EDISON

Atlantis Japan Growth Fund

Outperformance with a c 4% yield

Investment companies
Japanese equities

Atlantis Japan Growth Fund (AJG) aims to realise long-term capital growth through investment in a diversified portfolio of listed Japanese equities. It has a bias towards growth stocks and focuses on companies that have the potential to benefit from changing trends within Japan's domestic economy. AJG has an all-cap strategy but in recent years it has focused on small-cap stocks. Performance, which is benchmarked against the TOPIX index, has been strong. AJG's NAV has outperformed over the last one, three, five and 10 years. The fund has also outperformed the UK market over all these periods. Under a new dividend policy, shareholders receive a quarterly dividend of 1% of NAV (4% pa).

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

Japan's near-term economic prospects are subdued, but structural change is driving various social and economic trends and generating investment opportunities, which should underpin earnings growth over the medium to longer term. The coronavirus is accelerating many of these trends. Japanese equities are relatively cheap compared to world markets and may be attractive to investors seeking to diversify their portfolios.

Why consider investing in AJG?

- Exposure to the growth potential and diversification benefits of Japanese equities.
- An experienced lead adviser with a proven track record of strong performance and a robust investment process.
- An attractive level of dividend income.

Discount wider than long-term average

AJG's current 18.0% share price discount to cum-income NAV is wider than the average discounts over the last one, three, five and 10 years (13.0%, 10.3%, 9.8% and 9.0% respectively.) The recent initiation of a 1% quarterly dividend has the potential to increase support for AJG and narrow the discount over time.

17 July 2020

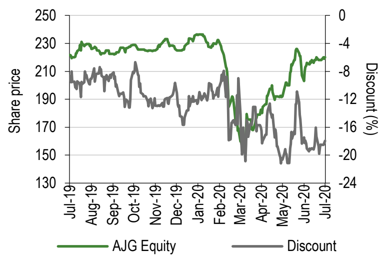
Price	**220.0p**
Market cap	**£92.0m**
AUM	**£112.1m**

NAV*	268.2p
Discount to NAV	18.0%

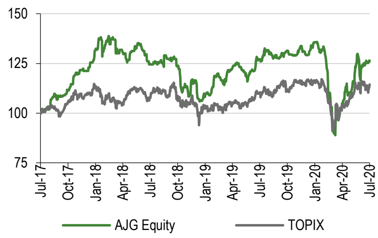
*Including income. As at 15 July 2020.

Prospective yield	3.9%
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	236.5p	154.8p
NAV** high/low	271.9p	185.7p

**Including income.

Gearing

Net*	0.00%

*As at 30 June 2020.

Analysts

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Edison profile page

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

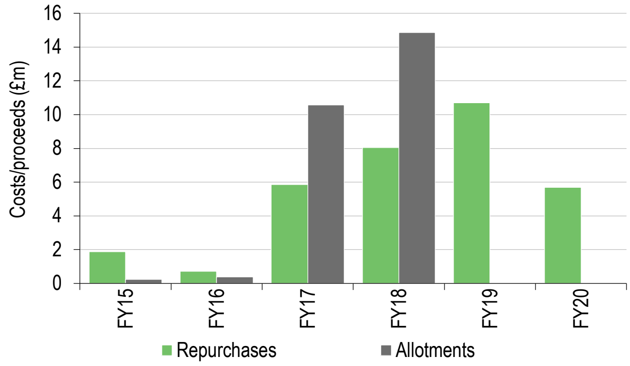
Exhibit 1: Company at a glance

Investment objective and fund background	Recent developments
Atlantis Japan Growth Fund (AJG) aims to achieve long-term capital growth through investment wholly or mainly in listed Japanese equities. Currently, all investments are in Japanese equities, with a bias to smaller and mid-sized companies.	■ 23 July 2020: Annual results ending 30 April 2020 in £ terms. NAV TR -3.3% versus benchmark TR +0.8%. Share price TR -8.5%. ■ 30 June 2020: Quarterly dividend of 2.37p per share paid. ■ 31 March 2020: Quarterly dividend of 2.37p per share paid.

