

FIDELITY JAPAN TRUST PLC

Final Results for the year ended 31 December 2022

Financial Highlights:

- Over the reporting period, the net asset value (“NAV”) of the Company returned -24.3%, compared to a return of -4.1% in the Reference Index.
- Ten-year performance of the Company remains strong with both the share price and NAV significantly outperforming the Reference Index.
- After value stocks dominated in 2022, the relative earnings prospects of growth companies are more attractive and there is much scope for upside within the mid/small-cap growth space.
- The Company continues to focus on identifying companies whose growth prospects are being under-appreciated

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CHAIRMAN’S STATEMENT

PERFORMANCE REVIEW

2022 was one of the most challenging years for financial markets in a long time and this was reflected in the returns of Fidelity Japan Trust PLC. While the TOPIX, the Japanese market index, fell by only 4.1% in sterling terms over the year to 31 December 2022, the market saw a savage rotation out of growth stocks, where the Company has remained heavily weighted, and into value stocks where the Company was under represented. This resulted in the Company’s NAV per share falling by 24.3% over the year to 31 December 2022 and the share price of the Company falling by 28.1%. Last year’s performance has also impacted the cumulative performance over three and five years but the ten year performance of the Company remains strong with both the share price and NAV significantly outperforming the Reference Index.

DISCOUNT MANAGEMENT, SHARE REPURCHASES AND TREASURY SHARES

The Board has an active discount management policy, the primary purpose of which is to reduce discount volatility. The discount at which the Company’s shares traded widened from 4.9% at the start of the year to 9.6% at the end of the reporting year, having peaked at 13.2%. The Board’s policy is to aim to manage the discount so that it remains in single digits in normal market conditions.

As part of the discount management policy, 175,001 ordinary shares were repurchased for holding in Treasury over the year at a cost of £284,000. This represents 0.1% of the issued share capital. Since the year end and up to the date of this report, a further 345,200 ordinary shares have been repurchased at a cost of £600,600.

At the forthcoming Annual General Meeting, the Board is seeking to renew the annual authority to repurchase up to 14.99% of the Company’s shares, to be either cancelled or held in Treasury, as it has done each year previously.

ONGOING CHARGES

The ongoing charge for the year, including the variable element, was 0.96% (2021: 1.10%). This comprises a fixed charge of 0.99% (2021: 0.90%), which rose principally as a result of a fall in the value of the Company’s net assets, and a variable credit of 0.03% (2021: charge of 0.20%). This reduction in the variable management fee is due to the Company’s underperformance in comparison to its Reference Index on a three-year rolling basis.

GEARING

The Company continues to gear the portfolio through the use of long Contracts for Difference (CFDs). Clearly, the level of gearing damaged performance in the falling market that we saw in 2022. However, the Board believes that gearing is a distinct advantage of the investment trust structure and will benefit the performance of the Company as the market recovers.

The Portfolio Manager has the discretion to be up to 25% geared. Total portfolio exposure at the end of the year was £285.5m, equating to gearing of 20.8% compared with 21.6% at the end of 2021. Further information can be found in the Annual Report. As at 24 March 2023, gearing was 24.0%.

The Board continues to be of the view that using CFDs provides more flexibility at a much lower cost than traditional bank debt.

UNLISTED COMPANIES

Following shareholder approval at the AGM on 17 May 2022, the Company is permitted to invest up to 20% of the Company’s assets in unlisted companies. Given the volatile market environment, the investment team have proceeded with caution and the level of unlisted investments was just 8.0% of net assets at the year end compared to 5.4% as at 31 December 2021.

DUE DILIGENCE TRIP 2022

Following the Japanese Government relaxing restrictions on foreign visitors, the Board was able to conduct a Due Diligence trip to Japan in October 2022, our first visit since January 2019. We had a series of meetings with the investment team, all of the investment analysts and senior management of Fidelity in Tokyo as well as with external market commentators and some of the Company’s key investee companies. As well as giving the Board a better informed perspective on Japan, the trip gave us reassurance about the depth of resources supporting Nicholas Price and the investment team. We are confident that the management of the Fidelity Japan Trust is in good hands.

BOARD CHANGES

The Board continues to review its composition and effectiveness as well as considering appropriate succession planning. In this context, I am pleased to welcome Myra Chan who joined the Board as a non-executive Director on 17 October 2022. Myra is a CFA and graduated from the International Christian University of Tokyo and has since had 25 years of investment experience.

All Directors are subject to annual re-election at the AGM on 24 May 2023, with the exception of Myra Chan who, being newly appointed, is subject to election at the AGM. Biographical details of the full Board are included in the Annual Report to assist shareholders when considering their voting at the AGM.

ANNUAL GENERAL MEETING (AGM)

This year we will be holding a ‘hybrid’ general meeting in accordance with the Articles of Association, allowing attendance and voting in person as well as remotely in real time. Nicholas Price will be making a presentation, reviewing 2022 and outlining the opportunities in the market and prospects for this year. He and the Board will be very happy to answer any questions that shareholders may have from those in the room and those attending online. The presentation and formal business will all be filmed and simultaneously streamed online. Japanese refreshments will be served and I hope to see many of you there.

More details are set out in the Notice of Meeting in the Annual Report.

OUTLOOK

Since the end of 2022, the gloomy prospects for the world economy have receded a little and markets have recovered from their low levels. As at 28 February 2023, the NAV of Fidelity Japan Trust has risen by 4.3% which compares to a rise of 1.4% in the Reference Index.

Overall, the valuation of companies in Japan are looking attractive both in historic terms as well as relative to other markets and the profitability of Japanese companies continues to improve. As a result, the Board remains positive about the prospects for the Company for 2023 and over the medium-term unless there is a significant deterioration in sentiment on account of global geopolitical issues or a sustained financial crisis triggered by the collapse of Silicon Valley Bank and subsequent contagion in the global banking sector. We are confident that Nicholas Price and the Fidelity investment team in Tokyo, with their disciplined, research-driven investment process, will return to delivering strong investment returns for shareholders.

DAVID GRAHAM

Chairman

28 March 2023

PORTFOLIO MANAGER’S REVIEW

QUESTION

The year under review has been challenging for growth-oriented equity strategies. Why is that and what were the key drivers of the Japanese stock market?

ANSWER

The past year proved to be a difficult one for investors, with prices declining across regions and asset classes. While the Japanese market declined only modestly in yen terms, the reality is that under the surface, style trends were extreme. This is the result of aggressive action by the US Federal Reserve (Fed) to address inflation, supply chain disruptions due to COVID-19 and the war in Ukraine. Growth stocks underperformed their value counterparts by more than 20% in 2022, which is the most significant divergence since the collapse of the technology bubble in 2000. These trends created significant performance headwinds for the Company and other growth-oriented funds.

Against this backdrop, higher valuation stocks in sectors such as Electric Appliances, Services and Precision Instruments faced compression of price earnings multiples amid rising yields. Exporters in general were weak as concerns over a global recession and lockdowns in China outweighed the benefits of a weaker yen. Conversely, the Mining and Wholesale Trade sectors were among the strongest performers in 2022, reflecting tightness in commodities. Rate-sensitive Financials did well towards the end of the year, and railway and airline operators outperformed on Japan’s post-COVID-19 reopening.

Although there are concerns over a further slowdown in the global economy, the sensitivity of growth stocks to monetary policy is declining, and the reopening of the domestic economy and the resumption of inbound demand should help to put a floor under mid/small-cap stocks. After value stocks dominated in 2022, the relative earnings prospects of growth companies are more attractive and there is much scope for upside within the mid/small-cap growth space.

QUESTION

What was investment performance over the reporting period? What were the key contributors and detractors? What about longer-term numbers?

ANSWER

As noted in the Chairman’s Statement, the Company’s NAV per share declined by 24.3% in sterling terms and the share price fell by 28.1%. In comparison, the Reference Index decreased by 4.1%. The discount widened to 9.6% from 4.9% a year ago. The Company underperformed the weighted average return of the AIC Japan peer group over the year, but despite this, was largely in line with other mid/small-cap growth competitors.

While the five year performance is disappointing against the Reference Index, it compares favourably with other Japanese investment funds. Over the ten year period, we have strongly outperformed our Benchmark.

The new year brought with it an extreme style rotation that led to the outperformance of value names and sharp declines for growth stocks that are vulnerable to changes in interest rates. This generated formidable headwinds and mid/small-cap growth stocks, notably in the Software-as-a-Service (SaaS)/Internet space, corrected sharply in the first half of the year as the prospect of further monetary tightening in the US and Europe led to a sharp compression in valuation multiples. Key examples here are **Raksul** (Business-to-Business (B2B) e-Commerce (EC) printing and advertising), **Coconala** (Consumer-to-Consumer (C2C) freelancing platform) and **Sansan** (cloud-based contact management services). However, as these companies shift from investment to profit mode, we expect the market to reappraise them based on improvements to their bottom line.

At the same time, companies tied to secular growth trends such as Factory Automation (FA) and Electric Vehicles (EV) that did well last year were subject to profit taking. For example, FA components supplier **MISUMI Group** experienced a temporary slowdown in earnings due to supply chain disruptions and procurement difficulties. However, it remains a highly differentiated FA-related company with a strong digitalised business that is trading on attractive valuations. Similarly, EV motor core manufacturer **Mitsui High-tec**, the standout contributor to performance in 2021, faced selling pressure amid a slowdown in earnings at its secondary electronics business. Nevertheless, it commands a dominant position in the motor core market and our conviction in its mid-term growth prospects remains strong.

At a sector level, the Company’s underweight stance in Banks and Insurance weighed on relative returns. The Bank of Japan’s (BoJ) unexpected decision to revise its yield curve control policy drove gains in rate-sensitive financials. In this environment, not holding mega banks **Mitsubishi UFJ Financial Group** and **Sumitomo Mitsui Financial Group** hurt relative performance.

On a positive note, domestic reopening names and electronic equipment makers supported by a secular growth story were among the Company’s strongest performers. **Kotobuki Spirits**, a confectionary company that manufactures and distributes premium sweets and cakes typically bought as souvenirs, was the standout contributor to performance over the year. **Kotobuki** continued to expand its sales channels, centred on stores in prime locations such as train stations and airports, and sales started to recover after the Japanese government ended the quasi state of emergency and subsequently reopened the country’s borders to inbound tourists. The Company’s holdings in game centre operator **Round One** and shoe store chain owner **ABC-Mart** also added value.

Tsuburaya Fields Holdings, a relatively new position that was initiated in July, outperformed. The maker of pachinko slot machines announced a significant upward revision to its full-year earnings forecasts, reflecting strong sales in China. Its content and digital business, centred on the Ultraman character, was expected to make a major contribution to its earnings as it expands globally. Meanwhile, shares in medical equipment maker **Olympus** jumped to a record high. The company reported strong annual results and forecasted that profits would reach new highs in fiscal 2022 (12 months to March 2023), driven by the growth of its core endoscopic solutions business. Further progress in restructuring and the prospect of higher shareholder returns also supported its share price.

QUESTION

How has the portfolio changed over the period and how would you describe current positioning?

ANSWER

The Information & Communication and Services sectors remain among the largest overweight positions in the Company, reflecting holdings in fast growing domestic B2B/B2C platformers and unique service providers. The extent of the active weights has reduced over the year, and this partly reflects the sharp correction in mid/small-cap growth stocks, especially in internet-related companies (**Raksul**, **JustSystems**, **Sansan**), in the first half of the year. More recently, profit taking in strong-performing reopening names (for example, game centre operator **Round One** and Tokyo Disneyland owner **Oriental Land**) has also been a factor.

As a result of bottom-up stock selection, there has been an increase in the active exposures to the Chemicals and Retail Trade sectors. **NOF** and **Kansai Paint** remain key active positions in the Chemicals sector, while **Osaka Soda** (a supplier of niche functional chemicals with strong pricing power that is expanding its medical-related business) is a new addition. In the Retail Trade sector, **Ryohin Keikaku** (operating as MUJI in the UK) remains a key active position, while reopening names (shoe store operator **ABC-Mart** and Uniqlo brand owner **Fast Retailing**) were added.

Meanwhile, there was no significant change in the key underweight sector positions (Transportation Equipment, Banks, Pharmaceutical and Land Transportation) in the portfolio.

