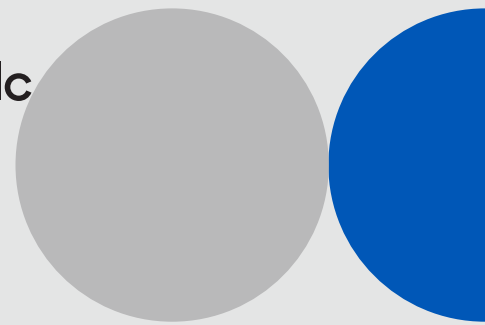




# abrdrn Japan Investment Trust plc

Japan specialists identifying exceptional companies

Performance Data and Analytics to 31 August 2023



## Proposal for the Reconstruction and Voluntary Winding-up of the Company

On 18 May 2023, the Board announced that heads of terms have been agreed in principle for a proposed combination of assets of the Company with the assets of Nippon Active Value Fund plc. The combination, if approved by each company's shareholders at the requisite general meetings, will be implemented through a scheme of reconstruction, resulting in the voluntary liquidation of the Company and a rollover, coupled with an opportunity for a cash exit for up to 25 per cent. The Board will continue to update shareholders, including notice of the Company's annual and/or general meeting(s), as appropriate.

### Investment objective

To achieve long-term capital growth principally through investment in listed Japanese companies which are believed by the Investment Manager to have above average prospects for growth.

### Benchmark

Topix Index (in sterling terms).

### Cumulative performance (%)

	as at 31/08/23	1 month	3 months	6 months	1 year	3 years	5 years
Share Price	645.0p	1.6	1.4	14.3	12.8	14.2	20.5
NAV <sup>A</sup>	679.8p	(1.3)	0.3	5.0	(0.3)	1.2	10.2
Benchmark		(0.5)	2.9	6.1	6.7	19.2	18.5

### Discrete performance (%)

	31/08/23	31/08/22	31/08/21	31/08/20	31/08/19
Share Price	12.8	(18.2)	23.7	6.8	(1.2)
NAV <sup>A</sup>	(0.3)	(15.8)	20.5	10.0	(1.0)
Benchmark	6.7	(3.9)	16.2	(0.1)	(0.5)

Total return; NAV to NAV, net income reinvested, GBP. Share price total return is on a mid-to-mid basis. Dividend calculations are to reinvest as at the ex-dividend date. NAV returns based on NAVs with debt valued at fair value. Source: abrdrn Investments Limited, Lipper and Morningstar.

**Past performance is not a guide to future results.**

<sup>A</sup> Including current year revenue.

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### Morningstar Analyst Rating™



<sup>B</sup> Morningstar Analyst Rating™

Morningstar analysts assign the ratings globally on a five-tier scale with three positive ratings of Gold, Silver and Bronze.

### Morningstar Rating™



<sup>B</sup> Morningstar Rating™ for Funds

Morningstar rates funds from one to five stars based on how well they've performed (after adjusting for risk and accounting for all sales charges) in comparison to similar funds.

### Ten largest equity holdings (%)

Mitsubishi UFJ Financial	4.1
Tokio Marine	3.9
Sony	3.9
Hitachi	3.7
Toyota Motor Corp	3.1
Asahi	3.0
Keyence	2.9
Ibiden	2.8
Shin-Etsu Chemical	2.5
Tokyo Electron	2.4
<b>Total</b>	<b>32.3</b>

**Total number of investments 69**

All sources (unless indicated): abrdrn: 31 August 2023.



## 1 Year Premium/Discount Chart (%)



## Fund managers' report

Equities in Japan proved more resilient than most stock markets elsewhere in August. Small caps outperformed large caps, with the MSCI Japan Index flat for the month, while the MSCI Japan Small Cap Index rose by 1.77% (total returns in yen terms). This came amid widespread falls in most other global markets, as investors were concerned that central banks could raise rates further as the US economy has shown resilience. Also weighing on sentiment was the increasing weakness in Chinese data, particularly in the property sector.

In central bank news, Bank of Japan Governor Kazuo Ueda said the bank will maintain its ultra-easy monetary policy at the Jackson Hole central bank summit. Ueda said the longer-term forecast for inflation remained below targets. Core consumer inflation hit an annualised 3.1% in July, down from 3.3% in June due to lower utility bills. The yen weakened, with the US dollar finishing at ¥145. Finance Minister Shunichi Suzuki was questioned on the yen's weakness, but stated there was no absolute level for intervention in the currency market. The au Jibun Bank Flash Japan Composite Purchasing Managers' Index showed some improvement across the board in August.

