

# FIDELITY JAPAN TRUST PLC

## Final Results for the year ended 31 December 2023

### Financial Highlights:

- During the year ended 31 December 2023, Fidelity Japan Trust PLC reported a net asset value (NAV) return of +12.2%, whilst the Reference Index, the TOPIX Total Return Index, returned 13.3%.
- Over the same period, the ordinary share price total return was +12.3%.

### Contacts

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## CHAIRMAN'S STATEMENT

### PERFORMANCE REVIEW

After an extremely challenging year in 2022, 2023 was much more positive for investors in Japan, with the Nikkei 225 Index surpassing levels last seen in 1990. Spurred on by corporate governance reforms increasing focus on shareholder returns, the bulk of the rally was driven by more traditional 'value' style companies, although the higher-growth businesses preferred by the Portfolio Manager, Nicholas Price, began to regain favour towards the end of the year.

In the year ended 31 December 2023, the TOPIX Index of Japanese stocks posted a return of 25.0% in yen, its best performance since 2013. However, over the same period, the Japanese yen weakened by 11.7% against sterling. As a result, the TOPIX Total Return Index (in sterling terms), the Company's Reference Index, saw its return pegged back to 13.3% for the year. The NAV and share price total returns of the Company marginally underperformed the Index, returning 12.2% and 12.3% respectively.

While the underperformance suffered in 2022 means that the Company's three-year cumulative returns are behind the Index, the longer-term results remain positive. Since Nicholas took over the management of the Company in September 2015 and up to the end of December 2023, the NAV has returned 112.5% against the Index Return of 95.5%. The share price returned 127.3% over the same period.

### DISCOUNT MANAGEMENT, SHARE REPURCHASES AND TREASURY SHARES

The primary purpose of the Board's discount management policy is to reduce discount volatility. We will continue to aim to limit the share price discount to single figures in normal market conditions through share repurchases. However, we have witnessed periods when the discount has remained stubbornly high despite a steady share repurchase programme. In a year in which investment trust discounts widened significantly across the board, the discount at which the Company's shares traded was broadly stable, beginning the reporting year at 9.6% and ending it at 9.5% having briefly peaked at 14.3% and narrowing from 10.9% at the half-year end. 3,615,644 ordinary shares were repurchased for holding in Treasury over the year, at a cost of £6,276,000. This represents 2.7% of the issued share capital. Subsequent to the year end and up to the latest practicable date of this report, the Company has repurchased a further 3,351,529 ordinary shares at a cost of £6,029,000.

At the forthcoming Annual General Meeting (AGM) on 22 May 2024, 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.

A sustained reduction in the discount of the Company is only likely if there is a significant increase in investor interest in Japan. We may see this after the Japanese market has reached a new record high and if it continues its current trajectory. Meanwhile, the Board and the Manager will continue their efforts to raise the Company's and promote the investment opportunities in the Japanese market.

### ONGOING CHARGES RATIO

The ongoing charges ratio for the year, including the variable element, is 0.84% (2022: 0.96%). This comprises a fixed charge of 0.99% (2022: 0.99%) and a variable credit of 0.15% (2022: credit of 0.03%). The variable management fee credit is due to the Company's underperformance in comparison to its Reference Index on a three-year rolling basis.

### GEARING

The ability to gear is an important advantage of the investment trust structure, and the Board believes that the Company's use of long Contracts for Difference (CFDs) to achieve its gearing is a differentiating factor. CFDs are generally cheaper than borrowing through traditional bank debt and they also provide greater flexibility. The use of CFDs had a positive impact and contributed +6.3% to the NAV total return in the year under review.

The Portfolio Manager has the discretion to be up to 25% geared. Based on total portfolio exposure at the end of the year of £317.4m, the level of gearing was 23.1% compared with 20.8% at the end of 2022. Further information can be found in the Annual Report. As at 22 March 2024, gearing was 22.0%.

## UNLISTED COMPANIES

Over the past few years, there have been an increasing number of opportunities for the Manager to invest in certain companies before they list on the Tokyo Stock Exchange. This follows a global trend of companies wishing to remain private for longer. While there is authority from shareholders for the Company to invest up to 20% of its assets in unlisted companies, it is the Board's view that, given the current lacklustre IPO market in Japan, it is prudent to limit the proportion held in unlisted companies to a maximum of 10% at the time of any further investment. The actual exposure to unlisted holdings at the end of the year was 6.3% of the net assets (2022: 8.0%). During the year, one unlisted position was redeemed via a repurchase plan and one new position was added to the portfolio, leaving the total number of unlisted holdings at seven.

Twice yearly, the Audit Committee meets specifically to review the unlisted investments together with Fidelity's Fair Value Committee, Fidelity's unlisted Asian investments specialist and representatives of Kroll, the independent valuation specialists.

Further details can be found in the Portfolio Manager's Review below and also in the Annual Report.

## DUE DILIGENCE TRIP

As detailed in the report for the half-year ended 30 June 2023, the Board was pleased to undertake a due diligence trip to Japan last June. As well as spending time with the investment team, we had meetings with senior management and a number of Fidelity's analysts, external market commentators, and the management teams of some of the companies held in the Company's portfolio. The trip helped to reinforce our confidence in the strength and depth of the team in Japan responsible for the management of the Fidelity Japan Trust PLC.

## BOARD CHANGES

As also mentioned in the Half-Yearly Report, Dominic Ziegler will retire from the Board at the conclusion of the Company's AGM on 22 May 2024, having served as a non-executive Director for nine years since November 2014. We thank him for his excellent service and valuable insights on Japan and East Asia.

In September 2023, we announced that Seiichi Fukuyama would join the Board as a non-executive Director with effect from 1 March 2024. Seiichi brings strong relevant experience gained in the asset management business, having been President of BlackRock Japan before becoming Chairman of Standard Life Investment in Asia from 2010 until 2018.

Seiichi will stand for election at the forthcoming AGM, when all the other Directors, apart from Dominic, are subject to annual re-election. Biographical details of all Directors are in the Annual Report to assist shareholders when considering their voting at the AGM.

