



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

JPY/USD ex rate	¥97.89
USD/GBP ex rate	\$1.6135
NAV per share	\$2.0191 / 125.14p
Share price	114.50p / 116.50p
Premium/(Discount)	(8.5%) / (6.9%)
Shares in issue	48,666,711
Fund size	\$98m / £61m
Number of holdings	75
Valuation day	Daily

	YTD	1M	3M	1Y	3Y	5Y	2012	2011	2010	2009	2008	ITD
AJGF (US\$)	33.9%	12.6%	10.3%	43.4%	68.7%	68.0%	15.7%	-4.8%	14.5%	8.3%	-41.1%	103.5%
TOPIX TR (US\$)	24.3%	8.9%	7.1%	30.8%	31.0%	30.9%	9.0%	-13.0%	14.7%	5.3%	-26.4%	-2.8%

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

Performance Comment

After the summer consolidation, September was characterized by a substantial increase in trading volume and net buying in some weeks by local investors including investment trusts, corporations, and even individuals. Overseas investors remained on the buy side in September. Even so, there was considerable volatility and low quality speculative stocks remained popular among local investors.

In September the Fund was up 12.6% which compares with a gain of 8.9% for the Topix, note all figures in US dollars and on a total return basis.

As of the end of September cash stood at ¥115 million and net borrowings remained unchanged at ¥864 million. As a result net gearing was around 7.8%. The yen ended the month at ¥97.89 to the US dollar, a gain of 0.17% compared with the August closing of ¥98.06.

The Fund has no foreign exchange hedges of any kind and is holding only listed Japanese equities excluding cash.

Investment Comment

As we have stressed in past newsletters, the trend and perceived trend of GDP growth and corporate earnings greatly impact the tendency of the market. We are encouraged by the fact that industrial production is now positive year on year, for the first time in 2013. Unemployment figures remain low, many corporations are expected to boost their capital investments during the second half of the current fiscal year ending March 2014, exports are increasing, consumer spending is steady to higher, and government spending will probably show a modest increase during the current fiscal year. The decision to hold the Olympics in Tokyo in 2020 is also a positive and could help

to boost Japanese investor confidence over the coming few years.

We should also mention that land prices seem to have bottomed and some areas are now witnessing increasing rather than decreasing property prices, another sign that the economy continues to recover slowly. Despite the fact that the Japanese population is now moving sideways to slightly lower we note that many of the major population centers are witnessing growth including greater Tokyo, Nagoya, Osaka, and Fukuoka.

The government has indicated that they will go ahead with the hike in the consumption tax from 5% to 8% which is scheduled to take place on 1st April next year. As we have mentioned in previous notes, we think the first quarter of the next fiscal year will be characterized by lower GDP growth but look for a good bounce back during the subsequent quarters of the fiscal year. An expected increase in government spending, possibly a lower corporate tax rate, and a continuation of the Bank of Japan's easy money policy should help overcome the negative impact of the hike in the consumption tax. For the next fiscal year most economists are now suggesting GDP growth of 1-2% in real terms and continued expansion of corporate earnings.

We continue to stress that we think Japanese stock valuations are still reasonable to low but remind investors that stock picking will continue to be very important and throwing money into yesterday's blue chips is probably not a very good long term strategy.

As always there are risks including the world economy, the US economy, growth in Europe, the yen rate, geopolitical events, forecasting difficulties, commodity prices, and the trend of major world stock markets, especially New York.

Investment Strategy

Year to date all sectors (note we are using the Nikkei 500 index which divides these companies into 36 sectors) are in positive territory and there seems to be some truth to the expression “a rising market lifts all boats”, even boats that have holes. Nonetheless many of the better performing sectors are up over 40% year to date versus increases of under 20% or less for some of the poorer performing sectors.

Yes, most of the better performing sectors are usually characterized by good to spectacular earnings growth or the expectation of a good recovery in earnings growth over the next few years. Some of the best performing sectors which also seem to have good earnings potential include rubber, machinery, electricals, autos, retailers, banks, brokers, real estate, software, communication and services.