Forthcoming		Capital structure		Fund details	
AGM	September 2020	Ongoing charges	1.64% (FY20)	Group	Atlantis Investment Research Corp
Interim results	December 2020	Net gearing	0.0%	Manager	Quaero Capital
Year end	30 April	Annual mgmt fee	Tiered (see page 9)	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)2077 7475770
Continuation vote	Four-yearly – next 2023	Loan facilities	¥1.5bn credit facility	Website	atlantisjapangrowthfund.com

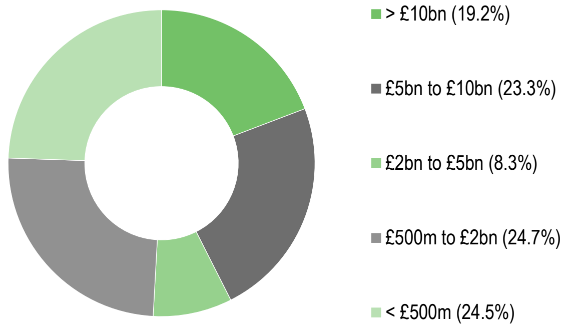
Dividend policy and history (financial years)

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

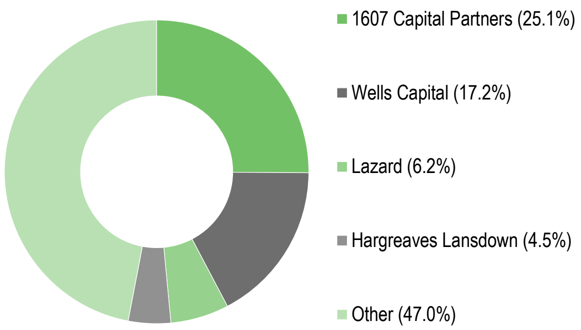


Portfolio exposure by market cap (as at 30 June 2020)

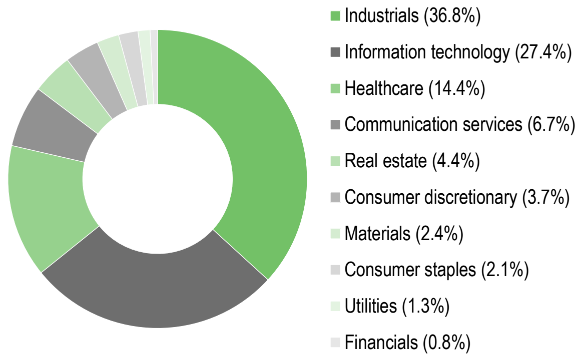
Figures rebased for gearing. Currently all investments are in Japanese equities with a bias to smaller and mid-cap companies.



Shareholder base (as at 30 April 2020)



Portfolio exposure by sector (as at 30 June 2020)



Top 10 holdings (as at 30 June 2020)

		Portfolio weight %	
Company	**Sector**	**30 June 2020**	**31 June 2019***
Lasertec	Semiconductor equipment	7.4	N/A
Bengo4.Com	Internet based services	3.8	N/A
Tokyo Electron	Semiconductor equipment	3.4	N/A
Nihon M&A Center	Institutional brokerage	3.2	N/A
Nidec	Electronic components	3.2	3.2
Daifuku	Machinery	3.1	N/A
Asahi Intecc	Medical devices	3.1	3.2
Keyence	Factory automation equipment	2.9	2.6
Yamashin-Filter	Machinery	2.8	N/A
Cellsource	Pharmaceutical	2.6	N/A
Top 10 (% of portfolio)		**35.5**	**30.3**

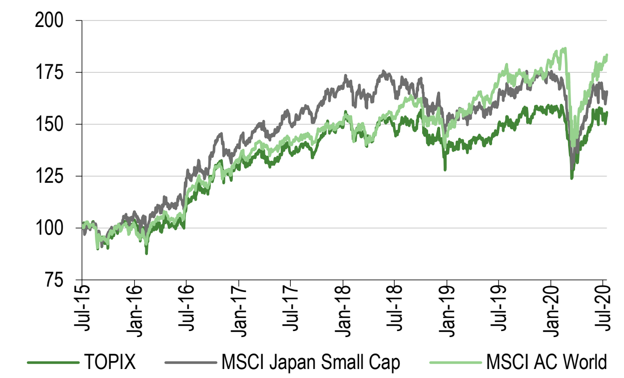
Source: Atlantis Japan Growth Fund, Edison Investment Research, Bloomberg, Morningstar. Note: *N/A where not in end-June 2019 top 10.

