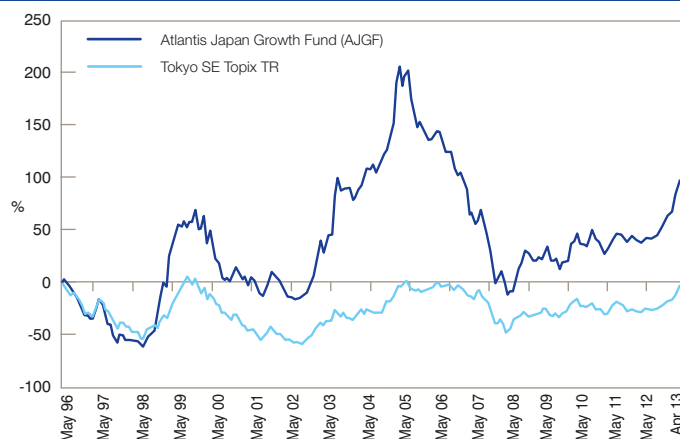




# Atlantis Japan Growth Fund

The company was incorporated in Guernsey on 13th March 1996 and its share capital is denominated in US dollars. The company aims to achieve long-term capital growth through investment wholly or mainly in listed Japanese equities.

## Fund Performance Since Inception



## Key Facts

|                           |                    |
|---------------------------|--------------------|
| <b>JPY/USD ex rate</b>    | ¥97.81             |
| <b>USD/GBP ex rate</b>    | \$1.5497           |
| <b>NAV per share</b>      | \$1.9509 / 125.89p |
| <b>Share price</b>        | 113.25p / 115.00p  |
| <b>Premium/(Discount)</b> | (10.0%) / (8.7%)   |
| <b>Shares in issue</b>    | 51,256,537         |
| <b>Fund size</b>          | \$100m / £65m      |
| <b>Number of holdings</b> | 76                 |
| <b>Valuation day</b>      | Daily              |

|                        | YTD   | 1M   | 3M    | 1Y    | 3Y    | 5Y    | 2012  | 2011   | 2010  | 2009 | 2008   | ITD   |
|------------------------|-------|------|-------|-------|-------|-------|-------|--------|-------|------|--------|-------|
| <b>AJGF (US\$)</b>     | 29.4% | 7.9% | 21.6% | 31.8% | 47.9% | 23.1% | 15.7% | -4.8%  | 14.5% | 8.3% | -41.1% | 96.7% |
| <b>TOPIX TR (US\$)</b> | 20.3% | 8.4% | 16.3% | 21.4% | 21.9% | 1.4%  | 9.0%  | -13.0% | 14.7% | 5.3% | -26.4% | -5.9% |

Source: Tiburon Partners LLP. All figures in US\$, and net of fees and expenses as at 30 April 2013

## Performance Comment

April was a good month for the Tokyo Market with the Fund up 7.9% versus a gain of 8.4% for the Topix TR and 3.8% for the Second Market. Please note that all figures are in US dollars and on a total return basis.

In April the Fund's exposure to medium-sized and smaller stocks held us back due to outperformance of some of the larger caps. However year to date the Fund is up 29.4% compared with a gain of 20.3% for the Topix TR, again all figures in US dollars.

The yen continued to weaken during April, ending the month at JPY 97.81 compared to the March closing of 94.13, a loss of 3.9%. Total borrowings remained unchanged at JPY 864 million, around \$8.8 million. Cash ended the month at around JPY 59 million which means the Fund is about 8.3% leveraged on a net basis.

The Fund has no exposure to convertible bonds, warrants, or derivatives and has no foreign exchange hedges. Cash is usually held mostly in yen.

## Investment Comment

Many of our shareholders and other interested parties have been asking us the following questions. Is the government going to succeed in getting the economy on a long term growth path? Do stock prices already reflect what might happen and therefore are stocks fully or over priced after the recent rally which began last autumn? We think these are good questions.

