Atlantis Japan Growth Fund

Impressive outperformance continues

Investment companies
Japanese equities

Atlantis Japan Growth Fund (AJG) invests in a diversified portfolio of listed Japanese equities, with the aim of realising long-term capital growth. It has a bias towards growth stocks. Lead adviser Taeko Setaishi believes several trends accelerated by the coronavirus crisis and new Prime Minister Yoshihide Suga's structural reform agenda have the potential to generate new investment opportunities and productivity gains, which will benefit companies in many sectors. AJG's performance has been positive in absolute terms and it has outperformed its benchmark over one, three, five and 10 years. The fund has also outperformed the UK market over all these periods. AJG pays a quarterly dividend of 1% of NAV.

Long-term NAV outperformance versus the benchmark*

Source: Refinitiv, Edison Investment Research. Note: *Current lead adviser's tenure began on 1 May 2016.

The market opportunity

The Japanese equity market has made recent gains, supported by government stimulus, positive news about COVID-19 vaccines and mounting confidence in Prime Minister Suga. The Nikkei 225 index is approaching a 30-year high. However, Japanese stocks remain attractively priced relative to other markets and patient investors with a long-term view may benefit from the myriad investment opportunities and potential productivity gains being fostered by structural change.

Why consider investing in AJG?

- Exposure to a range of Japanese companies set to benefit from several trends, including Japan's efforts to digitalise and to reduce carbon emissions.
- Access to diversification benefits away from the UK market.
- An attractive level of dividend income and an experienced lead adviser with a successful performance track record.

Discount narrower on greater investor interest

AJG is currently trading at an 8.1% share price discount to cum-income NAV. This compares with discounts of 14.3%, 10.9%, 10.2% and 8.9% over one, three, five and 10 years, respectively. Narrowing in the discount appears to be due to greater investor interest in Japanese stocks and growth-style investing, combined with AJG's relatively new dividend policy, which may lead to further tightening over time. Based on its current share price, the fund offers a prospective yield of 2.9%.

11 January 2021

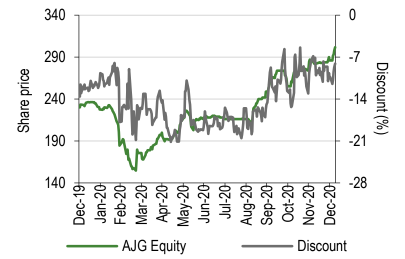
Price	**302.0p**
Market cap	**£139.7m**
AUM	**£152.0m**

NAV*	328.5p
Discount to NAV	8.1%

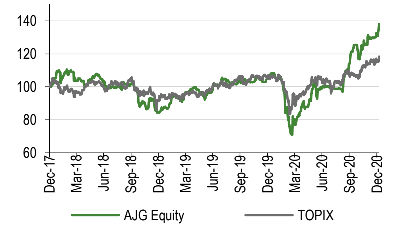
*Including income. As at 8 January 2021.

Prospective yield	2.9%
Ordinary shares in issue	41.8m
Code	AJG
Primary exchange	LSE
AIC sector	Japanese Smaller Companies
Benchmark	TOPIX (total return)

Share price/discount performance



Three-year performance vs index



52-week high/low	302.0p	154.8p
NAV** high/low	328.5p	185.7p

**Including income.

Gearing

Net*	0.7%

*As at 30 November 2020.

Analysts

Joanne Collins +44 (0)20 3077 5700
Mel Jenner +44 (0)20 3077 5720
investmenttrusts@edisongroup.com
Edison profile page

Atlantis Japan Growth Fund is a research client of Edison Investment Research Limited

Exhibit 1: Company at a glance

Investment objective and fund background

AJG aims to achieve long-term capital growth through investment wholly or mainly in listed Japanese equities. Currently, all investments are in Japanese equities of varying market caps.

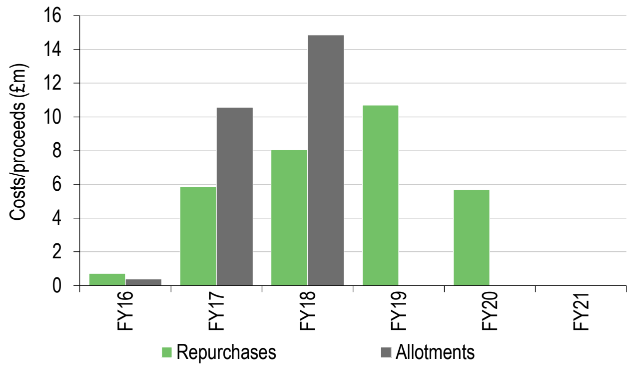
Recent developments

- 11 December 2020: interim results for half-year ended 31 October 2020. AJG generated total returns of +28.0% on a share-price basis and +27.3% on an NAV basis, compared to the benchmark total return of +7.3%.
- 19 November 2020: second FY20 interim dividend of 2.17p per share announced, for payment on 30 December 2020.