Market outlook: Reasons for medium-term optimism

The Japanese economy grew by a modest 0.7% in 2019, with growth in the last quarter adversely affected by an increase in the consumption tax from 8% to 10%. The outbreak of the COVID-19 virus in early 2020 has so far affected Japan less than many other countries. Casualties have been relatively low, but the economy slipped into recession during the first quarter of 2020 and the true economic costs of efforts to curtail the spread of the disease remain unclear. The postponement of the 2020 Olympics until next year, due to the virus, removed one potential source of near-term stimulus and there is little public enthusiasm for next year's event, which is widely viewed as a costly distraction from the more serious issues Japan needs to address. Tourism has been particularly hard hit; inbound tourist numbers had been on an upward trend in recent years due to an easing in visa restrictions, government promotions and cheaper flights, but they are now back at a 30-year low. The Japanese government has implemented aggressive stimulus measures, including cash payments to all residents and support for small businesses, in an effort to counteract the economic impact of the virus and further stimulus is mooted. But this has not been sufficient to bolster public support for the government. Prime Minister Abe's popularity has declined sharply due to several political scandals and criticism of his government's handling of the health crisis. The Bank of Japan's policy stance is accommodative, but it has little scope to take further action to encourage growth. The IMF recently revised down its 2020 Japanese GDP forecast to a contraction of 5.8%, before a projected 2.4% rebound in growth in 2021.

Exhibit 2: Market performance and valuation

Performance of indices (last five years, in £ terms)



Forward P/E multiples (x)

	Last	High	Low	10-year average	Last as % of average
Japan	17.7	17.7	10.5	13.6	130
US	23.2	23.2	11.2	15.8	147
UK	15.5	15.7	8.5	12.7	122
Europe	17.3	17.3	7.6	12.4	140
World	19.6	19.6	9.8	13.9	141

Source: Refinitiv, Edison Investment Research. Note: Data as at 15 July 2020.

In line with moves in other major markets, the TOPIX index dropped almost 30% between mid-January and mid-March 2020, as the COVID-19 crisis took hold, before regaining much of this ground in May. The market has drifted mainly sideways since then, as it awaits further developments on both the health and economic fronts. Corporate earnings are estimated to have declined by 20% in the year ended March 2020 and many companies have not yet given any guidance on their earnings expectations for 2021. As the virus hit, companies were absorbed by the end of financial year results season, so they have so far had little chance to assess the implications of the crisis for their businesses or develop coping strategies, let alone consider ways in which they may benefit from the longer-term changes the crisis may herald.

None of this bodes well for the near-term outlook for the Japanese stock market. However, there are reasons for optimism over the medium-term. Structural change within the domestic economy will continue to provide impetus to growth and a focus on using corporate cash more efficiently, including by providing higher returns to shareholders in the form of dividends and share buybacks, should, over time, increase the attractiveness of Japanese equities to global investors. In addition, Japanese equities in aggregate continue to trade at a discount to global equities. On a forward P/E multiple basis, the Japanese market is currently trading at 17.2x versus 18.2x for world markets (Exhibit 2, RHS) and this should provide a margin of comfort for investors seeking exposure to Japanese equities. Finally, there is the possibility that the current health crisis may ultimately have some positive implications for the Japanese economy and stock market. The virus has accelerated some economic and social trends (such as mergers and acquisition [M&A] activity and digitalisation), which were already manifest before the crisis and sparked other moves such as the re-shoring of supply lines and remote working. Such developments will doubtless generate new business opportunities and growth in coming years.

Fund profile: Bias towards small-cap 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 specialist fund management firm Quaero Capital and Tokyo-based Atlantis Investment Research Corporation (AIRC) acts as investment adviser. AIRC, an independent firm established in 1996, 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's objective is to realise long-term capital growth through investment in a diversified portfolio of listed Japanese equities. AJG has the capacity to invest in small, medium or large cap stocks. However, in recent years it has had a bias towards small-cap growth stocks. Performance is benchmarked against the TOPIX index. AJG 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. At the end of June 2020 the portfolio had no gearing. AJG's currency exposure is usually unhedged.