## ANNUAL GENERAL MEETING (AGM)

Once again, we will be holding a 'hybrid' AGM, allowing attendance and voting in real time online as well as in person. The AGM is a valuable opportunity for us as a Board to engage with shareholders. Nicholas Price will be making a presentation, considering the year under review and outlining the opportunities in the market and prospects for the year ahead. The Board and Nicholas will be very happy to answer questions from shareholders attending both in person and virtually. Japanese refreshments will be served to attendees, and we look forward to seeing many of you there.

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

## OUTLOOK

The market rally which commenced in 2023 and continued into 2024 has been driven by large-cap value stocks, leaving many of the higher growth medium and smaller-sized companies held by the Company underperforming the overall market. We share the Portfolio Manager's view that there is significant scope for a rerating of these businesses which now look undervalued.

Foreign investors are taking renewed interest in Japan, encouraged by the extensive Corporate Governance reforms currently being promoted by the Tokyo Stock Exchange (TSE). In addition, Japan's central bank raised its benchmark interest rate on 19 March 2024 to a range of 0 to 0.1% for the first time in 17 years, ending a longstanding policy of negative rates in order to boost the economy. This may result in the strengthening of the yen. Investor disillusionment with China has also fuelled a renewed interest in Japan from foreign investors and there are positive signs that Japanese investors, partially encouraged by tax incentives, are returning to the stock market.

The Nikkei Dow Jones 225 Index closed at a new record high level on 5 March 2024 having taken 34 years to regain this level. The broader TSE Index is still a little behind its record high of that era. It is hoped that the current market momentum will continue, and with it, the market focus will alight on the stocks in the portfolio which are showing good earnings growth and compelling valuations. We are confident that the Fidelity team in Japan, with their disciplined, research-driven investment process, will return to delivering strong investment returns for shareholders.

## DAVID GRAHAM

Chairman

26 March 2024

## ANNUAL GENERAL MEETING (AGM) – WEDNESDAY, 22 MAY 2024 AT 12 NOON

The AGM of the Company will be held at **12 noon** on **Wednesday, 22 May 2024** at 4 Cannon Street, London EC4M 5AB (nearest tube stations are St. Paul's or Mansion House) and virtually via the online Lumi AGM meeting platform. Full details of the meeting are given in the Annual Report.

For those shareholders who would prefer not to attend in person, we will live-stream the formal business and presentations of the meeting online.

Nicholas Price, the Portfolio Manager, will be making a presentation to shareholders highlighting the achievements and challenges of the year past and the prospects for the year to come. He and the Board will be very happy to answer any questions that shareholders may have. Copies of the Portfolio Manager's presentation can be requested by email at **investmenttrusts@fil.com** or in writing to the Company Secretary at FIL Investments International, Beech Gate, Millfield Lane, Lower Kingswood, Tadworth, Surrey KT20 6RP.

Properly registered shareholders joining the AGM virtually will be able to vote on the proposed resolutions. Please see Note 9 to the Notes to the Notice of Meeting in the Annual Report for details on how to vote virtually. Investors viewing the AGM online will be able to submit live written questions to the Board and the Portfolio Manager and these will be addressed on their behalf at an appropriate juncture during the meeting.

Further information and links to the Lumi platform may be found on the Company's website **www.fidelity.co.uk/japan**. On the day of the AGM, in order to join electronically and ask questions via the Lumi platform, shareholders will need to connect to the website **https://web.lumiagm.com**.

Please note that investors on platforms such as Fidelity Personal Investing, Hargreaves Lansdown, Interactive Investor or AJ Bell Youinvest will need to request attendance at the AGM in accordance with the policies of your chosen platform. They may request that you submit electronic votes in advance of the meeting. If you are unable to obtain a unique IVC and PIN from your nominee or platform, we will also welcome online participation as a guest. Once you have accessed <https://web.lumiagm.com> from your web browser on a tablet or computer, you will need to enter the **Lumi Meeting ID** which is **144-545-039**. You should then select the ‘Guest Access’ option before entering your name and who you are representing, if applicable. This will allow you to view the meeting and ask questions, but you will not be able to vote.

## PORTFOLIO MANAGER’S REVIEW

### QUESTION

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

### ANSWER

Japanese stocks gained markedly in 2023, with key indices registering their strongest annual returns since 2013. Overseas investors played a key role in the market’s ascent, encouraged by Japan’s shift to a moderately inflationary environment and initiatives implemented by the Tokyo Stock Exchange (TSE) to enhance corporate value. An accommodative policy stance by the Bank of Japan (BoJ) and a weaker yen also supported the positive trend in share prices. Japan’s currency came under broad-based pressure amid sustained monetary policy divergence with other major central banks, closing the year at an eight-year low of ¥180 against sterling.

While the Japanese market recorded historical gains, 2023 was a year of significant style divergence. The US bond yield cycle and accompanying currency trends exerted a sizeable impact on style returns, with strong gains in large-cap value stocks contrasting with the far more muted performance of small-cap growth names. These trends continued to generate headwinds for growth-oriented strategies, particularly during periods of sharp rises in long-term interest rates.

In this environment, stocks with low price-to-earnings and low price-to-book multiples, and those with high dividend yields generated the strongest returns. At a sector level, commodity-related segments, led by Iron & Steel, Maritime Transportation, Wholesale Trade and Mining, were among the year’s strongest performers. Automobiles benefited from a recovery in production and a weaker yen, while expectations for a bottoming of the semiconductor cycle drove gains in related stocks. Financials benefited from rising interest rates in the US and Japan but relinquished a measure of their gains in the final quarter when government bond yields retreated in line with waning expectations for further rate hikes. Defensive sectors were relative laggards globally and Pharmaceuticals was the only sector in Japan to generate a negative return in the 2023 calendar year.

