EDISON

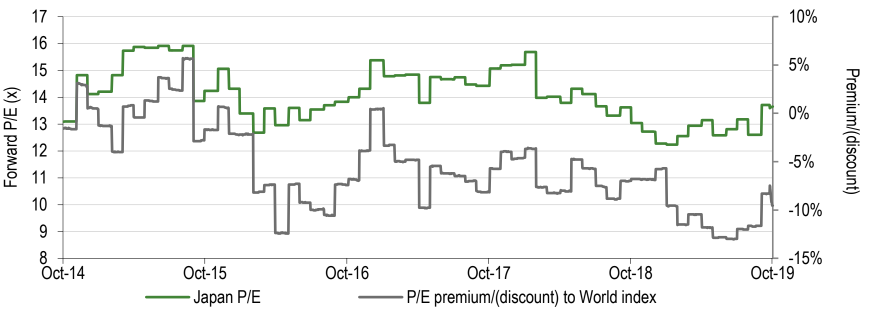
Fidelity Japan Trust

Multi-cap portfolio with strong performance record

Investment trusts
Japanese equities

Fidelity Japan Trust (FJV) has performed particularly strongly versus its reference index so far in 2019, after a sharp decline in Q418. It has also done significantly better than the main Japanese index over both shorter and longer periods, as well as outperforming its peer group over one, three and five years to 31 October. Manager Nicholas Price, backed up by a large analyst team, focuses on unearthing attractive investment opportunities among less well-researched areas of the Japanese market, and has recently been finding compelling ideas in technology-related sectors such as semiconductors, where he sees good medium-term growth prospects and attractive valuations.

Japanese equities remain at a wider-than-average valuation discount



Source: Refinitiv, Edison Investment Research

The market opportunity

Japanese equities have produced reasonable returns for UK investors since the global financial crisis, outperforming the FTSE All-Share in sterling terms over three, five and 10 years to end-September. However, Japan's 12-month forward P/E valuation remains at a wide discount to the global market (see chart above) and is also below its 10-year average, suggesting a reasonable entry point for those seeking an allocation to the world's second-largest developed stock market.

Why consider investing in Fidelity Japan Trust?

- Experienced, on-the-ground team, able to uncover opportunities from an investment universe of c 3,500 stocks, many of which lack sell-side coverage.
- Multi-cap investment approach with a focus on well-managed companies with strong competitive positions and a high return on equity.
- Solid performance record versus index over both the short and long term.

Wider-than-average discount despite strong returns

At 5 November 2019, FJV's shares traded at a 10.6% discount to cum-income NAV. While this is wider than the 12-month average discount of 9.8%, it is narrower than longer-term averages. Peer group valuations are polarised, with four of 10 funds across the AIC Japan and Japan Smaller Companies sectors between a 0.8% premium and a c 3% discount to NAV, while the others are on discounts of c 10–13%. However, FJV has notably outperformed the Japan peer group average over one, three and five years.

7 November 2019

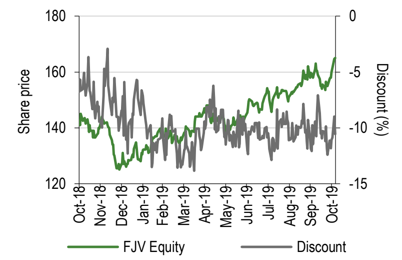
Price	**165.0p**
Market cap	**£219.9m**
AUM	**£284.5**

NAV*	184.5p
Discount to NAV	10.6%

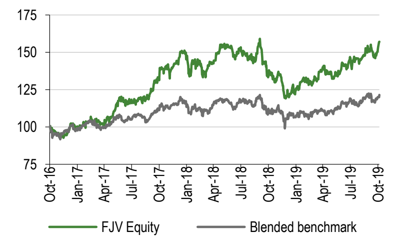
*Including income. As at 5 November 2019.

Yield	0.0%
Ordinary shares in issue	133.3m
Code	FJV
Primary exchange	LSE
AIC sector	Japan
Reference index	TOPIX

Share price/discount performance



Three-year performance vs index



52-week high/low	165.0p	125.0p
NAV* high/low	184.5p	136.0p

*Including income.

Gearing

Gross market gearing*	11.8%
Net market gearing *	11.8%

*As at 30 September 2019.