While there have been opportunities to add oversold technology-related companies that are approaching the trough of their respective cycles, the portfolio is, on balance, bottom-up weighted towards companies that are likely to benefit from a strengthening yen, such as retailers, domestic growth names and re-opening beneficiaries with favourable mid-term fundamentals. Key active holdings in the portfolio include a mix of global industry leaders with high market share and pricing power, reopening names that are beneficiaries of economic and societal normalisation, and defensive growth companies with stable earnings and shareholder returns.

Below are the ten highest contributors and detractors to the NAV total return on a relative basis.

TEN HIGHEST CONTRIBUTORS (ON A RELATIVE BASIS)

Company and Sector	Portfolio Average Weight	Index Average Weight	Portfolio Average Relative Weight	Contribution to Relative Return
	%	%	(%)	(%)
Kotobuki Spirits (Foods)	+2.9	0.0	+2.9	+1.0
Tsuburaya Fields Holdings (Wholesale Trade)	+0.4	0.0	+0.4	+0.8
Olympus (Precision Instruments)	+4.2	+0.5	+3.7	+0.7
Sony (Electric Appliances)	+0.2	+2.8	-2.6	+0.5
Nidec (Electric Appliances)	0.0	+0.9	-0.9	+0.5
Round One (Services)	+1.5	0.0	+1.5	+0.5
Kamakura Shinsho (Services)	+0.9	0.0	+0.9	+0.5
m-up (Information & Communication)	+1.2	0.0	+1.2	+0.4
ABC-Mart (Retail Trade)	+1.0	0.0	+1.0	+0.4
Koshidaka Holdings (Services)	+0.9	0.0	+0.9	+0.4
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TEN HIGHEST DETRACTORS (ON A RELATIVE BASIS)

Company and Sector	Portfolio Average Weight	Index Average Weight	Portfolio Average Relative Weight	Contribution to Relative Return
	%	%	(%)	(%)
Raksul (Information & Communication)	+2.7	0.0	+2.7	-1.9
MISUMI Group (Wholesale Trade)	+4.3	+0.2	+4.1	-1.9
Coconala (Information & Communication)	+1.3	0.0	+1.3	-1.7
Mitsui High-tec (Electric Appliances)	+4.0	0.0	+4.0	-1.7
Sansan (Information & Communication)	+2.2	0.0	+2.2	-1.4
JustSystems (Information & Communication)	+2.6	0.0	+2.6	-1.3
UT Group (Services)	+1.7	0.0	+1.7	-1.1
Kansai Paint (Chemicals)	+2.8	+0.1	+2.7	-0.9
Plaid (Information & Communication)	+0.3	0.0	+0.3	-0.7
Mitsubishi UFJ Financial Group (Banks)	0.0	+1.7	-1.7	-0.6
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QUESTION

What has been the impact of the weak yen and generally volatile currency on your investment thinking over the year?

ANSWER

The weakening of the yen, while generally positive for export competitiveness, has exacerbated inflationary pressures by raising the cost of imported goods and materials for Japanese consumers and businesses. Furthermore, the export boost from the lower yen has been weaker than in previous cycles due to supply disruptions, surging input costs and a slowdown in global demand.

I generally do not take a strong view on the yen and currency forecasts do not play an active role in my bottom-up investment process. While individual holdings with a high ratio of overseas sales may at times benefit from a weaker yen, the portfolio overall has tended to be currency neutral to being slightly negative versus the Reference Index. This is because of a consistent focus on mid/small-caps, which typically generate the bulk of their revenues at home.

QUESTION

Has the last year changed your perspective on the opportunities in unlisted stocks? Has our exposure to unlisted stocks changed over the year?

ANSWER

Global Initial Public Offering (IPO) volumes fell sharply in 2022, with average deal sizes shrinking due to a correction in valuations and unfavourable market conditions. In an environment characterised by rising inflation, higher interest rates and

persistent geopolitical tensions, investors became more cautious and the appetite for new public companies waned. The same trends prevailed in Japan. There were 91 IPOs in 2022, down by almost 30% compared to 2021, but in line with the ten-year average. There were only three IPOs that raised more than ¥10 billion in 2022, down from 18 in the previous year.

Despite the muted market conditions that predominated in 2022, we retain a high level of conviction in unlisted investments as a differentiated source of excess returns in Japan. The government of Prime Minister Fumio Kishida recently outlined a five-year plan to promote innovation and nurture start-ups, with the aim of driving a tenfold increase in the number of unicorn companies and new business launches through tax incentives, funding and government procurement. Moreover, from our experience on the ground, we are seeing a lot more entrepreneurial activity in Japan compared with five to ten years ago.

While new listings (both in Japan and globally) are coming under pressure amid heightened geopolitical and inflationary risks, new growth companies are still coming through, which will create future opportunities in the pre-IPO market. Being on the ground in Japan, and seeing many different companies, means that we are well placed to help entrepreneurs in the latter stages of their pre-IPO journey.

While Japan has always been successful in automobiles and electronics, the information revolution is throwing up new opportunities in areas such as SaaS. We are also seeing new business opportunities emerge in response to major challenges facing the world, primarily climate change and decarbonisation. For example, one of our pre-IPO companies, fintech innovator **Moneytree**, announced a tie-up with Cogo of New Zealand to provide carbon emissions analysis for Japanese financial institutions. As Japan aims to reduce greenhouse gas emissions to net zero by 2050, there is accelerating demand for such carbon footprint management solutions.

At the end of the review period, seven unlisted names were held, representing 8.0% of net assets (2021: six names, representing 5.4%), including a new position in **Studyplus**. The company operates Japan's leading learning management platform for high school students and associated services for educational institutions. As always, we continue to evaluate new opportunities, while maintaining a disciplined approach towards valuation.

Details of the unlisted companies held in the portfolio can be below.

QUESTION

The Bank of Japan's surprise change to its yield curve control policy on 20 December 2022, triggered large swings in the currency, bond and equity markets. What impact has this had on the Company's portfolio, and should investors brace themselves for further adjustments to monetary policy?

ANSWER

The timing of the BoJ's decision was unexpected, with the immediate objective being to improve the functioning of the Japanese government bond market. While I have selectively added positions in regional banks that are highly levered to changes in domestic monetary policy, the portfolio overall remains underweight in Financials. Furthermore, the Company has exposure to growth stocks that benefit from a stronger yen and that acts as a natural hedge against a change in the BoJ policy.

A lot of tightening has already been priced in and further appreciation in financial stocks would require confirmation of strong and sustainable domestic wage hikes and domestic inflation, and a move by the BoJ towards exiting its negative interest rate policy at a time of relatively weak global economic conditions.

There may be political momentum building in the background, pressuring the BoJ to review its yield curve control policy, and the appointment of Kazuo Ueda as the new governor in the spring fuelled expectations for the normalisation of Japan's monetary policy. We will continue to monitor developments closely, especially the nuance of the BoJ's communications and any apparent change in the government's views on monetary policy.

QUESTION

Sustainability remains a key area of focus for investors. Can you outline your approach as well as the opportunities and challenges in this area that are specific to Japan?

ANSWER

Sustainability is a core part of the Fidelity-wide investment process and assessing which companies can grow sustainably over the mid-term and enhance the efficiency of other corporates and their supply chains is a key part of my portfolio construction. By working closely with our Head of Engagement in Tokyo and maintaining an active dialogue with investee companies, we aim to continually improve the sustainability of their businesses, which will also enhance their performance.

Globally, the uncertainty brought by COVID-19 has shone a light on sustainability – and Japan is no exception. Although Japanese companies generally have lower sustainability scores than their European counterparts, we believe this is not due to any fundamental differences in strategy, but more to do with cultural reasons around disclosure practices and language. By working closely with our sustainable investing team on the ground in Japan, we can identify companies that are implementing real change and moving up the governance scale. As these companies improve disclosure, their Environmental, Social and Governance (ESG) ratings should catch up and the market should adjust valuations accordingly. This creates an opportunity for investors to benefit from the adjustment.

In terms of sustainability, Japan's position as a regional and global leader in tackling climate change remains underappreciated, with the number of Task Force on Climate-related Financial Disclosures (TCFD) signatories reaching far higher levels than in the US and the UK. While Japanese companies have tended to disclose less on social factors versus environmental and governance related ones, we are seeing a greater focus on the promotion of human capital and gender diversity.

Changes to the rules governing non-financial information in securities filings require companies to show how they are addressing factors such as human resource development, gender pay gaps and the ratio of women in managerial positions. Looking forward, we will see changes in how companies address these issues, and how they are evaluated as a result. Ultimately, sustainability factors have the potential to impact the short and long-term value of companies, and investing in those companies with high standards of sustainability can protect and enhance investment returns.

QUESTION

What have been the key ESG trends in Japan and what developments are ahead? It would be particularly interesting to hear your thoughts about the evolution of corporate governance.

ANSWER

Despite the sometimes slow progress of reforms, we have noticed positive changes in the thought process of many of the companies managements when it comes to embracing the tenets of ESG investment. Japanese firms are adjusting to investors' rising expectations and preparing themselves for higher governance requirements.

Key developments that have taken effect over the past year or so include revisions to Japan's Corporate Governance Code (CGC) and the reform of the Tokyo Stock Exchange (TSE). The former was aimed at encouraging Japanese companies to accelerate their ESG initiatives, including the promotion of board independence, and the enhancement of diversity and sustainability measures. Meanwhile, the TSE restructuring that took place in April 2022 led to the creation of three new market segments (Prime, Standard and Growth), with most companies that previously listed on the TSE's First Section transitioning to the new Prime Market.

As specified in the CGC revision, companies listed on the Prime Market must have at least one-third independent directors, disclose a skills matrix for each board member, and establish independent nomination and compensation committees. The revised CGC also requires companies to set and disclose voluntary measurable goals for ensuring diversity in managerial positions by appointing women, non-Japanese people and mid-career hires. Finally, companies on the Prime Market are obliged to enhance the quality and quantity of climate change disclosures based on TCFD recommendations.

Advocating for faster progress towards gender equality, Fidelity applied a new voting policy in Japan and other Asian markets, requiring investee companies to have a minimum of 15% female directorship ratio. If a company fails to meet the threshold, we will vote against the election of board directors. Before our new voting policy was implemented in Japan's June Annual General Meeting season, 56 Japanese investee companies fell below the 15% threshold, but half of those companies have since made improvements by electing female directors for the first time.

While the broad direction of market reform in Japan is aimed at revitalising listed firms and encouraging sustainable growth, regulators so far have only set the entrance criteria for the Prime Market. We believe that more measures need to be introduced to foster sustainable capitalism. To this end, the TSE has publicly stated that "the market restructuring is only the beginning". We believe sustainability-related factors should become a key focus in future revisions.

QUESTION

Could you provide an example of where active engagement has brought about real change?

ANSWER

In 2022, the investment team in Tokyo, led by our Head of Engagement, conducted 104 engagement meetings (in addition to our fundamental research meetings), covering 33 names held by the Company. Themes that formed part of these ESG engagements include board structure and executive remuneration, climate change and greenhouse gas emissions, and gender diversity and employee management.

Raksul is a good example of a company that we hold in the portfolio and with which we have consistently engaged for a number of years. **Raksul** is a leading B2B platformer that provides online printing and marketing/sales support services. It also operates a logistics service that matches customer orders with available truck capacity. We invested in **Raksul** as a pre-IPO security back in 2016 and have continued to hold the stock since its listing in 2018.

We engaged with **Raksul** at the start of the year on disclosure and sustainability ratings. This was in response to a direct request from the company for information on the latest ESG-related policy developments in Japan. Our engagement team shared our views on new disclosure requirements related to human capital, a topic that was high on the agenda of Prime Minister Fumio Kishida. We also encouraged the company to follow the TCFD structure of Governance, Risk Management, Strategy and Targets/KPIs.

The Company's management asked our engagement team how to improve their MSCI ESG rating. We shared best practices on business ethics such as the disclosure of code of conduct and other related policies on their corporate website. Encouragingly, **Raksul's** Chief Financial Officer explained that they were working on their first integrated report in order to convey to the market factors that cannot be explained quantitatively.