### QUESTION

**How has the Company performed in the year to 31 December 2023? What were the key contributors and detractors?**

### ANSWER

The Company’s NAV per ordinary share rose by 12.2% in sterling terms and the share price gained by 12.3%. In comparison, the Reference Index rose by 13.3%. The discount narrowed very slightly to 9.5% from 9.6% a year ago. Over five and ten year periods, the Company outperformed the Reference Index and most of its peers.

The Company’s holding in **Osaka Soda** was among the standout contributors to performance. It reported above-consensus earnings results, spurred by favourable pricing and strong sales of silica gel, a material used in the purification of pharmaceuticals including diabetes drugs. Profitability is steadily increasing as the company transitions from basic chemicals to functional chemicals under its Global Niche Top (GNT) strategy. Positions in semiconductor-related stocks also added value. Shares in semiconductor production equipment (SPE) maker **Tokyo Electron** rebounded strongly as the market shifted its focus from the earnings downside in 2023 to a recovery from 2024. **Tokyo Electron** is a highly competitive player in a structural growth market, supported by sustained semiconductor demand, technological advances in chip making and government support amid rising geopolitical tensions. Meanwhile, fabless semiconductor manufacturer **Socionext** reported strong full-year results that exceeded street estimates, driven by automotive-related orders in the US and data centre/network sales in China. Furthermore, development efficiency gains contributed to an improvement in margins. In the Retail sector, the holding in **Ryohin Keikaku** outperformed. The operator of the MUJI brand of general merchandise stores reported better than expected annual results, underpinned by its strong overseas business, while its forward guidance was also supported by improving margins in Japan. The MUJI brand remains strong and is expected to return to a medium to long-term growth path through store openings in Japan and overseas, as well as through enhancements to its product management system and product capabilities.

Conversely, the Company’s position in **MISUMI Group** was the most significant detractor from performance over the year. Shares in the supplier of factory automation components fell as adverse business conditions and a delayed recovery in the order cycle produced a slew of near-term earnings downgrades. However, leading indicators, such as machine tool orders, are close to a trough and we expect earnings to recover in 2024. In the Services sector, **Nihon M&A Center Holdings**, Japan’s largest provider of merger and acquisition (M&A) advisory services for small and medium enterprises (SMEs), underperformed. At the start of the year, the company’s quarterly results came in far below market expectations due to a deterioration in sales efficiency and weaker pricing of M&A deals. The emergence of innovative new entrants posed a threat to its business model, and we sold the position. **Raksul**, a leading business-to-business (B2B) platformer that provides online printing and marketing/sales support services, faced selling pressure. The stock faced profit taking in early 2023 as the market rotated in favour of technology-related cyclicals. We remain confident in its core e-commerce (EC) printing business which is recovering strongly as the effects of the Covid-19 pandemic recede and the number of registered users continues to grow. We also see the potential for growth in the logistics industry. **Kamakura Shinsho**, a funeral service platformer, reported solid annual results amid a post-pandemic recovery, but the stock faced style headwinds and some concerns about rising costs associated with the development of new operations, such as inheritance services and nursing. However, we retain a positive view of its core businesses, and most of its new segments are already profitable.

The ten highest stock contributors and detractors to the NAV total return on a relative basis are shown in the Annual Report.

### QUESTION

**How has the Company’s portfolio changed over the period?**

### ANSWER

The Chemicals, Services and Retail sectors remained among the largest positions in the Company, reflecting holdings in niche materials companies, unique service providers and speciality retailers that are executing well in Japan and overseas. The scale of the active position in the Chemicals sector increased notably over the year, primarily reflecting a higher weighting in **Osaka Soda** (6.4% at the end of 2023 versus 2.6% a year ago), as well as strong gains in the company’s share price. Meanwhile, there was no significant change in the key underweight sector positions (Transportation Equipment, Pharmaceuticals and Banks) in the portfolio.

As a result of bottom-up stock selection, active exposure to the Electric Appliances sector has increased. Factory automation and semiconductor-related companies have had to deal with a prolonged inventory correction that was exacerbated by the weak recovery in China. However, leading indicators such as machine tool orders are bottoming out and there are signs of a gradual pickup in demand. **MISUMI Group** and **Tokyo Electron** remain key active positions in the Company. We increased the allocation to **Harmonic Drive Systems**, a leading maker of precision reduction gears used in the production of small industrial robots and semiconductor equipment. Elsewhere, we increased the exposure to electronic components maker **Taiyo Yuden**, a leading producer of high-end ceramic capacitors for automotive and smartphone applications.

On the other hand, we sold positions in **Rinnai**, a producer of high-quality home gas appliances which is facing problems in housing/ real estate markets overseas, and **Tsuburaya Fields**, a digital content and game machine company that reached our target price following a period of strong share price performance. We also took some profits in strong performers in the technology sector, including **Tokyo Electron** and **Socionext**, and recycled the proceeds into new stocks.

**QUESTION**  
**How do you view the valuations in the market and for the overall portfolio?**

**ANSWER**  
Overall, we are focusing on growth at reasonable price and holding companies that are trading at or close to market multiples even as they offer consistent mid-term growth. We are also focusing on contrarian growth names – stocks that are disliked by the market but where we see catalysts for change.

Many of the Japanese companies that we are looking at trade at a discount versus their overseas peers, and there are a lot of opportunities where improvements in corporate governance are driving higher returns on equity. Many growth stocks now trade on sub-market multiples despite higher rates of earnings growth and higher returns.

This trend is apparent at the portfolio level, with the forward price-to-earnings ratio now at a comparable level to the Reference Index (see chart in the Annual Report). This is very unusual as it typically trades at a premium to the market, given the higher growth rates and Return on Equity (RoE) of the underlying companies, and is indicative of a level of potential upside.

As a natural profit taker, I aim to trim into strength and recycle into new names to keep the portfolio fresh and have new ideas competing with existing holdings. In 2023, portfolio turnover was at around 64% compared to a three-year average of 79%. Looking at the top 20 active names, which account for around 70% of the portfolio, 14 stocks remained in place (when comparing end of December 2022 versus December 2023).