Forthcoming		Capital structure		Fund details	
AGM	September 2021	Ongoing charges	1.64% (FY20)	Group	Atlantis Investment Research Corp
Interim results	December 2021	Net gearing	0.7%	Manager	Quaero Capital
Year end	30 April	Annual mgmt fee	Tiered (see page 10)	Address	2–4 King Street, London, SW1Y 6QL
Dividend paid	See page 10	Performance fee	None		
Launch date	10 May 1996	Company life	Indefinite (subject to vote)	Phone	+44 (0)207 747 5770
Continuation vote	Four-yearly – next 2023	Loan facilities	¥1.5bn credit facility	Website	atlantisjapangrowthfund.com

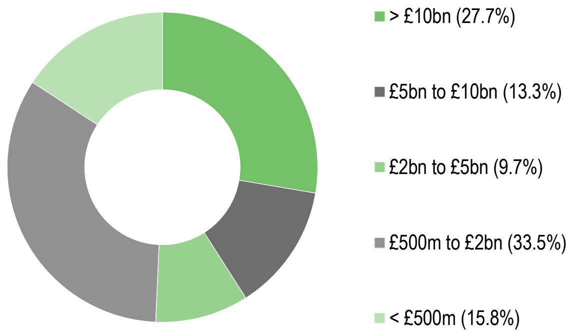
Share buyback policy and history (financial years)

Renewed annually, the board has authority to repurchase up to 14.99% of outstanding shares. Repurchases shown below include redeemed shares. Allotments include exercises of subscription rights.

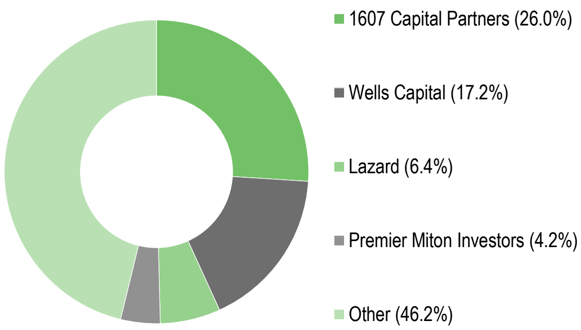


Portfolio exposure by market cap (as at 30 November 2020)

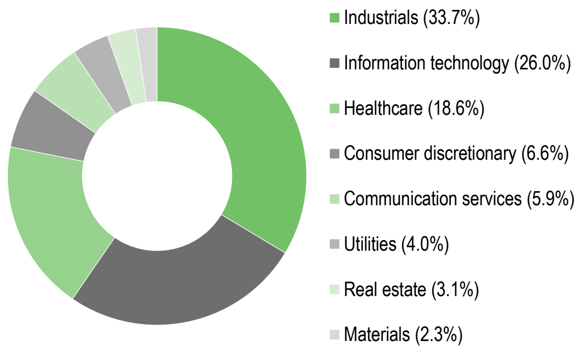
Figures rebased for gearing. Currently all investments are in Japanese equities of varying market caps.



Shareholder base (as at 30 September 2020*)



Portfolio exposure by sector (as at 30 November 2020)



Top 10 holdings (as at 30 November 2020)

		Portfolio weight %	
Company	**Sector**	**30 November 2020**	**30 November 2019****
Nidec	Electronic components	4.8	3.4
Nihon M&A Center	Institutional brokerage	4.1	3.0
Renova	Renewable energy	4.0	N/A
Tokyo Electron	Semiconductor equipment	3.7	2.7
Daifuku	Machinery	3.3	N/A
Cellsource	Pharmaceutical	3.2	N/A
Asahi Intecc	Medical devices	3.2	3.1
M3	Internet-based medical services	3.2	N/A
Bengo4.com	Internet-based services	2.8	N/A
Keyence	Factory automation equipment	2.8	2.9
Top 10 (% of portfolio)		**35.1**	**32.3**

Source: AJG, Edison Investment Research, Bloomberg, Morningstar Notes: *1607 Capital Partners' shareholding declined to 25% on 20 November 2020. **N/A where not in end-November 2019 top 10.

Market outlook: Offering relative value & opportunities

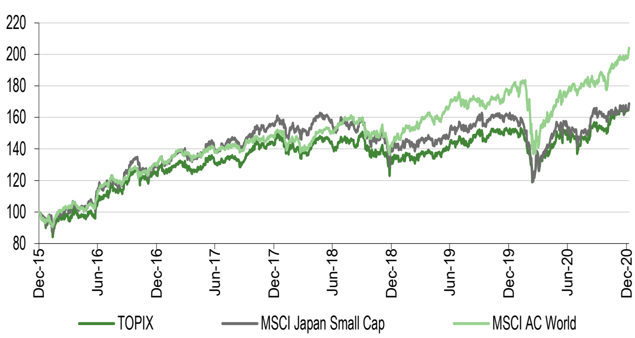
The Japanese economy has begun to rebound from the coronavirus crisis, but the recovery is uneven and may suffer a further setback from a third wave of the virus. Infections surged with the onset of winter and will likely rise further as a result of the New Year holidays. Japanese industrial output is rising, exports have recovered thanks to demand from China and retail sales have returned to pre-pandemic levels. However, capital expenditure remains weak and the hospitality sector is still struggling to recover from the suspension of domestic and inbound travel, despite a government scheme to encourage domestic tourism. While the latest Tankan business sentiment survey showed that companies are still generally cautious, the consensus among forecasters is for a sharp recovery in profits over the next couple of years. After growing at a modest 0.7% in 2019, the International Monetary Fund (IMF) expects the Japanese economy to contract by 5.3% in 2020 and to experience only a partial rebound in 2021. It forecasts growth of only 2.3% next year, a more insipid recovery than the IMF foresees for any other advanced economy or China. The Japanese government has implemented aggressive fiscal stimulus to support the recovery, including a third supplementary budget in December 2020, which included ¥40trn in direct spending to encourage the adoption of digital technology and a reduction of carbon emissions. This focus on the environment is consistent with Prime Minister Suga's recent commitment to make Japan carbon-neutral by 2050, while also fostering growth via the development of alternative, low-carbon-energy options. The latest supplementary budget also included credit guarantees and loan facilities to support smaller businesses and is expected to boost GDP by 3.6% over the next couple of years.

