# abrdn Japan Investment Trust plc

## Half Yearly Report 30 September 2022

Japan specialists identifying exceptional companies

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# Contents



"The Board has declared an interim dividend of 5.0p for the year ending 31 March 2023 (2022 – 6.0p) which will be paid to shareholders on 29 December 2022."

**Karen Brade, Chairman**

# Performance Highlights

## Net asset value total return[A]
Six months to 30 September 2022

**–7.5%**

Six months to 30 September 2021: +10.1%

## Index total return
Six months to 30 September 2022

**–5.5%**

Six months to 30 September 2021: +6.4%

## Share price total return[A]
Six months to 30 September 2022

**–14.3%**

Six months to 30 September 2021: +12.1%

## Ongoing charges ratio [A]
Six months to 30 September 2022

**1.20%**

Year to 31 March 2022: 1.00%

## Discount to net asset value[A]
As at 30 September 2022

**17.8%**

As at 31 March 2022: 11.0%

## Dividend per share
Six months to 30 September 2022

**5.00p**

Six months to 30 September 2021: 6.00p

[A] Considered to be an Alternative Performance Measure. Further details can be found on pages 28 and 29.

## Performance (total return)

| | Six months ended 30 Sept 2022 | Year ended 30 Sept 2022 | Three years ended 30 Sept 2022 | Five years ended 30 Sept 2022 |
|---|---|---|---|---|
| Share price[B] | **–14.3%** | –31.9% | –5.2% | +3.4% |
| Net asset value per Ordinary share[B] | **–7.5%** | –24.3% | +1.6% | +9.1% |
| Index[C] | **–5.5%** | –13.5% | +2.4% | +15.3% |

[A] Total return represents capital return plus dividends reinvested.
[B] Share price total return and NAV total return are considered to be Alternative Performance Measures. Further details can be found on page 29.
[C] Index represents the Tokyo Stock Price Index, commonly known as TOPIX, a market capitalisation weighted index of all companies listed on the First Section of the Tokyo Stock Exchange, in sterling terms.

# Financial Calendar, Dividends and Highlights

## Financial Calendar

| | |
|---|---|
| Payment dates of dividends | **December 2022**<br>**July 2023** |
| Financial year end | **31 March 2023** |
| Expected announcement of results for year ended 31 March 2023 | **May 2023** |
| Annual General Meeting (London) | **July 2023** |

## Financial Highlights

| | As at 30 September 2022 | As at 31 March 2022 | Change % |
|---|---|---|---|
| Total assets (£'000)[A] | **92,234** | 100,564 | –8.3% |
| Total equity shareholders' funds (£'000) | **81,715** | 89,930 | –9.1% |
| Market capitalisation (£'000) | **67,196** | 80,043 | –16.1% |
| Net asset value per Ordinary share | **650.6p** | 713.4p | –8.8% |
| Share price (mid-market) | **535.0p** | 635.0p | –15.7% |
| Discount to net asset value per Ordinary share[B] | **17.8%** | 11.0% | |
| Net gearing[B] | **12.2%** | 11.4% | |
| Ongoing charges[B] | **1.20%** | 1.00% | |

[A] Excludes foreign currency bank loans of £10,519,000 (31 March 2022 – £10,634,000).
[B] Considered to be an Alternative Performance Measure. Further details can be found on pages 28 and 29.

| | Six months ended 30 September 2022 | Six months ended 30 September 2021 | % change |
|---|---|---|---|
| Revenue return per Ordinary share | **3.19p** | 3.42p | –6.5 |
| Interim dividend | **5.00p** | 6.00p | –16.7 |

“Even in this complex operating environment for Japanese companies, results over the last six months have shown that better-run companies are presenting more optimistic outlooks, protecting their profitability, and reacting well to the challenges presented to them.”

Karen Brade, Chairman

# Chairman's Statement

## Performance

Rising inflation and muted growth expectations meant that the six month period to 30 September 2022 was something of an uphill struggle for Japanese equities. The TOPIX index ended down 5.5% and, with rising interest rates and weaker investment sentiment globally, the quality companies favoured by your Manager underperformed. The Company's net asset value (NAV) total return was -7.5 % during the period, while the share price closed at 535.0p.

Inflation in Japan is still relatively low compared with the global picture and unlike other major central banks, the Bank of Japan's ("BoJ") policy objective over the past decade has been to inject some modest inflation into the system to stimulate economic growth. However, despite inflationary expectations reaching their highest level since 2008 (3% year-on-year), the BoJ has refrained from intervening and Governor Kuroda has taken the view that inflation is primarily imported through energy costs and, due to weak underlying demand, is in danger of falling back to lower levels in the next fiscal year. This looser monetary policy has led to an increasingly weak currency. During the period the Yen fell to its lowest level against the US dollar in more than 30 years causing prices of imported goods and energy to rise even further. At this point the BoJ stepped in, buying Yen to support the currency, the first time this has happened since the Asian financial crisis in 1998. However, while the Yen was very weak against the US dollar, rising briefly above ¥150, it should be noted that it was relatively stable against sterling, which has suffered from its own well documented domestic headwinds over the period.

Even in this complex operating environment for Japanese companies, results over the last six months have shown that better-run companies are presenting more optimistic outlooks, protecting their profitability, and reacting well to the challenges presented to them. Rising input costs have proved challenging but businesses with pricing power have been able to maintain their margins despite sharply rising prices. It is also notable that share buybacks increased significantly over the period, rising to US$32 billion, the highest levels in 16 years. With dividend payments also increasing, this suggests that companies that have excess capital are actively returning that to shareholders.

Markets over the period essentially focused on the macro and overlooked the micro. Businesses that were positively leveraged to rising inflation or commodity prices have seen their share prices rise. Sectors that were beneficial for the Company included consumer staples and financial sectors. On the other hand, companies that were hurt by rising input prices have been more at risk. Sectors within the portfolio that were weaker over the six months included materials and consumer discretionary.

In such a macro-driven market, and with signs of slowing growth and potential weakening demand, your Manager has taken a very cautious approach to the portfolio, seeking to ensure that the companies in which they invest are resilient to the macro backdrop, while reducing exposure to those with a weaker outlook, such as technology companies. More details regarding the performance and positioning at a company level can be found in the Manager's review that follows.

## Environmental, Social & Corporate Governance ("ESG")

ESG continues to be an important consideration in your Manager's investment process and the Board is encouraged by some notable movements relating to corporate governance in Japan. Over the period, Japan's Ministry of Economy, Trade and Industry released the fifth iteration of the Ito Report, first published in 2014, which encourages investors' engagement with corporates to drive improvement in shareholder returns. The pace of corporate reform after the first report, alongside the publishing of Japan's Corporate Governance Code, disappointed investors, but tangible evidence of changing mindsets amongst Japanese corporations has been witnessed in recent years.

The most recent iteration suggests a focus on sustainability, encouraging continued corporate reforms and further engagement between investors and corporates. While the report is not legally binding, it does encourage Japanese companies to improve and highlights that value can be unlocked through investor engagement, which your Manager undertakes regularly.

Another area of encouraging news was the higher number of companies increasing the ratio of independent or external directors on their boards. Although the ratio is still lower than in other developed markets, it is now just over 40%, a stark difference to that of a decade ago when the ratio was less than 10%.

You can read more about your Manager's ESG engagement and activity in the Manager's Review.

## Dividend

A final dividend of 9.0p per Ordinary share in respect of the year ended 31 March 2022 was paid to shareholders on 22 July 2022, making a total dividend for the year of 15.0p (2021 – 15.0p). The revenue return per Ordinary share over the six month period to 30 September 2022 fell to 3.19p (2021 – 3.42p) and therefore the Board has declared an interim dividend of 5.0p for the year ending 31 March 2023 (2022 – 6.0p) which will be paid to shareholders on 29 December 2022. The record date is 2 December 2022 with an ex-dividend date of 1 December 2022.

## Gearing

The Board believes that the potential to gear the portfolio at the right time is one of the great advantages of the closed ended company structure, with the sensible use of modest financial gearing seeking to enhance returns to shareholders.

The Board considers a gearing level of around 10% to be appropriate although, with stock market fluctuations, this may range between 5-15%. Net gearing as at 30 September 2022 was 12.1% (31 March 2022 – 11.4%).

The Company currently has a Yen 1.3 billion fixed term facility, which expires in January 2023, and a Yen 1.0 billion floating rate facility, expiring in December 2024, both with ING Bank. The Company's gearing options are being considered carefully by the Board sufficiently in advance of the maturity of the current fixed term loan facility in January 2023.