The fund lead portfolio advisor: Taeko Setaishi

The lead adviser's view: Seeking opportunity in new trends

Setaishi expects the Japanese economy to remain adrift over the next year or two as companies adjust to the 'new normal'. She only expects the recovery to consolidate once investors are confident that the coronavirus is contained or a vaccine is developed. However, despite this subdued near-term prognosis, she is confident that over the medium term, the crisis will prove to be a catalyst for significant social and economic change, which is likely to spawn new businesses and generate numerous investment opportunities. Setaishi sees several trends emerging already, including an expansion in M&A activity, a rise in remote working, increasing digitalisation and a higher investor focus on healthcare products and services. Setaishi has always sought out companies that look set to benefit from structural change within the domestic Japanese economy and consistent with this approach, she has begun to explore opportunities in the sectors affected by recent developments.

M&A activity is a particular focus for Setaishi. It was already on the rise before the onset of the healthcare crisis. Many Japanese business owners are reaching retirement age and a lack of succession plans means they are often compelled to sell their businesses. Setaishi believes that many of these small operators will struggle to deal with the impact of COVID-19 on cash flows and business models, reinforcing existing pressures to sell. 'For larger, cash-rich companies, this represents an opportunity to grow market share. The resulting trend increase in M&A activity could run for many years' Setaishi says. She believes legal, accountancy and consulting services providers are all likely to benefit and has increased AJG's exposure to companies in these sectors.

Setiashi also sees the potential for significant growth in remote working. Unlike the experience of many developed economies, home working has not yet proved very popular in Japan. Only about 20% of workers, mainly from large organisations, worked from home during the COVID-19 crisis. Internet connectivity can be patchy and houses are usually small, which makes combining home working with home schooling a particular challenge. However, Setaishi expects that the trend will catch on gradually as employees come to appreciate the benefits of reducing or eliminating Japan's notoriously arduous commutes and companies realise the potential for associated productivity increases, greater staff retention and lower office accommodation costs. The lead adviser expects providers of internet services and computer hardware and software to see growing demand for their products accordingly. Setaishi believes that her long-standing commitment to a growth-oriented, bottom-up stock-picking style with a small-cap bias and her proven track-record mean she is ideally-positioned to spot and exploit new opportunities in these and other sectors as they emerge.

Asset allocation

Investment process: A disciplined search for growth

AIRC employs a disciplined 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. The process tends to be biased towards small- and medium-cap companies, which the lead adviser believes are often under-researched and undervalued. The portfolio is constructed to gain exposure to themes the lead adviser expects will drive Japanese economic growth over the longer term. As such, there are no top-down pre-determined sector weightings. Instead, sector exposure is a result of the accumulation of individual positions held in any specific TOPIX sector.

AIRC's investment advisory team consists of 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** – deemed as critical to the team's understanding of a company's business model, its competitive position and future strategy. The team also visits competitors, suppliers and other stakeholders to confirm a company's growth potential. These visits 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 companies are added or removed according to the results of company meetings and team discussion.

The 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 COVID-19 crisis, company meetings have been conducted online. AIRC's proprietary research is a team effort, but decisions on which buy list stocks to purchase are the sole responsibility of the lead adviser. She seeks to avoid those Japanese companies popular with international investors. These tend to be liquid stocks which investors use as a proxy to express their views on the whole of Asia, so flows fluctuate with investor sentiment and prices can be volatile.

The portfolio usually contains between 60-70 stocks. When initiating a position, the lead adviser begins with a small holding of 0.5-1.0%, which she may increase over time up to around 2.0% of portfolio value, depending on her 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

The lead adviser has taken advantage of the recent market downturn to make several purchases, including new positions in Airtech, a cleaning equipment supplier, medical equipment manufacturer Daikan Medical, business solutions provider Infocom, Sony, Nintendo, and Japan Excellent, a J-REIT specialising in office space. She also repurchased M3, a healthcare website operator, which provides medical consultations without the need to visit doctors' surgeries. Another relatively recent acquisition is Cellsource, a pharmaceutical company, which has developed a natural remedy for joint problems, based on blood extraction. The lead adviser is impressed by the fact that this company does not need big factories or significant capex and, because it deals directly with hospitals, it does not need to do extensive marketing. Setaishi also appreciates the fact that Cellsource produces pharmaceutical products, which are completely unrelated to the coronavirus.