Later in the year, we engaged with **Raksul** on its board structure, employee management and ESG integration. Our engagement team encouraged the company to establish independent nomination and remuneration committees, and to disclose the training status of its employees. In terms of ESG integration, we encouraged the company to set out a materiality map (a method of identifying key sustainability issues from the perspective of the business and its external stakeholders) that clearly defines the company and what it does. **Raksul** subsequently launched its first sustainability management website, including the identification of materiality, the disclosure of carbon dioxide emissions for the past three years and information on employee training.

In September, the company's MSCI ESG rating was upgraded to A. This reflected improvements in business ethics practices (Governance) and workforce-related programmes (Labour Management). Over time, it is our belief that executives at Japanese companies, such as **Raksul**, will treat the disclosure of sustainability issues as importantly as they do financial data. By encouraging companies to disclose sooner and better, and actively engaging with them, we can create additional alpha opportunities for the Company.

QUESTION

What are your current thoughts on gearing? And how has your use of gearing changed over the period under review?

ANSWER

The level of gearing was little changed over the period and closed the year at 21% (2021: 22%). The leverage is deployed in stable growth companies rather than high beta names, and should we see a sustained rise in these stocks, then I would be inclined to reduce the level of gearing employed. However, I am happy with where market valuations currently stand, and the leverage is deployed in stable growth companies rather than high beta names. So, overall, I am comfortable with the Company's current gearing positioning.

QUESTION

How has the war in Ukraine and the growing geopolitical tensions in Asia shaped your investment thinking over the year?

ANSWER

Russia's war in Ukraine and the growing tensions between the US and China have exacerbated volatility in financial markets, though these developments have not been a key driver of investment decisions. Russia accounted for just 1% of Japanese exports and 1.8% of total imports in 2021, so the direct impact has not been significant. However, surging commodity prices, especially oil, have driven up costs, creating an indirect impact on Japanese households and corporates. In terms of US-China relations, most countries have adopted a pragmatic approach and are likely to continue with this balancing act. In a shifting security environment, the intensifying rivalry between the US and China could potentially exacerbate Japan's geopolitical and economic vulnerabilities and will need to be carefully managed.

QUESTION

How do you view the nascent reopening in China?

ANSWER

In late 2022, the Chinese government announced ten new COVID-19 measures that significantly eased restrictions. Despite some concerns about a surge in the number of new COVID-19 cases, the country's reopening paves the way for a recovery in 2023. Japanese retailers and consumer product companies that have a high earnings contribution from China stand to benefit from the country's economic reopening and an accompanying recovery in consumption. Against this backdrop, I see significant growth potential for investee companies, including **Ryohin Keikaku**, **Descente**, **Fast Retailing** and **Nitori Holdings**, that can capitalise on their competitive strengths and product appeal.

QUESTION

What should investors be focusing on as we move through 2023?

ANSWER

Inflation surprises have driven market expectations for the pace of interest rate hikes by the US Fed. As economic activity weakens, however, bond yields are likely to be restrained by lower levels of growth. If the view that long-term rates have peaked gains traction, then this would help to put a floor under equity markets. It would also support a bottoming out in growth stocks, and I would expect some of the names that performed poorly in 2022 to come back quite strongly.

Against this backdrop, there is the potential for beaten-up technology stocks to start performing again, especially as earnings disappointments are coming out as we approach the trough of the cycle. I also see huge potential for Japanese companies in the retail and consumer products space that have a strong presence in China and can benefit from the country's reopening. In terms of key risks, headwinds from external demand are most prominent, with signs of weakness in the manufacturing sector already becoming more apparent.

Meanwhile, BoJ Governor Haruhiko Kuroda's term will end in the spring and speculation over the future direction of monetary policy in Japan is set to intensify as Kazuo Ueda takes over. Looking forward, it is not yet clear how or when the central bank will adjust its policy framework, with the emergence of financial stress in the US and Europe complicating the path towards normalisation.

Japan continues to offer a wealth of under-researched mid/small-cap growth companies. Active managers, like me, based in Tokyo, have the opportunity not only to invest in established global leaders, but also to unearth less well-known companies (including pre-IPO), where lower levels of analyst coverage can often create some great mispriced opportunities.

More recently, Silicon Valley Bank's failure and the subsequent spread of banking system unease from the US to Europe are generating high levels of uncertainty in financial markets. These developments have resulted in lower expectations for Fed rate hikes, lower economic growth expectations and lower long-term rates. Although Japanese stocks, centred on financials, have not been immune to a global sell off, we do not expect any major direct impact on Japanese companies.

In an uncertain environment, our in-depth research and on-the-ground knowledge is invaluable when looking at the micro level and speaking to company management teams to fully understand the prevailing dynamics. This enables us to develop a high level of conviction in the companies that we hold and, as noted above, we see the potential for last year's laggards to come back strongly and drive future performance.

NICHOLAS PRICE

Portfolio Manager

28 March 2023

STRATEGIC REPORT

PRINCIPAL RISKS AND UNCERTAINTIES AND RISK MANAGEMENT

As required by provisions 28 and 29 of the 2018 UK Corporate Governance Code, the Board has a robust ongoing process for identifying, evaluating and managing the principal and emerging risks and uncertainties faced by the Company, including those that could threaten its business model, future performance, solvency or liquidity. The Board, with the assistance of the Alternative Investment Fund Manager (FIL Investment Services (UK) Limited/Manager), has developed a risk matrix which, as part of the risk management and internal controls process, identifies the key existing and emerging risks and uncertainties that the Company faces. The Board believes the key emerging risk to be the longer-term ramifications from the pandemic and climate change. Other emerging risks may continue to evolve from unforeseen geopolitical and economic events.

Climate change, which refers to a large-scale shift in the planet’s weather patterns and temperatures, continues to be a key emerging issue and a principal risk confronting asset managers and their investors. The Board notes that the Manager has integrated ESG considerations, including climate change, into the Company’s investment process. Further details are in the Annual Report. The Board will continue to monitor how this may impact the Company as a risk on investment valuations and potentially shareholder returns.

The risks identified are placed on the Company’s risk matrix and graded appropriately. This process, together with the policies and procedures for the mitigation of existing and emerging risks, is updated and reviewed regularly in the form of comprehensive reports considered by the Audit Committee. The Board determines the nature and extent of any risks it is willing to take in order to achieve its strategic objectives.

The Manager also has responsibility for risk management for the Company. It works with the Board to identify and manage the principal risks and uncertainties and to ensure that the Board can continue to meet its UK corporate governance obligations.

The Board considers the following as the principal risks and uncertainties faced by the Company.

Principal Risks	Mitigation
Geopolitical Risk Geopolitical risk is the potential for political, socio-economic and cultural events, trends and developments to have an adverse effect on the Company’s assets. The global economic impact from the war in Ukraine is significant and threatens consumer spending and industrial activity amid soaring energy costs and currency instability. The expected growth in global GDP for 2022 has already been revised downwards since Russia’s invasion. Other geopolitical risks include, but are not limited to, growing US/China tensions and potential North Korean aggression.	The Board is provided with a detailed investment review which covers material economic, market and legislative changes at each Board meeting as well as receiving periodic updates from economic and political commentators in the region. Although it is unclear how long the Russia and Ukraine conflict will last, the direct impact for Japan is not significant. The direct impact of the situation in Ukraine on portfolio holdings is also relatively limited. However, the ramifications of a global downturn could have a significant impact on the Japanese economy. The Portfolio Manager’s Review above provides further detail on the conflict and its impact on the Company’s portfolio and on Japanese households and corporates.
Natural Disaster Risk Japan is extremely vulnerable to earthquakes and tsunamis. Depending on the magnitude of such events, positions in the portfolio may be affected. The Manager could also be impacted from an operational perspective if the epicentre is in or near Tokyo. Market, Economic and Currency Risks The Company’s assets consist mainly of listed securities. Therefore, its principal risks include market related risks such as market downturn, interest rate movements, deflation/inflation and exchange rate movements. The Portfolio Manager’s success or failure to protect and increase the Company’s assets against this background is core to the Company’s continued success.	Whilst natural disasters cannot be averted, the Board is comfortable that the Manager has a robust business continuity plan in place. These risks are somewhat mitigated by the Company’s investment trust structure which means no forced sales will need to take place to deal with any redemptions. Therefore, investments can be held over a longer time horizon. Risks to which the Company is exposed in the market risk category are included in Note 16 to the Financial Statements below together with summaries of the policies for managing these risks. It is the Company’s policy not to hedge against currency risks. Further details can be found in Note 16 to the Financial Statements below.
Investment Performance and Gearing Risks The portfolio is actively managed and performance risk is inherent in the investment process. The achievement of the Company’s investment performance objective relative to the market requires the taking of risk, such as strategy, asset allocation and stock selection, and may lead to NAV and share price underperformance compared to the Reference Index.	The Portfolio Manager is responsible for actively monitoring the portfolio selected in accordance with the asset allocation parameters and seeks to ensure that individual stocks meet an acceptable risk/reward profile. The emphasis is on long-term investment performance as there is a risk for the Company of volatility of performance in the shorter-term. The Board closely monitors the valuations of the unlisted investments through the Manager’s Fair Value Committee. In addition, there are limits and guidelines that the Board sets for the Portfolio Manager as to how much of the Company’s net assets can be held in unlisted securities. As at 31 December 2022, the Company’s unlisted investments represented 8.0% of net assets. The limit approved by shareholders is 20% of net assets. The Company gears through the use of long CFDs which are currently cheaper than bank loans and provide greater flexibility. The Board regularly considers the level of gearing and gearing risk and sets limits within which the Portfolio Manager must operate.
Discount Control and Demand Risks There is a risk that the Company’s shares trade at a persistent and significant discount to the NAV.	The market value of the Company’s shares and its discount to NAV are factors which are not wholly within the

There is a risk that the demand for the Company’s shares may fall due to poor performance, changes in investor sentiment and attitudes towards investment in Japan.

Key Person Risk

The loss of the Portfolio Manager or other key individuals could lead to potential performance, operational or regulatory issues. There is a risk that the Manager has an inadequate succession plan for key individuals, particularly the Portfolio Manager with stock selection expertise in Japanese markets.

Operational Resilience Risk

There continues to be increased focus from financial services regulators around the world on the contingency plans of regulated financial firms. There are risks following Russia’s invasion into Ukraine, specifically regarding the potential loss of power and/or broadband services. Variants of COVID continue to evolve and some risks remain.

The Company relies on a number of third party service providers, principally the Manager, Registrar, Custodian and Depositary. It is dependent on the effective operation of the Manager’s control systems and those of its service providers with regard to the security of the Company’s assets, dealing procedures, accounting records and the compliance with regulatory and legal requirements. The Company’s ability to operate could be severely impacted in the event of a significant failure by the service providers to perform their obligations or suffer a major operational failure.

Environmental, Social and Governance (ESG) Risks

There is a risk that the value of the assets of the Company are negatively impacted by ESG related risks, including the impact of climate change risk. ESG risks include investor expectations and how the Company is positioned from a marketing perspective.

Cybercrime Risk

The operational risk from cybercrime is significant as cyber threats evolve rapidly. A cyber attack could result in the loss of confidential information or cause a significant disruption to the Company’s operations. Cybercrime threats evolve rapidly and are increased due to the pandemic and from the Russia/Ukraine conflict. Such risks primarily relate to phishing, remote access threats, extortion and denial-of-services attacks.

Board’s total control. However, the Board continues to adopt a formal discount control policy whereby it will actively seek to maintain the discount in single digits in normal market conditions. The Company’s share price, NAV and discount volatility are monitored daily by the Manager and the Company’s Broker and considered by the Board regularly. Some short-term influence over the discount may be exercised by the use of share repurchases at acceptable prices and within the parameters set by the Board.

The demand for shares is influenced by the appeal of Japanese markets and through good performance and an active investor relations program. The Board reviews analysis of the shareholder register at each Board meeting which allows the Board to monitor the relevance of the Company’s mandate to shareholders and remain abreast of market sentiment.

The Manager identifies key dependencies which are then addressed through succession plans. Fidelity has succession plans in place for portfolio managers and these are discussed regularly with the Board. The Board meets regularly with the Portfolio Manager and key members of the investment team.