Signs of a nascent, if weak and patchy recovery, combined with the government's stimulus efforts, have provided support for Japanese equities. Investors have also become increasingly confident in the ability of Prime Minister Suga to continue the structural reform agenda initiated by former Prime Minister Shinzo Abe. The election of Joe Biden as the next US president has also helped investor sentiment by easing concerns about regional trade tensions. When this news was followed closely by the announcements of several proven COVID-19 vaccines, the Japanese stock market regained its pre-pandemic level, supported by foreign buyers, and the Nikkei 225 index is currently hovering near a 30-year high.

Despite these recent gains, Japanese equities continue to trade at a discount to global markets. Based on Datastream indices, on a forward P/E multiple basis, the Japanese market is currently trading at 18.5x versus 20.1x for the world index and 24.3x for the US market (Exhibit 2, RHS). Japanese equities look particularly attractively priced if Prime Minster Suga's structural reform agenda delivers the new investment opportunities and productivity gains that some market participants, including AJG's lead adviser, Taeko Setaishi, predict.

Exhibit 2: Market performance and valuation

Performance vs index (past five years, in GBP terms)



Forward P/E multiples of Datastream indices (x)

	Last	High	Low	10-year average	Last as % of average
Japan	18.5	18.5	10.5	13.8	134
US	24.3	24.3	11.2	16.3	150
UK	15.7	15.7	8.5	12.9	121
Europe	17.3	17.3	8.1	12.7	137
World	20.1	20.1	10.0	14.1	142

Source: Refinitiv, Edison Investment Research. Note: Valuation at 8 January 2021.

Fund profile: Tokyo-based team targets capital growth

AJG is a Guernsey-registered investment company listed on the London Stock Exchange. It was launched on 10 May 1996. The fund's investment manager is the specialist fund management firm Quaero Capital and Tokyo-based Atlantis Investment Research Corporation (AIRC) acts as investment adviser. AIRC is an independent firm established in 1996. It has four investment professionals who have an average of more than 30 years' investment experience. Taeko Setaishi has been AJG's lead adviser since 1 May 2016, having previously been its deputy fund adviser for 20 years.

The fund aims to realise long-term capital growth through investment in a diversified portfolio of listed Japanese equities. Performance is benchmarked against the TOPIX index. AJG has the capacity to invest in small-, medium- or large-cap stocks. It is authorised to invest up to 100% of gross assets in companies listed on any Japanese stock exchange and up to 20% of NAV in overseas-listed companies that have significant operations in Japan. Up to 20% of NAV can be invested in equity warrants and convertible debt. Holdings in a single company are limited to 10% of the portfolio. Gearing of up to 20% of NAV is permitted and at the end of November 2020, the portfolio had net gearing of 0.7%. AJG's currency exposure is usually unhedged.

The fund's lead adviser: Taeko Setaishi

The lead adviser's view: Trends drive opportunities and growth

Setaishi sees 'significant social, economic and structural changes emerging as a result of the coronavirus crisis', which she expects will create attractive new investment opportunities in digitalisation, tele-healthcare, and merger and acquisition (M&A) activity, among other areas. The lead adviser is optimistic that the trend towards greater digitalisation spawned by the pandemic will be reinforced by the Suga government's latest policy initiatives, aimed at encouraging the adoption of digitalisation across both the public and private sectors of the Japanese economy. 'This is an area in which Japan has some way to go to catch up with other developed nations', Setaishi says. 'The productivity gains realised should be substantial and many software and hardware providers will be particular beneficiaries.'

The lead adviser also welcomes the government's increasing focus on the environment, especially the reduction in carbon emissions. She believes that tax concessions and other measures to encourage companies to reduce emissions are likely to inspire significant innovation, capital expenditure and investment opportunities, for example, as coal-fuelled power stations are decommissioned and replaced by low-emission energy sources, especially solar power. Tele-healthcare is another area in which Setaishi sees significant growth potential. Investment in this sector has been given impetus by fears that Japan's conventional health system may be overloaded as a result of the pandemic.

Setaishi believes that AJG's 'focus on a growth-oriented, bottom-up, stock-picking investment style means that the fund should be well positioned to identify and participate in these emerging opportunities. Patient investors with a long-term perspective should be rewarded as these opportunities play out over time', she concludes.

Asset allocation

Investment process: Growth-oriented, bottom-up stock-picking

AJG's advisers AIRC employ a bottom-up stock-picking approach, which is based on the view that expected corporate profits growth is a key determinant of equity valuations over the long term. The investment process is designed to identify companies with strong competitive advantages, positive cash flows and medium- to longer-term growth potential, which are trading at a discount to their intrinsic value. Sector exposure is a result of the accumulation of individual positions.