## Discount and Share Buybacks

The Board regularly monitors the discount level of the Company's shares in relation to the NAV. There is a process in place to buy back shares at appropriate levels when to do so will add value for shareholders. However, during the six-month period to 30 September 2022, the Company did not undertake any share buybacks. At the time of writing the Company's discount to NAV (including income) is 13.0%. The Board and the Manager will continue to monitor the Company's discount carefully and take appropriate action when it believes it is in the best interests of shareholders to do so.

## The Company's External Auditor

The Board has been monitoring the general trend of rising audit fees across the industry and has recently completed a successful audit tender. KPMG LLP ("KPMG") were initially appointed as auditor in respect of the financial year ended 31 March 2016 for a period of ten years. Following a discussion with KPMG about future fee increases, in the best interests of shareholders the Board took the decision to undertake an early audit tender in which KPMG did not participate. KPMG therefore resigned as the Company's external audit firm on 15 November 2022. The tender process was competitive and successful, with Johnston Carmichael appointed to undertake the Company's audit for the year ending 31 March 2023. The appointment of Johnston Carmichael as auditor will be recommended by the Board to shareholders at the earliest opportunity which will be the Company's Annual General Meeting to be held in July 2023. On behalf of the Company, the Board would like to thank KPMG LLP for their professional support and diligent service throughout their appointment.

### Outlook

The Board continues to be optimistic for Japan's equity market for the longer term. No country is wholly immune to geo-political tensions, and Japan itself suffered an uncharacteristic and shocking act of political violence in July with the assassination of former Prime Minister Abe, apparently by an individual with a grievance. But Japan's politics and economic policy framework remain stable.

This time last year, I highlighted that factors such as rising inflation rates could affect Japanese companies and this has unfortunately proved to be the case. However, we continue to believe that the Manager's Tokyo-based team and its bottom-up investment process which provides a portfolio of well-run businesses, with healthy balance sheets, and ample free cash flow, means that the Company is well positioned to cope with the current challenges being presented. Your locally based manager has a strong focus on companies that are able to thrive, regardless of external pressures faced, having built dominant positions in their own fields, often with global footprints.

Despite signs of slowing growth in Japan and weaker discretionary consumer spending, the long-term structural growth opportunities remain intact for the companies favoured by your Manager. These include secular growth trends arising from the rise of the digital economy, the growing move toward energy efficiency, technological advances in healthcare, and Asia's burgeoning middle class. Combined with ESG factors, which are becoming ever more important, your Manager's ESG focus, at the core of its investment process, should ensure shareholders own a portfolio that is sustainable over the long term with every opportunity for growth.

**Karen Brade**
Chairman
16 November 2022

# Other Matters

## Principal Risks and Uncertainties

The Board has in place a robust process to identify, assess and monitor the principal risks and uncertainties facing the Company and to identify and evaluate newly emerging risks. The Company's risks are regularly assessed by the Audit Committee and managed by the Board through the adoption of a risk matrix which identifies the key risks for the Company, including emerging risks, and covers strategy, investment management, operations, shareholders, regulatory and financial obligations and third party service providers. The Board believes that the Company is well prepared to mitigate short term operational risks through the internal controls of the Manager and Depositary. Analysis and mitigation of other longer term and more strategic risks are managed by the Board.

The principal risks and uncertainties facing the Company have been identified as follows:

- Market, economic and political risk
- Investment strategy risk
- Investment management risk
- Operational risk
- Regulatory risk
- Share price and discount risk
- Leverage risk
- Pandemic risk
- ESG risks

Further details of these risks are provided on pages 16 to 17 of the 2022 Annual Report and Accounts which is available on the Company's website: **abrdnjapan.co.uk.**

The Board monitors these principal risks closely and has a process to identify and assess emerging risks, such as climate change and geopolitical developments.

The increasing political and economic uncertainty that has been affecting markets, particularly in reaction to higher interest rates and the volatility associated with Russia's invasion of Ukraine received notable focus in the reporting period, as did the ongoing impact of the Covid-19 pandemic, particularly on supply chains.

The Board is aware of the elevated threat posed by climate change and continues to monitor, through the Investment Manager, the potential risk that the companies in the portfolio may fail to adapt to changes in policy and regulation.

In all other respects, the Company's principal risks and uncertainties have not changed materially since the publication of the 2022 Annual Report and Accounts, nor are they expected to change in the second half of the financial year ending 31 March 2023.

## Related Party Transactions

Any related party transactions during the period are disclosed in the Notes to the Financial Statements. There have been no related party transactions that have had a material effect on the financial position of the Company during the period.

## Going Concern

In accordance with the Financial Reporting Council's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting, the Directors have undertaken a rigorous review and consider that there are no material uncertainties and that the adoption of the going concern basis of accounting is appropriate.

The Company's assets consist of equity shares in companies listed on the Tokyo Stock Exchange and in most circumstances are realisable within a short timescale.

# Other Matters

## Continued

The Company has a fixed term loan facility of JPY 1.3 billion which expires in January 2023 and a revolving loan facility of JPY 1.0 billion expiring in December 2023. The Board has set limits for borrowing and regularly reviews the Company's gearing levels and its compliance with bank covenants. Initial discussions with banks have commenced with a view to renewing the fixed term loan facility.

The Board has a reasonable expectation that the Company has adequate financial resources to continue its operational existence for the foreseeable future and the ability to meet all its liabilities and ongoing expenses from its assets. Given that the Company's portfolio comprises "Level One" assets (listed on a recognisable exchange and realisable within a short timescale), and the Company's relatively low level of gearing, the Directors believe that adopting a going concern basis of accounting remains appropriate.

Accordingly, the Board continues to adopt the going concern basis in preparing the financial statements.

### Directors' Responsibility Statement

The Directors are responsible for preparing the Half Yearly Financial Report in accordance with applicable laws and regulations. The Directors confirm that to the best of their knowledge:

- the condensed set of Financial Statements has been prepared in accordance with Financial Reporting Standard 104 (Interim Financial Reporting);
- the Half Yearly Financial Report includes a fair review of the information required by rule 4.2.7R of the Disclosure Guidance and Transparency Rules (being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of Financial Statements and a description of the principal risks and uncertainties for the remaining six months of the financial year); and
- the financial statements include a fair review of the information required by 4.2.8R (being related party transactions that have taken place during the first six months of the financial year and that have materially affected the financial position of the Company during that period; and any changes in the related party transactions described in the last Annual Report that could do so).

The Half Yearly Financial Report for the six months ended 30 September 2022 comprises the Half Yearly Board Report, which consists of the Chairman's Statement, Investment Manager's Review and Other Matters (including the Directors' Responsibility Statement), and the condensed set of financial statements which has not been reviewed or audited by the Company's Auditor.

**Karen Brade,**
Chairman
16 November 2022

# Investment Manager's Review

## Overview

Japanese equities, represented by the Topix Index, fell over the six-month period to 30 September 2022, in what was a volatile period for equities globally. Investors worldwide have been concerned about rising inflation and the economic fallout from the actions of central banks in trying to manage the impact of this. Much of the pressure has been international, with particular concerns that interest rate increases initiated by the US Federal Reserve, against a backdrop of record high inflation and labour shortages, could lead to a US recession.

In terms of monetary tightening, Japan has generally bucked the trend. The Bank of Japan ("BoJ") held interest rates throughout the period, reiterating its intention to keep rates low until inflation is 'sustainably above' its target range of greater than 2%. Meanwhile, domestic core consumer inflation hit 3.0% in September, an eight-year high, marking the sixth month in a row that it has been above the central bank's target. However, BoJ Governor Haruhiko Kuroda suggests that Japan's inflation is mostly imported, and that the rate is expected to fall below the target range by next year. The BoJ's strategy sits in contrast with other developed economies, in a month where the major developed-market central banks all raised policy rates aggressively. The yen continued its slide against the US dollar, rising briefly above ¥150 – a 32-year low – in October and again prompting Japan's Ministry of Finance to support the currency.

For the most part, corporate results published throughout the period have shown resilience against a difficult economic backdrop. Inflation, rising materials costs and supply-chain issues are still a feature for many companies. However, better quality companies, such as those held in the Company's portfolio, have been able to present a more optimistic outlook than investors expected by maintaining margins through more aggressive price increases thanks to their pricing power. Corporate earnings for the quarter ended 30 June 2022 suggest that the economic slowdown remained shallow, even as companies remain cautious on the outlook. Component shortages were still widespread and rising input costs were a headwind. The BoJ's Tankan survey of business conditions, published just after the end of the period, showed that manufacturing sentiment had deteriorated, although the non-manufacturing index came out ahead of forecasts. Flash purchasing managers index data showed an overall expansion in manufacturing during the period under review, until it contracted in September.

