

ATLANTIS JAPAN GROWTH FUND



CUMULATIVE PERFORMANCE % (£)	YTD	1M	3M	1Y	3Y	5Y	2020	2019	2018	2017	2016	ITD*
AJG Price (total return)	-10.40	-3.95	-5.05	-10.40	45.84	86.71	29.58	25.62	-15.52	51.56	3.96	301.94
AJG NAV (total return)	-9.58	-4.68	-6.47	-9.58	49.88	82.17	24.07	33.60	-14.97	42.94	8.62	363.40
Topix Index (total return)	2.14	0.20	-4.96	2.14	28.88	35.84	8.73	16.05	-8.85	15.63	24.47	85.19

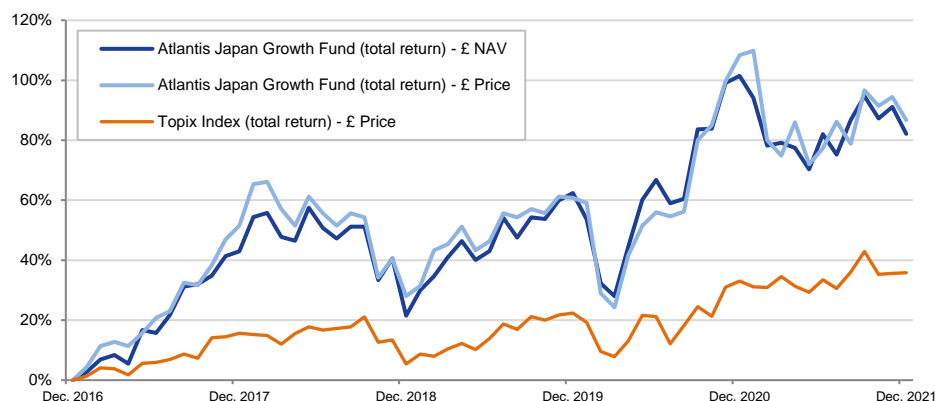
Sources: Northern Trust, Bloomberg and Quaero. The Fund's total return performance is calculated with dividends added back on ex-dividend date.
Notes: * Inception to date NAV return figure was converted to GBP based on the official USD NAV using Bloomberg FX rate.

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 2021 was 288p, thus the four payments in respect of the financial year ended 30 April 2021 will be at 2.88p per share payable at the end of September 2021, December 2021, March 2022 and June 2022. 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

December was a challenging month for growth-oriented funds in Japan. The Atlantis Japan Growth Fund's NAV declined 4.68% in sterling terms, underperforming the Topix Total Return (TR) Index which gained 0.20% during the month. A significant factor in the under-performance was the sharp decline in renewable energy provider Renova Inc (9519) which until December had been a positive contributor to portfolio performance. The core investment thesis for this stock had been its strategic exposure to the deregulation of Japan's electric power retail market and an energy mix shift to environmentally friendly sources. The company had been working on developing a major offshore wind power project in Akita prefecture. It had been encouraging that they were partnering with key strategic allies,

including East Japan Railway Co and Tohoku Electric Power which are the biggest power user and main power supplier companies in the region. In a surprising move, however, the project bid was awarded to another industrial group and with a change in outlook, the fund adviser decided to sell the position in Renova.

An additional dampener on small and mid-cap stocks in December came with a further rush in new listings. We believe this IPO surge came about in part on account of a desire by companies to list ahead of the new Tokyo Stock Exchange listing requirements that are set to go into effect in the new fiscal year starting in April 2022. There were 32 IPOs in December, taking the total up to 125 for the year (a 15-year high), far higher than the average of 90-100 companies per year,

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 116m
Shares in issue	41,704,570
Share price	246.0p
NAV per share	278.2p
Discount(-)/Premium	-11.6%
Net gearing	0.7%
Active Share	86.7%
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	4.1%
Quarterly interim paid	March, June, September and December

COMPANY FEES & EXPENSES

Ongoing Charges*	1.58%
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 2021.

and we believe there was an increase in selling of smaller cap companies by retail investors to fund participation in these new listings.

Finally in Japan we saw the broader index positively impacted by the rebound in US and global stocks on receding Covid concerns and also following the US Fed tightening pronouncements mid-month.

Counterintuitively, in our opinion, this was followed by marked gains in global semiconductor related stocks through to the end of the month, including in Japan, driven on by confidence that a worst-case inflation situation would be controlled. This scenario favoured large caps over small caps, with cyclicals and industrials favoured over IT and precisions sectors, reflecting a rising interest rate environment. The performance of value was also favoured over growth. The Topix Value (TR) Index gained 0.55% in December whilst the Topix Growth (TR) Index declined 0.14% (both in sterling terms), thus tempering the recovery of growth seen in recent months.