AIRC's investment advisory team comprises four analysts/advisers, who follow a four-step investment process:

- **Periodic screening** – a quarterly screening of the investible universe of about 2,000 companies against various valuation metrics, to identify businesses with improving fundamentals and favourable growth prospects, that are trading at attractive valuations.
- **Company visits (real or virtual)** – deemed critical to the team's understanding of a company's business model, its competitive position and future strategy. The team also engages with competitors, suppliers and other stakeholders to confirm a company's growth potential. These contacts frequently reveal new growth investment opportunities not identified by quarterly screening.
- **Evaluations** – in-depth fundamental analysis to assess long-term sales and earnings growth potential and formulate valuations. Consideration is given to a stock's technical factors such as its market cap, liquidity and shareholder concentration.
- **Buy list** – usually around 125 companies are under consideration for inclusion in the portfolio, of which about 40 are held on a watch list. These stocks are fundamentally attractive companies, which the lead adviser is seeking to buy at a more attractive entry point. The buy list is reviewed at weekly meetings and firms are added or removed according to the results of company meetings and team discussion.

The advisory team exchanges information constantly and meets formally each week to discuss the previous week's company meetings and to review the buy list. Where possible during the coronavirus crisis, company meetings have been conducted online. AIRC's proprietary research is a team effort, but decisions on which buy-list stocks are purchased are the sole responsibility of the lead adviser, Setaishi. She seeks to avoid those Japanese companies popular with international investors on the basis that they tend to be liquid stocks, which investors use as a proxy to express their views on the whole of Asia. This means flows fluctuate with investor sentiment and share prices can be volatile.

The portfolio usually contains around 60 stocks. When initiating a position, the lead adviser begins with a small holding (0.5–1.0%), which she may increase over time up to around 2.0% of the portfolio's value, depending on her level of conviction and the liquidity of the stock. Position sizes may increase further depending on subsequent performance. Stocks will be sold if they constitute too heavy a weighting within the portfolio, if there is an unjustified shift in a company's business model, or a downturn in the operating environment.

Current portfolio positioning

At end-November 2020, the portfolio held 58 stocks, almost unchanged over the past six months. Portfolio turnover has recently been around 33% pa, somewhat below the level at the end of June 2020. At the end of November, the portfolio's top 10 holdings made up 35.1% of the portfolio, up from 32.3% a year earlier (Exhibit 1). Several of these holdings reflect the lead adviser's focus on companies set to benefit from Japan's drive to digitalise. AJG's largest position is Nidec (4.8%), the world's leading small precision electric motor maker, used particularly in hard disk drives. Holdings in Tokyo Electron (3.7%), the world's third-largest assembler of semiconductor production equipment and M3 (3.2%), the internet-based medical services company, also play into this digitalisation theme, as do positions in Keyence (2.8%), a producer of factory automation systems, Daifuku (3.3%), a major material handling system supplier and Bengo4.com (2.8%), which provides web-based marketing support and an electronic signature service to lawyers and accountants. This company has links to around half of all Japanese lawyers.

The lead adviser's expectation of rising demand for M&A services underpins AJG's second-largest position, in Nihon M&A Center (4.1%). This company provides consulting and advisory services to small and mid-sized companies and matches them with potential buyers. The Japanese government's push towards renewable energy should provide a further boost to the performance of AJG's third-largest holding, Renova (4.0%), which is a major supplier of energy generated from renewable sources, including offshore wind-power generation. Pharmaceutical company CellSource (3.2%), which has developed a natural remedy for joint problems based on blood extraction, and medical devices supplier Asahi Intecc (3.2%) complete the list of top 10 holdings.

Some recent portfolio acquisitions have also been consistent with the themes of digitalisation and tele-healthcare. The lead adviser has added a position in GMO Financial Gate, a cash settlements provider, which has benefited from the move towards cashless transactions in restaurants and shops during the pandemic. It also provides vending and ticket machines and laundromats. Demand for GMO's services has also been driven by rising labour costs and the lead adviser believes this company has great potential. She has also purchased a position in Shift, a software-testing company. Software developers prefer to outsource this function because testing in-house is costly and diverts highly skilled, in-house engineers away from more productive, higher-value endeavours. However, only 1% of testing is presently outsourced, so the software-testing market has significant scope to expand. AJG has also initiated a position in JMDC, a medical data processing company, which supports life and non-life insurance providers. It operates small clinics in the countryside that link patients with medical specialists in cities, without the need to travel. Other new additions to the portfolio include Strike, a provider of M&A intermediary services, and investor-relations services company IR Japan Holdings.

The lead adviser has also made some precautionary sales of companies particularly vulnerable to the adverse demand effects of the pandemic. These include processed-food supplier Nichirei and two employment agencies – Fullcast, which specialises in part-time and short-term workers, and Creek & River, which focuses on freelance workers in creative industries. She has also sold the position in Japan Excellent, a J-REIT specialising in office space, QB Net, a hair-salon chain and Aiful, a consumer-financing company and provider of unsecured loans. After strong share-price gains, Setaishi also took profits in Lasertec, which has a monopoly position in the provision of semiconductor mask-inspection systems. It now comprises only about 2% of the portfolio, down from 7.4% at end-June 2020. She also took profits on Insource, which organises seminars, in anticipation of a drop in demand for live events. Other disposals include Trusco Nakayama, a specialised trading company that supports manufacturers and Mitsubishi Electric, a global leader in the supply of electrical and electronic goods.