Analysts

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Edison profile page

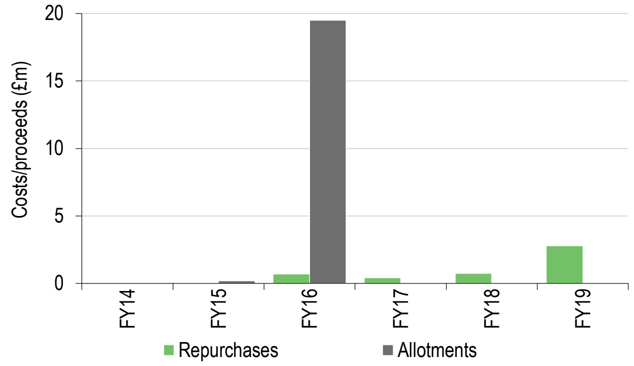
Fidelity Japan Trust is a research client of Edison Investment Research Limited

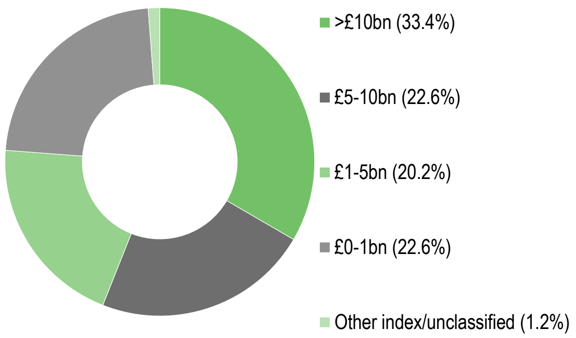
Exhibit 1: Trust at a glance

Investment objective and fund background	Recent developments
Fidelity Japan Trust (formerly Fidelity Japanese Values) aims to achieve long-term capital growth by investing predominantly in equities and related securities of Japanese companies. Since May 2018 it has used the TOPIX as its reference index, and it is a member of the AIC Japan sector.	■ 1 August 2019: Results for the half-year ended 30 June 2019. NAV TR +14.8% and share price TR +13.4%, compared with a 7.2% increase in the TOPIX TR (all in sterling terms). ■ 29 March 2019: Results for the year ended 31 December 2018. NAV TR -15.4% and share price TR -16.2%, compared with an 8.3% decline in the TOPIX TR (all in sterling terms). £386k saved as a result of management fee change in H218.

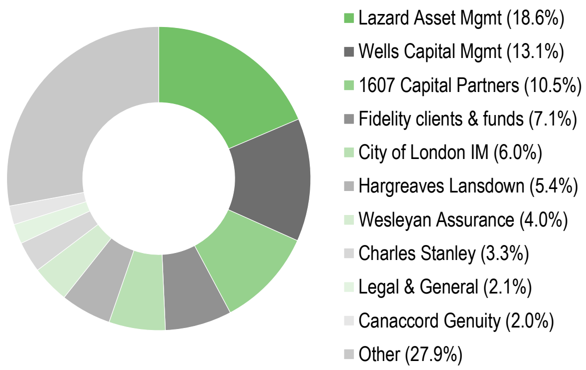
Forthcoming		Capital structure		Fund details	
AGM	May 2020	Ongoing charges	1.1%	Group	FIL Investments International
Final results	March 2020	Net gearing	11.8%	Manager	Nicholas Price
Year end	31 December	Annual mgmt fee	Variable (see page 9)	Address	Beech Gate, Millfield Lane, Lower Kingswood, Tadworth, Surrey, KT20 6RP
Dividend paid	None	Performance fee	None (see page 9)		
Launch date	15 March 1994	Trust life	Indefinite, subject to vote	Phone	0800 41 41 10 or 0800 41 41 81 (IFAs)
Continuation vote	Three-yearly, next 2019	Loan facilities	None (see page 9)	Website	www.fidelityinvestmenttrusts.com

Share buyback policy and history (financial years)	Market capitalisation breakdown (in sterling, as at 30 September 2019)
Renewed annually, FJV has the authority to repurchase up to 14.99% of shares and allot shares up to the equivalent of 5% of the issued share capital. Allotments in the chart below include the exercise of subscription shares.	Figures adjusted for gearing. FJV is heavily overweight small- and mid-cap growth stocks, has broadly neutral exposure to large-cap growth and small-cap value stocks, and is very underweight large- and mid-cap value stocks.

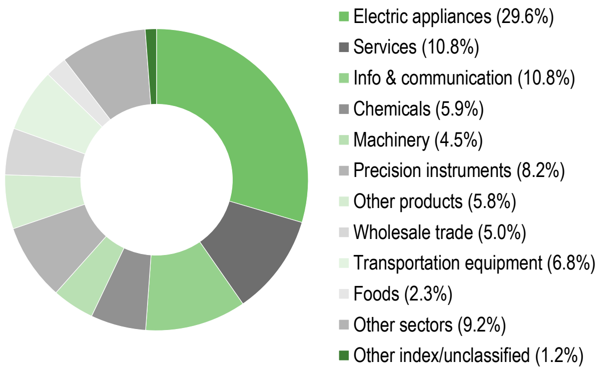




Shareholder base (as at 30 September 2019)



Portfolio exposure by sector (adjusted for gearing, as at 30 Sept 2019)



Top 10 holdings by net long position (as at 30 September 2019)