## Portfolio review

The Company's NAV decreased by 7.5% in sterling total return terms over the period, while the benchmark Topix index fell 5.5%. Our stock choices underperformed the broader market over the period, due to concerns that rising inflation, and subsequently, higher interest rates would lower the profitability and longer-term growth outlook for our holdings. While these concerns are certainly headwinds for many businesses, the good management teams, strong market positions and resilient balance sheets of the Company's holdings should allow them to navigate these difficult economic conditions. We continue to believe that our investment approach will outperform over a market cycle, especially in periods where company fundamentals are being rewarded. We recognise that our bottom-up approach may lead to periods of underperformance; however, our goal remains to deliver outperformance over the medium to long-term through adherence to our core investment principles.

While inflation has impacted Japan less than many other developed economies, many businesses are feeling the impact along their supply chains. However, this has presented an opportunity for companies which are able to pass on price rises to their customers. One such is **Asahi Group**, the brewer, which implemented its first price hike in 14 years. Medical-equipment maker **Olympus** and seasonings producer **Ajinomoto** have also been able to pass on higher input costs thanks to their pricing power. Despite the increasingly challenging economic outlook, many companies have indicated that their business outlooks are quite stable, and many have increased their levels of share buybacks, helping to underpin share prices. Overall, companies in the TOPIX index have increased buybacks by 45% over the year to date, compared with last year.

The biggest detractor from the Company's performance was **ValueCommerce.** The stock declined on investor concerns that the growth of the mainstay EC Solutions business is slowing. **Shin-Etsu Chemical** has also struggled this year, with investors fearing a slowing economy and peaking demand for polyvinyl chloride used in housing. Similarly, healthcare and semiconductor equipment maker **JEOL**, fell as investors have grown concerned over falling demand for its scientific instruments for semiconductor applications.

# Investment Manager's Review

## Continued

In contrast, **Tokio Marine** was one of the best performers, as the stock rose after the announcement of multiple share buybacks over the period. Civil engineering firm **Sho-Bond** also rose on investor expectations that government spending on the maintenance of Japan's ageing infrastructure would remain high. The Company also benefitted from its holding in real estate developer, **Tokyu Fudosan**, which rose on the back of consecutive good results and investor expectations that the company will continue to make progress on divesting its lower quality assets.

Trading activity for the portfolio during the period has involved buying stocks which offer good potential for upside in the current economic environment, such as the convenience shop chain **Seven & i.** Your Manager believes that the market underestimates the potential for meaningful restructuring of its domestic businesses and, also, expects the overseas convenience store business to drive long-term growth. In the large cap space, **Olympus and Nomura Research Institute ("NRI")** were added. Olympus is the leader in gastrointestinal endoscopes with more than 70% global market share. The company has maintained its market share through product improvements and extensive infrastructure investment in its service centres and training centres, building user loyalty and discouraging switches to competitor products. The company has implemented restructuring measures to focus on the core medical technology business and to improve overall profitability. NRI is Japan's leading system integrator. Your Manager believes that investment in technology by Japanese large corporates will remain firm, regardless of the economic outlook, and NRI has a track record of providing added value solutions. NRI's vertically integrated business model also gives it a meaningful advantage, as the company's consulting arm can funnel potential mandates to its system integration business. In addition, the company provides high-margin shared online services for financial institutions, generating stable earnings.

Positions in small cap companies **Katitas** and **Direct Marketing Mix** were also initiated in the period. Katitas is the largest domestic company selling remodelled properties. The company uses its scale to procure properties at discounts, using its expertise in procurement, remodelling and pricing to put good quality homes back to the market at affordable levels. Direct Marketing Mix provides telemarketing and consulting services to help telecom and utility companies acquire new customers in a more cost-effective manner than through their bricks-and-mortar store network. Your Manager took advantage of market volatility to initiate these stocks at attractive prices.

To fund these purchases, the portfolio's position in electronics components supplier**, Murata Manufacturing**, and semiconductor maker, **Sanken Electric**, were sold in favour of these better opportunities elsewhere. The holding in pathology laboratory operator **BML**, was also exited. This was a small holding which had benefitted from the rise in testing over the Covid-19 pandemic. With the impact of the pandemic waning, we saw more limited potential for upside.

### Environmental, social and governance ("ESG")

Human resources technology service provider **Recruit Holdings** continues to make strides in its governance. Since 2019, when we started engaging with the company on its board structure and other ESG issues, the company has maintained an open conversation with us about its initiatives. Most recently, the company appointed an outside director that can help in addressing legal risks for the company, an issue of growing importance as the company expands its business globally. In addition, the company continues to make efforts in reducing Scope 3 emissions to help achieve its 2030 target for carbon neutrality, after already achieving carbon neutrality in Scope 1 and 2 emissions.

We encouraged air conditioning **manufacturer Daikin Industries** to review the gender diversity of its board – there is one woman in a board of eleven directors – with a view that a more balanced composition is more appropriate for a company of its scale and reach. We also approached credit guarantee company **Zenkoku Hosho** to commend its improved disclosure on performance indicators for ESG issues, as well as taking a further step by disclosing targets for these indicators. In addition, with the company expected to announce its new medium-term plan in March, we suggested that the management team could announce a more coherent capital management policy based on a reasonable and singular capital adequacy target. Lastly, we reiterated the need for management to disclose capital budgets and timelines for growth initiatives, and also to be disciplined on capital efficiency in order to sustain its high return profile and, thus, shareholder value.

We were encouraged by news that speciality chemical and glass maker **AGC** will introduce a new low-carbon glass range in Europe, which is made possible by their recently upgraded furnaces. Earlier this year, the company had set a new Scope 3 target to reduce greenhouse gas emissions from activities related to assets they do not directly own. AGC's eco glass products will also help to lower energy consumption, resulting in a positive impact for the environment.

Real estate developer **Tokyu Fudosan Holdings'** efforts to focus more on use of its capital led to a write-down and likely sale of properties that are generating lower returns. This announcement follows its recent sale of its DIY retail chain Tokyu Hands, which was also showing low profitability. These efforts should free up resources for the company to redevelop its key properties in Shibuya, where substantial value can be unlocked.

## Outlook

The impact of the economic slowdown has been increasingly visible, particularly in weakening discretionary consumption, and there are rising concerns of higher inventory levels across several industries. The BoJ again held rates at its October meeting. Food and fuel prices are the largest driver of rising prices. BoJ governor Kuroda acknowledged that Japan was making some progress, with wages likely to rise in the next year, but inflation is still likely to fall short of 2% over the longer term. The 10-year government bond yield fell after the announcement and the dovish policy continues to have an impact on exchange rates. Late in October, prime minister Kishida announced an extra economic stimulus package, valued at ¥29.1 trillion (US$199 billion). The plan is aimed at helping to support growth and lessen the impact of inflation. This will include energy subsidies for individuals and businesses, with global oil prices rising over the month. Notwithstanding, there are areas where we expect spending to remain firm, such as healthcare, the digitisation of corporates and companies that tackle the rising cost of energy.

With this backdrop, we are selectively working on opportunities, and resizing positions, to ensure that the Company's holdings are resilient in this economic environment. We remain convinced that investment in companies with strong management with experience of varied economic cycles, robust balance sheets and companies with pricing power able to pass on increasing costs will deliver healthy returns over the medium to long term.