End-June results continued to suggest recovery of domestic tourism and inbound traffic following relaxation of Covid-related control measures earlier this year. Discount store operator Pan Pacific International Holdings reported better-than-expected results on the back of reopening-related demand and a rise in duty-free sales, which recovered to pre-Covid levels in June. Leasing company Tokyo Century's rental car business earnings exceeded expectations, helped by a volume recovery and price increases. Real estate developer Mitsui Fudosan's results were buoyed by a recovery in traffic at its commercial, leisure and sports facilities while Tokyu Fudosan reported firm results led by asset sales gains and the leisure business. While there are market concerns over rising office vacancy rates, we believe that the demand remains firm for high grade offices such as those owned by Tokyu Fudosan as corporates look for ways to attract talent and to adopt to changing workstyles. This is evident from the company's office and commercial facility vacancy rates that stood at 1.6% as of end-June, trending well below the market's.

Meanwhile, earnings of corporates selling discretionary goods suggest that the recovery of end demand remains slow in some areas. These include piano maker Yamaha that reported weaker-than-expected results and downgraded its full-year guidance owing to the ongoing inventory correction and weak demand, especially for entry-level models. Sony also lowered its full-year earnings forecast for its image sensor business due to weak smartphone sales in China. However, we were

## Fund managers' report continues overleaf

<sup>©</sup> Expressed as a percentage of average daily net assets for the year ended 31 March 2023. The Ongoing Charges Figure (OCF) is the overall cost shown as a percentage of the value of the assets of the Company. It is made up of the Annual Management Fee and other charges. It does not include any costs associated with buying shares in the Company or the cost of buying and selling stocks within the Company. The OCF can help you compare the annual operating expenses of different Companies.

<sup>©</sup> Net gearing is defined as a percentage, with net debt (total debt less cash/cash equivalents) divided by shareholders' funds.

<sup>©</sup> The 'Active Share' percentage is a measure used to describe what proportion of the Company's holdings differ from the benchmark index holdings.

## Sector allocation (%)

	Trust	Benchmark
Industrials	23.0	24.6
Information Technology	20.0	13.2
Consumer Discretionary	15.0	18.4
Consumer Staples	12.1	7.0
Financials	10.3	11.3
Health Care	8.5	8.0
Materials	6.0	5.8
Real Estate	2.8	2.0
Communication Services	2.2	7.4
Energy	-	0.9
Utilities	-	1.4
Cash	0.1	-
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

## Fund risk statistics

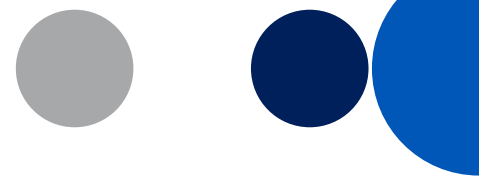
	3 Years	5 Years
Annualised Standard Deviation of Fund	13.04	13.99
Beta	1.10	1.07
Sharpe Ratio	(0.07)	0.07
Annualised Tracking Error	4.87	4.91
Annualised Information Ratio	(1.07)	(0.25)
R-Squared	0.87	0.88

Source: abrdn & Factset.  
Basis: Total Return, Gross of Fees, GBP.  
Please note that risk analytics figures are calculated on gross returns whereas the performance figures are based on net asset value (NAV) returns. In addition, the risk analytics figures lag the performance figures by a month.

## Key information

### Calendar

Year end	31 March
Accounts published	June
Annual General Meeting	July
Dividend paid	December and July
Launch date	October 1998
Fund manager	Japanese Equities Team
Ongoing charges <sup>©</sup>	1.17%
Annual management fee	0.75% of the lower of net assets and market capitalisation
Premium/(Discount)	(5.1)%
Historic yield	1.9%
Net gearing <sup>©</sup>	10.8%
Active share <sup>©</sup>	71.1%



## Fund managers' report – continued

encouraged to hear that the trend of larger image sensors is becoming more visible not just for high-end smartphones but also for mid to low-end models as camera becomes an increasingly important point of differentiation for smartphone brands.

Elsewhere, we continued to observe headwinds easing in areas that have been affected by cost inflation and supply chain issues. Toyota Motor reported record earnings for the end-June quarter as higher prices and production recovery helped absorb higher raw material costs. Improving automotive production coupled with price increases led to better-than-expected results at Kansai Paint. Machine tool maker Amada's results also beat expectations thanks to cost pass-throughs and easing component shortages. We believe that the company's direct sales and service model positions them well to capture machine tool demand supported by onshoring in the US and Europe as well as decarbonisation and labour-saving needs within the supply chain.