**QUESTION**  
**What are your current thoughts on gearing? And what impact has it had on returns during the year?**

**ANSWER**  
The level of gearing closed the year at 23.1% (versus 20.8% at the end of 2022). If we see a sustained uptrend in Japanese 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.

Over the course of 2023, the gearing position had a positive impact on returns, notably through the exposure to semiconductor production equipment maker Tokyo Electron and speciality retailer Ryohin Keikaku.

**QUESTION**  
**How has the Company’s exposure to unlisted companies changed during the year under review?**

**ANSWER**  
At the end of the review period, seven unlisted names were held, representing 6.3% of the portfolio. Although the total number of positions remained the same, the composition of the holdings changed somewhat.

The Company’s shares in **Innophys**, a developer of exoskeleton support suits, were redeemed via a repurchase plan executed at the end of March. The company failed to fully execute on its business plan for wearable muscle suits. Given the uncertain outlook for the market and competitive landscape, we first wrote down the asset and then exited it in a trade sale to a corporate.

In October, we initiated a position in **GO Inc**, the top ride-hailing company in Japan. **GO** has a significant lead over competitors in terms of access to taxis. This creates strong and lasting competitive advantages in the ride-hailing industry which is still in the early stages of digitalisation. **GO** has delivered robust growth in its core ride-hailing business since its inception in 2020, and revenue per ride has steadily increased through greater monetisation. It also has steady cash generating businesses such as advertising that subsidise its high-growth segments, a factor that enhances its overall financial profile.

As always, we continue to evaluate new opportunities, while maintaining a disciplined approach towards valuations.

**QUESTION**  
**Environmental, social and governance (ESG) themes are very topical among investors. Could you explain your approach to ESG and how you integrate it into your portfolio?**

**ANSWER**  
Sustainability and ESG related factors are incorporated into the Fidelity wide investment process. 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 that in turn will enhance their financial performance. By working closely with our Head of Engagement in Tokyo and maintaining an active dialogue with investee companies, we continually aim to improve the sustainability of their businesses. That in turn will enhance their performance.

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 factors around disclosure practices and language. By working closely with the Fidelity sustainable investing team in Tokyo, we can identify companies which are implementing real change and moving up the governance scale. As these companies improve disclosure, their ESG ratings should catch up and the market should adjust valuations accordingly. This creates an opportunity for investors to benefit from the adjustment.

**QUESTION**  
**Could you outline specific examples where engagement has resulted in positive outcomes?**

**ANSWER**  
**SWCC**, a wire and cable producer, is a good example of how ESG considerations, particularly ‘G’ in this instance, can factor into valuations. We engaged the company’s executives in discussing their efforts to increase shareholder value and improve capital efficiency, thereby addressing **SWCC’s** low price-to-book valuation. Although returns on equity have been improving, we explained that the company needed to reorganise its business portfolio to ensure further sustainability and convey its strategy more clearly to the market to ensure that its growth potential is fully appreciated. At its most recent financial results meeting, the company presented its business strategy approach to improving its price-to-book ratio in the same format that we had explained during our meeting with them. In addition, management laid out specific measures for improving each business unit and announced a share buyback. That was proof of their confidence in their ability to improve profitability and it led to a significant rise in the company’s share price.

We engaged with **Raksul’s** new CEO to confirm the company’s new compensation structure. While the CEO’s minimum holding period for equity compensation is one year, which is in conflict with our voting guideline of three years, we appreciated that the new structure would encourage shareholder-oriented management by replacing a significant portion of a cash salary with equity compensation. The strong relationship that we have developed with **Raksul’s** new President since his previous tenure as CFO, and a significant improvement in sustainability in response to our previous engagements, indicate that the Board is functioning effectively. Given these factors, we believe that the risk of directors, including the new president, intentionally selling their shares for immediate gain is extremely limited. We, therefore, voted in favour of the company’s new compensation structure.

**QUESTION**

**How do you evaluate the corporate changes being driven by the Tokyo Stock Exchange’s (TSE) initiatives?**

**ANSWER**

A long-awaited reform effort to boost capital efficiency in Japan’s stock market started to gain traction, with the TSE issuing guidance promoting the requirement of a price-to-book ratio above one, among other measures, to improve capital efficiency.

Traditionally, Japanese companies have notoriously sat on excess cash piles, thus tending to limit investor returns. But that is changing. From the first quarter of 2023, the TSE required most listed firms, especially those trading below book value, to “properly identify” their cost and efficiency of capital.

In a panel discussion organised by the TSE in 2022, Fidelity International highlighted the issue of inefficiency and pointed out that about half of Japan’s listed firms were trading below book value. The TSE included our views in select feedback published in both Japanese and English on its website.

The TSE’s latest reform measures represent a bold step forward which has helped to bolster investor confidence. While these measures are encouraging, we think it is even more important to introduce incentives for companies to pursue sustainable growth. With wider reforms and quicker steps, we believe many more Japanese firms could unlock their value and the country’s stock market would attract greater inflows of foreign capital.

**QUESTION**

**What are your expectations for monetary policy and what impact could a change by the Bank of Japan have on the yen?**

**ANSWER**

With the rate hike cycle in the US peaking out and the Bank of Japan widely terminating its negative interest rate policy, there is scope for the yen to strengthen somewhat. However, demand in the Japanese economy is not that tight and I do not expect the Bank of Japan to pursue further significant tightening. Governor Ueda has already stated that monetary policy will remain accommodative and a key focus point once negative rates are ended will be forward guidance about the path of future hikes.

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 overall portfolio has tended to be relatively currency neutral 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**

**What do you view as the biggest risks for the next twelve months?**

**ANSWER**

The most significant risks are still around inflation and how interest rates can impact market valuations and levels. Continued signs of weakness in China’s recovery and a slowdown in America also represent potential headwinds that could prompt a near-term adjustment in Japanese stocks. Additional shocks from energy prices, driven by an escalation in geopolitical events, remain a risk factor that we are closely monitoring.