Since the outbreak of the virus, the lead adviser has reduced exposure to a number of mainly smaller, illiquid stocks she feared would struggle during the crisis. Outright sales included Tokio Marine Holdings, House Do, a home equity release company, Aidma Marketing, a retail marketing communications company, Sakai Moving, TKP, an events manager and Phil and Aoyama Zaisan Networks, two private wealth managers whose prospects have deteriorated because salespeople cannot meet with their retail clients.

At the end of June 2020, the portfolio's top 10 holdings comprised 35.5% of the portfolio, compared to 30.3% 12 months earlier (Exhibit 1). The spread of companies in this list reflects some of the key themes the lead adviser is currently following. The greater concentration of holdings over the past year is due mainly to the relatively significant weighting of Lasertec (7.4%). This company has a monopoly position in the provision of semiconductor mask inspection systems. It works closely with its semiconductor manufacturing client base to develop bespoke products and it has begun to penetrate the semiconductor wafer inspection market. Normally, the lead adviser would begin trimming a holding once it reached a 5% weighting, but Lasertec continues to perform strongly, so she is happy to maintain the position. Bengo4.Com (3.8%), AJG's second largest holding, provides web-based marketing support to lawyers and tax accountants, and tax and legal advice to the public. It has links to 50% of Japan's lawyers and its growth is also underpinned by CloudSign, an e-contract signing tool that has been adopted by many large firms as a replacement for the traditional personal stamps and seals used in contract certification. Nihon M&A Center (3.2%) provides consulting and advisory services to small and medium-sized companies with uncertain prospects and matches them with buyers seeking to expand market share, while Asahi Intecc (3.1%) is a global leader in angiographic catheters and related products. Cellsource (2.6%), the pharmaceutical company discussed above, is also among AJG's top 10 holdings.

AJG held 60 stocks at the end of June 2020. Although in recent years AJG has had a bias towards small-cap stocks, it has an all-cap strategy and some recent acquisitions have been of larger cap stocks less vulnerable to the adverse impact of the coronavirus. These purchases, combined with the disposal of some smaller cap stocks, have resulted in a notable shift in the composition of the portfolio by market cap (Exhibit 1). At the end of June, the portfolio weighting of mega-cap stocks (larger than £10bn) was 19.2%, up 8.5% from a year earlier, while holdings of large-cap stocks

(£5bn to £10bn) rose to 23.3% from 9.1% over the same period. These increased weightings are mainly at the expense of companies with market caps between £500m and £2bn (24.7% versus (41.0% previously).

In terms of sector exposure, the most notable shifts over the twelve months to end-June 2020 have been a dramatic reduction in exposure to consumer discretionary stocks (3.7% vs 16.4% previously) and a more modest reduction in industrials (36.8% down from 42.7%) (Exhibit 3). Holdings of technology stocks rose to 27.4% at end-June 2020, from 17.6% the previous year, while healthcare holdings have risen to 14.4% from 9.9% previously.

Recent portfolio turnover has been around 40%. Excluding cash, at the end of June, the portfolio was fully invested in publicly listed Japanese companies and J-REITs. It was not using any gearing, compared to net gearing of 3.8% at the end of the previous financial year and it held no foreign exchange hedges, convertible bonds or other types of structured financial product.

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

	Portfolio end-June 2020	Portfolio end-June 2019	Change (pp)	Index weight	Active weight vs index (pp)	Trust weight/ index weight (x)
Industrials	36.8	42.7	(5.9)	21.8	15.0	1.7
Information technology	27.4	17.6	9.9	12.3	15.1	2.2
Healthcare	14.4	9.9	4.5	10.6	3.8	1.4
Communication services	6.7	5.6	1.1	9.5	(2.8)	0.7
Real estate	4.4	4.8	(0.4)	2.4	2.0	1.8
Consumer discretionary	3.7	16.4	(12.7)	17.1	(13.4)	0.2
Materials	2.4	2.0	0.4	5.8	(3.4)	0.4
Consumer staples	2.1	0.0	2.1	9.1	(7.1)	N/A
Utilities	1.3	0.0	1.3	1.5	(0.2)	0.9
Financials	0.8	1.1	(0.3)	9.2	(8.4)	0.1
Energy	0.0	0.0	0.0	0.6	(0.6)	N/A
	100.0	**100.0**		**100.0**		