			% of NAV	
Company	**Country**	**Sector**	**30 September 2019**	**30 September 2018***
Olympus Corporation	Japan	Precision instruments	6.8	N/A
Tokyo Electron	Japan	Electric appliances	5.0	N/A
Keyence Corporation	Japan	Electric appliances	4.9	3.7
JustSystems	Japan	Information & communication	4.5	N/A
Yamaha Corporation	Japan	Other products	4.3	5.2
Murata Manufacturing	Japan	Electric appliances	4.2	N/A
Shimano	Japan	Transportation equipment	4.2	N/A
Misumi Group	Japan	Wholesale trade	4.0	3.2
Daikin Industries	Japan	Machinery	3.9	4.9
Renesas Electronics	Japan	Electric appliances	3.5	N/A
Top 10 (% of holdings)			**45.3**	**45.9**

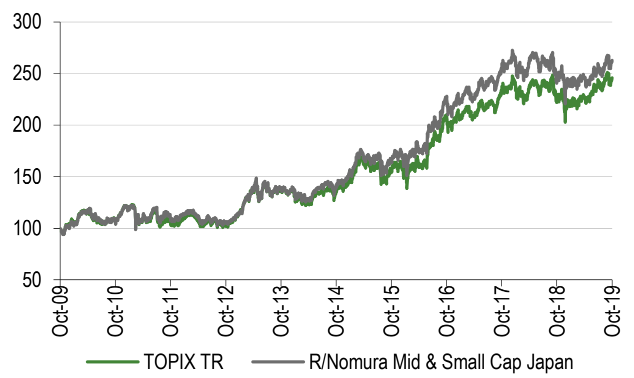
Source: Fidelity Japan Trust, Edison Investment Research, Bloomberg, Morningstar. Note: *N/A where not in end-September 2018 top 10.

Market outlook: Japan offers value versus rest of world

Japanese equities have provided solid returns for UK-based investors over the past five to six years (Exhibit 2, LHS), with smaller and mid-cap stocks mildly outperforming the broad-based Tokyo Stock Price Index (TOPIX). While this has in part been boosted by the relative weakness of sterling since mid-2016, it also represents something of a return to favour for the world's second-largest developed stock market, after the best part of two decades in the wilderness. Japanese equities are not immune to current global macro headwinds, such as the US-China trade war (a particular worry given many Japanese companies manufacture in China) and the slowing economy, but their relatively low valuation versus world markets (Exhibit 2, RHS) provides a measure of support. Currently only the UK – which has been deeply out of favour because of the prolonged period of Brexit uncertainty – is more cheaply valued on a forward P/E basis compared to its 10-year average. Furthermore, corporate governance reforms in Japan are boosting returns to shareholders through measures such as share buybacks and dividend payouts. As a result, the historically low-yielding market now has a dividend yield higher than the US, and only a little below the regional and global averages, providing a further underpinning for total returns in what may continue to be a volatile period for share prices.

Exhibit 2: Market performance and valuation

All-cap versus mid- and small-cap Japanese equity index total returns (in £)



Forward P/E valuations and dividend yields (x unless stated)

	Last	High	Low	10-year average	Last as % of average	Dividend yield (%)
Japan	14.3	20.5	10.5	13.8	104	2.3
UK	12.7	15.7	8.5	12.6	101	4.2
US	17.9	19.0	11.2	15.4	116	1.9
Asia ex-Japan	13.6	16.3	10.5	12.9	106	2.5
World	15.2	16.3	9.8	13.6	112	2.5

Source: Refinitiv, Edison Investment Research. Note: Valuation data as at 1 November 2019, based on Datastream indices.

Fund profile: Multi-cap growth at a reasonable price

Fidelity Japan Trust (FJV) aims to achieve long-term capital growth by investing in reasonably priced Japanese companies across the market capitalisation spectrum. Launched in 1994, it has been managed since September 2015 by Nicholas Price, who has been a member of Fidelity's large Tokyo-based Japanese equities team since 1993. Price's investment process (broadly seeking companies with a three- to five-year runway of growth, 10%+ return on equity, strong competitive position and quality management team) naturally leads him to invest more in under-researched small and mid-cap companies. The trust measures its performance versus the broad Japanese index, the TOPIX (in sterling), and is a member of the Association of Investment Companies' Japan sector. Until May 2018 it used a mid- and small-cap benchmark and was in the AIC Japan Smaller Companies sector, but the new index and peer group are felt to represent the wide opportunity set more accurately. At the same time, the trust changed its name from Fidelity Japanese Values, as this may have been seen to imply a more value-orientated investment approach than was the case. Gearing is deployed flexibly using contracts for difference (CFDs) rather than bank borrowing, and stood at 11.8% (a 12-month low) at 30 September 2019.

The fund manager: Nicholas Price

The manager's view: Looking through cycles to spot the upturn

Price comments that while the Japanese domestic economy remains in reasonable shape, with employment high and wages growing, global macro and trade concerns are generating headwinds for the manufacturing sector in particular, with steep year-on-year declines in corporate earnings in Q119/20 (April-June). Certain areas of the market, such as semiconductors and machine tools, have been in a deep cyclical downturn. However, by modelling past cycles, the manager says he is able to look past the current poor sentiment and take advantage of depressed valuations in the expectation of medium-term growth.