**QUESTION**

**What should investors be focusing on as we move through 2024?**

**ANSWER**

On the macroeconomic side, the Bank of Japan has ended its negative interest rate policy and the loosening of interest rates by the US Federal Reserve, could drive yen strength in the second half of the year. The domestic economy is doing quite well, and companies are investing in digitalisation and reshoring in the technology space, especially across the semiconductor industry. China is likely to see an uneven recovery, though there are opportunities among associated companies that underperformed last year.

Tentative signs of improvement in the global manufacturing cycle are supportive of technology and factory automation related stocks held by the Company. As the machine tool cycle bottoms out, early cyclicals typically perform strongly at the start of the recovery. We also expect to see a strong semiconductor cycle, spurred by greater needs for artificial intelligence (AI), the Internet of Things (IoT), smartphone AI and developments in edge computing. This is creating opportunities in niche materials and component makers that offer attractive levels of potential upside. Political change in the US is a potential risk factor, as it could lead to greater protectionism, which could hurt Japan and particularly exporters.

Labour supply shortages in Japan will continue to underpin inflationary pressures and a successive year of successful wage hikes, potentially leading to growth in real wages, would have positive implications for consumer facing sectors.

Corporate governance improvements, such as sustained efforts by companies that trade below book value to rectify their situation, an acceleration in the unwinding of cross-shareholdings, and further progress in the restructuring of business portfolios, can enhance the outlook for returns on capital in Japan. Last year, most of the activity came from companies that trade below 1x book. However, as TSE-led governance reforms are broadening out across the market and through our engagements we are seeing higher valuation companies and mid-caps become more active in terms of shareholder returns. After a year of significant style headwinds, this broadening of corporate change should be conducive to a more balanced market environment in Japan.

A reversion of the interest rate cycle in the US is generally conducive to better performance by growth stocks, an area of the Japanese market where we are seeing a lot of undervaluation. From a technical perspective, the recent market rally in Japan has been concentrated in a small number of large-cap names that are collectively looking overbought and investor interest is likely to move down the market cap scale. In particular, mid/small caps that are overlooked or under appreciated by the market and are trading on reasonable valuations offer a source of differentiated returns for the Company. All of these factors combined will, we believe, be supportive of a reversion in growth stocks.

**NICHOLAS PRICE**

**Portfolio Manager**

26 March 2024

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/the 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 Audit Committee continues to identify any new emerging risks and take any action necessary to mitigate their potential impact. 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 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.

Climate change, which refers to a large scale shift in the planet’s weather patterns and average temperatures, continues to be a key emerging as well as a principal risk confronting asset managers and their investors. Globally, climate change effects are already being experienced in the form of changing weather patterns. Extreme weather events can potentially impact the operations of investee companies, their supply chains and their customers. 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 to investment valuations and potentially shareholder returns.

Other emerging risks may continue to evolve from unforeseen geopolitical and economic events.

The Board, together with the Manager, is also monitoring the emerging risks posed by the rapid advancement of artificial intelligence (AI) and technology and how it may threaten the Company’s activities and its potential impact on the portfolio and investee companies. Although advances in computing power mean that AI is a powerful tool that will impact society, there are risks from its increasing use and manipulation with the potential to harm, including a heightened threat to cybersecurity.

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

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

Principal Risks	Mitigation
<p><b>Geopolitical Risk</b></p> <p>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. In Asia, the key geopolitical risks stem from China and the tensions with the United States over trade and the future of Taiwan; and the potential of North Korean aggression and its impact on the region. Elsewhere, there is increased global economic uncertainty from the ongoing war in Ukraine and the conflict in the Middle East.</p>	<p>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.</p> <p>Although it is unclear how long the Ukraine and Middle East conflicts will last, the direct impact for Japan is not significant. The impact on the Company’s portfolio of holdings is also relatively limited. However, the ramifications of a global downturn could have a significant impact on the Japanese economy.</p> <p>The Portfolio Manager’s Review above provides further detail on some of the risk factors.</p>
<p><b>Natural Disaster Risk</b></p> <p>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.</p>	<p>Whilst natural disasters cannot be averted, the Board is comfortable that the Manager has a robust business continuity plan in place.</p>
<p><b>Market, Economic and Currency Risks</b></p> <p>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.</p>	<p>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.</p> <p>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.</p> <p>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.</p>
<p><b>Investment Performance and Gearing Risks</b></p> <p>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.</p>	<p>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.</p>
<p>The portfolio has unlisted investments which, by their very nature, involve a higher degree of valuation and performance uncertainties, liquidity risks and possible delays in listing until market conditions are favourable.</p>	<p>The Board closely monitors the valuations of the unlisted investments through the Manager’s Fair Value Committee, which includes input from Fidelity’s analysts covering the unlisted companies as well as Fidelity’s unlisted investment specialist. In addition, advice is obtained from a third-party valuation specialist company (Kroll). Details of the unlisted investments valuation process is in the Annual Report. The Board sets limits and guidelines for the Portfolio Manager as to how much of the Company’s net assets can be held in unlisted securities. The limit approved by shareholders is 20% of net assets. As at</p>

The Company has the option to make use of loan facilities or to use CFDs to invest in equities. The principal risk is that the Portfolio Manager may fail to use gearing effectively. Other risks are that the cost of gearing may be too high or that the term of the gearing is inappropriate in relation to market conditions.

#### **Discount Control and Demand Risks**

There is a risk that the Company's shares trade at a persistent and significant discount to the NAV.

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.

#### **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 which continues to be one of the most critical issues confronting asset managers and their investors. Japan has a material exposure to acute weather events such as earthquakes.

ESG risks also include investor expectations and how the Company is positioned from a marketing perspective.

#### **Business Continuity Risk**

There continues to be increased focus from financial services regulators around the world on the contingency plans of regulated financial firms. The top risks globally are cybersecurity, geopolitical events and natural disasters. There are also ongoing risks from the Russia/Ukraine war, specifically regarding cyberattacks and 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 Registrar, Custodian and Depositary. They are all subject to a risk-based programme of risk oversight and 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.