The Manager reviews its business continuity plans and operational resilience strategies on an ongoing basis. Investment team key activities, including portfolio managers, analysts and trading/support functions, are performing well despite the operational challenges posed when working from home during the pandemic, and more recently, from the rail strikes. Risks of loss of power and broadband services following the war in Ukraine are increasingly stable as work transfer recovery options are established for business-critical activities.

The Manager continues to take all reasonable steps to meet its regulatory obligations, assess its ability to continue operating and the steps it needs to take to support its clients, including the Board. There have not been any significant changes to Fidelity’s control environment as a result of the pandemic and the rail strikes and the Manager has provided the Board with assurance that the Company has appropriate business continuity plans and the provision of services has continued to be supplied without interruption.

Specific risks posed by the pandemic continue to ease with increasing levels of staff returning to routine office-based working, albeit under hybrid working arrangements which allow greater flexibility on remote working as part of the new operating model.

The Company’s other third party service providers, particularly the Registrar, Custodian and Depositary, are all subject to a risk-based programme of internal audits by the Manager and their own internal controls reports are received by the Board on an annual basis and any concerns are investigated. The third party service providers have also confirmed the implementation of appropriate measures to ensure no business disruption.

Risks associated with these services are generally rated as low, but the financial consequences could be serious, including reputational damage to the Company.

The Board notes that the Manager has embedded ESG factors, including climate change, in its investment decision-making process. ESG integration is carried out at the fundamental research analyst level within its investment teams, primarily through Fidelity’s Proprietary Sustainability Rating which is designed to generate forward-looking assessments of companies ESG risks and opportunities based on sector-specific key performance indicators across many individual and unique sub-sectors. The Portfolio Manager is also active in analysing the effects of ESG when making investment decisions. The Board continues to monitor developments in this area and reviews the positioning of the portfolio considering ESG factors.

ESG ratings and carbon emissions of the companies within the Company’s portfolio compared to the MSCI are provided in the Annual Report.

Further detail on ESG considerations in the investment process and sustainable investment are in the Annual Report.

The Manager’s technology team has developed a number of initiatives and controls in order to provide enhanced mitigating protection to this ever increasing threat. The risk is frequently re-assessed by Fidelity International’s (Fidelity) information security teams and has resulted in the implementation of new tools and processes, including improvements to existing ones. Fidelity has established a dedicated cybersecurity team which provides regular awareness updates and best practice guidance.

The Manager has dedicated detect and respond resources specifically to monitor the cyber threats associated with the ongoing pandemic and cyber activity following Russia’s invasion of Ukraine. There are several mitigating actions

in place including, control strengthening, geo-blocking, and phishing mitigants, combined with enhanced resilience and recovery options.

Other risks facing the Company include:

TAX AND REGULATORY RISKS

There is a risk of the Company not complying with tax and regulatory requirements. A breach of Section 1158 of the Corporation Tax Act 2010 could lead to a loss of investment trust status resulting in the Company being subject to tax on capital gains.

The Board monitors tax and regulatory changes at each Board meeting and through active engagement with regulators and trade bodies by the Manager.

CONTINUATION VOTE

A continuation vote takes place every three years. There is a risk that shareholders do not vote in favour of continuation of the Company during periods when performance of the Company's NAV and share price is poor. At the Company's AGM held on 17 May 2022, 99.94% of shareholders voted in favour of the continuation of the Company. The next continuation vote will take place at the AGM in 2025.

VIABILITY STATEMENT

In accordance with provision 31 of the 2018 UK Corporate Governance Code, the Directors have assessed the prospects of the Company over a longer period than the 12 month period required by the "Going Concern" basis. The Company is an investment trust with the objective of achieving long-term capital growth. The Board considers that five years is an appropriate investment horizon to assess the viability of the Company, although the life of the Company is not intended to be limited to this or any other period.

In making an assessment on the viability of the Company, the Board has considered the following:

- The ongoing relevance of the investment objective in prevailing market conditions;
- The Company's level of gearing;
- The Company's NAV and share price performance;
- The principal and emerging risks and uncertainties facing the Company and their potential impact as set out above;
- The future demand for the Company's shares;
- The Company's share price discount to NAV;
- The liquidity of the Company's portfolio;
- The level of income generated by the Company;
- Future income and expenditure forecasts; and
- The Company will offer its shareholders a continuation vote at the AGM in 2025.

The Company's performance for the five year reporting period to 31 December 2022 was a NAV total return of 11.1% and a share price total return of 8.7% compared to the Reference Index total return of 12.6%. The Board regularly reviews the investment policy and considers whether it remains appropriate. The Board has concluded that there is a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the next five years based on the following considerations:

- The Investment Manager's compliance with the Company's investment objective and policy, its investment strategy and asset allocation;
- The portfolio mainly comprises readily realisable securities which can be sold to meet funding requirements if necessary;
- The Board's discount management policy; and
- The ongoing processes for monitoring operating costs and income which are considered to be reasonable in comparison to the Company's total assets.

In preparing the Financial Statements, the Directors have considered the impact of climate change, particularly in the context of the climate change risk identified within the ESG Risk above. The Board has also considered the impact of regulatory changes and how this may affect the Company.

In addition, the Directors' assessment of the Company's ability to operate in the foreseeable future is included in the Going Concern Statement which can be found in the Directors' Report in the Annual Report.

GOING CONCERN STATEMENT

The Directors have considered the Company's investment objective, risk management policies, liquidity risk, credit risk, capital management policies and procedures, the nature of its portfolio and its expenditure and cash flow projections. The Directors, having considered the liquidity of the Company's portfolio of investments (being mainly securities which are readily realisable) and the projected income and expenditure, are satisfied that the Company is financially sound and has adequate resources to meet all of its liabilities and ongoing expenses and continue in operational existence for the foreseeable future. The Board has therefore concluded that the Company has adequate resources to continue to adopt the going concern basis for the period to

31 March 2024 which is at least twelve months from the date of approval of the Financial Statements. This conclusion also takes into account the Board's assessment of the ongoing risks from evolving variants of COVID, the war in Ukraine and significant market events, as set out in the Operational Resilience Risk in the Strategic Report above. The prospects of the Company over a period longer than 12 months can be found in the Viability Statement above.

The Financial Statements of the Company have been prepared on a going concern basis.

PROMOTING THE SUCCESS OF THE COMPANY

Under Section 172(1) of the Companies Act 2006, the Directors of a company must act in a way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to the likely consequences of any decision in the long-term; the need to foster relationships with the Company's suppliers, customers and others; the impact of the company's operations on the community and the environment; the desirability of the Company maintaining a reputation for high standards of business conduct; and the need to act fairly as between members of the Company.

As an externally managed Investment Trust the Company has no employees or physical assets, and a number of the Company's functions are outsourced to third parties. The key outsourced function is the provision of investment management services by the Manager, but other professional service providers support the Company by providing administration, custodial, banking and audit services. The Board considers the Company's key stakeholders to be the existing and potential shareholders, the externally appointed Manager (FIL Investment Services (UK) Limited) and other third party professional service providers. The Board considers that the interest of these stakeholders is aligned with the Company's objective of delivering long-term capital growth to investors, in line with the Company's stated investment objective and strategy, while providing the highest standards of legal, regulatory and commercial conduct.

The Board, with the Portfolio Manager, sets the overall investment strategy and reviews this at an annual strategy day which is separate from the regular cycle of board meetings. In order to ensure good governance of the Company, the Board has set various limits on the investments in the portfolio, whether in the maximum size of individual holdings, the use of derivatives, the level of gearing and others. These limits and guidelines are regularly monitored and reviewed and are set out in the Annual Report.

The Board places great importance on communication with shareholders. The Annual General Meeting provides the key forum for the Board and Portfolio Manager to present to the shareholders on the Company's performance and future plans and the Board encourages all shareholders to attend in person or virtually, and raise questions and concerns. The Chairman and other Board members are available to meet shareholders as appropriate, and shareholders may also communicate with Board members at any time by writing to them at the Company's registered office or via the Company Secretary at the address provided in the Annual Report or by email at investmenttrusts@fil.com.

The Portfolio Manager meets with major shareholders, potential investors, stock market analysts, journalists and other commentators during the year. These communication opportunities help inform the Board in considering how best to promote the success of the company over the long-term.

The Board seeks to engage with the Manager and other service providers and advisers in a constructive and collaborative way, promoting a culture of strong governance, while encouraging open and constructive debate, in order to ensure appropriate and regular challenge and evaluation. This aims to enhance service levels and strengthen relationships with service providers, with a view to ensuring shareholders' interests are best served, by maintaining the highest standards of commercial conduct while keeping cost levels competitive.

Whilst the Company's direct operations are limited, the Board recognises the importance of considering the impact of the Company's investment strategy on the wider community and environment. The Board believes that a proper consideration of Environmental, Social and Governance (ESG) issues aligns with the objective to deliver long-term capital growth, and the Board's review of the Manager includes an assessment of their ESG approach, which is set out in detail in the Annual Report.

In addition to ensuring that the Company's investment objective was being pursued, key decisions and actions taken by the Directors during the reporting year, and up to the date of this report, have included:

- Authorising the repurchase of 175,001 ordinary shares into Treasury when market conditions permitted in order to keep the Company's discount in single digits;
- Consideration of alternative sources of gearing compared to using CFDs and deciding to continue using CFDs given their lower cost and liquidity;
- Meeting with the Company's key shareholders during the reporting year;
- Increasing the marketing budget of the Company to better promote the performance of the Portfolio Manager and raise the Company's profile in its sector (see Note 5 below);
- The decision to hold a hybrid AGM in 2022 (and also this year) in order to make the Annual General Meeting more accessible and improve the shareholder experience;
- The decision to appoint Myra Chan to the Board with effect from 17 October 2022;
- Meeting with the Portfolio Manager and the investment team during the Board's Due Diligence trip to Tokyo in October 2022; and
- Carrying out a Broker review in February 2023 to ensure that the Company continues to receive an optimal level of service.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial period. Under that law, the Directors have elected to prepare the Financial Statements in accordance with UK Generally Accepted Accounting Practice (UK Accounting Standards and applicable law), including Financial Reporting Standard FRS 102: The Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102"). Under company law, the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss for the reporting period.

In preparing these Financial Statements, the Directors are required to:

- Select suitable accounting policies in accordance with Section 10 of FRS 102 and then apply them consistently;
- Make judgements and accounting estimates that are reasonable and prudent;
- Present information, including accounting policies, in a fair and balanced manner that provides relevant, reliable, comparable and understandable information;
- State whether applicable UK Accounting Standards, including FRS 102, have been followed, subject to any material departures disclosed and explained in the Financial Statements; and
- Prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time, the financial position of the Company and to enable them to ensure that the Company and Financial Statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, a Directors' Report, a Corporate Governance Statement and a Directors' Remuneration Report which comply with that law and those regulations.

The Directors have delegated the responsibility for the maintenance and integrity of the corporate and financial information included on the Company's pages of the Manager's website at **www.fidelity.co.uk/japan** to the Manager. Visitors to the website need to be aware that legislation in the UK governing the preparation and dissemination of the Financial Statements may differ from legislation in their own jurisdictions.