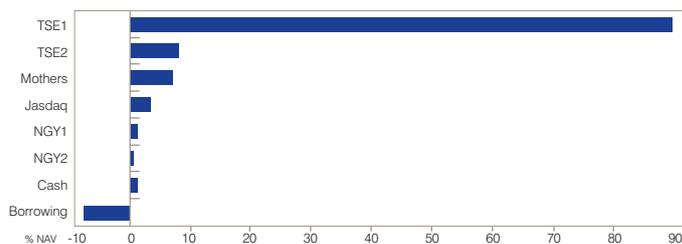
We continue to increase our exposure to cyclical growth companies and recovery situations. However we are avoiding junk stocks and companies that have little, if any, earnings growth potential. Even if a company is selling on a big discount to book value we are not interested, unless the company can also increase its earnings over the next few years. We are making every effort to avoid value traps.

An example of a company we have been following for some time and bought earlier this year is Tokai Tokyo Securities (code 8616) which is now Japan's fourth largest listed broker. Tokai has only limited overseas business, has its headquarters in Tokyo, but has strong ties to Nagoya. The company has an extensive retail network including 27 offices and is strong in the retail business but is also involved in institutional sales and capital markets. Major shareholders include several trust banks, insurance companies, and Toyota Motors.

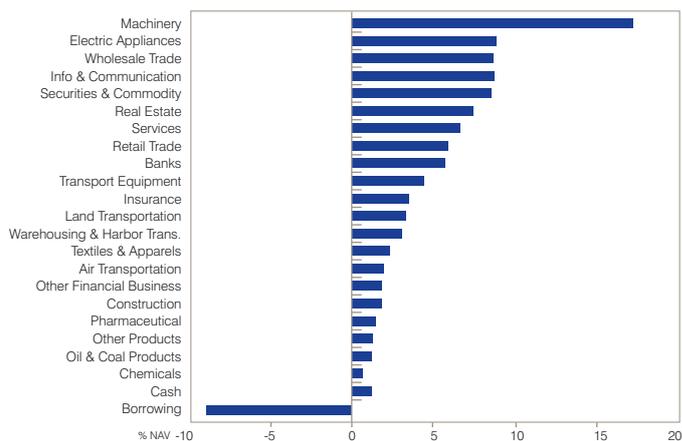
Business is now very strong and for the year ending March 2014 we look for earnings of ¥85 per share and for March 2015 something over ¥100 per share, assuming the market remains strong. The shares sell on a discount to book value and based on an expected dividend of ¥30 the estimated gross yield is now around 3.7%. The stock ended the month at ¥819.

Portfolio Exposures

Exchange Breakdown



Sector Breakdown



Top Ten Holdings % NAV

Daikin Industries	4.7
Nihon M&A Center	4.0
Toyota Motor	3.9
Sumitomo Mitsui Financial	3.9
Japan Aviation Electronics	3.6
Inaba Denki Sangyo	3.5
Toyota Tsusho	3.4
Mitsui Fudosan	3.1
Foster Electric	3.1
Saint Marc Holdings	3.0

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

Fund Broker

N+1 Singer, One Bartholomew Lane, London, EC2N 2AX
Contact: Sam Greatrex Tel: +44 20 7496 3029
 sam.greatrex@n1singer.com

Shareholder Enquiries

Computershare Investor Services (Jersey) Ltd
 Queensway House, Hilgrove Street, St. Helier, Jersey, JE1 1ES
Contact: Nicola Baird,
 Tel: +44 1534 281 856, Fax: +44 870 873 5851
 nicola.baird@computershare.co.je

Administrator

Northern Trust International Fund Administration Services
 (Guernsey) Ltd
 Trafalgar Court, Les Banques, St Peter Port, Guernsey, GY1 3QL
 Tel: +44 14 8174 5001, Fax: +44 14 8174 5051

Investment Adviser

Tiburon Partners LLP
 21 St James's Square, London, SW1Y 4JP
Contact: Investor Services Tel: +44 20 7747 5770
 investorservices@tiburon.co.uk

Investment Contact

Atlantis Investment Research Corporation ("AIRC")
 Hamamatsu-cho Square, Studio 1805,
 1-30-5 Hamamatsu-cho, Minato-Ku,
 Tokyo 105-0013, Japan
Contact: Ed Merner or Taeko Setaishi
 Tel: +81 3 3436 6321, Fax: +81 3 3436 6322

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