#### **Cybercrime and Information Security Risks**

The operational risk and business impact from heightened external levels of cybercrime and the risk of data loss is significant. Cybercrime threats evolve rapidly. A cyber attack could result in the loss of confidential information or cause a significant disruption to the Company's operations. Risks also remain due to the Russia/Ukraine conflict and the trend to more working from home following the pandemic. These primarily relate to phishing, ransomware, remote access threats, extortion and denial-of-services attacks.

31 December 2023, the Company's unlisted investments represented 6.3% 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.

The market value of the Company's shares and its discount to NAV are factors which are not wholly within the Board's total control. 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. The Board endeavours to exercise some short-term influence over the discount through share repurchases, but it can prove challenging if market sentiment is not supportive of Japanese equities.

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 to gauge any dissatisfaction or potential flight risk. The investment team in Japan work closely in a collaborative manner and fully understand the investment approach of the Portfolio Manager.

The Board notes that the Manager has embedded ESG factors, including climate change, in its investment decision-making process. Fidelity has a climate change investing policy which details its plans to work with stakeholders to reduce climate risk across all investment strategies.

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 is in the Annual Report.

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 and has an appropriate control environment in place. The Manager has provided the Board with assurance that the Company has appropriate operational resilience and business continuity plans and the provision of services has continued to be supplied without interruption.

Risks associated with third-party service providers are generally rated as low, but the financial consequences could be serious, including reputational damage to the Company. These are mitigated through operational resilience frameworks.

The Manager's technology and risk teams have developed a number of initiatives and controls in order to provide enhanced mitigating protection to this ever-increasing threat. The risk is regularly re-assessed by Fidelity's information security teams and risk frameworks are continuously enhanced. This has resulted in the implementation of additional tools and processes, including improvements to existing ones. Fidelity has a dedicated cybersecurity team which provides continuous oversight, regular awareness updates and best practice guidance. The Board receives regular updates from the Manager in respect of the type and possible scale of cyber attacks.

The Manager has dedicated detect and respond resources specifically to monitor the cyber threats associated within the workplace and there are a number of mitigating actions in place including, control strengthening, geo-blocking and phishing

mitigants, combined with enhanced resilience and recovery options.

The Company's third-party service providers are also subject to regular oversight and provide assurances and have similar control measures in place to detect and respond to cyber threats and activity.

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 the share price is poor. At the Company's AGM on 17 May 2022, 99.94% of the votes cast by shareholders were 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 twelve 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 compared to its Reference Index;
- 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 the 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 outperformed the Reference Index over the five year reporting period to 31 December 2023, with a NAV total return of 47.3% and a share price total return of 45.7% compared to the Reference Index total return of 39.1%. 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; 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 as detailed above. The Board has also considered the impact of regulatory changes and unforeseen market events 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 below.

#### **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 2025 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 of earthquakes in Japan, the war in Ukraine, the Middle East conflict and significant market events.



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

The prospects of the Company over a period longer than twelve months can be found in the Viability Statement above.

## 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 company, 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 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 on a regular basis. 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 receives regular reports from the Company's Broker which covers market activity, how the Company compares with its peers in the Japan sector on performance, discount and share repurchase activity, an analysis of the Company's share register and market trends.

The Board places great importance on communication with shareholders. The Annual General Meeting provides the key forum for the Board and the 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 any questions or concerns. The Chairman and other Board members are available to meet shareholders as appropriate. Shareholders may also communicate with Board members at any time by writing to them at the Company's registered office at FIL Investments International, Beech Gate, Millfield Lane, Tadworth, Surrey KT20 6RP or via the Company Secretary at the same address or by email at **investmenttrusts@fil.com**.

The Portfolio Manager meets with major shareholders, potential investors, stock market analysts, journalists and other commentators throughout 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 ESG issues aligns with the Company's objective to deliver long-term capital growth, and the Board's review of the Manager includes an assessment of its ESG approach which is set out in the Annual Report.

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

- Authorising the repurchase of 3,615,644 ordinary shares into Treasury when market conditions permitted in order to keep the Company's discount in single digits. Since the year ended 31 December 2023 and up to the latest practicable date of this report, a further 3,351,529 ordinary shares were repurchased;
- Meeting with the Company's key shareholders during the reporting year;
- The decision to hold a hybrid AGM in 2023 (and again this year) in order to make it more accessible to those shareholders who are unable to or prefer not to attend in person;
- The decision to appoint Seiichi Fukuyama to the Board as Dominic Ziegler's replacement with effect from 1 March 2024; and
- Meeting with the Portfolio Manager and the investment team during the Board's Due Diligence trip to Tokyo in June 2023.

## 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 26 March 2024 and signed on its behalf by:

**DAVID GRAHAM**  
Chairman

## FINANCIAL STATEMENTS

### INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2023

	Notes	Year ended 31 December 2023			Year ended 31 December 2022		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Gains/(losses) on investments	9	–	12,376	12,376	–	(64,577)	(64,577)
Gains/(losses) on derivative instruments	10	–	14,299	14,299	–	(11,568)	(11,568)
Income	3	4,218	–	4,218	3,209	–	3,209
Investment management fees	4	(344)	(1,018)	(1,362)	(334)	(1,264)	(1,598)
Other expenses	5	(708)	(4)	(712)	(690)	(15)	(705)
Foreign exchange losses		–	(642)	(642)	–	(365)	(365)
		-----	-----	-----	-----	-----	-----
<b>Net return/(loss) on ordinary activities before finance costs and taxation</b>		3,166	25,011	28,177	2,185	(77,789)	(75,604)
Finance costs	6	(27)	(106)	(133)	(27)	(106)	(133)
		-----	-----	-----	-----	-----	-----
<b>Net return/(loss) on ordinary activities before taxation</b>		3,139	24,905	28,044	2,158	(77,895)	(75,737)
Taxation on return/(loss) on ordinary activities	7	(347)	–	(347)	(260)	–	(260)
		-----	-----	-----	-----	-----	-----
<b>Net return/(loss) on ordinary activities after taxation for the year</b>		2,792	24,905	27,697	1,898	(77,895)	(75,997)
		=====	=====	=====	=====	=====	=====
<b>Return/(loss) per ordinary share</b>	8	2.17p	19.33p	21.50p	1.46p	(60.01p)	(58.55p)
		=====	=====	=====	=====	=====	=====