Prime Minister Abe and the ruling Liberal Democratic Party have passed a supplementary budget which will help boost the economy

during the current fiscal year and the newly appointed Governor of the Bank of Japan is placing stress on both quantitative and qualitative easing. Large sums of money are being pumped into the economy and we already see some impact on economic growth. The yen has been weakening and based on current exchange rates, we expect a boost in exports, which in turn, should help lift industrial production and employment. This should subsequently spur a boost in private capital investments, also good for the economy.

Many companies are now announcing their earnings for the year ended March and many economists are suggesting that corporate net income was probably up 35-40%. They are also suggesting that for the current fiscal year earnings could easily climb 20-30%. We think that the market has probably already discounted or mostly discounted the expected results for the recently ended fiscal year but is just beginning to react to expected earnings growth for the current fiscal year. We should also mention that most companies are being very conservative in their estimates for the current year, for instance some exporters are using a yen rate of around JPY 90 versus the current rate of approximately JPY 98.

Mr. Abe is also talking about structural reforms aimed at stream-lining the Japanese economy and helping to fund small businesses and entrepreneurs including high tech startups. Japan is now in the process of joining the Trans-Pacific Partnership and aims to participate in the Regional Comprehensive Economic Partnership (RCEP) which should help boost Japanese GDP growth in coming years.

The government deficit remains high but should come down due to the hike in the 5% consumption tax to 10% over the next few years and expected boost in GDP growth which should also help expand tax

revenues. Furthermore the government is taking/proposing other measures to cut costs such as raising the retirement age, encouraging the use of generic drugs, and hiking medical fees. At present the ten year bell weather government bond has a yield of only 0.6% which means the Japanese government can continue to borrow at very low rates compared with most other countries. At least for the next few years we think the government debt is manageable and should become even more manageable as government revenues increase and the annual budget deficit trend falls. The fact that most of the government debt is in yen and is held by local investors is also a plus.

Consumer spending accounts for over 50% of GDP and there are signs that consumers are beginning to spend more due to a change in consumer confidence with people now feeling more secure, more willing to splurge at little. Most Japanese have considerable savings, are not very leveraged, unlike in the US and many European countries, and can borrow money at very low rates for big ticket purchases like houses and cars. Housing starts seem strong and car sales are positive despite the fact that government incentives ended last year. The fact that consumer prices have not changed much in the last 20 years is also a positive.

Based on current trends and government policy, we look for a strong economy and steadily rising corporate earnings. All of the above should be good for stocks. We are also encouraged by the fact that investors have become increasingly interested in the market which can be seen by the fact that daily trading value has more than doubled from the beginning of last autumn.

### Investment Strategy

As we have stressed in recent newsletters, we remain positive on the economy, the trend of corporate earnings and the market outlook. What is also encouraging is the fact that there are still many undervalued stocks and numerous companies are now becoming more optimistic on their earnings outlook for the next several years. Suddenly investors are starting to become excited about these prospects too.

One of the best performing sectors in recent months, even for the last year, are brokers, both big and small, both local and national, discount houses and full line brokers.

The last few years have been difficult for Japanese securities houses, from the very big houses like Nomura and Daiwa, to the smaller houses like Takagi and Aizawa, to the discount houses like Matsui and Kabu.com, and the medium sized houses like Tokai Tokyo and Marusan. However since last autumn, everything has changed and brokers are now standing tall and are full of ideas and suggestions as the number of new accounts increases and old investors return to the market.

The Fund holds three brokers, Nomura, Japan's leading broker, Kyokuto Securities, a smaller house specializing in serving wealthy individuals, and Matsui Securities, one of the leading discount houses. All are doing well and Kyokuto has performed especially well in recent months.

Normally the brokers should be viewed as a leveraged play on the trend of the market, when the economy is improving and investors are bullish on the market outlook, brokers tend to outperform and vice versa. Given our views of the market, we will probably continue to maintain our exposure to the brokers but will be careful to concentrate on the better quality firms within the sector.