On a sectoral basis, at the end of November 2020, the portfolio's largest overweight positions relative to benchmark were information technology (+12.9pp), industrials (+11.2pp) and healthcare (+8.3%). The largest underweight positions were in consumer discretionary (-10.8pp), financials (-8.7pp) and consumer staples (-8.4pp). The lead adviser stresses that the portfolio has no exposure to regional banks. This industry is widely acknowledged to be in need of consolidation and is in Prime Minister Suga's sights as a target for structural reform, but there has been no indication as yet on the detail of the government's plans for this.

During the past few years, AJG's focus has been on small-cap stocks. However, recent purchases have extended the portfolio's more recent trend towards larger-cap holdings (Exhibit 1). At the end of November 2020, its weighting in mega-cap stocks (larger than £10bn) was 27.7%, up from 19.2% at end-June 2020, at the expense of its holdings in large-cap companies (between £5bn and £10bn). Its weighting in companies worth between £500m and £2bn rose to 33.5% from 24.7% over the same period due to a cut in holdings of smaller companies (> £500m) to 15.8% from 24.5% as at end-June 2020.

Net gearing stood at 0.7% at end-November, compared to 3.0% at the same time last year. The lead adviser is presently very cautious about the use of gearing. Performance has been robust without it and with the Nikkei 225 index close to a 30-year high and markets recently subject to bouts of extreme volatility, she prefers to keep gearing low, to avoid amplifying downside risk in the event of a market downturn. As at end-October 2020, the fund was entirely invested in publicly listed Japanese companies and J-REITs. It had no exposure to any structured financial products, convertible bonds, equity derivatives or currency hedges.

Exhibit 3: Portfolio sector exposure vs benchmark (% unless stated)*

	Portfolio end-Nov 2020	Portfolio end-Nov 2019	Change (pp)	Index weight	Active weight vs index (pp)	Fund weight/ index weight (x)
Industrials	33.7	42.3	(8.6)	22.5	11.2	1.5
Information technology	26.0	19.8	6.2	13.1	12.9	2.0
Healthcare	18.6	9.8	8.8	10.3	8.3	1.8
Consumer discretionary	6.6	13.2	(6.7)	17.4	(10.8)	0.4
Communication services	5.9	5.3	0.5	9.1	(3.2)	0.6
Utilities	4.0	1.0	3.0	1.4	2.6	2.8
Real estate	3.1	6.3	(3.2)	2.4	0.7	1.3
Materials	2.3	1.5	0.8	6.1	(3.8)	0.4
Financials	0.0	0.8	(0.8)	8.7	(8.7)	0.0
Consumer staples	0.0	0.0	0.0	8.4	(8.4)	0.0
Energy	0.0	0.0	0.0	0.6	(0.6)	0.0
	100.0	**100.0**		**100.0**		

Source: AJG, Edison Investment Research, Bloomberg. Note: Rebased for gearing. *Using Global Industrial Classification Standard rather than TOPIX classifications.

Performance: Sector and stock selection drive returns

Exhibit 4: Five-year discrete performance data

12 months ending	Share price (%)	NAV (%)	TOPIX (%)	MSCI Japan Small Cap (%)	MSCI World (%)	MSCI UK All Cap (%)
31/12/16	4.1	8.7	23.4	28.7	29.4	17.3
31/12/17	51.7	43.0	15.6	20.3	13.8	13.1
31/12/18	(15.5)	(14.9)	(8.4)	(10.5)	(3.3)	(9.8)
31/12/19	24.4	32.5	14.6	15.1	22.4	18.3
31/12/20	24.4	19.9	9.5	3.5	13.2	(11.3)

Source: Refinitiv. Note: All % on a total return basis in GBP.

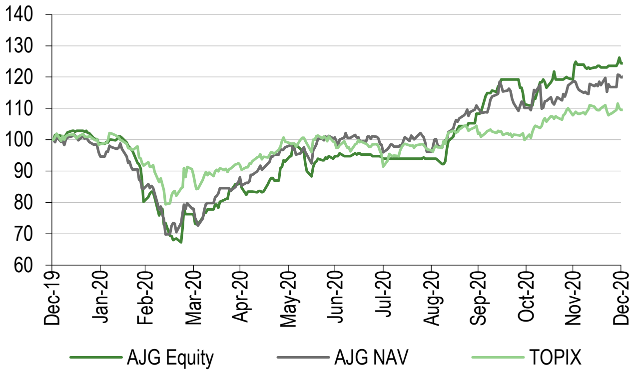
AJG's performance remains impressive. It has delivered substantial outright gains and outperformance of its TOPIX benchmark over both the short and longer term (Exhibit 5, RHS). In the six months to end-December 2020, the fund returned 31.2% on a share-price basis and 19.0% on an NAV basis, compared to a benchmark return of 10.4%. It has also outperformed its benchmark in both share price and NAV terms over one, three, five and 10 years. (The company's returns include more than 10pp dilution, as a result of subscription share issuance between October 2016 and October 2017.) AJG has also outperformed the MSCI Japan Small Cap index and the MSCI AC World index over most periods shown in Exhibit 6. The fund's returns have also outstripped those of the broad UK market, represented here by the MSCI UK All Cap index, over all periods beyond three months, which serves as a reminder to UK investors of the potential diversification benefits of investment overseas.