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 2023

	Note	Share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Other reserve £'000	Capital reserve £'000	Revenue reserve £'000	Total shareholders' funds £'000
<b>Total shareholders' funds at 31 December 2022</b>		34,041	20,722	2,767	46,658	140,511	(8,327)	236,372
Repurchase of ordinary shares	13	–	–	–	(6,276)	–	–	(6,276)
Net return on ordinary activities after taxation for the year		–	–	–	–	24,905	2,792	27,697
		-----	-----	-----	-----	-----	-----	-----
<b>Total shareholders' funds at 31 December 2023</b>		34,041	20,722	2,767	40,382	165,416	(5,535)	257,793
		=====	=====	=====	=====	=====	=====	=====
<b>Total shareholders' funds at 31 December 2021</b>		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)
		-----	-----	-----	-----	-----	-----	-----
<b>Total shareholders' funds at 31 December 2022</b>		34,041	20,722	2,767	46,658	140,511	(8,327)	236,372
		=====	=====	=====	=====	=====	=====	=====

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

BALANCE SHEET AS AT 31 DECEMBER 2023  
Company number 2885584

	Notes	2023 £'000	2022 £'000
<b>Fixed assets</b>			
Investments	9	253,843	230,680
		-----	-----
<b>Current assets</b>			
Derivative instruments	10	1,216	838
Debtors	11	708	613
Cash collateral held with brokers	16	–	276
Cash at bank		3,073	5,556
		-----	-----
		4,997	7,283
		=====	=====
<b>Current liabilities</b>			
Derivative instruments	10	(53)	(1,100)
Other creditors	12	(994)	(491)
		-----	-----
		(1,047)	(1,591)
		=====	=====
<b>Net current assets</b>		3,950	5,692
		=====	=====
<b>Net assets</b>		257,793	236,372
		=====	=====

<b>Capital and reserves</b>			
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	40,382	46,658
Capital reserve	14	165,416	140,511
Revenue reserve	14	(5,535)	(8,327)
		-----	-----
<b>Total shareholders' funds</b>		257,793	236,372
		=====	=====
<b>Net asset value per ordinary share</b>	15	204.46p	182.24p
		=====	=====

The Financial Statements above and below were approved by the Board of Directors on 26 March 2024 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 2025 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 2025 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 better reflect 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/(loss) 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 and Fidelity's unlisted investments specialist, provides recommended fair values to the Directors. These are based on the principles outlined in Note 2 (b). 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 is 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 analyst that covers the company, Fidelity's unlisted investments specialist and 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 gains/(losses) 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, other creditors and expenses accrued in the ordinary course of business and amounts payable for repurchase of shares. 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 £5,630,000 (2022: losses of £1,635,000). See Note 16 below for further details on the level 3 investments.

3 INCOME

	Year ended 31.12.23 £'000	Year ended 31.12.22 £'000
Investment income		
Overseas dividends	3,475	2,625
Derivative income		
Dividends received on long CFDs	743	584
	-----	-----
Total income	4,218	3,209
	=====	=====

No special dividends have been recognised in capital during the reporting year (2022: £47,000).

4 INVESTMENT MANAGEMENT FEES

	Year ended 31 December 2023			Year ended 31 December 2022		
	Revenue	Capital	Total	Revenue	Capital	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Investment management fees – base	344	1,377	1,721	334	1,336	1,670
Investment management fees – variable <sup>1</sup>	–	(359)	(359)	–	(72)	(72)
	-----	-----	-----	-----	-----	-----
	344	1,018	1,362	334	1,264	1,598
	=====	=====	=====	=====	=====	=====

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 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 (FII). Both companies are Fidelity group companies.

FII 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 over a three year rolling period. 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 Annual Report.

5 OTHER EXPENSES

	Year ended 31.12.23 £'000	Year ended 31.12.22 £'000
Allocated to revenue:		
AIC fees	18	20
Secretarial and administration fees payable to the Investment Manager	50	50
Custody fees	13	19
Depositary fees	24	23

Directors' expenses	43	29
Directors' fees <sup>1</sup>	160	131
Legal and professional fees	70	82
Marketing expenses	166	177
Printing and publication expenses	61	70
Registrars' fees	33	30
Other expenses	17	12
Fees payable to the Company's Independent Auditor for the audit of the Financial Statements	53	47
	-----	-----
	708	690
<b>Allocated to capital:</b>		
Legal and professional fees – unlisted investments	4	15
	-----	-----
<b>Other expenses</b>	712	705
	=====	=====

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 2023			Year ended 31 December 2022		
	Revenue	Capital	Total	Revenue	Capital	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Interest paid on long CFDs	24	94	118	24	94	118
Interest paid on collateral and deposits <sup>1</sup>	3	12	15	3	12	15
	-----	-----	-----	-----	-----	-----
	27	106	133	27	106	133
	=====	=====	=====	=====	=====	=====

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 31.12.23 £'000	Year ended 31.12.22 £'000
<b>a) Analysis of the taxation charge for the year</b>		
Overseas taxation	347	260
	-----	-----
<b>Taxation charge for the year (see Note 7b)</b>	347	260
	=====	=====

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 25.00% (2022: 19.00%). A reconciliation of the standard rate of UK corporation tax to the taxation charge for the year is shown below:

	Year ended 31.12.23 £'000	Year ended 31.12.22 £'000
<b>Net return/(loss) on ordinary activities before taxation</b>	28,044	(75,737)
	-----	-----
Net return/(loss) on ordinary activities before taxation multiplied by the blended rate of UK corporation tax of 23.52% (2022: 19.00%)	6,596	(14,390)
Effects of:		
Capital (gains)/losses not taxable <sup>1</sup>	(6,123)	14,537
Income not taxable	(817)	(499)
Expenses not deductible	23	19
Excess management expenses not utilised	321	333
Overseas taxation	347	260