### Portfolio Moves

During the month, we initiated positions in toiletries and cosmetics maker Kao, pneumatic equipment maker SMC and airline ANA Holdings. We exited our position in component maker Nabtesco to fund the initiations. Kao is the leading maker of personal care, laundry and cleaning products. While Kao has a strong presence in Japan, its returns have fallen over the years amid rising competition and weak consumption in the domestic market. We initiated a position in the stock as we sense the management's willingness to conduct drastic restructuring to improve the company's profitability. At its end-June quarter results, the company announced it will conduct a strategic review and reorganisation of inefficient businesses. It has already booked a structural reform expense for this fiscal year, made the decision to end in-house production of baby diapers in China, and introduced a company-wide ROIC (return on invested capital) target. SMC is the world's largest pneumatic equipment maker that has continued to gain share by leveraging on its stable supply, short lead time and 500 local sales and service locations in over 80 countries to meet customer demand in a timely manner. The stock fell on recent results which showed a near-term slowdown in key end markets such as semiconductors and electronics, enabling us to initiate a position at attractive valuations. Despite being a latecomer, ANA has become the largest airline in Japan by adroitly navigating the economic cycles and investing in brand building and route network over the years. The management team successfully overcame the challenging period during the pandemic by flexible cost management and expansion of the cargo business. We expect the yield to remain above pre-Covid levels due to passenger demand recovery and continued supply-side constraints within the industry.

### Outlook

Global economic growth is moderating, as major central banks retain their tight monetary policy stance amid still-high inflation. This comes alongside a more pronounced economic slowdown in China. In contrast, Japan's central bank has retained its ultra-loose monetary policy, and while Japan's economy appears resilient on stronger exports, there is concern among policymakers of still-fragile domestic conditions. For Japanese corporates, this translates into a still-resilient domestic outlook, even as higher prices are becoming more entrenched. This is offset by a slowdown in the demand for capital equipment amid subdued global economic growth, although corporates with overseas operations are being buffered by a weaker yen.

Despite this mixed outlook, what is encouraging is that Japanese corporates continue to place a strong emphasis on profitability, alongside the return of excess capital to shareholders. Increasingly, companies have embraced measures such as return on invested capital and return on equity, and they have been divesting assets that do not meet their hurdle rates. Companies are also setting targets on reducing cross shareholdings and using the proceeds to reinvest in their businesses or reward their shareholders. Alongside a backdrop of weaker growth, we believe it is important to focus on companies with firm fundamentals that are also embracing these changes, which will allow them to better tackle this challenging period and, over time, outperform their peers.

**The risk outlined overleaf relating to gearing and exchange rate movements are particularly relevant to this trust but should be read in conjunction with all warnings and comments given.**  
**Important information overleaf**

### AIFMD Leverage Limits

Gross Notional	2.5x
Commitment	2x

### Assets/Debt (£m)

Gross assets	93.7
Debt	9.2
Cash & cash equivalents	0.1

### Capital structure

Ordinary shares	12,432,024
Treasury shares	3,389,548

### Allocation of management fees and finance costs

Capital	60%
Revenue	40%

### Trading details

Reuters/Epic/Bloomberg code	AJIT
ISIN code	GB0003920757
Sedol code	0392075
Stockbrokers	Shore Capital
Market makers	CFEP, INV, JPMS, STFL, SCAP, WINS



### Factsheet

Receive the factsheet by email as soon as it is available by registering at [www.invt trusts.co.uk/signup](http://www.invt trusts.co.uk/signup) or [www.aberdeenjapan.co.uk](http://www.aberdeenjapan.co.uk)



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## Important information

### Risk factors you should consider prior to investing:

- The value of investments, and the income from them, can go down as well as up and investors may get back less than the amount invested.
- Past performance is not a guide to future results.
- Investment in the Company may not be appropriate for investors who plan to withdraw their money within 5 years.
- The Company may borrow to finance further investment (gearing). The use of gearing is likely to lead to volatility in the Net Asset Value (NAV) meaning that any movement in the value of the company's assets will result in a magnified movement in the NAV.
- The Company may accumulate investment positions which represent more than normal trading volumes which may make it difficult to realise investments and may lead to volatility in the market price of the Company's shares.
- The Company may charge expenses to capital which may erode the capital value of the investment.
- Derivatives may be used, subject to restrictions set out for the Company, in order to manage risk and generate income. The market in derivatives can be volatile and there is a higher than average risk of loss.
- Movements in exchange rates will impact on both the level of income received and the capital value of your investment.
- There is no guarantee that the market price of the Company's shares will fully reflect their underlying Net Asset Value.
- As with all stock exchange investments the value of the Company's shares purchased will immediately fall by the difference between the buying and selling prices, the bid-offer spread. If trading volumes fall, the bid-offer spread can widen.
- Yields are estimated figures and may fluctuate, there are no guarantees that future dividends will match or exceed historic dividends and certain investors may be subject to further tax on dividends.

### Other important information:

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