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

Performance: Outright gains and outperformance

Exhibit 4: Five-year discrete performance data

12 months ending	Share price (%)	NAV (%)	TOPIX (%)	MSCI Japan Small Cap (%)	MSCI World (%)	CBOE UK All Companies (%)
30/06/16	8.8	9.1	9.6	21.8	13.9	1.7
30/06/17	18.0	15.9	24.2	23.5	22.9	18.3
30/06/18	29.0	32.5	9.5	12.7	9.5	9.5
30/06/19	(5.9)	(5.0)	(2.1)	(6.1)	10.3	0.3
30/06/20	3.2	13.3	6.0	4.6	5.7	(13.6)

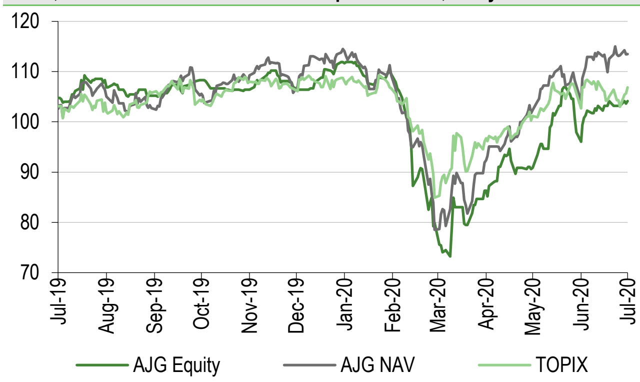
Source: Refinitiv. Note: All % on a total return basis in pounds sterling.

In the three months to end-June 2020, the portfolio made significant outright gains, returning 24.2% on a share price basis and 29.1% on a NAV basis. It also outperformed the benchmark return of 11.7% (Exhibits 5 and 6). Over the year to end-June 2020, AJG made absolute returns and outperformed its benchmark in NAV terms, but lagged in share price terms. It has also made robust gains and outperformed the TOPIX in both share price and NAV terms over 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's performance against the MSCI Japan Small Cap Index has been similar, outperforming on a one and three-month basis, mixed over 12 months and mostly outperforming over three, five and 10 years. Relative to the MSCI AC World index, AJG has outperformed over three months in both price and NAV terms and over one, three, five and 10 years on a NAV basis. Price performance over these periods has been more mixed, but AJG has nonetheless outperformed this index in price terms over the long term. The fund has consistently outperformed the UK market, as measured by the CBOE UK All Companies index, in both price and NAV terms, over all periods beyond one month. This serves as a reminder of the potential diversification benefits of non-UK holdings available to UK investors.

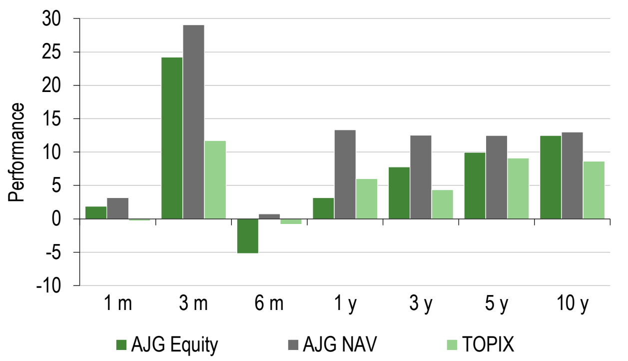
Positive contributors to performance in the four months to end-June included AJG's positions in Lasertec (semiconductor production equipment), pharmaceutical company Cellsource, semiconductor wafer materials supplier Tri Chemical Laboratories, disabled employee placement specialist S-Pool, Bengo4.com (a tax and legal marketing support website) and Yamashin-Filters (a manufacturer of filters for construction and agricultural equipment). Holdings of Aashi Intecc (a medical devices producer), M3 (a healthcare website operator), Fullcast (an employment agency and events planner) and MidCity Investment Corp (a REIT investing in Osaka office buildings) detracted. MidCity Investment Corp was sold in June.