'We take out the impact of factors such as newsflow and trade tariffs to see where cycles have historically peaked and bottomed,' explains Price. 'Semiconductor production equipment (SPE) peaked in December 2017, so we are nearly two years into the down cycle, which tends to be the bottom. We expect data centre demand to come back, and next year there is also an interesting cycle with 5G, which will tend to benefit cyclical names in SPE and robotics and components – these are very interesting potential up cycles.' He adds that this could be very positive for recently purchased SPE stock Tokyo Electron, as well as Murata Manufacturing (like Tokyo Electron, a top 10 holding), which makes smartphone components. 'There are rumours that Apple will make all its new phones 5G by next September', says the manager. 'The component content rate for 5G handsets is almost double for some components, so there is a large opportunity to own names such as Murata, where we see strong growth in H220.'

Price adds that machine tool orders peaked in March 2018, and are expected to bottom towards the end of this year, 'then we see them coming back up until around December 2021. It gives an idea of how extreme the cycles are; in the long-term things grow, but they always go up and down in the interim. We are seeing companies with orders down 40% year-on-year, and that tends to be a good time to go in – when it's up 20% year-on-year, you want to reduce the bets.' With fundamentals showing signs of improvement but sell-side analysts remaining cautious, the manager comments that 'that is where you tend to get higher returns'.

In the domestic economy, the main macro concern is October's increase in the consumption tax. However, Price argues that unlike in 2014, when there was an across-the-board tax increase from 5% to 8%, this time the hike is smaller (from 8% to 10%) and also excludes a lot of essentials like food. 'Most companies have not been reporting strong front-loaded demand, so there is little evidence so far of a lot of buying ahead of the increase that would then be followed by a big drop-off,' he adds. Furthermore, in a bid by the Japanese government to boost cashless transactions, for the first nine months after the tax hike, customers will get a 2% refund if they use an electronic payment method such as a credit card. FJV's manager says this ought to dampen any decline in consumption, as effectively it will cancel out the VAT increase for those willing to use cashless transactions.

Turning to the outlook for the market, Price notes that valuations on both a P/E and price to book basis are low versus history. 'The market as a whole is pretty cheap; it has been sold down by foreigners who typically come back when they see earnings turning, probably in the fourth quarter of FY19/20 [January to March],' he says, adding that the team is forecasting earnings growth for the portfolio of c 26% in calendar 2020 versus 7% for the index, largely because of a rebound in the technology sector.

Asset allocation

Investment process: Research-intensive, bottom-up approach

FJV's investment process is bottom-up and research-intensive, drawing on the resources and ideas of Fidelity's large Tokyo-based Japanese equities team, which includes 13 analysts. Price describes the core of the approach as being a focus on where there is a difference of opinion on growth prospects, and a clear disconnect between short-term sentiment and medium- to long-term fundamentals. This applies equally to buying and selling decisions, with a combination of poor sentiment and good fundamentals signalling a possible entry point, while over-optimism coupled with declining fundamentals is more likely to trigger an exit. The team looks for signs of change, whether in management, style, a new product cycle or a new strategy, that could alter the growth rate of a company.

The Japanese stock market is large, with c 3,500 listed companies, but particularly at the smaller end, there is a lack of analyst coverage – Price notes that c 50% of small and mid-cap companies are not covered by the sell side at all, which gives Fidelity's large on-the-ground team a significant advantage in terms of uncovering opportunities. The manager also talks to Fidelity's wider Asia teams, for example about market dynamics in China, which could affect Japanese companies. Price personally meets c 350 companies a year, mainly with analysts, although typically c 30% of the FJV portfolio is held in companies that he has identified from his own research.

Exhibit 3: Portfolio market cap exposure versus TOPIX (% unless stated)

	Portfolio end-September 2019	Portfolio end-September 2018	Change (pp)	Index weight	Active weight vs index (pp)	Trust weight/ index weight (x)
>£10bn	33.4	35.8	(2.4)	58.0	(24.6)	0.6
£5-10bn	22.6	18.3	4.3	14.8	7.8	1.5
£1-5bn	20.2	20.4	(0.2)	18.7	1.5	1.1
£0-1bn	22.6	25.5	(2.9)	8.5	14.1	2.7
Other index/unclassified	1.2	0.0	1.2	0.0	1.2	N/A
	100.0	**100.0**		**100.0**		

Source: Fidelity Japan Trust, Edison Investment Research. Note: Adjusted for gearing.

The manager describes FJV as 'index-agnostic', although it is heavily focused on the small- and mid-cap segment (Exhibit 3) because of the large opportunity set in companies that may be overlooked by the wider market. Candidates for inclusion in the portfolio should offer good growth potential over a three- to five-year horizon, with reasonable valuations, shareholder-friendly management, and a return on equity (ROE) above 10% a year. Portfolio turnover tends to be in the range of c 70–100% pa as a result of the manager's sell discipline, which he characterises as 'selling what has gone up and recycling into new ideas'.