**Kwok Chern-Yeh & Hisashi Arakawa,**
**abrdn Japan Limited**
16 November 2022

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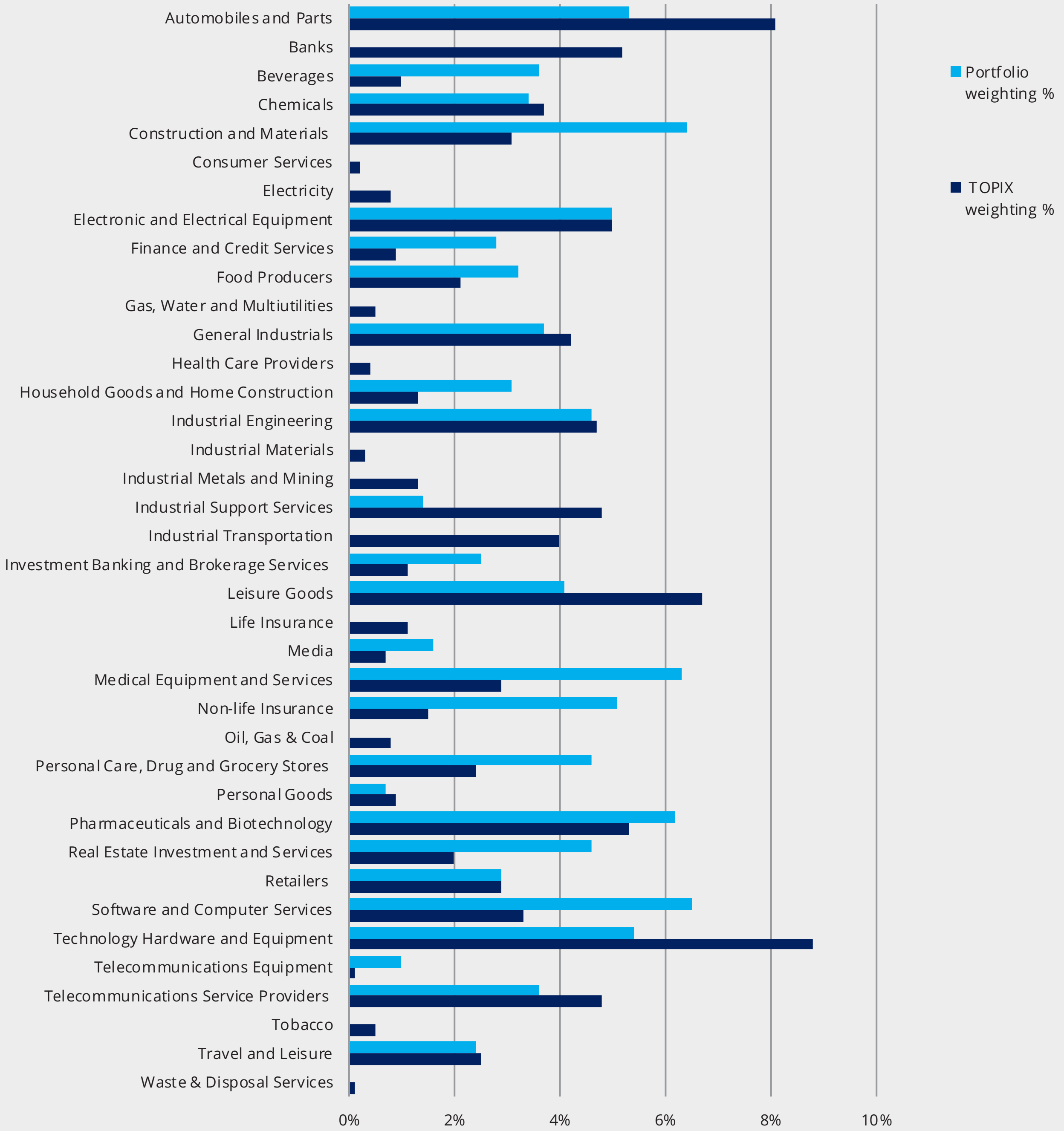
# Sector Analysis

## As at 30 September 2022



# Ten Largest Investments

## As at 30 September 2022

**6.0%**
Total assets

**Tokio Marine Holdings, Inc.**
Tokio Marine is the most progressive of the three largest local property and casualty insurers. Of note is its positive view on shareholder returns, which we expect will grow gradually as it makes further inroads abroad that add value to its business.

**4.4%**
Total assets

**Tokyu Fudosan Holdings**
After several years of investment, Tokyu Fudosan, a real estate developer affiliated with railway operator Tokyu Corp, stands to gain from several re-development projects in Tokyo's Shibuya district, which will help improve its earnings and profitability in the medium term.

**4.3%**
Total assets

**Sho-Bond Holdings Company**
Sho-Bond is a specialised contractor of bridges, tunnels and roads, that will benefit from projects related to Japan's ageing infrastructure. We believe that management is progressive and the company has a strong balance sheet and improving fundamentals.

**4.0%**
Total assets

**Sony Group Corp.**
The electronics giant has a dominant market share in the image sensor and video games segments. The company has been able to leverage on these and its other distinct businesses - particularly in music, TV and motion pictures - to collectively create greater value.

**4.0%**
Total assets

**Ajinomoto**
Ajinomoto is Japan's largest producer of seasonings. The firm has a strong sales network of its own, develops and markets seasonings suited to local tastes, and holds a high market share in every region that it operates in.

**3.6%**
Total assets

**Toyota Motor Corporation**
The automaker has continued to gain market share and post strong profitability, despite a challenging operating environment in the last year. In the medium to longer term, the company's focus on research and technology places it ahead of many peers in the areas of autonomous driving, connectivity, sharing and subscription services, and electrification.

**3.1%**
Total assets

**Asahi Group Holdings**
Japan's largest brewer is well positioned to achieve growth through premiumisation, cost synergies and cross-selling between different brands and geographies. In addition to its leading market share in Japan, the company has a strong presence in Europe and Australia, a result of acquisitions made in recent years.

**2.7%**
Total assets

**KDDI Corporation**
KDDI stands out among the telecom incumbents for its approach to growth and shareholder returns. Its stable user base helps drive earnings, and by bundling telecoms and non-telecoms services, KDDI has a good record of enhancing revenue while lowering customer churn.

**2.7%**
Total assets

**Welcia Holdings Company**
Welcia is the leading drugstore operator in Japan, which stands out in its mix of "convenience plus dispensing". We are positive about long term prospects based on its ability to cross sell between product categories and its strength in dispensing, which is a structural growth area.

**2.7%**
Total assets

**Keyence Corporation**
Keyence runs an efficient direct sales organisation that develops and manufactures sensors, vision systems, barcode readers, and laser makers, amongst other factory automation equipment, across the world. The company has a cash generative business and is backed by a strong balance sheet and technical expertise.

# Investment Portfolio

## As at 30 September 2022

| Company | Sector | Valuation £'000 | Total assets % |
|---|---|---|---|
| Tokio Marine Holdings, Inc. | Non-life Insurance | 4,636 | 5.0 |
| Tokyu Fudosan Holdings | Real Estate Investment and Services | 3,713 | 4.0 |
| Sho-Bond Holdings Company | Construction and Materials | 3,103 | 3.4 |
| Sony Group Corp. | Leisure Goods | 3,005 | 3.3 |
| Ajinomoto | Food Producers | 2,927 | 3.2 |
| Toyota Motor Corporation | Automobiles and Parts | 2,862 | 3.1 |
| Asahi Group Holdings | Beverages | 2,853 | 3.1 |
| KDDI Corporation | Telecommunications Service Providers | 2,824 | 3.0 |
| Welcia Holdings Company | Personal Care, Drug and Grocery Stores | 2,738 | 3.0 |
| Keyence Corporation | Electronic and Electrical Equipment | 2,725 | 2.9 |
| **Top ten investments** | | **31,386** | **34.0** |
| Chugai Pharmaceutical Company | Pharmaceuticals and Biotechnology | 2,553 | 2.8 |
| Daikin Industries | Construction and Materials | 2,375 | 2.6 |
| Misumi Group | Industrial Engineering | 2,308 | 2.5 |
| Olympus Corporation | Medical Equipment and Services | 2,275 | 2.5 |
| Resorttrust | Travel and Leisure | 2,165 | 2.3 |
| Shin-Etsu Chemical Company | Chemicals | 1,901 | 2.0 |
| Nippon Paint Holdings Company | General Industrials | 1,620 | 1.8 |
| Denso Corporation | Automobiles and Parts | 1,578 | 1.7 |
| Milbon Company | Personal Care, Drug and Grocery Stores | 1,547 | 1.7 |
| Hoya Corporation | Medical Equipment and Services | 1,539 | 1.7 |
| **Top twenty investments** | | **51,247** | **55.6** |
| Tokyo Century Corporation | Finance and Credit Services | 1,524 | 1.7 |
| Shoei Co | Household Goods and Home Construction | 1,460 | 1.6 |
| Astellas Pharma | Pharmaceuticals and Biotechnology | 1,417 | 1.5 |
| Nomura Research Institute | Software and Computer Services | 1,361 | 1.5 |
| Daiichi Sankyo | Pharmaceuticals and Biotechnology | 1,335 | 1.4 |
| Otsuka Corporation | Software and Computer Services | 1,334 | 1.4 |
| Recruit Holdings Corporation | Industrial Support Services | 1,255 | 1.4 |
| Nippon Sanso Holdings | Chemicals | 1,224 | 1.3 |
| Nihon M&A Centre | Investment Banking and Brokerage Services | 1,139 | 1.2 |
| Zenkoku Hosho Company | Finance and Credit Services | 1,076 | 1.2 |
| **Top thirty investments** | | **64,372** | **69.8** |