The above factors will have had some bearing on the performance of the Fund, given its orientation towards growth and smaller cap names. Aside from Renova, other stocks detracting from performance during the month were biotech play Cellsource (4880) and small-cap M&A boutique Nihon M&A (2127) reflecting the aforementioned sell-off in small cap stocks. Top positive contributors to the portfolio included semiconductor plays Lasertec (6920), Tokyo Electron (8035) and the biotech and healthcare play 3-D Matrix (7770). Sectors which contributed positively to the Fund in December included Electrical Appliances, Precision, and Machinery. The main sector to detract was Electric Power & Gas as noted.

Investment Activity

The main change to the portfolio during December was the selling of the Renova position. This had accounted for 4.1% of the fund's NAV at the end of November. Even with the 55% fall in Renova's stock price over the four days after the announcement, the position still realised a return of over a 100% for the fund. Exposure to Information Technology increased slightly from 39.01% to 41.02%, reversing the slight decline in exposure seen in November due mainly to stock market price fluctuations such as the sharp rebound in semiconductor related stocks seen at the end of the month. Subsequently, we saw a modest shift in the make up of the Fund's top 10 holdings in December. Electronic materials specialist Japan Materials (6055) became the 9th largest holding, benefiting from the twin pulls of the semiconductor related rally and the heightened outlook for rising interest rates. The Industrial & Infrastructure REIT (3249)

was the 10th largest holding, reflecting its stock price rise on increased focus on infrastructure related plays. The Fund held 63 stocks at the end of December, up from 61 at the end of November, and remains entirely invested in equities and some REITS apart from minor cash positions. Currency hedges are not used, and the Fund has no exposure to bonds, convertible bonds or derivatives.

Outlook

The Investment Adviser continues to have a cautiously optimistic view on the economic outlook and for corporate earnings in 2022. Suppressed production levels in durable consumer goods, such as autos, due to supply chain disruptions from the impact of the pandemic, continue to show signs of abating despite the recent spike in Omicron cases world-wide. This improving supply chain dynamic may have contributed to a sharp rally in automotive related stocks into the end of December. A further spur to the economic outlook should be the boost to private capex in the automobile industry, given the announcement by Toyota Motor (7203) of plans to accelerate its EV program and new model line up over the next 5 years. Digital transformation remains another key area of capex spend going forward.

On the earnings front, corporate guidance has been set conservatively amid continued uncertainty from the pandemic. While consumer spending remains soft, with an election year ahead in Japan, the government is likely to remain focused on efforts to support both household income and spending. We note that most Japanese companies are assuming a JPY 105-110 to the USD rate in their guidance, versus current levels in the JPY114-115/\$ range set against a backdrop of expected rising US interest rates. The US is also entering mid-term elections this year with similar incentives to support economic growth and demand. Further, we also note that talk of easing has emerged in China. During the pandemic, Japanese companies have cut costs and stepped-up efforts to improve efficiency and we see the recovering top line outpacing costs, which should result in higher profits. Low inflation trends continue to be a concern but we are seeing some signs of prices being passed on. The government is trying to maintain pressure on companies to lift wages where possible and companies are also focused more on securing reliable supply chains in exchange for the higher prices. In addition to these macro issues, international geopolitical tensions also remain a risk and we continue to take a cautious view. That said, we are looking for any mispricing opportunities on individual companies, whether caused by technical factors such as the restructuring of TSE listing requirements, or from over-reactions to global macro trends.

PORTFOLIO STATISTICS

MARKET EXPOSURE 100.7%

TOP 10 HOLDINGS (% TNA)

Lasertec	5.5
Tokyo Electron	5.0
Nidec	4.9
Shift	3.4
Cellsource	3.3
GMO Financial Gate	3.1
Nihon M&A Center Holdings	2.9
Keyence	2.8
Japan Material	2.6
Industrial & Infrastructure	2.5

SECTOR BREAKDOWN (% TNA)

Consumer Discretionary	6.8
Financials	3.1
Health Care	12.6
Industrials	27.2
Information Technology	41.0
Materials	1.9
Real Estate	4.9
Communication Services	3.3

MARKET CAPITALISATION (% TNA)

> 10bn	26.1
5-10bn	10.2
2-5bn	10.2
0.5-2bn	29.2
< 0.5bn	25.0

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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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