Up to 10% of the portfolio may be held in pre-IPO or unlisted stocks; Price says this is a key advantage of the permanent capital available in a closed-end fund structure. 'We would typically invest in pre-IPO stocks where we expected a listing within one to two years or so,' he adds.

Although the investment approach is bottom-up, there are some clear themes in the portfolio. FJV is overweight large-, mid- and small-cap growth stocks relative to the TOPIX, and very underweight large-cap value, which Price notes is mainly made up of financials and autos. 'We are looking for firms with a clear competitive advantage, that can be competitive globally,' he says. 'For example, Shimano (bicycle gears) has a very high global market share, which grows with increased penetration of e-bikes. Olympus is the global market leader in endoscopes. In the factory automation space we have companies like Keyence, which makes visual motion sensors, taking its domestic advantage and going global.'

Current portfolio positioning

At 30 September 2019, FJV had 82 equity holdings, with the top 10 making up 45.3% of the total (based on net long exposures, which include any gearing). The concentration was broadly unchanged from 45.9% a year earlier, and four stocks were common to the top 10 in both periods.

In sector terms (Exhibit 4), the shift we described in our last note has continued, with over a quarter of the portfolio now coming from the diverse electric appliances sector, a 17.7pp increase over 12 months, and now representing more than twice the index weight. The biggest falls (-9.7pp and -8.6pp respectively) have been in services and machinery. Electric appliances includes many technology stocks, such as those related to semiconductors. Notable purchases in this area include Tokyo Electron (bought in early spring 2019 and now FJV's second-largest holding), which is a global leader in semiconductor production equipment (SPE). Renesas Electronics manufactures semiconductors for the auto industry, and had seen its share price halve on a double-whammy of cyclical headwinds for both semis and autos; Price saw this as a good opportunity to buy. As explained in the Manager's view section, the Fidelity team models past industry cycles to gauge potential entry points for cyclical stocks, and although market sentiment towards semiconductors remains relatively weak, Price believes we are near the bottom of the down-cycle. He says the very negative sentiment towards the tech sector – particularly in the early part of 2019 – was a good opportunity to buy 'medium-term growers' at attractive valuations.

Exhibit 4: Portfolio sector exposure vs benchmark (% unless stated)

	Portfolio end-September 2019	Portfolio end-September 2018	Change (pp)	Index weight	Active weight vs index (pp)	Trust weight/ index weight (x)
Electric appliances	29.6	11.9	17.7	14.0	15.6	2.1
Services	10.8	20.5	(9.7)	5.2	5.6	2.1
Info & communication	10.8	8.5	2.3	8.5	2.3	1.3
Precision instruments	8.2	4.5	3.7	2.3	5.9	3.6
Transportation equipment	6.8	5.1	1.6	7.9	(1.1)	0.9
Chemicals	5.9	6.9	(1.0)	7.3	(1.4)	0.8
Other products	5.8	5.6	0.2	2.3	3.5	2.5
Wholesale trade	5.0	N/S	N/A	4.9	0.1	1.0
Machinery	4.5	13.1	(8.6)	5.0	(0.5)	0.9
Foods	2.3	4.4	(2.1)	4.1	(1.8)	0.6
Retail trade	N/S	6.4	N/A	N/S	N/A	N/A
Other sectors	9.2	13.1	(3.9)	38.6	(29.4)	0.2
Other index/unclassified	1.2	0.0	1.2	0.0	1.2	N/A
	100.0	**100.0**		**100.0**		

Source: Fidelity Japan Trust, Edison Investment Research. Note: Adjusted for gearing. N/S = not separately stated; may be included in 'other sectors'.

Another recent purchase is m-up, which manages musical artists' interaction with fans, and is also moving into electronic ticketing. Price explains that with the Olympics coming up in Tokyo next year, the Japanese government has brought in strict laws on secondary ticket sales, particularly with regard to paper tickets. The manager says that typically 10% of event tickets go unused because the original purchasers are unable to attend. With resale restricted to online tickets, which must change hands for their face value (although administrative fees apply), he argues there is potential for m-up to see 'massive growth' in its e-ticket exchange. 'If your ticket is on your phone then otherwise you cannot sell it on without selling your phone,' he adds.

FJV has the flexibility to hold unquoted companies if they are expected to come to market within the reasonably near future (one to two years). With its last unquoted holding, Raksul, having listed in May 2018, the trust had no unlisted stocks until the recent purchase of Coconala, an online skill-sharing freelance platform, where individuals can offer services such as web design. Price says it is growing 'very, very fast', and has a lot of potential long-term upside.