## As at 30 September 2022

| Company | Sector | Valuation £'000 | Total assets % |
|---|---|---|---|
| Kansai Paint Company | General Industrials | 1,044 | 1.1 |
| Ibiden | Technology Hardware and Equipment | 961 | 1.1 |
| Katitas | Household Goods and Home Construction | 944 | 1.0 |
| Appier Group | Software and Computer Services | 941 | 1.0 |
| Jeol | Electronic and Electrical Equipment | 939 | 1.0 |
| Kaga Electronics | Technology Hardware and Equipment | 933 | 1.0 |
| Seven & I Holdings | Retailers | 929 | 1.0 |
| Zuken | Software and Computer Services | 917 | 1.0 |
| Nec Networks & System Integration Corporation | Telecommunications Equipment | 912 | 1.0 |
| Kohoku Kogyo | Electronic and Electrical Equipment | 897 | 1.0 |
| **Top forty investments** | | **73,789** | **80.0** |
| NEC Corporation | Technology Hardware and Equipment | 885 | 1.0 |
| Elecom Company | Technology Hardware and Equipment | 847 | 0.9 |
| Nitori Holdings | Retailers | 799 | 0.9 |
| Scroll Corporation | Retailers | 775 | 0.9 |
| Yamaha Corporation | Leisure Goods | 770 | 0.8 |
| Valuecommerce Company | Media | 758 | 0.8 |
| Fanuc Corporation | Industrial Engineering | 748 | 0.8 |
| Fukui Computer Holdings | Software and Computer Services | 741 | 0.8 |
| Asahi Intecc Company | Medical Equipment and Services | 682 | 0.7 |
| AGC | General Industrials | 681 | 0.7 |
| **Top fifty investments** | | **81,475** | **88.3** |
| Direct Marketing MiX Inc. | Media | 665 | 0.7 |
| Tokyo Electron | Technology Hardware and Equipment | 660 | 0.7 |
| Menicon Company | Medical Equipment and Services | 649 | 0.7 |
| Advantest Corporation | Technology Hardware and Equipment | 649 | 0.7 |
| As One Corporation | Medical Equipment and Services | 646 | 0.7 |
| Shiseido Company | Personal Goods | 632 | 0.7 |
| Sansan | Software and Computer Services | 610 | 0.7 |
| Japan Exchange Group | Investment Banking and Brokerage Services | 598 | 0.7 |
| WealthNavi | Investment Banking and Brokerage Services | 594 | 0.6 |
| Amada Company | Industrial Engineering | 586 | 0.6 |
| **Top sixty investments** | | **87,764** | **95.1** |

# Investment Portfolio

## Continued

### As at 30 September 2022

| Company | Sector | Valuation £'000 | Total assets % |
|---|---|---|---|
| Nabtesco Corporation | Industrial Engineering | 541 | 0.6 |
| Heiwa Real Estate | Real Estate Investment and Services | 506 | 0.6 |
| Okinawa Cellular Telephone | Telecommunications Service Providers | 495 | 0.5 |
| Suntory Beverage & Food | Beverages | 450 | 0.5 |
| Makita Corporation | Household Goods and Home Construction | 399 | 0.4 |
| Koito Manufacturing | Automobiles and Parts | 365 | 0.4 |
| Takuma | Construction and Materials | 360 | 0.4 |
| Takara Bio | Pharmaceuticals and Biotechnology | 358 | 0.4 |
| Workman | Retailers | 179 | 0.2 |
| **Total investments** | | **91,417** | **99.1** |
| Net current assets[A] | | **817** | **0.9** |
| **Total assets** | | **92,234** | **100.0** |

[A] Excludes bank loans of £10,519,000

Unless otherwise stated, Japanese stock is held and all investments are equity holdings.

# Investment Case Studies

## KDDI Corporation ("KDDI")

**Background**

KDDI is one of Japan's largest wireless telecom operators. It was formed in 2000 through the merger of three major carriers. The company offers mobile and fixed-line communications for homes as well as content, settlement and other value-added services. It also has a 50% stake in Jupiter Telecommunications, Japan's largest cable TV operator.

**Standing out above its peers**

KDDI stands out among incumbent telecoms providers in the country for its balanced growth in earnings and shareholder returns.

Earnings are driven by a user base that is relatively stable. It has a good record of enhancing its average revenue per account by bundling telecoms and non-telecoms services, while lowering its customer turnover rate.

One of the company's chief brands is **au,** a mobile phone operator marketed by KDDI across Japan's main islands, and by Okinawa Cellular in the Okinawa prefecture.

KDDI introduced a low-cost mobile service plan following government pressure, which was the cheapest among the country's mega carriers. While new pricing plans have resulted in a higher turnover rate, the company aims to leverage its non-telecoms ecosystem (a broad range including commerce, finance, energy, entertainment and education) to retain customer loyalty. While base pricing is cheaper, the various add-on options KDDI can offer customers, such as online storage, third-party loyalty schemes and mobile payments, creates more room for monetisation.

Strong cash flow from KDDI's robust business allows it to redistribute cash into future investment, as well as returning capital to shareholders through buybacks or dividends.

**Areas of engagement**

The Investment Manager has been engaging with the company to encourage more careful consideration of merger and acquisition opportunities, given the mixed track record of acquisitions made in the past, and believes that the company has become more selective in this regard. Another area of engagement has been regarding corporate governance of the company's listed subsidiary Okinawa Cellular, which markets the **au** brand in the Okinawa Prefecture. The Investment Manager has discussed with the company whether Okinawa Cellular should have a higher dividend pay-out ratio than KDDI, if the company is not considering share buybacks. Management has taken note of this view and the Investment Manager will continue to monitor progress on this front.

It is intended that the Investment Manager will continue its engagement on topics such as network quality, which is critical to retaining customers; regulatory risks, with the potential for the government to intervene asking carriers to lower their pricing; and data security risks arising from greater connectivity, particularly concerning devices related to the Internet of Things.

# Investment Case Studies

## Continued

### Milbon

#### Background

Milbon is a professional-use hair-care product company, selling shampoos, treatments and hair dyes, primarily to barbers and hairdressers through salons. It is Japan's market leader, with almost 20% market share. Over time, the company's product mix has evolved from perms, to colouring, to care products. Much of its sales are undertaken by travelling salespeople, who build direct relationships with their salons. The company also has a nascent business in cosmetics products.

#### Standing out above its peers

Milbon has grown to be a market leader in the professional hair care industry. Much of its success can be attributed to its team on the ground, who have strong relationships with salons. This has allowed the firm to be responsive and to develop and introduce new products as trends and fashions change.

Close contact with hair salons has resulted in healthy repeat business and lasting customer relationships. It was notable that, during the Covid-19 pandemic, Milbon was largely unaffected as its premium products continued to sell well. A move towards higher value and higher margin products should provide an attractive opportunity for future growth.

The Investment Manager is watching the company's move into overseas markets, including China and Korea. Its international presence is important longer-term, providing good potential for growth. However, this does present risks, especially with tight restrictions on imports into China. The company has taken steps to open local production facilities.

#### Areas of engagement

The Investment Manager has been engaging with Milbon to re-evaluate chemical substances that might be regarded as hazardous by global standards, even if they are not currently restricted by local regulations. It has also been engaging with the company to improve its disclosure on chemical safety and is encouraged to see that the company has started publishing full ingredient lists on its website. Discussions will continue with the company regarding its transparency, where the Investment Manager believes there is room for improvement at a corporate level and in product-level customer disclosures.

# Condensed Statement of Comprehensive Income (unaudited)

| | Six months ended 30 September 2022 | | | Six months ended 30 September 2021 | | |
|---|---|---|---|---|---|---|
| | Revenue £'000 | Capital £'000 | Total £'000 | Revenue £'000 | Capital £'000 | Total £'000 |
| (Losses)/gains on investments | – | (7,090) | (7,090) | – | 10,186 | 10,186 |
| Income (note 2) | 872 | – | 872 | 917 | – | 917 |
| Investment management fee (note 11) | (107) | (160) | (267) | (142) | (214) | (356) |
| Administrative expenses | (237) | – | (237) | (210) | – | (210) |
| Exchange gains/(losses) | – | 92 | 92 | – | (143) | (143) |
| **Net return before finance costs and taxation** | 528 | (7,158) | (6,630) | 565 | 9,829 | 10,394 |
| Finance costs | (40) | (61) | (101) | (24) | (36) | (60) |
| **Net return before taxation** | 488 | (7,219) | (6,731) | 541 | 9,793 | 10,334 |
| Taxation (note 4) | (87) | – | (87) | (92) | – | (92) |
| **Net return after taxation** | 401 | (7,219) | (6,818) | 449 | 9,793 | 10,242 |
| **Return per Ordinary share (pence) (note 6)** | 3.19 | (57.44) | (54.25) | 3.42 | 74.48 | 77.90 |

The total column of this statement represents the profit and loss account of the Company.

A Statement of Total Recognised Gains and Losses has not been prepared as all gains and losses have been reflected in the Condensed Statement of Comprehensive Income.

All revenue and capital items in the above statement derive from continuing operations.

The accompanying notes are an integral part of the financial statements.