AJG's sector selection was a major contributor to performance over the six months to end-October 2020. Its overweight positions in services, electrical appliances, information and communication services, pharmaceuticals and machinery sectors all enhanced returns. The lead adviser's orientation towards growth stocks also assisted performance, due to the outperformance of growth stocks over value stocks during the period.

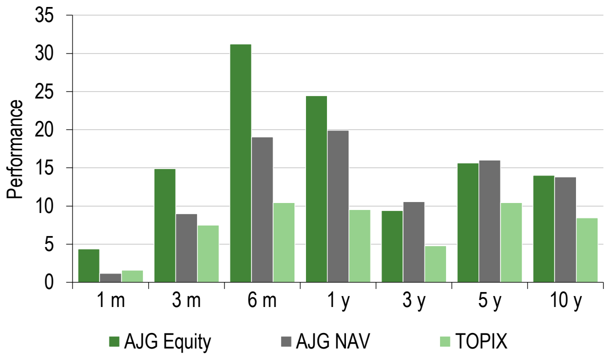
However, stock selection has also continued to contribute positively to performance. Positions in pharmaceutical supplier CellSource, the legal referral website Bengo4.com, renewable energy supplier Renova, semiconductor production equipment company Lasertec and corporate adviser Nihon M&A Center all enhanced returns. Nidec, the precision motor manufacturer, semiconductor producer Tokyo Electron, rental linen supplier Elan and the software tester Shift, also added to returns. Positions in S-Pool, the employment and business solutions company, technology hardware supplier Japan Material, Yamashin Filter and J-REIT Industrial & Infrastructure Fund had adverse effects on AJG's performance.

Exhibit 5: Investment company performance to 31 December 2020

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.

Exhibit 6: 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	2.8	6.9	18.8	13.6	13.7	25.9	65.0
NAV relative to TOPIX	(0.4)	1.4	7.8	9.5	17.4	28.0	62.1
Price relative to MSCI Japan Small Cap	2.4	12.4	22.5	20.2	22.7	25.1	44.3
NAV relative to MSCI Japan Small Cap	(0.7)	6.6	11.2	15.8	26.7	27.3	41.8
Price relative to MSCI AC World	2.1	5.8	16.8	9.9	(2.3)	4.7	28.2
NAV relative to MSCI AC World	(1.0)	0.4	6.0	5.9	0.8	6.5	26.0
Price relative to MSCI UK All Cap	0.5	2.2	20.9	40.3	38.3	64.5	124.2
NAV relative to MSCI UK All Cap	(2.6)	(3.1)	9.7	35.2	42.8	67.4	120.3

Source: Refinitiv, Edison Investment Research. Note: Data to end-December 2020. Geometric calculation.

Exhibit 7: NAV total return performance relative to benchmark over three years

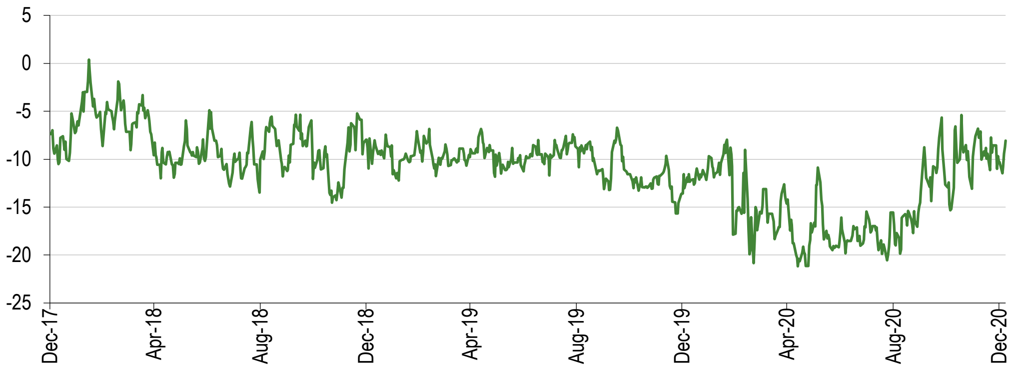
Source: Refinitiv, Edison Investment Research

Discount: Narrowing due to rising investor interest

AJG's shares traded at a discount of around 10% to cum-income NAV for most of the past three years, until the onset of the coronavirus crisis drove the discount wider, in line with the experience of most investment companies (Exhibit 8). Early in the crisis, AJG's shares traded at a discount mostly in the high teens, but it has since recovered steadily due to its strong NAV performance and greater interest from UK investors in Japanese stocks and growth-style investing. The narrower discount may also be due in part to AJG's relatively new dividend policy, which has been welcomed by investors (see Dividend policy section below for details). As at 8 January 2021, the shares were trading at a discount of 8.1%.

The board proactively manages the discount. It has scope to buy back shares, up to 14.99% of those outstanding. In line with general practice among investment companies, the board makes use of this facility if it believes the discount is too wide. In the financial year ended 30 April 2020, the company repurchased 313k shares (0.75% of the share base) at an average price of 221p per share. However, so far in the current financial year, the board has not availed itself of this option (Exhibit 1).