The Directors confirm that to the best of their knowledge:

- The Financial Statements, prepared in accordance with UK Generally Accepted Practice, including FRS 102, give a true and fair view of the assets, liabilities, financial position and loss of the Company;
- The Annual Report, including the Strategic Report, includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties it faces; and
- The Annual Report and Financial Statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

The Statement of Directors' Responsibility was approved by the Board on 28 March 2023 and signed on its behalf by:

DAVID GRAHAM
Chairman

FINANCIAL STATEMENTS

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2022

	Notes	Year ended 31 December 2022			Year ended 31 December 2021		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
(Losses)/gains on investments	9	–	(64,577)	(64,577)	–	847	847
(Losses)/gains on derivative instruments	10	–	(11,568)	(11,568)	–	5,521	5,521
Income	3	3,209	–	3,209	3,476	–	3,476
Investment management fees	4	(334)	(1,264)	(1,598)	(448)	(2,429)	(2,877)
Other expenses	5	(690)	(15)	(705)	(620)	(13)	(633)
Foreign exchange losses		–	(365)	(365)	–	(533)	(533)
		-----	-----	-----	-----	-----	-----
Net return/(loss) on ordinary activities before finance costs and taxation		2,185	(77,789)	(75,604)	2,408	3,393	5,801
		=====	=====	=====	=====	=====	=====
Finance costs	6	(27)	(106)	(133)	(35)	(138)	(173)
		-----	-----	-----	-----	-----	-----
Net return/(loss) on ordinary activities before taxation		2,158	(77,895)	(75,737)	2,373	3,255	5,628
		=====	=====	=====	=====	=====	=====
Taxation on return/(loss) on ordinary activities	7	(260)	–	(260)	(278)	–	(278)
		-----	-----	-----	-----	-----	-----
Net return/(loss) on ordinary activities after taxation for the year		1,898	(77,895)	(75,997)	2,095	3,255	5,350
		=====	=====	=====	=====	=====	=====
Return/(loss) per ordinary share	8	1.46p	(60.01p)	(58.55p)	1.61p	2.50p	4.11p
		=====	=====	=====	=====	=====	=====

The Company does not have any other comprehensive income. Accordingly the net return/(loss) on ordinary activities after taxation for the year is also the total comprehensive income for the year and no separate Statement of Comprehensive Income has been presented.

The total column of this statement represents the Income Statement of the Company. The revenue and capital columns are supplementary and presented for information purposes as recommended by the Statement of Recommended Practice issued by the AIC.

No operations were acquired or discontinued in the year and all items in the above statement derive from continuing operations.

The Notes below form an integral part of these Financial Statements.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2022

		Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Other reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total shareholders' funds £'000
Total shareholders' funds at 31 December 2021	Note	34,041	20,722	2,767	46,942	218,406	(10,225)	312,653
Repurchase of ordinary shares	13	–	–	–	(284)	–	–	(284)
Net (loss)/return on ordinary activities after taxation for the year		–	–	–	–	(77,895)	1,898	(75,997)
		-----	-----	-----	-----	-----	-----	-----
Total shareholders' funds at 31 December 2022		34,041	20,722	2,767	46,658	140,511	(8,327)	236,372
		=====	=====	=====	=====	=====	=====	=====
Total shareholders' funds at 31 December 2020		34,041	20,722	2,767	48,445	215,151	(12,320)	308,806
Repurchase of ordinary shares	13	–	–	–	(1,503)	–	–	(1,503)
Net return on ordinary activities after taxation for the year		–	–	–	–	3,255	2,095	5,350
		-----	-----	-----	-----	-----	-----	-----
Total shareholders' funds at 31 December 2021		34,041	20,722	2,767	46,942	218,406	(10,225)	312,653
		=====	=====	=====	=====	=====	=====	=====

The Notes below form an integral part of these Financial Statements.

BALANCE SHEET AS AT 31 DECEMBER 2022 COMPANY NUMBER 2885584

	Notes	2022 £'000	2021 £'000
Fixed assets			
Investments	9	230,680	307,738
		-----	-----
Current assets			
Derivative instruments	10	838	1,006
Debtors	11	613	525
Cash collateral held with brokers	16	276	—
Cash at bank		5,556	4,741
		-----	-----
		7,283	6,272
		=====	=====
Current liabilities			
Derivative instruments	10	(1,100)	(717)
Bank overdraft		—	(11)
Other creditors	12	(491)	(629)
		-----	-----
		(1,591)	(1,357)
		=====	=====
Net current assets		5,692	4,915
		-----	-----
Net assets		236,372	312,653
		=====	=====
Capital and reserves			
Share capital	13	34,041	34,041
Share premium account	14	20,722	20,722
Capital redemption reserve	14	2,767	2,767
Other reserve	14	46,658	46,942
Capital reserve	14	140,511	218,406
Revenue reserve	14	(8,327)	(10,225)
		-----	-----
Total shareholders' funds		236,372	312,653
		=====	=====
Net asset value per ordinary share	15	182.24p	240.73p
		=====	=====

The Financial Statements above and below were approved by the Board of Directors on 28 March 2023 and were signed on its behalf by:

DAVID GRAHAM
Chairman

The Notes below form an integral part of these Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

1 PRINCIPAL ACTIVITY

Fidelity Japan Trust PLC is an Investment Company incorporated in England and Wales with a premium listing on the London Stock Exchange. The Company's registration number is 2885584, and its registered office is Beech Gate, Millfield Lane, Lower Kingswood, Tadworth, Surrey KT20 6RP. The Company has been approved by HM Revenue & Customs as an Investment Trust under Section 1158 of the Corporation Tax Act 2010 and intends to conduct its affairs so as to continue to be approved.

2 ACCOUNTING POLICIES

The Company has prepared its Financial Statements in accordance with UK Generally Accepted Accounting Practice (UK GAAP), including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", issued by the Financial Reporting Council (FRC). The Financial Statements have also been prepared in accordance with the Statement of Recommended Practice: Financial Statements of Investment Trust Companies and Venture Capital Trusts (SORP) issued by the Association of Investment Companies (AIC) in July 2022. The Company is exempt from presenting a Cash Flow Statement as a Statement of Changes in Equity is presented and substantially all of the Company's investments are highly liquid and are carried at market value.

a) Basis of accounting

The Financial Statements have been prepared on a going concern basis and under the historical cost convention, except for the measurement at fair value of investments and derivative instruments. The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence up to 31 March 2024 which is at least twelve months from the date of approval of these Financial Statements. In making their assessment the Directors have reviewed income and expense projections, reviewed the liquidity of the investment portfolio and considered the Company's ability to meet liabilities as they fall due. This conclusion also takes into account the Directors' assessment of the risks faced by the Company as detailed in the Going Concern Statement above.

In preparing these Financial Statements, the Directors have considered the impact of climate change risk as an emerging and principal risk as set out above, and have concluded that there was no further impact of climate change to be taken into account as the investments are valued based on market pricing. In line with FRS 102, investments are valued at fair value, which for the Company are quoted bid prices for investments in active markets at the balance sheet date. Investments which are unlisted are priced using market-based valuation approaches. All investments therefore reflect the market participants view of climate change risk on the investments held by the Company.

The Company's Going Concern Statement above takes account of all events and conditions up to 31 March 2024 which is at least twelve months from the date of approval of these Financial Statements.

b) Significant accounting estimates, assumptions and judgements

The preparation of the Financial Statements requires the use of estimates, assumptions and judgements. These estimates, assumptions and judgements affect the reported amounts of assets and liabilities at the reporting date. While estimates are based on best judgement using information and financial data available, the actual outcome may differ from these estimates.

The key sources of estimation and uncertainty relate to the fair value of the unlisted investments.

Judgements

The Directors consider whether each fair value is appropriate following detailed review and challenge of the pricing methodology. The judgement applied in the selection of the methodology used (see Note 2 (j) below) for determining the fair value of each unlisted investment can have a significant impact upon the valuation.

Estimates

The key estimate in the Financial Statements is the determination of the fair value of the unlisted investments by the Manager's Fair Value Committee (FVC), with support from the external valuer, for detailed review and appropriate challenge by the Directors. This estimate is key as it significantly impacts the valuation of the unlisted investments at the Balance Sheet date. When no recent primary or secondary transaction in the company's shares have taken place, the fair valuation process involves estimation using subjective inputs that are unobservable (for which market data is unavailable). The estimates involved in the valuation process may include the following:

- (i) The selection of appropriate comparable companies. Comparable companies are chosen on the basis of their business characteristics and growth patterns;
- (ii) The selection of a revenue metric (either historical or forecast);
- (iii) The selection of an appropriate illiquidity discount factor to reflect the reduced liquidity of unlisted companies versus their listed peers;
- (iv) The estimation of the likelihood of a future exit of the position through an Initial Public Offering (IPO) or a company sale;
- (v) The selection of an appropriate industry benchmark index to assist with the valuation; and
- (vi) The calculation of valuation adjustments derived from milestone analysis (i.e. incorporating operational success against the plans/forecasts of the business into the valuation).

As the valuation outcomes may differ from the fair value estimates a price sensitivity analysis is provided in Other Price Risk Sensitivity in Note 16 below to illustrate the effect on the Financial Statements of an over or under estimation of fair value.

The risk of an over or under estimation of fair value is greater when methodologies are applied using more subjective inputs.

Assumptions

The determination of fair value by the FVC involves key assumptions dependent upon the valuation techniques used. The valuation process recognises that the price of a recent investment may be an appropriate starting point for estimating fair value. The Multiples approach involves subjective inputs and therefore presents a greater risk of over or under estimation, particularly in the absence of a recent transaction.

c) Segmental reporting

The Company is engaged in a single segment business and, therefore, no segmental reporting is provided.

d) Presentation of the Income Statement

In order to reflect better the activities of an investment company and in accordance with guidance issued by the AIC, supplementary information which analyses the Income Statement between items of a revenue and capital nature has been prepared

alongside the Income Statement. The net revenue return after taxation for the year is the measure the Directors believe appropriate in assessing the Company's compliance with certain requirements set out in Section 1159 of the Corporation Tax Act 2010.

e) Income

Income from equity investments is accounted for on the date on which the right to receive the payment is established, normally the ex-dividend date. Overseas dividends are accounted for gross of any tax deducted at source. Amounts are credited to the revenue column of the Income Statement. Where the Company has elected to receive its dividends in the form of additional shares rather than cash, the amount of the cash dividend foregone is recognised in the revenue column of the Income Statement. Any excess in the value of the shares received over the amount of the cash dividend is recognised in the capital column of the Income Statement. Special dividends are treated as a revenue receipt or a capital receipt depending on the facts and circumstances of each particular case.

Derivative instrument income received from dividends on long Contracts for Difference (CFDs) is accounted for on the date on which the right to receive the payment is established, normally the ex-dividend date. The amount net of tax is credited to the revenue column of the Income Statement.

f) Investment management fees and other expenses

Investment management fees and other expenses are accounted for on an accruals basis and are charged as follows:

- The base investment management fee is allocated 20% to revenue and 80% to capital to reflect the Company's focus on capital growth to generate returns;
- The variable investment management fee is charged/credited to capital, as it is based on the performance of the net asset value per share relative to the Reference Index; and
- All other expenses are allocated in full to revenue with the exception of those directly attributable to share issues or other capital events.

g) Functional currency and foreign exchange

The functional and reporting currency of the Company is UK sterling, which is the currency of the primary economic environment in which the Company operates. Although the Company invests in yen denominated investments, it has been determined that the functional currency is UK sterling as the entity is listed on a sterling stock exchange in the UK, and its share capital is denominated and its expenses are paid in UK sterling. Transactions denominated in foreign currencies are reported in UK sterling at the rate of exchange ruling at the date of the transaction. Assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the Balance Sheet date. Foreign exchange gains and losses arising on translation are recognised in the Income Statement as a revenue or a capital item depending on the nature of the underlying item to which they relate.

h) Finance costs

Finance costs comprises interest on bank overdrafts and collateral and finance costs paid on long CFDs, which are accounted for on an accruals basis. Finance costs are allocated 20% to revenue and 80% to capital to reflect the Company's focus on capital growth to generate returns.

i) Taxation

The taxation charge represents the sum of current taxation and deferred taxation.

Current taxation is taxation suffered at source on overseas income less amounts recoverable under taxation treaties. Taxation is charged or credited to the revenue column of the Income Statement, except where it relates to items of a capital nature, in which case it is charged or credited to the capital column of the Income Statement. The Company is an approved Investment Trust under Section 1158 of the Corporation Tax Act 2010 and is not liable for UK taxation on capital gains.

Deferred taxation is the taxation expected to be payable or recoverable on timing differences between the treatment of certain items for accounting purposes and their treatment for the purposes of computing taxable profits. Deferred taxation is based on tax rates that have been enacted or substantively enacted when the taxation is expected to be payable or recoverable. Deferred tax assets are only recognised if it is considered more likely than not that there will be sufficient future taxable profits to utilise them.

j) Investments

The Company's business is investing in financial instruments with a view to profiting from their total return in the form of income and capital growth. This portfolio of investments is managed and its performance evaluated on a fair value basis, in accordance with a documented investment strategy, and information about the portfolio is provided on that basis to the Company's Board of Directors. Investments are measured at fair value with changes in fair value recognised in profit or loss, in accordance with the provisions of both Section 11 and Section 12 of FRS 102. The fair value of investments is initially taken to be their cost and is subsequently measured as follows:

- Listed investments are valued at bid prices, or last market prices, depending on the convention of the exchange on which they are listed: and
- Investments which are not quoted, or are not frequently traded, are stated at the best estimate of fair value. The Manager's Fair Value Committee (FVC), which is independent of the Portfolio Manager's team, and with support from the external valuer, provides recommended fair values to the Directors. These are based on the principles outlined in Note 2 (b) above. The unlisted investments are valued at fair value following a detailed review and appropriate challenge by the Directors of the pricing methodology used by the FVC.