Exhibit 5: Investment company performance to 30 June 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	2.2	11.2	(4.4)	(2.7)	10.2	3.9	41.6
NAV relative to TOPIX	3.4	15.5	1.6	6.9	25.5	16.5	48.1
Price relative to MSCI Japan Small Cap	3.1	9.7	(1.9)	(1.4)	13.1	(3.5)	23.0
NAV relative to MSCI Japan Small Cap	4.4	14.0	4.2	8.4	28.8	8.2	28.7
Price relative to MSCI AC World	(1.4)	3.7	(5.9)	(2.4)	(2.0)	(10.1)	5.7
NAV relative to MSCI AC World	(0.1)	7.7	(0.1)	7.2	11.6	0.8	10.6
Price relative to CBOE UK All Companies	(0.1)	12.7	15.6	19.4	32.0	40.7	68.7
NAV relative to CBOE UK All Companies	1.2	17.1	22.9	31.2	50.3	57.8	76.5

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

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

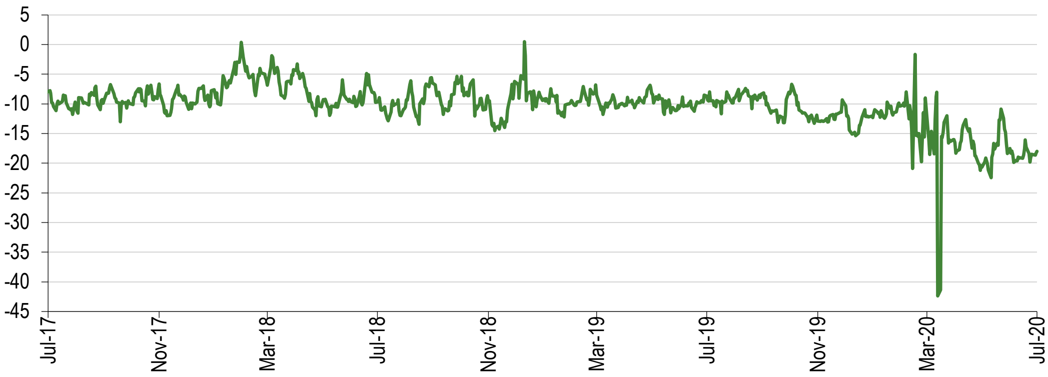
Source: Refinitiv, Edison Investment Research

Discount: Managed flexibly and proactively

For most of the past three years, AJG's share price has traded at a discount to cum-income NAV. The discount has mostly fluctuated in a range around 10%, although it moved to a premium of 0.4% briefly in February 2018 and widened in late 2018 and in late 2019. The onset of the coronavirus saw the discount widen briefly to around 21% but it has since fluctuated in a range around 17%; it is currently at 18.0%.

The board reviews the discount regularly and subject to liquidity and market conditions, it uses share repurchases to manage the discount if it is perceived to be too wide. It has the authority, renewed annually, to buy back up to 14.99% of outstanding shares. The board believes this approach is in the interests of all shareholders and in line with market practice among investment companies. The board has recently emphasised that it remains committed to managing the discount using share buybacks in a flexible and proactive manner. In the financial year ended 30 April 2020, the company repurchased 313,000 shares (0.75% of the share base) at an average price of 221p per share.

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 on issue, with a further 4.7m held in treasury. Its capital structure has been simplified over time with a view to increasing its appeal to shareholders and potential investors. In November 2017, the company's subscription share mechanism was discontinued after it successfully raised c £11m in FY16 and c £15m in FY17. Up until September 2019, AJG had a redemption 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, in September 2019 this policy was replaced by regular quarterly dividend payments, out of 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 and record section for further discussion).

The company has a ¥1.5bn (c £10m) credit facility with Northern Trust (Guernsey). As at end-May 2020, net gearing was zero, compared to 3.8% at the same time last year. AJG's fee structure has changed – 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

At the September 2019 AGM, AJG's shareholders approved a new dividend policy. It now pays regular quarterly dividends of 1% of the company's NAV (based on the average daily NAV in the final month of the financial year). Dividends are paid out of capital reserves in March, June, September and December. Following the approval of this policy, based on an average NAV of 237p in April 2019, three quarterly dividend payments of 2.37p per share were paid to shareholders in December 2019, March 2020 and June 2020. Had there been four dividend periods rather than three in respect of FY20, this would have equated to an annual dividend yield of 4.2%. The average daily NAV per share for the financial year ended April 2020 was 217p, therefore the next four payments will be 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 3.9%. AJG's board may also, from time to time, pay any interim dividends or other distribution payable on the shares as they see fit, if it appears to them that the assets of the fund justify the payment.