Exhibit 8: Share price premium/discount to NAV (including income) over three years (%)



Source: Refinitiv, Edison Investment Research

Capital structure and fees

AJG is a closed-end investment company with one class of share. There are currently 41.8m ordinary shares in issue. Its capital structure has been simplified over time with a view to increasing its appeal to shareholders and potential investors. Up until September 2019, AJG had a facility, which allowed shareholders to sell all or part of their holdings via a six-monthly redemption of up to 5% of the company's outstanding shares. However, at the AGM held in September 2019, this policy was replaced by regular quarterly dividend payments, which are made from capital reserves when required. The board believes regular dividend payments are a simpler, more effective and low-cost way to provide shareholders with liquidity and regular income (see Dividend policy section for further discussion).

The company has a ¥1.5bn (c £10m) credit facility with Northern Trust (Guernsey). As at end-November 2020, net gearing was 0.7%, compared with 3.0% at the same time last year. AJG's fee structure has changed recently. Starting from 5 July 2020, Quaero Capital is paid a tiered annual management fee of 1.00% up to £125m of NAV, 0.85% between £125m and £175m, and 0.70% above £175m. This compares with a previous flat fee of 1.00%. No performance fee is payable. For the financial year ended 30 April 2020, AJG's ongoing charges of 1.64% was marginally higher than the previous year's 1.63%, but lower than the 1.91% fee during FY16. The board maintains that it will continue its efforts to make further reductions to fees. AJG has a four-yearly continuation vote. The last vote was held in September 2019 and 99.9% of shareholders voted in favour of continuation. The next vote is due at the 2023 AGM.

Dividend policy and record

A new dividend policy was approved by AJG's shareholders at the September 2019 AGM. A six-monthly redemption facility was replaced with a regular dividend paid to all shareholders on a quarterly basis. This dividend is set at 1% of the average net asset value per share during the final month of the preceding financial year. As the average daily NAV per share for April 2020 was 217p, the next four dividend payments were each set at 2.17p per share, payable at the end of September 2020, December 2020, March 2021 and June 2021. Based on the current share price, this represents a prospective yield of 2.9%. These quarterly interim dividends will be paid out of capital reserves.

In the recent half-yearly report, the chairman of AJG's board reiterated the board's view that distributing from capital resources is beneficial for all shareholders and will help the fund gain the attention of a wider audience over time, a claim which appears to be substantiated by the recent narrowing of AJG's discount.

Peer group comparison

Exhibit 9: Japanese peer group as at 8 January 2021*

% unless stated	Market cap £m	NAV TR 1 year	NAV TR 3 year	NAV TR 5 year	NAV TR 10 year	Discount (cum-fair)	Ongoing charge	Perf. fee	Net gearing	Dividend yield
Atlantis Japan Growth	126.2	27.1	42.0	128.4	288.4	(8.1)	1.6	No	101	2.9
AVI Japan Opportunity	130.7	(0.3)				0.6	1.3	No	108	0.8
Baillie Gifford Shin Nippon	796.6	32.3	48.7	175.9	587.6	7.2	0.7	No	105	0.0
JPMorgan Japan Small Cap G&I	327.1	26.2	33.0	121.8	274.3	(0.4)	1.1	No	107	0.0
Nippon Active Value	112.8					(4.1)		No	100	0.0
Average – AIC Japanese Smaller Cos	**298.7**	**21.3**	**41.2**	**142.1**	**383.4**	**(1.0)**	**1.2**		**104**	**0.7**
AJG rank in sector	**4**	**2**	**2**	**2**	**2**	**5**	**1**		**4**	**1**
Aberdeen Japan	108.6	24.7	23.4	80.4	163.3	(8.1)	1.0	No	110	1.4
Baillie Gifford Japan	1,031.1	22.9	28.9	131.0	357.9	7.2	0.7	No	105	0.4
CC Japan Income & Growth	195.0	2.7	8.6	78.4		(10.7)	1.1	No	119	3.1
Fidelity Japan Trust	295.7	24.4	41.1	148.7	255.5	(7.0)	1.0	No	122	0.0
JPMorgan Japanese	1,178.7	42.7	56.2	146.8	286.3	(1.1)	0.7	No	113	0.7
Schroder Japan Growth	250.4	4.2	1.5	55.5	141.4	(13.0)	0.9	No	111	2.4
Average – AIC Japan	**509.9**	**20.3**	**26.6**	**106.8**	**240.9**	**(5.5)**	**0.9**		**113**	**1.3**
Open-ended funds										
Aberdeen Standard Japan Smaller Cos	457.9	13.2	22.9	86.4	218.5		1.7	No		0.0
Atlantis Japan Opportunities	110.0	28.8	51.7	182.1			2.0	No		0.0
Baillie Gifford Japan Small Cos	1,086.6	28.8	40.7	149.9	430.6		0.6	No		0.3
BGF Japan Small & MidCap Opps	169.2	4.7	3.4	70.4	127.9		1.9	No		0.0
BNY Mellon Japan Small Cap Eq Focus	118.7	18.7					0.9	No		0.6
Invesco Japanese Smaller Cos	56.7	12.0	11.5	114.5	188.3		1.6	No		0.0
Janus Henderson Horizon Jpn Smlr Cos	230.5	2.6	7.3				1.1	Yes		0.0
M&G Japan Smaller Cos	75.3	7.6	(5.1)	62.1	172.4		1.4	No		2.1
Average – open-ended funds	**288.1**	**14.5**	**18.9**	**110.9**	**227.5**		**1.4**			**1.0**

Source: Morningstar, Edison Investment Research. Note: *Performance to 7 January 2021 based on ex-par NAV. TR = total return. Net gearing is total assets less cash and equivalents as a percentage of net assets. **Prospective yield.

