%
Ecclesiastical Insurance Company	4.0%
Interactive Investor	2.2%
Smith & Williamson	2.1%
Schroders	2.0%
City of London Investment Group	2.0%

Source: miraqle, Orient Capital

Investment Process

Investment Strategy and Process

Fundamental analysis, intense schedule of company meetings

Through an intense schedule of company visits and meetings (c. 800+ p.a. including update meetings) the team produce proprietary research which is used to add value where broker research coverage is lacking. All of the company visits are then discussed weekly, alongside daily team interactions. Key characteristics saught are: sustainable sales growth, strong competitive advantages, positive cash flow and medium to long term growth potential.

Ideas split into four growth categories, valuations monitored

Stocks in the portfolio can then be broadly categorised to reflect the opportunity identified by the team: pure growth, cyclical growth, recovery (e.g. in earnings, management, price, or growth rate), and potential growth (where none may exist currently). Additionally, valuations are monitored and stocks trimmed or topped up depending on shorter term performance; however, a high valuation will be tolerated if the growth profile is deemed sufficiently attractive.

Risk Management

Although the portfolio is a result of stock selection ideas, the team control risk by maintaining close contact with investee companies, and by diversifying risk through overarching themes. Additionally, the team prevent over concentration in any single stock by maintaining 60 to 70 holdings; new positions are introduced anywhere up to a 3% weighting, and are allowed to grow through performance before being trimmed or sold, with 5% often being the point at which top-slicing will begin.

The Company can hedge currency risk, although there is currently no hedging in place, and will typically not seek to hedge under normal market circumstances.

Risks

Performance

Inappropriate investment policies and processes may result in under performance against the prescribed benchmark index and the Company's peer group.

Discount

A disproportionate widening of the discount relative to the Company's peers could result in loss of value for shareholders.

Regulatory

The Company operates in a complex regulatory environment and faces a number of regulatory risks. Breaches of regulations could lead to a number of detrimental outcomes and reputational damage.

Operational

The Company has no employees and therefore relies upon the services provided by third parties and is dependent on the control systems of the Investment Manager, the Investment Adviser and the Company's Administrator.

Financial

Market price risk: the Company's investment portfolio - particularly its equity investments - is exposed to market price fluctuations.

Foreign currency risk: the Company principally invests in securities denominated in JPY, whereas GBP is the chosen functional currency of the Company. Therefore, the Statement of Financial Position will be affected by movements in the exchange rates of JPY against the GBP. The Investment Manager/Investment Adviser has the power to manage exposure to currency movements by using forward currency contracts. It is not the present intention of the Directors to hedge the currency exposure of the Company, but the Directors reserve the right to do so in the future if they consider this to be desirable.

Interest rate risk: substantially all the Company's assets and liabilities are non-interest bearing except for the one outstanding loan payable, and any excess cash and cash equivalents are invested at short-term market interest rates. Increases in interest rates may increase the costs of the Company's borrowings.

Liquidity risk: liquidity risk is the risk that the Company will encounter in realising assets or otherwise raising funds to meet financial commitments.

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- A "Positive" recommendation means we expect the investment company in question to outperform its benchmark and/or meet its target return over the next 3-5 years, or we otherwise see a catalyst for a re-rating of the shares or a liquidity event in the near-term
- A "Negative" recommendation means we expect the investment company in question to struggle to outperform its benchmark and/or to meet its target returns over the next 3-5 years.

The percentage distribution of our recommendations as at 30th March 2018 was Positive 100% and Negative 0%. The percentage of our recommendations in relation to investment banking services during the previous 12 months was Positive 100% and Negative 0%.

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Company Name	Previous recommendation	Date of change of recommendation
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