# Condensed Statement of Financial Position (unaudited)

| | Note | As at 30 September 2022 (unaudited) £'000 | As at 31 March 2022 (audited) £'000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Investments held at fair value through profit or loss | | **91,417** | 99,576 |
| **Current assets** | | | |
| Debtors | | **898** | 1,154 |
| Cash at bank and in hand | | **416** | 264 |
| | | **1,314** | 1,418 |
| **Creditors: amounts falling due within one year** | | | |
| Foreign currency bank loans | 7 | **(10,519)** | (10,634) |
| Other creditors | | **(497)** | (430) |
| | | **(11,016)** | (11,064) |
| **Net current liabilities** | | **(9,702)** | (9,646) |
| **Net assets** | | **81,715** | 89,930 |
| **Share capital and reserves** | | | |
| Called-up share capital | | **1,582** | 1,582 |
| Share premium | | **6,656** | 6,656 |
| Capital redemption reserve | | **2,273** | 2,273 |
| Capital reserve | | **69,611** | 77,788 |
| Revenue reserve | | **1,593** | 1,631 |
| **Equity shareholders' funds** | | **81,715** | 89,930 |
| **Net asset value per Ordinary share (pence)** | 9 | **650.60** | 713.43 |

The accompanying notes are an integral part of the financial statements.

# Condensed Statement of Changes in Equity (unaudited)

## Six months ended 30 September 2022

| | Share capital £'000 | Share premium £'000 | Capital redemption reserve £'000 | Capital reserve £'000 | Revenue reserve £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| Balance at 31 March 2022 | 1,582 | 6,656 | 2,273 | 77,788 | 1,631 | 89,930 |
| Purchase of Ordinary shares to be held in treasury | – | – | – | (267) | – | (267) |
| Return after taxation | – | – | – | (7,219) | 401 | (6,818) |
| Dividend paid (note 5) | – | – | – | (691) | (439) | (1,130) |
| **Balance at 30 September 2022** | 1,582 | 6,656 | 2,273 | 69,611 | 1,593 | 81,715 |

## Six months ended 30 September 2021

| | Share capital £'000 | Share premium £'000 | Capital redemption reserve £'000 | Capital reserve £'000 | Revenue reserve £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| Balance at 31 March 2021 | 1,582 | 6,656 | 2,273 | 95,169 | 1,758 | 107,438 |
| Purchase of Ordinary shares to be held in treasury | – | – | – | (1,774) | – | (1,774) |
| Return after taxation | – | – | – | 9,793 | 449 | 10,242 |
| Dividend paid (note 5) | – | – | – | (724) | (461) | (1,185) |
| **Balance at 30 September 2021** | 1,582 | 6,656 | 2,273 | 102,464 | 1,746 | 114,721 |

The accompanying notes are an integral part of the financial statements.

# Condensed Statement of Cash Flows (unaudited)

| | Six months ended 30 September 2022 £'000 | Six months ended 30 September 2021 £'000 |
|---|---|---|
| **Operating activities** | | |
| Net return before taxation | **(6,731)** | 10,334 |
| Adjustments for: | | |
| Losses/(gains) on investments | **7,085** | (10,189) |
| Increase/(decrease) in other creditors | **71** | (130) |
| Finance costs | **101** | 60 |
| Expenses taken to capital reserve | **5** | 3 |
| Foreign exchange (gains)/losses | **(92)** | 146 |
| Overseas withholding tax | **(87)** | (92) |
| Decrease in accrued dividend income | **186** | 85 |
| Decrease in other debtors | **9** | 25 |
| **Net cash inflow from operating activities** | **547** | 242 |
| | | |
| **Investing activities** | | |
| Purchases of investments | **(20,476)** | (7,335) |
| Sales of investments | **21,565** | 9,888 |
| Expenses allocated to capital | **(5)** | (3) |
| **Net cash inflow from investing activities** | **1,084** | 2,550 |
| | | |
| **Financing activities** | | |
| Bank and loan interest paid | **(58)** | (59) |
| Equity dividend paid | **(1,130)** | (1,185) |
| Purchase of own shares to treasury | **(267)** | (1,774) |
| **Net cash outflow from financing activities** | **(1,455)** | (3,018) |
| **Increase/(decrease) in cash** | **176** | (226) |
| | | |
| **Analysis of changes in cash during the period** | | |
| Opening balance | **264** | 528 |
| Effect of exchange rate fluctuations on cash held | **(24)** | 5 |
| Increase/(decrease) in cash as above | **176** | (226) |
| **Closing balance** | **416** | 307 |

The accompanying notes are an integral part of the financial statements.

# Notes to the Financial Statements (unaudited)

## For the six months ended 30 September 2022

### 1. Accounting policies – Basis of accounting

The condensed financial statements have been prepared in accordance with Financial Reporting Standard 104 'Interim Financial Reporting' and with the Statement of Recommended Practice for 'Financial Statements of Investment Trust Companies and Venture Capital Trusts'. They have also been prepared on a going concern basis and on the assumption that approval as an investment trust will continue to be granted.

The Half-Yearly financial statements have been prepared using the same accounting policies applied as the preceding annual financial statements, which were prepared in accordance with Financial Reporting Standard 102.

### 2. Income

| | Six months ended 30 September 2022 £'000 | Six months ended 30 September 2021 £'000 |
|---|---|---|
| Overseas dividends | **872** | 917 |
| **Total income** | **872** | 917 |

### 3. Transaction costs

During the period expenses were incurred in acquiring or disposing of investments classified as fair value through profit or loss. Expenses incurred in acquiring investments have been expensed through capital and are included within administration expenses in the Condensed Statement of Comprehensive Income, whilst expenses incurred in disposing of investments have been expensed through capital and are included within gains on investments in the Condensed Statement of Comprehensive Income. The total costs were as follows:

| | Six months ended 30 September 2022 £'000 | Six months ended 30 September 2021 £'000 |
|---|---|---|
| Purchases | **5** | 3 |
| Sales | **4** | 2 |
| | **9** | 5 |

The above transaction costs are calculated in line with the AIC SORP. The transaction costs in the Company's Key Information Document are calculated on a different basis and in line with the PRIIPs regulations.

### 4. Taxation

The taxation charge for the period represents withholding tax suffered on overseas dividend income.

# Notes to the Financial Statements (unaudited)

## Continued

### 5. Dividends

| | Six months ended 30 September 2022 £'000 | Six months ended 30 September 2021 £'000 |
|---|---|---|
| Prior year final dividend | | |
| Paid from revenue (2022 – 3.5p; 2021 – 3.5p) | **439** | 461 |
| Paid from capital (2022 – 5.5p; 2021 – 5.5p) | **691** | 724 |
| | **1,130** | 1,185 |

An interim dividend of 5.0p for the year to 31 March 2023 (2022 – 6.0p) will be paid on 29 December 2022 to shareholders on the register on 2 December 2022. The ex-dividend date will be 1 December 2022.

### 6. Return per Ordinary share

| | Six months ended 30 September 2022 £'000 | Six months ended 30 September 2021 £'000 |
|---|---|---|
| Based on the following figures: | | |
| Revenue return | **401** | 449 |
| Capital return | **(7,219)** | 9,793 |
| **Total return** | **(6,818)** | 10,242 |
| | | |
| **Weighted average number of Ordinary shares in issue** | **12,566,930** | 13,147,309 |
| **Total net return per share (p)** | **(54.25)** | 77.90 |

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## 7. Foreign currency bank loan

| | | As at 30 September 2022 £'000 | As at 31 March 2022 £'000 |
|---|---|---|---|
| Falling due within one year | | **10,519** | 10,634 |

| | | | |
|---|---|---|---|
| Revolving credit facility Japanese Yen loan | Amount £'000 | **2,476** | 2,503 |
| | JPY'000 | **400,000** | 400,000 |
| | Interest rate | **1.50%** | 1.50% |

| | | | |
|---|---|---|---|
| Short term Japanese Yen loan | Amount £'000 | **8,046** | 8,131 |
| | JPY'000 | **1,300,000** | 1,300,000 |
| | Interest rate | **0.90%** | 0.90% |

The revolving credit facility loan is drawn down from the JPY1,000,000,000 one year revolving credit facility with ING Bank entered into in December 2021 and which matures in December 2024.

The short term loan is drawn from the JPY1,300,000,000 one year fixed rate credit facility with ING Bank entered into in January 2022 and which matures in January 2023.

## 8. Analysis of changes in net debt

| | At 31 March 2022 £'000 | Currency differences £'000 | Cash flows £'000 | Non-cash movements £'000 | At 30 September 2022 £'000 |
|---|---|---|---|---|---|
| Cash and short term deposits | **264** | **(24)** | **176** | **–** | **416** |
| Debt due within one year | **(10,634)** | **116** | **–** | **(1)** | **(10,519)** |
| | **(10,370)** | **92** | **176** | **(1)** | **(10,103)** |

| | At 31 March 2021 £'000 | Currency differences £'000 | Cash flows £'000 | Non-cash movements £'000 | At 30 September 2021 £'000 |
|---|---|---|---|---|---|
| Cash and short term deposits | 528 | 5 | (226) | – | 307 |
| Debt due within one year | (11,147) | (151) | – | (1) | (11,299) |
| | (10,619) | (146) | (226) | (1) | (10,992) |

A statement reconciling the movement in net funds to the net cash flow has not been presented as there are no differences from the above analysis.