Many Japanese manufacturers are expected to benefit from the weaker yen and one such company is Kuriyama Holdings (code 3355). Overseas sales account for about 50% of total sales and the company produces and sells a wide range of niche products including rubber and resin products used in industry, construction, sports, auto parts, flooring, braille tiles, artificial turf, oil and gas hoses,

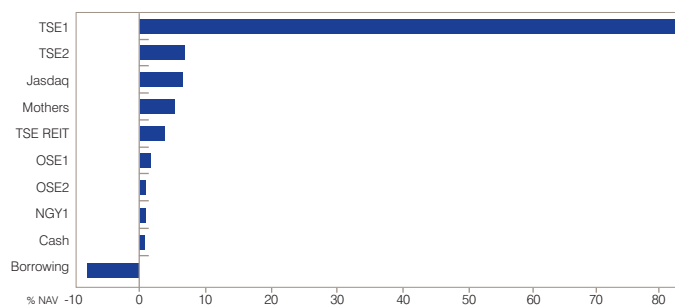
mining equipment, etc. Demand is sensitive to capex by a wide range of companies operating in many countries.

For the current year ending December 2013 we think Kuriyama's EPS will reach around JPY 140 and hopefully something over JPY 160 for December 2014. The shares are now trading at around JPY 1,340, 9.6X estimated earnings for this year and at about 8.4X projected earnings for next year. The equity ratio stands at 47.2% and the shares are selling at around a 19.6% premium to book value. We think our estimates are conservative and are happy holders of the stock.

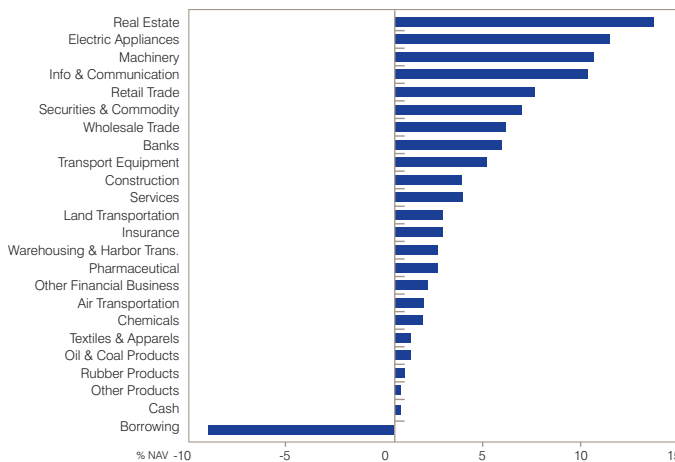
Our basic strategy remains unchanged and we will continue to seek out undervalued and cyclical growth companies. Since we see the economy recovering and corporate earnings rising, we plan to continue to increase our exposure to cyclical growth companies and recovery situations such as brokers.

### Portfolio Exposures

#### Exchange Breakdown



#### Sector Breakdown



#### Top Ten Holdings % NAV

|                           |     |
|---------------------------|-----|
| Toyota Tsusho             | 4.7 |
| Sumitomo Mitsui Financial | 3.9 |
| Toyota Motor              | 3.8 |
| Mitsui Fudosan            | 3.8 |
| Daikin Industries         | 3.6 |
| Sekisui House             | 3.4 |
| Bit-Isle                  | 3.0 |
| Saint Marc Holdings       | 3.0 |
| Nihon M&A Center          | 2.8 |
| Anritsu                   | 2.7 |

Source: Tiburon Partners LLP. All figures in US\$, and net of fees and expenses as at 30 April 2013

## Fund Details and Contacts

### Fund Detail

|                |                       |
|----------------|-----------------------|
| Status         | UK Investment Trust   |
| Domicile       | Guernsey              |
| Listing        | London Stock Exchange |
| Inception Date | 10 May 1996           |
| Valuation      | Daily                 |
| Charges        | Management Fee 1.0%pa |

### Price Sources

|           |              |
|-----------|--------------|
| Bloomberg | AJG LN       |
| Lipper    | 60000517     |
| ISIN      | GG00B61ND550 |
| SEDOL     | B61ND55      |

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