The techniques applied by the FVC when valuing the unlisted investments are predominantly market-based approaches. The market-based approaches are set out below and are followed by an explanation of how they are applied to the Company's unlisted portfolio:

- Multiples;
- Industry Valuation Benchmarks; and
- Available Market Prices.

The nature of the unlisted investment will influence the valuation technique applied. The valuation approach recognises that the price of a recent investment, if resulting from an orderly transaction, generally represents fair value as at the transaction date and may be an appropriate starting point for estimating fair value at subsequent measurement dates. However, consideration is given to the facts and circumstances as at the subsequent measurement date, including changes in the market or performance of the investee company. Milestone analysis and future cash flows are used where appropriate to incorporate the operational progress of the investee company into the valuation. Consideration is also given to the input received from the

Fidelity International analyst that covers the company and from an external valuer. Additionally, the background to the transaction must be considered. As a result, various multiples-based techniques are employed to assess the valuations particularly in those companies with established revenues. An absence of relevant industry peers may preclude the application of the Industry Valuation Benchmarks technique and an absence of observable prices may preclude the Available Market Prices approach.

The unlisted investments are valued according to a three month cycle of measurement dates. The fair value of the unlisted investments will be reviewed before the next scheduled three monthly measurement date on the following occasions:

- At the year end and half year end of the Company; and
- Where there is an indication of a change in fair value (commonly referred to as ‘trigger’ events).

In accordance with the AIC SORP, the Company includes transaction costs, incidental to the purchase or sale of investments, within (losses)/gains on investments in the capital column of the Income Statement and has disclosed these costs in Note 9 below.

k) Derivative instruments

When appropriate, permitted transactions in derivative instruments are used. Some of the Company’s portfolio exposure to Japanese equities is achieved by investment in long CFDs. Long CFDs are classified as other financial instruments and are initially accounted and measured at fair value on the date the derivative contract is entered into and subsequently measured at fair value as follows:

- Long CFDs are the difference between the strike price and the value of the underlying shares in the contract.

l) Debtors

Debtors include securities sold for future settlement, accrued income, other debtors and prepayments incurred in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business, if longer) they are classified as current assets. If not, they are presented as non-current assets. They are recognised initially at fair value and, where applicable, subsequently measured at amortised cost using the effective interest rate method.

m) Cash collateral held with brokers

These are amounts held in segregated accounts on behalf of brokers as collateral against open derivative contracts. These are carried at amortised cost.

n) Other creditors

Other creditors include securities purchased for future settlement, investment management fees and other creditors and expenses accrued in the ordinary course of business. If payment is due within one year or less (or in the normal operating cycle of the business, if longer) they are classified as current liabilities. If not, they are presented as non-current liabilities. They are recognised initially at fair value and, where applicable, subsequently measured at amortised cost using the effective interest rate method.

o) Other reserve

The full cost of ordinary shares repurchased and held in Treasury is charged to the other reserve.

p) Capital reserve

The following are accounted for in the capital reserve:

- Gains and losses on the disposal of investments and derivative instruments;
- Changes in the fair value of investments and derivative instruments held at the year end;
- Foreign exchange gains and losses of a capital nature;
- Dividends receivable which are capital in nature;
- 80% of base investment management fees and finance costs;
- Variable investment management fees; and
- Other expenses which are capital in nature.

Technical guidance issued by the Institute of Chartered Accountants in England and Wales in TECH 02/17BL, guidance on the determination of realised profits and losses in the context of distributions under the Companies Act 2006, states that changes in the fair value of investments which are readily convertible to cash, without accepting adverse terms at the Balance Sheet date, can be treated as realised. Capital reserves realised and unrealised are shown in aggregate as capital reserve in the Statement of Changes in Equity and the Balance Sheet. At the Balance Sheet date, the portfolio of the Company consisted of investments listed on a recognised stock exchange and derivative instruments contracted with counterparties having an adequate credit rating, and the portfolio was considered to be readily convertible to cash, with the exception of the level 3 investments which had unrealised investment holding losses of £1,635,000 (2021: losses of £1,110,000). See Note 16 below for further details on the level 3 investments.

3 INCOME

	Year ended 31.12.22 £'000	Year ended 31.12.21 £'000
Investment income		
Overseas dividends	2,625	2,793
	-----	-----

Derivative income

Dividends received on long CFDs	584	683
	-----	-----
Total income	3,209	3,476
	=====	=====

A special dividend of £47,000 has been recognised in capital during the reporting year (2021: nil).

4 INVESTMENT MANAGEMENT FEES

	Year ended 31 December 2022			Year ended 31 December 2021		
	Revenue	Capital	Total	Revenue	Capital	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Investment management fees – base	334	1,336	1,670	448	1,790	2,238
Investment management fees – variable ¹	–	(72)	(72)	–	639	639
	-----	-----	-----	-----	-----	-----
	334	1,264	1,598	448	2,429	2,877
	=====	=====	=====	=====	=====	=====

1 For the calculation of the variable management fee element, the Company's NAV return was compared to the Reference Index return on a daily basis. The period used to assess the performance was from 1 July 2018 until a three year history was established. From 1 July 2021 the performance period is on a rolling three year basis.

FIL Investment Services (UK) Limited is the Company's Alternative Investment Fund Manager and has delegated portfolio management to FIL Investments International. Both companies are Fidelity group companies.

FIL charges base investment management fees at an annual rate of 0.70% of net assets. In addition, there is a +/- 0.20% variation fee based on performance relative to the Reference Index. Fees are payable monthly in arrears and are calculated on a daily basis.

The base investment management fee has been allocated 80% to capital reserve in accordance with the Company's accounting policies.

Further details of the terms of the Management Agreement are given in the Directors' Report in the Annual Report.

5 OTHER EXPENSES

	Year ended 31.12.22 £'000	Year ended 31.12.21 £'000
Allocated to revenue:		
AIC fees	20	15
Secretarial and administration fees payable to the Investment Manager	50	50
Custody fees	19	32
Depositary fees	23	29
Directors' expenses	29	25
Directors' fees ¹	131	129
Legal and professional fees	82	81
Marketing expenses	177	130
Printing and publication expenses	70	66
Registrars' fees	30	21
Other expenses	12	13
Fees payable to the Company's Independent Auditor for the audit of the Financial Statements	47	29
	-----	-----
	690	620
	=====	=====
Allocated to capital:		
Legal and professional fees – unlisted investments	15	13
Other expenses	705	633
	=====	=====

1 Details of the breakdown of Directors' fees are provided in the Directors' Remuneration Report in the Annual Report.

6 FINANCE COSTS

Year ended 31 December 2022

Year ended 31 December 2021

	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Interest paid on long CFDs	24	94	118	31	124	155
Interest paid on collateral and deposits ¹	3	12	15	4	14	18
	-----	-----	-----	-----	-----	-----
	27	106	133	35	138	173
	=====	=====	=====	=====	=====	=====

1 Due to negative interest rates during the current and prior year, the Company paid interest on its collateral and deposits.

Finance costs have been allocated 80% to capital reserve in accordance with the Company's accounting policies.

7 TAXATION ON RETURN/(LOSS) ON ORDINARY ACTIVITIES

	Year ended 31.12.22 £'000	Year ended 31.12.21 £'000
a) Analysis of the taxation charge for the year		
Overseas taxation	260	278
	-----	-----
Taxation charge for the year (see Note 7b)	260	278
	=====	=====

b) Factors affecting the taxation charge for the year

The taxation charge for the year is lower than the standard rate of UK corporation tax for an investment trust company of 19.00% (2021: 19.00%). A reconciliation of the standard rate of UK corporation tax to the taxation charge for the year is shown below:

	Year ended 31.12.22 £'000	Year ended 31.12.21 £'000
Net (loss)/return on ordinary activities before taxation	(75,737)	5,628
Net (loss)/return on ordinary activities before taxation multiplied by the standard rate of UK corporation tax of 19.00% (2021: 19.00%)	(14,390)	1,069
Effects of:		
Capital losses/(gains) not taxable ¹	14,537	(1,109)
Income not taxable	(499)	(531)
Expenses not deductible	19	24
Excess management expenses not utilised	333	547
Overseas taxation	260	278
	-----	-----
Taxation charge for the year (see Note 7a)	260	278
	=====	=====

1 The Company is exempt from UK taxation on capital gains as it meets the HM Revenue & Customs criteria for an investment company set out in Section 1159 of the Corporation Tax Act 2010.

c) Deferred taxation

A deferred taxation asset of £8,544,000 (2021: £8,106,000), in respect of excess expenses of £34,176,000 (2021: £32,422,000) has not been recognised as it is unlikely that there will be sufficient future profits to utilise these expenses.

In the Spring Budget of 2021, the UK Government announced that from 1 April 2023 the corporation tax rate would increase to 25%. This rate has been substantively enacted at the balance sheet date and has therefore been applied to calculate the unrecognised deferred tax asset for the current year (2021: 25%).

8 RETURN/(LOSS) PER ORDINARY SHARE

	Year ended 31.12.22	Year ended 31.12.21
Revenue return per ordinary share	1.46p	1.61p
Capital (loss)/return per ordinary share	(60.01p)	2.50p
	-----	-----
Total (loss)/return per ordinary share	(58.55p)	4.11p
	=====	=====

The return/(loss) per ordinary share is based on the net return/(loss) on ordinary activities after taxation for the year divided by the weighted average number of ordinary shares held outside Treasury during the year, as shown below:

	£'000	£'000
Net revenue return on ordinary activities after taxation	1,898	2,095
Net capital (loss)/return on ordinary activities after taxation	(77,895)	3,255
	-----	-----
Net total (loss)/return on ordinary activities after taxation	(75,997)	5,350
	=====	=====
	Number	Number
Weighted average number of ordinary shares held outside Treasury	129,812,318	130,097,688
	=====	=====

9 INVESTMENTS	2022	2021
	£'000	£'000
Listed investments	211,747	290,537
Unlisted investments	18,933	17,201
	-----	-----
Investments at fair value	230,680	307,738
	=====	=====
Opening book cost	265,540	226,195
Opening investment holding gains	42,198	76,807
	-----	-----
Opening fair value	307,738	303,002
	=====	=====
Movements in the year		
Purchases at cost	153,886	234,121
Sales – proceeds	(166,367)	(230,232)
(Losses)/gains on investments	(64,577)	847
	-----	-----
Closing fair value	230,680	307,738
	=====	=====
Closing book cost	242,067	265,540
Closing investment holding (losses)/gains	(11,387)	42,198
	-----	-----
Closing fair value	230,680	307,738
	=====	=====

The Company received £166,367,000 (2021: £230,232,000) from investments sold in the year. The book cost of these investments when they were purchased was £177,359,000 (2021: £194,776,000). These investments have been revalued over time and until they were sold any unrealised gains/(losses) were included in the fair value of the investments.

Investment transaction costs

Transaction cost incurred in the acquisition and disposal of investments, which are included in the (losses)/gains on investments above, were as follows:

	Year ended	Year ended
	31.12.22	31.12.21
	£'000	£'000
Purchases transaction costs	61	85
Sales transaction costs	59	86
	-----	-----
	120	171
	=====	=====

The portfolio turnover for the year was 68.9% (2021: 74.6%). The portfolio turnover rate measures the Company's trading activity. It is calculated by taking the average of the total amount of securities purchased and the total amount of the securities sold in the reporting year divided by the average fair value of the investment portfolio of the Company.