# Notes to the Financial Statements (unaudited)

## Continued

### 9. Net asset value per Ordinary share

| | As at 30 September 2022 | As at 31 March 2022 |
|---|---|---|
| Attributable net assets (£'000) | **81,715** | 89,930 |
| Number of Ordinary shares in issue | **12,559,910** | 12,605,268 |
| **Net asset value per Ordinary share (p)** | **650.60** | 713.43 |

### 10. Fair value hierarchy

FRS 102 requires an entity to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy shall have the following classifications:

Level 1: unadjusted quoted prices in an active market for identical assets or liabilities that the entity can access at the measurement date.

Level 2: inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.

Level 3: inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

All of the Company's investments are in quoted equities (31 March 2022 - same) which are actively traded on recognised stock exchanges, with their fair value being determined by reference to their quoted bid prices at the reporting date. The total value of the investments as at 30 September 2022 of £91,417,000 (31 March 2022 - £99,576,000) has therefore been deemed as Level 1.

### 11. Transactions with the Manager

The Company has agreements with abrdn Fund Managers Limited for the provision of investment management, secretarial, accounting and administration and promotional activity services.

The management fee is payable monthly in arrears at a rate of 0.75% per annum on the lesser of the Company's net asset value or market capitalisation. The investment management fee is chargeable 40% to revenue and 60% to capital. During the period £267,000 (30 September 2021 – £356,000) of investment management fees were payable to the Manager, with a balance of £132,000 (30 September 2021 – £66,000) being outstanding at the period end.

The promotional activities fee is based on a current annual amount of £54,000 (30 September 2021 – £51,000 per annum), payable quarterly in arrears. During the period £27,000 (30 September 2021 – £26,000) of fees were payable to the Manager, with a balance of £13,000 (30 September 2021 – £13,000) being outstanding at the period end.

### 12. Segmental information

The Company is engaged in a single segment of business, which is to invest in equity securities and debt instruments. All of the Company's activities are interrelated, and each activity is dependent on the others. Accordingly, all significant operating decisions are based on the Company as one segment.

13. The financial information contained in this Half-Yearly Financial Report does not constitute statutory accounts as defined in Sections 434 – 436 of the Companies Act 2006. The financial information for the six months ended 30 September 2022 and 30 September 2021 has not been audited by the Company's independent auditor.

The information for the year ended 31 March 2022 has been extracted from the latest published audited financial statements which have been filed with the Registrar of Companies. The report of the auditor on those accounts contained no qualification or statement under Section 498 of the Companies Act 2006.

14. This Half-Yearly Report was approved by the Board on 16 November 2022.

# Alternative Performance Measures

Alternative performance measures are numerical measures of the Company's current, historical or future performance, financial position or cash flows, other than financial measures defined or specified in the applicable financial framework. The Company's applicable financial framework includes FRS 102 and the AIC SORP. The Directors assess the Company's performance against a range of criteria which are viewed as particularly relevant for closed-end investment companies.

## Discount to net asset value per Ordinary share

The difference between the share price and the net asset value per Ordinary share expressed as a percentage of the net asset value per Ordinary share.

| | | 30 September 2022 | 31 March 2022 |
|---|---|---|---|
| NAV per Ordinary share (p) | a | **650.60** | 713.43 |
| Share price (p) | b | **535.00** | 635.00 |
| Discount | (a-b)/a | **17.8%** | 11.0% |

## Net gearing

Net gearing measures the total borrowings less cash and cash equivalents divided by shareholders' funds, expressed as a percentage. Under AIC reporting guidance cash and cash equivalents includes net amounts due from and to brokers at the year end as well as cash and short term deposits.

| | | 30 September 2022 | 31 March 2022 |
|---|---|---|---|
| Borrowings (£'000) | a | **10,519** | 10,634 |
| Cash (£'000) | b | **416** | 264 |
| Amounts due to brokers (£'000) | c | **142** | 190 |
| Amounts due from brokers (£'000) | d | **284** | 347 |
| Shareholders' funds (£'000) | e | **81,715** | 89,930 |
| **Net gearing** | (a-b+c-d)/e | **12.2%** | 11.4% |

## Ongoing charges

The ongoing charges ratio has been calculated in accordance with guidance issued by the AIC as the total of investment management fees and administrative expenses and expressed as a percentage of the average daily net asset values published throughout the year. The ratio for 30 September 2022 is based on forecast ongoing charges for the year ending 31 March 2023.

| | 30 September 2022 | 31 March 2022 |
|---|---|---|
| Investment management fees (£'000) | **519** | 689 |
| Administrative expenses (£'000) | **485** | 359 |
| Less: non-recurring charges (£000)[A] | **–** | (2) |
| Less: transaction costs on investment purchases (£'000) | **(5)** | (6) |
| **Ongoing charges (£'000)** | **999** | 1,040 |
| **Average net assets (£'000)** | **82,991** | 103,730 |
| **Ongoing charges ratio** | **1.20%** | 1.00% |

[A] Comprises legal and professional fees which are not expected to recur.

The ongoing charges ratio provided in the Company's Key Information Document is calculated in line with the PRIIPs regulations which amongst other things, includes the cost of borrowings and transaction costs.

## Total return

NAV and share price total returns show how the NAV and share price has performed over a period of time in percentage terms, taking into account both capital returns and dividends paid to shareholders. Share price and NAV total returns are monitored against open-ended and closed-ended competitors, and the Reference Index, respectively.

| **Six months ended 30 September 2022** | | NAV | Share Price |
|---|---|---|---|
| Opening at 1 April 2022 | a | **713.4p** | **635.0p** |
| Closing at 30 September 2022 | b | **650.6p** | **535.0p** |
| Price movements | c=(b/a)-1 | **-8.8%** | **-15.7%** |
| Dividend reinvestment[A] | d | **1.3%** | **1.4%** |
| **Total return** | c+d | **-7.5%** | **-14.3%** |

| **Year ended 31 March 2022** | | NAV | Share Price |
|---|---|---|---|
| Opening at 1 April 2021 | a | 807.7p | 727.5p |
| Closing at 31 March 2022 | b | 713.4p | 635.0p |
| Price movements | c=(b/a)-1 | -11.7% | -12.7% |
| Dividend reinvestment[A] | d | 1.7% | 1.8% |
| **Total return** | c+d | -10.0% | -10.9% |

[A] NAV total return involves investing the net dividend in the NAV of the Company with debt at fair value on the date on which that dividend goes ex-dividend. Share price total return involves reinvesting the net dividend in the share price of the Company on the date on which that dividend goes ex-dividend.

# Investor Information

## Direct

Investors can buy and sell shares in the Company directly through a stockbroker or indirectly through a lawyer, accountant or other professional adviser. Many have online facilities. Alternatively, for retail clients, shares may be bought directly through abrdn Investment Trust Share Plan, Individual Savings Account ("ISA") or Investment Plan for Children.

## abrdn Investment Trust Share Plan

abrdn operates an Investment Trust Share Plan (the "Plan") through which shares in the Company can be purchased. There are no dealing charges on the initial purchase of shares, although investors will suffer the bid-offer spread, which can, on some occasions, be a significant amount. Lump sum investments start at £250, while regular savers may invest from £100 per month. Investors only pay Government Stamp Duty (currently 0.5%) on purchases. Selling costs are £10 + VAT. There is no restriction on how long an investor need invest in a Plan, and regular savers can stop or suspend participation by instructing abrdn in writing at any time.

## abrdn Investment Trust ISA

abrdn operates an Investment Trust ISA ("ISA") through which an investment may be made of up to £20,000 in the tax year 2022/23.

There are no brokerage or initial charges for the ISA, although investors will suffer the bid-offer spread, which can, on some occasions, be a significant amount. Investors only pay Government Stamp Duty (currently 0.5%) on purchases. Selling costs are £15 + VAT. The annual ISA administration charge is £24 + VAT calculated annually and applied on 31 March (or the last business day in March) and collected soon thereafter either by direct debit or, if there is no valid direct debit mandate in place, from the available cash in the Plan prior to the distribution or reinvestment of any income, or, where there is insufficient cash in the Plan, from the sale of investments held in the Plan. Under current legislation, investments in ISAs can grow free of capital gains tax.

## ISA Transfer

You can choose to transfer previous tax year investments to us which can be invested in the Company while retaining your ISA wrapper. The minimum lump sum for an ISA transfer is £1,000 and is subject to a minimum per investment trust of £250.