Performance: Long- and short-term outperformance

Exhibit 5: Five-year discrete performance data

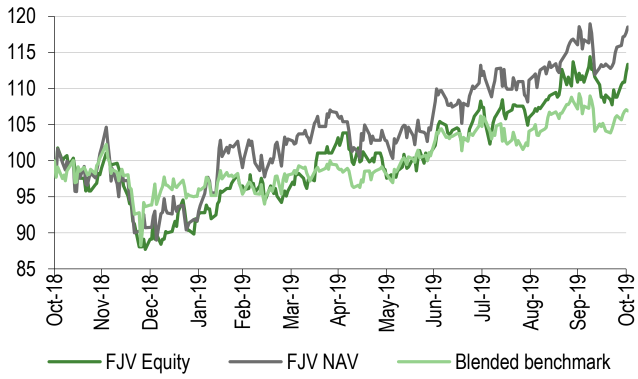
12 months ending	Share price (%)	NAV (%)	Blended benchmark* (%)	TOPIX (%)	R/Nomura Mid & Small Cap Japan (%)	FTSE All-Share (%)
31/10/15	13.7	21.0	17.9	14.6	17.9	3.0
31/10/16	28.4	33.3	35.4	32.8	35.4	12.2
31/10/17	31.4	20.8	11.2	10.0	11.2	13.4
31/10/18	3.3	(1.4)	0.9	(0.4)	(1.5)	(1.5)
31/10/19	12.3	17.7	7.1	7.1	5.8	6.8

Source: Refinitiv. Note: All % on a total return basis in pounds sterling. *Blended benchmark is a mid- and small-cap Japan index until 22 May 2018 and TOPIX index thereafter.

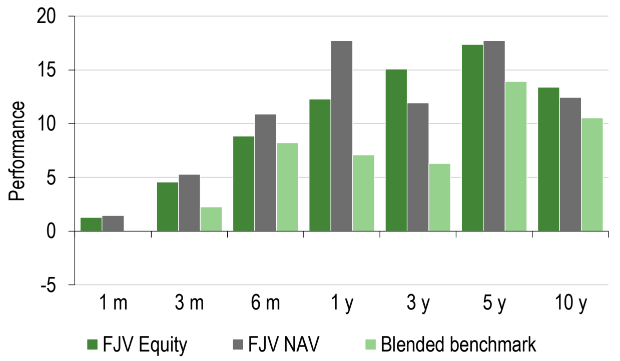
FJV has recovered well from the sharp market sell-off in Q418, when the trust saw negative performance both in absolute terms and relative to its reference index. NAV and share price total returns over the past 12 months are now well ahead (+17.7% and +12.3%, respectively, versus +7.1% for the TOPIX), and FJV has also outperformed its blended benchmark (the TOPIX for periods since 22 May 2018, and a mid- and small-cap index prior to this) in both NAV and share price total return terms over one, three and six months, and three, five and 10 years, achieving double-digit annualised returns over the longer periods (Exhibit 6). As shown in Exhibit 7, in sterling terms it has also markedly beaten the FTSE All-Share Index, illustrating the potential benefit to UK investors of considering an allocation to Japanese equities.

Exhibit 6: Investment trust performance to 31 October 2019

Price, NAV and benchmark total return performance, one-year rebased



Price, NAV and benchmark total return performance (%)



Source: Refinitiv, Edison Investment Research. Note: Three-, five- and 10-year performance figures annualised. Blended benchmark is the R/Nomura Mid & Small Cap Japan index (£) until 22 May 2018 and the TOPIX (£) thereafter.

Exhibit 7: Share price and NAV total return performance, relative to indices (%)

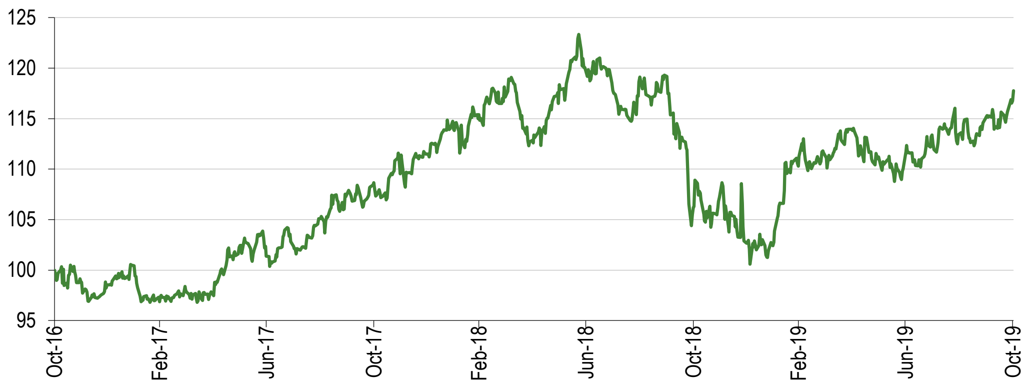
	One month	Three months	Six months	One year	Three years	Five years	10 years
Price relative to TOPIX TR	1.3	2.3	0.6	4.9	29.8	24.6	43.0
NAV relative to TOPIX TR	1.5	3.0	2.5	9.9	19.4	26.7	31.3
Price rel to R/Nomura Mid & Small Cap Japan	1.1	2.0	2.0	6.1	31.5	20.3	33.9
NAV rel to R/Nomura Mid & Small Cap Japan	1.3	2.7	3.9	11.3	21.0	22.2	22.9
Price relative to FTSE All-Share	2.7	6.8	8.4	5.1	27.7	61.4	58.4
NAV relative to FTSE All-Share	2.9	7.5	10.4	10.2	17.5	64.1	45.4

Source: Refinitiv, Edison Investment Research. Note: Data to end-October 2019. Geometric calculation.