10 DERIVATIVE INSTRUMENTS

Year ended	Year ended
------------	------------

	31.12.22	31.12.21
	£'000	£'000
(Losses)/gains on derivative instruments		
(Losses)/gains on long CFD positions closed	(11,017)	7,073
Movement in investment holding losses on long CFDs	(551)	(1,552)
	-----	-----
	(11,568)	5,521
	=====	=====

Derivative instruments recognised on the Balance Sheet

	2022		2021	
	Fair value	Portfolio exposure	Fair value	Portfolio exposure
	£'000	£'000	£'000	£'000
Derivative instrument assets – long CFDs	838	24,704	1,006	43,165
Derivative instrument liabilities – long CFDs	(1,100)	30,162	(717)	29,456
	-----	-----	-----	-----
	(262)	54,866	289	72,621
	=====	=====	=====	=====

11 DEBTORS

	2022	2021
	£'000	£'000
Securities sold for future settlement	300	238
Accrued income	193	199
Other debtors and prepayments	120	88
	-----	-----
	613	525
	=====	=====

12 OTHER CREDITORS

	2022	2021
	£'000	£'000
Securities purchased for future settlement	164	201
Creditors and accruals	327	428
	-----	-----
	491	629
	=====	=====

13 SHARE CAPITAL

	2022		2021	
	Number of shares	£'000	Number of shares	£'000
Issued, allotted and fully paid				
Ordinary shares of 25 pence each held outside Treasury				
Beginning of the year	129,876,894	32,469	130,554,926	32,639
Ordinary shares repurchased into Treasury	(175,001)	(44)	(678,032)	(170)
	-----	-----	-----	-----
End of the year	129,701,893	32,425	129,876,894	32,469
	=====	=====	=====	=====
Issued, allotted and fully paid				
Ordinary shares of 25 pence each held in Treasury*				
Beginning of the year	6,284,801	1,572	5,606,769	1,402
Ordinary shares repurchased into Treasury	175,001	44	678,032	170
	-----	-----	-----	-----
End of the year	6,459,802	1,616	6,284,801	1,572

				=====	=====	=====	=====
Total share capital					34,041		34,041
					=====		=====

* Ordinary shares held in Treasury carry no rights to vote, to receive a dividend or to participate in a winding up of the Company.

The Company repurchased 175,001 ordinary shares (2021: 678,032 shares) and held them in Treasury. The £284,000 (2021: £1,503,000) cost of repurchase was charged to the other reserve.

14 CAPITAL AND RESERVES

	Share capital	Share premium	Capital redemption	Other reserve	Capital reserve	Revenue reserve	Total shareholders' funds
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January 2022	34,041	20,722	2,767	46,942	218,406	(10,225)	312,653
Losses on investments (see Note 9)	–	–	–	–	(64,577)	–	(64,577)
Losses on derivative instruments (see Note 10)	–	–	–	–	(11,568)	–	(11,568)
Foreign exchange losses	–	–	–	–	(365)	–	(365)
Investment management fees (see Note 4)	–	–	–	–	(1,264)	–	(1,264)
Other expenses (see Note 5)	–	–	–	–	(15)	–	(15)
Finance costs (see Note 6)	–	–	–	–	(106)	–	(106)
Revenue return on ordinary activities after taxation for the year	–	–	–	–	–	1,898	1,898
Repurchase of ordinary shares (see Note 13)	–	–	–	(284)	–	–	(284)
	-----	-----	-----	-----	-----	-----	-----
At 31 December 2022	34,041	20,722	2,767	46,658	140,511	(8,327)	236,372
	=====	=====	=====	=====	=====	=====	=====

	Share capital	Share premium	Capital redemption	Other reserve	Capital reserve	Revenue reserve	Total shareholders' funds
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January 2021	34,041	20,722	2,767	48,445	215,151	(12,320)	308,806
Gains on investments (see Note 9)	–	–	–	–	847	–	847
Gains on derivative instruments (see Note 10)	–	–	–	–	5,521	–	5,521
Foreign exchange losses	–	–	–	–	(533)	–	(533)
Investment management fees (see Note 4)	–	–	–	–	(2,429)	–	(2,429)
Other expenses (see Note 5)	–	–	–	–	(13)	–	(13)
Finance costs (see Note 6)	–	–	–	–	(138)	–	(138)
Revenue return on ordinary activities after taxation for the year	–	–	–	–	–	2,095	2,095
Repurchase of ordinary shares (see Note 13)	–	–	–	(1,503)	–	–	(1,503)
	-----	-----	-----	-----	-----	-----	-----
At 31 December 2021	34,041	20,722	2,767	46,942	218,406	(10,225)	312,653
	=====	=====	=====	=====	=====	=====	=====

The capital reserve balance at 31 December 2022 includes investment holding losses of £11,387,000 (2021: gains of £42,198,000) as detailed in Note 9 above. See Note 2 (p) above for further details. The capital reserve is distributable by way of dividend. The revenue reserve could be distributed by way of dividend if it were not in deficit.

15 NET ASSET VALUE PER ORDINARY SHARE

This calculation of the net asset value per ordinary share is based on the following:

	2022	2021
Total shareholders' funds	£236,372,000	£312,653,000
Ordinary shares held outside of Treasury at year end	129,701,893	129,876,894
Net asset value per ordinary share	182.24p	240.73p
	=====	=====

It is the Company's policy that shares held in Treasury will only be reissued at net asset value per ordinary share or at a premium to net asset value per ordinary share and, therefore, shares held in Treasury have no dilutive effect.

16 FINANCIAL INSTRUMENTS

Management of Risk

The Company’s investment activities in pursuit of its objective involve certain inherent risks. The Board confirms that there is an ongoing process for identifying, evaluating and managing the risks faced by the Company. The Board, with the assistance of the Manager, has developed a risk matrix which, as part of the internal control process, identifies the risks that the Company faces. Principal risks identified are: geopolitical; natural disaster; market, economic and currency; investment performance and gearing; discount control and demand; key person; operational resilience; Environment, Social and Governance (ESG); and cybercrime. Other risks identified are tax and regulatory. Risks are identified and graded in this process, together with steps taken in mitigation, and are updated and reviewed on an ongoing basis. These risks and how they are identified, evaluated and managed are shown above.

This note refers to the identification, measurement and management of risks potentially affecting the value of financial instruments. The Company's financial instruments may comprise:

- Equity shares held in accordance with the Company’s investment objective and policies;
- Derivative instruments which comprise CFDs; and
- Cash, liquid resources and short-term debtors and creditors that arise from its operations.

The risks identified arising from the Company’s financial instruments are market price risk (which comprises interest rate risk, foreign currency risk and other price risk), liquidity risk, counterparty risk, credit risk and derivative instrument risk. The Board reviews and agrees policies for managing each of these risks, which are summarised below. These policies are consistent with those followed last year.

MARKET PRICE RISK

Interest rate risk

The Company finances its operations through its share capital and reserves. In addition, the Company has a geared exposure to Japanese equities through the use of long CFDs. The level of gearing is reviewed by the Board and the Portfolio Manager. The Company is exposed to a financial risk arising as a result of any increases in yen interest rates associated with the funding of the long CFDs.

Interest rate risk exposure

The values of the Company’s financial instruments that are exposed to movements in interest rates are shown below:

	2022 £'000	2021 £'000
Exposure to financial instruments that bear interest		
Long CFDs – Portfolio exposure less fair value	55,128	72,332
Bank overdraft	–	11
	-----	-----
	55,128	72,343
	=====	=====
Exposure to financial instruments that earn interest		
Cash collateral held with brokers	276	–
Cash at bank	5,556	4,741
	-----	-----
	5,832	4,741
	=====	=====
Net exposure to financial instruments that bear interest	49,296	67,602
	=====	=====

Foreign currency risk

The Company’s net return/(loss) on ordinary activities after taxation for the year and its net assets may be affected by foreign exchange movements because the Company has income and assets which are denominated in yen whereas the Company's functional currency is UK sterling. The Company may also be subject to short term exposure from exchange rate movements, for example, between the date when an investment is purchased or sold and the date when settlement of the transaction occurs. The Company does not hedge the sterling value of investments or other net assets priced in yen by the use of derivative instruments.

Three principal areas have been identified where foreign currency risk may impact the Company:

- Movements in currency exchange rates affecting the value of investments and long CFDs;
- Movements in currency exchange rates affecting short term timing differences; and
- Movements in currency exchange rates affecting income received.

Currency exposure of financial assets

The currency exposure profile of the Company’s financial assets is shown below:

2022
Long

	Investments held at fair value £'000	exposure to derivative instruments £'000	Debtors ¹ £'000	Cash at bank £'000	Total £'000
Currency					
Japanese yen	230,680	54,866	769	5,556	291,871
UK sterling	—	—	120	—	120
	-----	-----	-----	-----	-----
	230,680	54,866	889	5,556	291,991
	=====	=====	=====	=====	=====

1 Debtors include cash collateral held with brokers.

	Investments held at fair value £'000	Long exposure to derivative instruments £'000	Debtors £'000	Cash at bank £'000	Total £'000
Currency					
Japanese yen	307,738	72,621	437	4,741	385,537
UK sterling	—	—	88	—	88
	-----	-----	-----	-----	-----
	307,738	72,621	525	4,741	385,625
	=====	=====	=====	=====	=====

Currency exposure of financial liabilities

The currency profile of the Company's financial liabilities is shown below:

	Other creditors £'000	2022 Bank overdraft £'000	Total £'000
Currency			
Japanese yen	165	—	165
UK sterling	326	—	326
	-----	-----	-----
	491	—	491
	=====	=====	=====

	Other creditors £'000	2021 Bank overdraft £'000	Total £'000
Currency			
Japanese yen	203	—	203
UK sterling	426	11	437
	-----	-----	-----
	629	11	640
	=====	=====	=====

Other price risk

Other price risk arises mainly from uncertainty about future prices of financial instruments used in the Company's business. It represents the potential loss the Company might suffer through holding market positions in the face of price movements. The Board meets quarterly to consider the asset allocation of the portfolio and the risk associated with particular industry sectors within the parameters of the investment objective. The Portfolio Manager is responsible for actively monitoring the existing portfolio, selected in accordance with the overall asset allocation parameters described above, and seeks to ensure that individual stocks also meet an acceptable risk/reward profile.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulties in meeting obligations associated with financial liabilities. The Company's assets mainly comprise readily realisable securities and derivative instruments which can be sold easily to meet funding commitments if necessary. Short term flexibility is achieved by the use of a bank overdraft, if required.

Liquidity risk exposure

At 31 December 2022, the undiscounted gross cash outflows of the financial liabilities were all repayable within one year and consisted of derivative instrument liabilities of £1,100,000 (2021: £717,000), bank overdraft of £nil (2021: £11,000) and other creditors of £491,000 (2021: £629,000).

Counterparty risk

The long CFDs in which the Company may invest are not traded on an exchange but instead are traded between counterparties based on contractual relationships, under the terms outlined in the International Swaps and Derivatives Association’s (ISDA) market standard derivative legal documentation. These are known as Over the Counter (OTC) trades. As a result, the Company is subject to the risk that a counterparty may not perform its obligations under the related contract. In accordance with the risk management process which the Investment Manager employs, this risk is minimised by only entering into transactions with counterparties which are believed to have an adequate credit rating at the time the transaction is entered into, by ensuring that formal legal agreements covering the terms of the contract are entered into in advance, and through adopting a counterparty risk framework which measures, monitors and manages counterparty risk by the use of internal and external credit agency ratings and by evaluating derivative instrument credit risk exposure.

Cash collateral

For derivative transactions, collateral is used to reduce the risk of both parties to the contract. Collateral is managed on a daily basis for all relevant transactions. At 31 December 2022, there were no amounts held by brokers in a segregated collateral account on behalf of the Company, to reduce the credit risk exposure of the Company’s net unrealised profits on derivative positions (2021: UBS AG £370,000 in cash denominated in Japanese yen). At 31 December 2022, £276,000 (2021: £nil), shown as cash collateral held with brokers on the Balance Sheet, was held by the Company in a segregated collateral account on behalf of the brokers, to reduce the credit risk exposure of the Company’s net unrealised losses on derivative positions. This collateral comprised of: J.P. Morgan Securities plc £276,000 (2021: £nil) in cash denominated in Japanese yen.