## abrdn Investment Plan for Children

abrdn operates an Investment Plan for Children (the "Children's Plan") which covers a number of investment companies under its management including the Company. Anyone can invest in the Children's Plan, including parents, grandparents and family friends (subject to eligibility criteria as stated within terms and conditions). All investments are free of dealing charges on the initial purchase of shares, although investors will suffer the bid-offer spread, which can, on some occasions, be a significant amount. Lump sum investments start at £150 per trust, while regular savers may invest from £30 per month. Investors only pay Government Stamp Duty (currently 0.5%) on purchases. Selling costs are £10 + VAT. There is no restriction on how long an investor need invest in the Children's Plan, and regular savers can stop or suspend participation by instructing abrdn in writing at any time.

## Nominee Accounts and Voting Rights

In common with other schemes of this type, all investments in the abrdn Investment Trust Share Plan, Investment Plan for Children and Investment Trust ISA are held in nominee accounts and investors have full voting and other rights of share ownership.

## Dividend Tax Allowance

The annual tax-free personal allowance for dividend income, for UK investors, is £2,000 for the 2022/23 tax year. Above this amount, individuals will pay tax on their dividend income at a rate dependent on their income tax bracket and personal circumstances. The Company will continue to provide registered shareholders with a confirmation of dividends paid by the Company and this should be included with any other dividend income received when calculating and reporting to HMRC total dividend income received. It is the shareholder's responsibility to include all dividend income when calculating any tax liability.

## Keeping You Informed

Information on the Company may be found on its dedicated website, **abrdnjapan.co.uk.**

This provides access to information including the Company's share price performance, capital structure, London Stock Exchange announcements, current and historic Annual and Half-Yearly Reports, and the latest monthly factsheet on the Company issued by the Manager.

If investors would like details on the Company or literature and application forms on abrdn investment trust products please contact:

**abrdn Investment Trusts**
**PO Box 11020**
**Chelmsford**
**Essex CM99 2DB**

Telephone: **0808 500 00 40**
E-mail: **inv.trusts@abrdn.com**
Website: **invtrusts.co.uk**

Terms and conditions for the abrdn investment trust products can be found under the Literature section of this website.

**LinkedIn:**

**linkedin.com/company/abrdn-investment-trusts**

## Registrar (for direct shareholdings)

If you have an administrative query which relates to a direct shareholding, please contact the Company's Registrar, as follows:

**Link Group**
**10th Floor**
**Central Square**
**29 Wellington Street**
**Leeds**
**LS1 4DL**

Tel: **0371 664 0300**
(Calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open between 09:00 – 17:30, Monday to Friday excluding public holidays in England and Wales.)

Tel International: **+44 371 664 0300**
E-mail: **shareholderenquiries@linkgroup.co.uk**
Website: **linkgroup.com**

## Pre-investment Disclosure Document (PIDD)

The Alternative Investment Fund Managers Directive ("AIFMD") requires abrdn Fund Managers Limited, as the alternative investment fund manager of Company, to make available to investors certain information prior to such investors' investment in the Company. The AIFMD is intended to offer increased protection to investors in investment products that do not fall under the existing European Union regime for regulation of investment products known as the UCITS regime.

The Company's PIDD is available for viewing on the Company's website.

## Key Information Document ("KID")

The KID relating to the Company and published by the Manager can be found on the Manager's website at: **invtrusts.co.uk/en/fund-centre#literature.**

## Suitable for Retail/NMPI Status

The Company's shares are intended for investors primarily in the UK (including retail investors), professional-advised private clients and institutional investors who are wanting to benefit from the growth prospects of Japanese companies by investment in a relatively risk averse investment trust and who understand and are willing to accept the risks of exposure to equities. Investors should consider consulting a financial adviser who specialises in advising on the acquisition of shares and other securities before acquiring shares. Investors should be capable of evaluating the risks and merits of such an investment and should have sufficient resources to bear any loss that may result.

The Company currently conducts its affairs so that the shares it issues can be recommended by a financial adviser to ordinary retail investors in accordance with the FCA's rules in relation to non-mainstream pooled investments (NMPIs) and intends to continue to do so for the foreseeable future.

The Company's shares are excluded from the FCA's restrictions which apply to NMPIs because they are shares in an investment trust.

## Online Dealing providers and platforms

There are a number of online dealing platforms for private investors that offer share dealing, ISAs and other means to invest in the Company, such as self-invested personal pension (SIPP). Real-time execution-only stockbroking services allow you to trade online, manage your portfolio and buy UK listed shares. These sites do not give advice. Some comparison websites also look at dealing rates and terms and can be found through internet search engines.

## Discretionary Private Client Stockbrokers

If you have a large sum to invest, you may wish to contact a discretionary private client stockbroker. They can manage your entire portfolio of shares and will advise you on your investments. To find a private client stockbroker visit The Personal Investment Management & Financial Advice Association at: **pimfa.co.uk.**

# Investor Information

## Continued

### Financial Advisers

To find an adviser who recommends investment trusts, visit: **unbiased.co.uk**

### Regulation of Stockbrokers

Before approaching a stockbroker, always check that they are regulated by the Financial Conduct Authority (FCA):

Tel: **0800 111 6768** or at **fca.org.uk/firms/systems-reporting/register/search**
Email: **register@fca.org.uk**

### Investor Warning: Be alert to share fraud and boiler room scams

By law, the Company is required to make certain details from its share register publicly available. As such, it is possible that some registered shareholders could receive unsolicited mail or phone calls. You could also be targeted by fraudulent 'investment specialists'. Fraud is becoming much more sophisticated and may use branding, or email addresses that appear to come from the Company or the Manager. If you get a social or email message and you're unsure if it is from us, please don't hesitate to contact the Manager using the contact details on page 33.

More information about share scams can be found at the Financial Conduct Authority website, **fca.org.uk/consumers/scams**

### Note

**Please remember that past performance is not a guide to the future. Stock market and currency movements may cause the value of shares and the income from them to fall as well as rise and investors may not get back the amount they originally invested.**

**As with all equity investments, the value of investment trusts purchased will immediately be reduced by the difference between the buying and selling prices of the shares, the market maker's spread.**

*Investors should further bear in mind that the value of any tax relief will depend on the individual circumstances of the investor and that tax rates and reliefs, as well as the tax treatment of ISAs may be changed by future legislation.*

The above information has been approved for the purposes of Section 21 of the Financial Services and Markets Act 2000 (as amended by the Financial Services Act 2012) by Aberdeen Asset Managers Limited which is authorised and regulated by the FCA in the United Kingdom.

# Corporate Information

## Directors

Karen Brade, Chairman
Claire Boyle
Sam Dean
Sir David Warren

Email: **abrdnjapan@abrdn.com**

## Website

**abrdnjapan.co.uk**

## Registered Company Number

03582911

## Foreign Account Tax Compliance Act ("FATCA") Registration Number (GIIN)

IRS Registration Number (GIIN): QHB2WK.99999.SL.826

## Legal Entity Identifier ("LEI")

5493007LN438OBLNLM64

## Points of Contact:

### Manager

abrdn Fund Managers Limited
Bow Bells House
1 Bread Street
London, EC4M 9HH

Authorised and regulated by the FCA

Customer Services Department: **0808 00 00 40**
(open 09:00 – 17:00, Monday – Friday excluding public holidays)
Email: **inv.trusts@abrdn.com**

### Investment Manager

abrdn Japan Limited
9th Floor, Otemachi Financial City Grand Cube,
9-2 Otemachi 1 Chome, Chiyoda-ku,
Tokyo

### Secretary and Registered Office

Aberdeen Asset Management PLC
Bow Bells House
1 Bread Street
London, EC4M 9HH

Email: **CEF.CoSec@abrdn.com**

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### Registrar

Link Group
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Central Square
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Tel: **0371 664 0300**
(Calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open between 09:00 – 17:30, Monday to Friday excluding public holidays in England and Wales.)

Tel International: **+44 371 664 0300**
E-mail: **shareholderenquiries@linkgroup.co.uk**
Website: **linkgroup.com**

### Bankers

ING N. V. London Branch
8-10 Moorgate,
London, EC2R 6DA

### Depositary

BNP Paribas Trust Corporation UK Limited
10 Harewood Ave,
London, NW1 6AA

(During the period the Depositary was BNP Paribas Securities Services, London Branch. The depositary agreement was novated to BNP Paribas Trust Corporation UK Limited on 30 June 2022)

### Independent Auditor*

Johnston Carmichael
7-11 Melville Street,
Edinburgh, EH3 7PE

### Lawyers

Dentons UKMEA LLP
One Fleet Place
London, EC4M 7WS

### Stockbrokers

Shore Capital Stockbrokers Limited
Cassini House
57 St James's Street
London, SW1A 1LD

*Incoming external audit firm.

For more information visit **abrdnjapan.co.uk**

**abrdn.com**