Contributors to the strong performance since the start of 2019 have included JustSystems, Raksul, and Kotobuki Spirits, all of which Price says are good examples of the kind of under-researched opportunities FJV's on-the-ground presence allows it to uncover. JustSystems is a software development company operating in both the business and consumer segments. It supplies tablet-based supplementary education software to elementary school students (a market that Price says is still overwhelmingly paper-based), and also has B2B medical software and a customer relationship management (CRM) system that the manager describes as being similar to

Salesforce.com but at a lower cost. Digital printing firm Raksul was bought pre-IPO and has performed very well since listing, while Kotobuki Spirits supplies souvenir food items and has benefited from strong inbound tourist numbers. On the negative side, tool and machinery firm Makita has performed poorly, partly as a result of the US-China trade dispute (as it manufactures in China and exports to the US), and partly because of a slowing economy in Europe, another major export destination. This position has been reduced as Price sees more interesting opportunities elsewhere. ItoKuro – which provides online search facilities for 'cram schools' and is expanding into university and technical school search – saw its share price fall after some short-term operational problems; the manager took advantage of the dip to top up his holding, and the shares subsequently bounced back after the company released positive quarterly results in September.

Exhibit 8: NAV total return performance relative to blended benchmark over three years

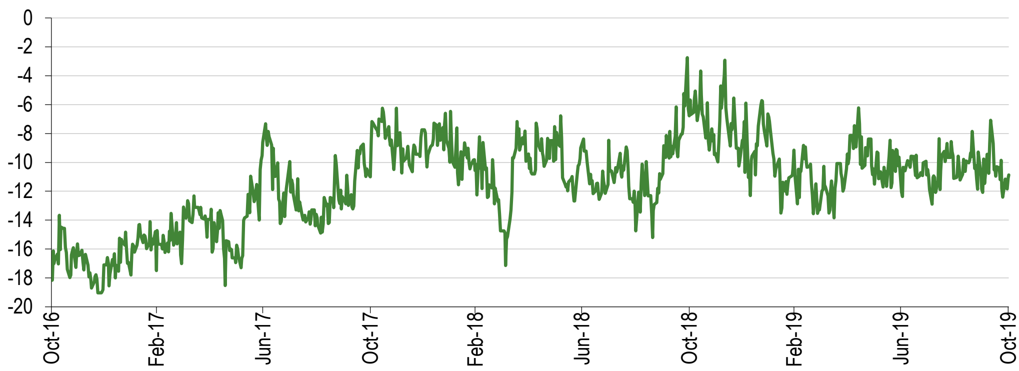


Source: Refinitiv, Edison Investment Research

Discount: Narrower than average but wider than peers

At 5 November 2019, FJV's shares traded at a 10.6% discount to cum-income NAV. While this is wider than the one-year average of 9.8%, the discount has essentially followed a narrowing trend since reaching a 10-year widest point of 22.1% in the immediate aftermath of the UK's referendum on EU membership in mid-2016. The current discount is a little narrower than the averages over three, five and 10 years, which stand at 11.4%, 12.3% and 12.8%, respectively. It is wider than the average discounts of the AIC Japan and Japan Smaller Companies peer groups (8.3% and 6.4% respectively; see Exhibit 10), although it is worth noting that these averages mask a polarisation between funds, with four of the 10 trading between a 0.8% premium and a 3% discount to NAV, while the others are at discounts of c 10–13%.

Exhibit 9: Share price discount to NAV (including income) over three years (%)



Source: Refinitiv, Edison Investment Research

Capital structure and fees

FJV is a conventional investment trust with one class of share. At 5 November 2019, there were 133.3m ordinary shares in issue, with a further 2.9m held in treasury. The board regularly buys back shares (subject to an annual limit of 14.99% of shares in issue) to manage FJV's discount to NAV; in the past 12 months, 1.9m shares (1.4% of the share base) have been bought back, at a cost of £2.8m. The board also has authority to allot shares up to 5% of the issued share capital each year to manage a premium to NAV.

In common with its Fidelity stablemates, FJV uses long contracts for difference (CFDs) rather than a borrowing facility to provide its gearing. Gearing is permitted up to 40% of net assets, although anything over 25% would require prior board approval. CFDs are derivative contracts that allow the manager to increase exposure to individual stocks at a fraction of the cost of buying them outright. Over the past year, FJV's net gearing has ranged from 11.8% (the level at 30 September 2019) to 17.5% (at 31 May).