Credit risk

Financial instruments may be adversely affected if any of the institutions with which money is deposited suffer insolvency or other financial difficulties. All transactions are carried out with brokers that have been approved by the Manager and are settled on a delivery versus payment basis. Limits are set on the amount that may be due from any one broker and are kept under review by the Manager. Exposure to credit risk arises on unsettled security transactions and long CFD contracts and cash at bank.

Derivative instrument risk

The risks and risk management processes which result from the use of long CFDs are included within the risk categories disclosed above. Long CFDs are used by the Manager to gain unfunded long exposure to equity markets, sectors or single stocks. Unfunded exposure is exposure gained without an initial outflow of capital. The risk and performance contribution of long CFDs held in the Company’s portfolio is overseen by the Manager’s experienced, specialist derivative instruments team that uses portfolio risk assessment and construction tools to manage risk and investment performance.

RISK SENSITIVITY ANALYSIS

Interest rate risk sensitivity analysis

Based on the financial instruments held and interest rates at 31 December 2022, an increase of 0.25% in interest rates throughout the year, with all other variables held constant, would have increased the Company’s net loss on ordinary activities after taxation for the year and decreased the Company’s net assets by £123,000 (2021: decreased the net return and the net assets by £169,000). A decrease of 0.25% in interest rates throughout the year would have had an equal but opposite effect.

Foreign currency risk sensitivity analysis

Based on the financial instruments held and currency exchange rates at 31 December 2022, a 10% strengthening of the sterling exchange rate against the yen, with all other variables held constant, would have increased the Company’s net loss on ordinary activities after taxation for the year and decreased the Company’s net assets by £26,518,000 (2021: decreased the net return and decreased the net assets by £35,030,000). A 10% weakening of the sterling exchange rate against the yen would have decreased the Company’s net loss on ordinary activities after taxation for the year and increased the Company’s net assets by £32,411,000 (2021: increased the net return and increased the net assets by £42,814,000).

Other price risk – exposure to investments sensitivity analysis

Based on the listed investments held and share prices at 31 December 2022, an increase of 10% in share prices, with all other variables held constant, would have decreased the Company’s net loss on ordinary activities after taxation for the year and increased the Company’s net assets by £21,175,000 (2021: increased the net return and increased the net assets by £29,054,000). A decrease of 10% in share prices would have had an equal and opposite effect.

Based on the unlisted investments held and share prices at 31 December 2022, an increase of 10% in share prices, with all other variables held constant, would have decreased the Company’s net loss on ordinary activities after taxation for the year and increased the Company’s net assets by £1,893,000 (2021: increased the net return and increased the net assets by £1,720,000). A decrease of 10% in share prices would have had an equal and opposite effect.

Other price risk – net exposure to derivative instruments sensitivity analysis

Based on the long CFDs held and share prices at 31 December 2022, an increase of 10% in the share prices underlying the long CFDs, with all other variables held constant, would have decreased the Company’s net loss on ordinary activities after taxation for the year and increased the Company’s net assets by £5,487,000 (2021: increased the net return and increased the net assets by £7,262,000). A decrease of 10% in share prices would have had an equal and opposite effect.

Fair Value of Financial Assets and Liabilities

Financial assets and liabilities are stated in the Balance Sheet at values which are not materially different to their fair values. As explained in Notes 2 (j) and (k) above, investments and derivative instruments are shown at fair value. In the case of cash at bank, book value approximates to fair value due to the short maturity of the instruments.

Fair Value Hierarchy

The Company is required to disclose the fair value hierarchy that classifies its financial instruments measured at fair value at one of three levels, according to the relative reliability of the inputs used to estimate the fair values.

Classification	Input
Level 1	Valued using quoted prices in active markets for identical assets
Level 2	Valued by reference to inputs other than quoted prices included in level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly
Level 3	Valued by reference to valuation techniques using inputs that are not based on observable market data

Categorisation within the hierarchy has been determined on the basis of the lowest level input that is significant to the fair value measurement of the relevant asset. The valuation techniques used by the Company are explained in Notes 2 (j) and (k) above. The table below sets out the Company’s fair value hierarchy:

	2022			
	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss	£'000	£'000	£'000	£'000
Investments	211,747	–	18,933	230,680
Derivative instrument assets	–	838	–	838
	-----	-----	-----	-----
	211,747	838	18,933	231,518
	=====	=====	=====	=====
Financial liabilities at fair value through profit or loss				
Derivative instrument liabilities	–	(1,100)	–	(1,100)
	=====	=====	=====	=====
	2021			
	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss	£'000	£'000	£'000	£'000
Investments	290,537	–	17,201	307,738
Derivative instrument assets	–	1,006	–	1,006
	-----	-----	-----	-----
	290,537	1,006	17,201	308,744
	=====	=====	=====	=====
Financial liabilities at fair value through profit or loss				
Derivative instrument liabilities	–	(717)	–	(717)
	=====	=====	=====	=====

The table below sets out the fair value of the level 3 financial instruments, all of which are unlisted investments:

		2022	2021
Name	Business	Book cost	Level 3
Asoview	Online booking website for leisure facilities	£'000	£'000
Moneytree	Developer of personal asset management applications	6,602	6,872
		3,016	2,564
Yoriso	Online funeral planning platform	2,627	2,516
iYell	Mortgage Fintech company	2,641	2,469
Studyplus	Online educational company	2,257	2,402
Spiber	Bio-tech company	2,512	1,823
Innophys	Developer of elderly care and welfare equipment	913	287
		-----	-----
End of the year		20,568	18,933
		=====	=====

The valuation of Studyplus at 31 December 2022 is based on the cost of the investment when it was purchased in June 2022 with consideration given to the company's financial reports, the macro-environment and benchmarking the position to a range of comparable market data.

The valuation of all the other unlisted investments at 31 December 2022 is based on the analysis of the company's financial reports, the macro-environment and benchmarking the position to a range of comparable market data.

Significant holdings

Details of significant holdings are noted below in accordance with the disclosure requirements of paragraph 82 of the AIC SORP. The Company is required to provide a list of all investments at the balance sheet date with a value greater than 5% of its portfolio and at least the ten largest investments, including the value of each investment, and for unlisted investments included in the list, additional detail is required as shown below. This disclosure, if available, includes turnover, pre-tax profits and net assets attributable to investors, as reported within the most recently audited financial statement of the investee companies.

Income recognised	Net assets attributable
-------------------	-------------------------

	Latest Financial Statements n/a =====	from the holding in the year nil =====	Turnover £'000 Information not publicly available	Pre-tax profit/(loss) £'000	to shareholders £'000
As a view					

	Year ended 31.12.22 Level 3 £'000	Year ended 31.12.21 Level 3 £'000
Movements in level 3 financial instruments during the year:		
Beginning of the year	17,201	5,497
Purchases at cost - Studyplus	2,257	15,703
Transferred out of level 3 - Coconala*	–	(2,943)
Movement in investment holding losses (including foreign exchange movement)	(525)	(1,056)
	-----	-----
End of the year	18,933	17,201
	=====	=====

* Financial instruments are transferred out of level 3 when they become listed.

17 CAPITAL RESOURCES AND GEARING
The Company does not have any externally imposed capital requirements. The financial resources of the Company comprise its share capital and reserves, as disclosed in the Balance Sheet above, and its gearing which is achieved through the use of long CFDs. Financial resources are managed in accordance with the Company’s investment policy and in pursuit of its objective, both of which are detailed in the Strategic Report in the Annual Report. The principal risks and their management are disclosed in the Strategic Report and in Note 16 above.

18 TRANSACTIONS WITH THE MANAGER AND RELATED PARTIES
FIL Investment Services (UK) Limited is the Company’s Alternative Investment Fund Manager and has delegated portfolio management and the role of company secretary to FIL Investments International, the Investment Manager. Both companies are Fidelity group companies.

Details of the current fee arrangements are given in the Directors’ Report in the Annual Report and in Note 4 above. During the year, fees for portfolio management services of £1,598,000 (2021: £2,877,000) and secretarial and administration fees of £50,000 (2021: £50,000) were payable to FIL. At the Balance Sheet date, net fees for portfolio management services of £102,000 (2021: £245,000) and secretarial and administration fees of £13,000 (2021: £25,000) were accrued and included in other creditors. FIL also provides the Company with marketing services. The total amount payable for these services during the year was £177,000 (2021: £130,000). At the Balance Sheet date, marketing services of £39,000 (2021: £4,000) were accrued and included in other creditors.

Disclosures of the Directors’ interests in the ordinary shares of the Company and Directors’ fees and taxable expenses relating to reasonable travel expenses paid to the Directors are given in the Directors’ Remuneration Report in the Annual Report. In addition to the fees and taxable expenses disclosed in the Directors’ Remuneration Report, £13,000 (2021: £12,000) of Employers’ National Insurance Contributions was also paid by the Company. As at 31 December 2022, Directors’ fees of £10,000 (2021: £10,000) were accrued and payable.

ALTERNATIVE PERFORMANCE MEASURES

DISCOUNT/PREMIUM
The discount/premium is considered to be an Alternative Performance Measure. It is the difference between the NAV of the Company and the ordinary share price and is expressed as a percentage of the NAV. Details of the Company’s discount/premium are on the Summary of Results page in the Annual Report and both are defined in the Glossary of Terms in the Annual Report.

GEARING
Gearing is considered to be an Alternative Performance Measure. See the Fair Value and Portfolio Exposure of Investments table in the Annual Report for details of the Company’s gearing.

NET ASSET VALUE (NAV) PER ORDINARY SHARE
The NAV per ordinary share is considered to be an Alternative Performance Measure. See the Balance Sheet and Note 15 above for further details.

ONGOING CHARGES
Ongoing charges are considered to be an Alternative Performance Measure. The ongoing charges ratio has been calculated in accordance with guidance issued by the AIC as the total of investment management fees and other expenses expressed as a percentage of the average net asset values throughout the year.

	2022	2021
Investment management fees (£'000)	1,670	2,238
Other expenses (£'000)	705	633
	-----	-----
Ongoing charges (£'000)	2,375	2,871
Variable management fee (£'000)	(72)	639

Average net assets (£'000)	238,468	319,755
	-----	-----
Ongoing charges ratio	0.99%	0.90%
Ongoing charges ratio including variable management fee	0.96%	1.10%
	=====	=====

REVENUE, CAPITAL AND TOTAL RETURN PER ORDINARY SHARE

Revenue, capital and total return per ordinary share are considered to be Alternative Performance Measures. See the Income Statement and Note 8 above for further details.

TOTAL RETURN PERFORMANCE

Total return performance is considered to be an Alternative Performance Measure.

The tables below provide information relating to the NAVs and share prices of the Company and the total returns for the years ended 31 December 2022 and 31 December 2021.

	Net asset value per ordinary share	Ordinary share price
2022		
31 December 2021	240.73p	229.00p
31 December 2022	182.24p	164.75p
	-----	-----
Total return for the year	-24.3%	-28.1%
	=====	=====
	Net asset value per ordinary share	Ordinary share price
2021		
31 December 2020	236.53p	220.50p
31 December 2021	240.73p	229.00p
	-----	-----
Total return for the year	+1.8%	+3.9%
	=====	=====

The Annual Financial Report Announcement is not the Company's statutory accounts. The above results for the year ended 31 December 2022 are an abridged version of the Company's full Annual Report and Financial Statements, which have been approved and audited with an unqualified report. The 2021 and 2022 statutory accounts received unqualified reports from the Company's Auditor and did not include any reference to matters to which the Auditor drew attention by way of emphasis without qualifying the reports and did not contain a statement under s.498 of the Companies Act 2006. The financial information for 2021 is derived from the statutory accounts for 2021 which have been delivered to the Registrar of Companies. The 2022 Financial Statements will be filed with the Registrar of Companies in due course.

A copy of the Annual Report will shortly be submitted to the National Storage Mechanism and will be available for inspection at: www.morningstar.co.uk/uk/NSM

The Annual Report will be posted to shareholders later this month and additional copies will be available from the registered office of the Company and on the Company's website: www.fidelity.co.uk/specialvalues where up to date information on the Company, including daily NAV and share prices, factsheets and other information can also be found.

Neither the contents of the Company's website nor the contents of any website accessible from hyperlinks on the Company's website (or any other website) is incorporated into, or forms part of, this announcement.

ENDS