Peer group comparison

Exhibit 9: Japanese peer groups as at 15 July 2020*

% 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	91.9	14.0	44.6	82.7	241.4	(18.0)	1.6	No	100	3.9**
Baillie Gifford Shin Nippon	544.6	9.4	48.8	146.0	519.7	(2.0)	0.7	No	107	0.0
JPMorgan Japan Smaller Cos	243.7	22.0	42.4	110.8	244.2	(12.9)	1.1	No	100	4.1
Average – AIC Japanese Smaller Cos	**293.4**	**15.1**	**45.3**	**113.2**	**335.1**	**(11.0)**	**1.2**		**103**	**2.7**
AJG rank in sector	**14.4**	**2**	**1**	**3**	**2**	**3**	**1**		**2**	**2**
Aberdeen Japan	85.2	15.9	19.3	44.0	162.6	(16.4)	1.0	No	112	1.8
Baillie Gifford Japan	745.0	7.5	32.0	87.4	326.1	(6.0)	0.7	No	104	0.4
CC Japan Income & Growth	163.7	(8.9)	10.5			(10.9)	1.1	No	117	3.7
Fidelity Japan Trust	239.0	19.6	43.6	105.9	229.2	(9.0)	1.0	No	124	0.0
JPMorgan Japanese	880.2	26.2	52.6	99.6	259.5	(9.9)	0.7	No	115	0.9
Schroder Japan Growth	218.5	(3.5)	1.2	31.3	132.9	(15.8)	1.0	No	112	2.8
Average – AIC Japan	**388.6**	**9.5**	**26.5**	**73.6**	**222.1**	**(11.3)**	**0.9**		**114**	**1.6**
Open-ended funds										
Aberdeen Standard Japan Smlr Cos	368.5	3.6	19.4	61.9	211.9		1.7	No		0.0
Ballie Gifford Japanese Smaller Cos	854.7	8.7	42.5	126.0	407.8		0.6	No		0.3
BGF Japan Small & Mid Cap Opps	10.9	7.2	13.1	64.0	135.4		1.9	No		0.0
BNY Mellon Japan Small Cap Eq Focus	89.4	6.1					0.9	No		0.7
Invesco Japanese Smaller Cos	51.7	(1.4)	12.8	91.1	162.3		1.6	No		0.0
Janus Henderson Horizon Jap Smlr Cos	199.3	2.1	4.9				1.0	Yes		0.0
M&G Japan Smaller Companies	67.7	(4.5)	(11.3)	38.8	157.5		1.4	No		2.7
Average – open-ended funds	**234.6**	**3.1**	**13.6**	**76.4**	**215.0**		**1.3**			**0.5**

Source: Morningstar, Edison Investment Research. Notes: *Performance to 14 July 2020 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.

Due to AJG's focus on small-cap stocks over recent years, it is presently a member of the AIC Japanese Smaller Companies sector. Exhibit 9 shows the three closed-end funds in this sector that have traded for more than a year. On a NAV total return basis, AJG ranked second on a one-year basis and first over a three-period, third over five years and second over 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's discount is the widest of the three funds and its ongoing charge is the highest, arguably due to the fact that fixed costs must be spread over a smaller asset base. It is currently ungeared. AJG's prospective yield of 3.9% (see previous section) is above the average of its peers.

Although AJG has been focused on small and medium cap companies for some time, it actually has an all-cap strategy and recent acquisitions have shifted portfolio weightings more towards large- and mega-cap stocks. So, to provide a broader comparison, Exhibit 9 also shows the six closed-end funds in the AIC Japan sector and the seven open-ended funds in the IA Japanese Smaller Companies sector. AJG's total returns are well ahead of the averages of both these sectors over all periods shown.

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 to the board on 25 October 2013, 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.

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