FJV pays Fidelity a base management fee of 0.70% of net assets per annum (charged to the revenue account). There is also a performance-related variable element to the fee, which may rise to a maximum of 0.90% if FJV outperforms the TOPIX, or fall to a minimum of 0.50% if it underperforms. The variable element is charged or credited to the capital account. In H119, FJV paid management fees of £720k and was credited £202k as the trust had underperformed the index over the period in question. Ongoing charges for FY18 (the latest available figure) were 1.1%.

Dividend policy and record

Given its focus on long-term capital growth and the low level of dividends historically on offer from Japanese companies (particularly in the small- and mid-cap space) compared with some other markets, FJV has not paid a dividend for more than 20 years. In H119 the trust received portfolio income of £1.61m or c 1.2p per share, which was largely offset by fees and costs (the base management fee is charged 100% to the revenue account, as are other administrative expenses), which amounted to £1.05m or c 0.8p per share.

Peer group comparison

FJV is now a member of the Association of Investment Companies' Japan sector, having moved from the Japanese Smaller Companies sector in May 2018. In Exhibit 10 we show both peer groups to provide context. FJV's NAV total returns are well ahead of the Japan sector average over one, three and five years, but below average over 10 years, ranking first, first, second and third, respectively. It is also ahead of the smaller companies sector average over one year and only a little below over three years, although the longer-term averages are skewed by a strong historical performance from the Baillie Gifford Shin Nippon trust. Ongoing charges are a little above the Japan sector average and in line with the small-cap sector average (based on currently available information), and there is no separate performance fee, although there is a performance-related element to the base management fee. FJV's discount to NAV is currently wider than the averages for both sectors, despite its above-average recent performance. With Atlantis Japan Growth Fund having recently announced its intention to begin paying a dividend (funded at least partly out of capital), FJV is now one of only three funds across both sectors not to pay a dividend at all.

Exhibit 10: AIC Japan and Japanese Smaller Companies sectors as at 1 November 2019*

% unless stated	Market cap £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	NAV TR 10 year	Ongoing charge	Perf. fee	Discount (ex-par)	Net gearing	Dividend yield
AIC Japan										
Fidelity Japan Trust	**215.2**	**17.7**	**40.2**	**126.3**	**222.9**	**1.1**	**No**	**(10.9)**	**112**	**0.0**
Aberdeen Japan	84.4	13.0	15.8	61.6	187.6	1.1	No	(13.3)	112	0.9
Baillie Gifford Japan	732.9	11.2	35.5	128.8	369.8	0.7	No	(3.0)	111	0.4
CC Japan Income & Growth	202.8	9.1	38.3			1.1	No	(2.8)	122	2.6
JPMorgan Japanese	725.6	15.6	27.3	109.8	228.1	0.7	No	(10.4)	114	1.1
Schroder Japan Growth	239.4	2.2	12.1	71.3	180.5	1.0	No	(11.7)	111	2.5
Sector average (6 funds)	**397.0**	**10.2**	**25.8**	**92.9**	**241.5**	**0.9**		**(8.3)**	**114**	**1.5**
FJV rank in sector	**4**	**1**	**1**	**2**	**3**	**1**		**4**	**3**	**6**
AIC Japan Smaller Companies										
Atlantis Japan Growth	94.0	16.0	44.5	99.5	240.1	1.6	No	(12.3)	102	0.0
AVI Japan Opportunity	102.9	5.6	--	--	--	1.0**	No	0.8	107	0.0
Baillie Gifford Shin Nippon	500.4	8.6	48.1	197.1	544.2	0.8	No	(1.3)	110	0.0
JPMorgan Japan Smaller Cos	223.5	15.6	32.3	113.8	207.6	1.1	No	(12.7)	108	4.3
Sector average	**230.2**	**11.5**	**41.7**	**136.8**	**330.6**	**1.1**		**(6.4)**	**107**	**1.1**

Source: Morningstar, Edison Investment Research. Note: *Performance to 31 October 2019 based on ex-par NAV. TR = total return. Net gearing is total assets less cash and equivalents as a percentage of net assets (100 = ungeared). **AVI Japan has a management fee of 1.0% but no ongoing charges figure is available as it has not yet published its first full-year results.

The board

There are six independent, non-executive directors on FJV's board. David Robins, who joined the board in 2011, became chairman in 2012. He also chairs the management engagement and nomination committees. Philip Kay, the senior independent director, was appointed in 2004. Sir Laurence Magnus became a director in 2010 and has chaired the audit committee since 2011. The other directors and their years of appointment are Dominic Ziegler (2014), Sarah MacAulay and David Graham (both 2018). Many of the directors have lived and worked in Asia and Japan, and their professional backgrounds range from fund management and corporate finance to economics and journalism.

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