AJG's focus on small-cap stocks over recent years has meant that it is presently a member of AIC's Japanese Smaller Companies sector, whose constituents are shown in Exhibit 9. However, AJG has an all-cap strategy and recent acquisitions have continued to shift portfolio weightings more towards larger and mega-cap stocks. So, to provide a broader base for comparison, Exhibit 9 also includes the six closed-end funds which comprise the AIC Japan sector and eight open-ended funds which also focus on Japanese companies.

Compared to its peers in the AIC Japanese Smaller Companies sector, AJG's performance on an NAV total return basis ranks second over all periods shown. It has also outperformed the average of its peers in the AIC Japan sector and the average of its open-ended peers over all periods shown. AJG's discount is wider that most of its closed-end fund peers in both sectors and its ongoing charge is the highest. Its net gearing is the second lowest of all its closed-end peers and its prospective yield (see previous section) is higher than most of its peers in both sectors.

The board

AJG's board comprises four independent, non-executive members. Chairman Noel Lamb assumed this position on 1 May 2014, having joined the board on 1 February 2011. Philip Ehrmann was appointed on 25 October 2013, while Richard Pavry joined on 1 August 2016 and Michael Moule was appointed on 5 February 2018. Between them, the directors have backgrounds in asset management, investment trusts, corporate finance and law.

The board and its advisers have acknowledged a concern about board diversity, which was raised recently by a significant minority shareholder. To address this concern, the board has initiated a process of board refreshment and it will update shareholders in due course.

General disclaimer and copyright

This report has been commissioned by Atlantis Japan Growth Fund and prepared and issued by Edison, in consideration of a fee payable by Atlantis Japan Growth Fund. Edison Investment Research standard fees are £49,500 pa for the production and broad dissemination of a detailed note (Outlook) following by regular (typically quarterly) update notes. Fees are paid upfront in cash without recourse. Edison may seek additional fees for the provision of roadshows and related IR services for the client but does not get remunerated for any investment banking services. We never take payment in stock, options or warrants for any of our services.

Accuracy of content: All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report and have not sought for this information to be independently verified. Opinions contained in this report represent those of the research department of Edison at the time of publication. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations.

Exclusion of Liability: To the fullest extent allowed by law, Edison shall not be liable for any direct, indirect or consequential losses, loss of profits, damages, costs or expenses incurred or suffered by you arising out or in connection with the access to, use of or reliance on any information contained on this note.

No personalised advice: The information that we provide should not be construed in any manner whatsoever as, personalised advice. Also, the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The securities described in the report may not be eligible for sale in all jurisdictions or to certain categories of investors.

Investment in securities mentioned: Edison has a restrictive policy relating to personal dealing and conflicts of interest. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report, subject to Edison's policies on personal dealing and conflicts of interest.

Australia

Edison Investment Research Pty Ltd (Edison AU) is the Australian subsidiary of Edison. Edison AU is a Corporate Authorised Representative (1252501) of Crown Wealth Group Pty Ltd who holds an Australian Financial Services Licence (Number: 494274). This research is issued in Australia by Edison AU and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. Any advice given by Edison AU is general advice only and does not take into account your personal circumstances, needs or objectives. You should, before acting on this advice, consider the appropriateness of the advice, having regard to your objectives, financial situation and needs. If our advice relates to the acquisition, or possible acquisition, of a particular financial product you should read any relevant Product Disclosure Statement or like instrument.

New Zealand

The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (i.e. without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision.

United Kingdom

This document is prepared and provided by Edison for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

This Communication is being distributed in the United Kingdom and is directed only at (i) persons having professional experience in matters relating to investments, i.e. investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "FPO") (ii) high net-worth companies, unincorporated associations or other bodies within the meaning of Article 49 of the FPO and (iii) persons to whom it is otherwise lawful to distribute it. The investment or investment activity to which this document relates is available only to such persons. It is not intended that this document be distributed or passed on, directly or indirectly, to any other class of persons and in any event and under no circumstances should persons of any other description rely on or act upon the contents of this document.

This Communication is being supplied to you solely for your information and may not be reproduced by, further distributed to or published in whole or in part by, any other person.

United States

Edison relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. This report is a bona fide publication of general and regular circulation offering impersonal investment-related advice, not tailored to a specific investment portfolio or the needs of current and/or prospective subscribers. As such, Edison does not offer or provide personal advice and the research provided is for informational purposes only. No mention of a particular security in this report constitutes a recommendation to buy, sell or hold that or any security, or that any particular security, portfolio of securities, transaction or investment strategy is suitable for any specific person.

Frankfurt +49 (0)69 78 8076 960
Schumannstrasse 34b
60325 Frankfurt
Germany

London +44 (0)20 3077 5700
280 High Holborn
London, WC1V 7EE
United Kingdom

New York +1 646 653 7026
1185 Avenue of the Americas
3rd Floor, New York, NY 10036
United States of America

Sydney +61 (0)2 8249 8342
Level 4, Office 1205
95 Pitt Street, Sydney
NSW 2000, Australia