<b>Taxation charge for the year (see Note 7a)</b>	----- 347 =====	----- 260 =====
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.		
<b>c) Deferred taxation</b>		
A deferred taxation asset of £8,886,000 (2022: £8,544,000), in respect of excess expenses of £35,543,000 (2022: £34,176,000) has not been recognised as it is unlikely that there will be sufficient future profits to utilise these expenses.		
The UK corporation tax rate increased from 19.00% to 25.00% from 1 April 2023. The rate of 25.00% has been applied to calculate the unrecognised deferred tax asset for the current year (2022: 25.00%).		
<b>8 RETURN/(LOSS) PER ORDINARY SHARE</b>		
	Year ended 31.12.23	Year ended 31.12.22
Revenue return per ordinary share	2.17p	1.46p
Capital return/(loss) per ordinary share	19.33p	(60.01p)
	-----	-----
Total return/(loss) per ordinary share	21.50p	(58.55p)
	=====	=====
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 of Treasury during the year, as shown below:		
	£'000	£'000
Net revenue return on ordinary activities after taxation	2,792	1,898
Net capital return/(loss) on ordinary activities after taxation	24,905	(77,895)
	-----	-----
Net total return/(loss) on ordinary activities after taxation	27,697	(75,997)
	=====	=====
	Number	Number
Weighted average number of ordinary shares held outside of Treasury	128,843,583	129,812,318
	=====	=====
<b>9 INVESTMENTS</b>		
	2023	2022
	£'000	£'000
Listed investments	237,440	211,747
Unlisted investments	16,403	18,933
	-----	-----
<b>Investments at fair value</b>	253,843	230,680
	=====	=====
Opening book cost	242,067	265,540
Opening investment holding (losses)/gains	(11,387)	42,198
	-----	-----
<b>Opening fair value</b>	230,680	307,738
	=====	=====
<b>Movements in the year</b>		
Purchases at cost	158,947	153,886
Sales – proceeds	(148,160)	(166,367)
Gains/(losses) on investments	12,376	(64,577)
	-----	-----
<b>Closing fair value</b>	253,843	230,680
	=====	=====
Closing book cost	244,383	242,067
Closing investment holding gains/(losses)	9,460	(11,387)
	-----	-----
<b>Closing fair value</b>	253,843	230,680
	=====	=====

The Company received £148,160,000 (2022: £166,367,000) from investments sold in the year. The book cost of these investments when they were purchased was £156,631,000 (2022: £177,359,000). 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 gains/(losses) on investments above, were as follows:

	Year ended 31.12.23 £'000	Year ended 31.12.22 £'000
Purchases transaction costs	57	61
Sales transaction costs	63	59
	-----	-----
	120	120
	=====	=====

The portfolio turnover for the year was 63.6% (2022: 68.9%). 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 31.12.23 £'000	Year ended 31.12.22 £'000
Gains/(losses) on derivative instruments		
Gains/(losses) on long CFD positions closed	12,874	(11,017)
Movement in investment holding gains/(losses) on long CFDs	1,425	(551)
	-----	-----
	14,299	(11,568)
	=====	=====

Derivative instruments recognised on the Balance Sheet

	2023		2022	
	Fair value £'000	Portfolio exposure £'000	Fair value £'000	Portfolio exposure £'000
Derivative instrument assets – long CFDs	1,216	41,568	838	24,704
Derivative instrument liabilities – long CFDs	(53)	21,953	(1,100)	30,162
	-----	-----	-----	-----
	1,163	63,521	(262)	54,866
	=====	=====	=====	=====

11 DEBTORS

	2023 £'000	2022 £'000
Securities sold for future settlement	361	300
Accrued income	249	193
Other debtors and prepayments	98	120
	-----	-----
	708	613
	=====	=====

12 OTHER CREDITORS

	2023 £'000	2022 £'000
Securities purchased for future settlement	438	164
Creditors and accruals	285	327
Amounts payable for repurchase of shares	271	—
	-----	-----

				994	491
				=====	=====
<b>13 SHARE CAPITAL</b>					
		2023		2022	
			Nominal		Nominal
		Number of	value	Number of	value
		shares	£'000	shares	£'000
<b>Issued, allotted and fully paid</b>					
<b>Ordinary shares of 25 pence each held outside of Treasury</b>					
<b>Beginning of the year</b>		129,701,893	32,425	129,876,894	32,469
Ordinary shares repurchased into Treasury		(3,615,644)	(904)	(175,001)	(44)
		-----	-----	-----	-----
<b>End of the year</b>		126,086,249	31,521	129,701,893	32,425
		=====	=====	=====	=====
<b>Issued, allotted and fully paid</b>					
<b>Ordinary shares of 25 pence each held in Treasury<sup>1</sup></b>					
<b>Beginning of the year</b>		6,459,802	1,616	6,284,801	1,572
Ordinary shares repurchased into Treasury		3,615,644	904	175,001	44
		-----	-----	-----	-----
<b>End of the year</b>		10,075,446	2,520	6,459,802	1,616
		=====	=====	=====	=====
<b>Total share capital</b>			34,041		34,041
			=====		=====

1 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 3,615,644 ordinary shares (2022: 175,001 shares) and held them in Treasury. The £6,276,000 (2022: £284,000) cost of repurchase was charged to the other reserve.

#### 14 CAPITAL AND RESERVES

	Share	Share	Capital		Capital	Revenue	Total
	capital	premium	redemption	Other	reserve	reserve	shareholders'
	£'000	account	reserve	reserve	£'000	£'000	funds
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>At 1 January 2023</b>	34,041	20,722	2,767	46,658	140,511	(8,327)	236,372
Gains on investments (see Note 9)	—	—	—	—	12,376	—	12,376
Gains on derivative instruments (see Note 10)	—	—	—	—	14,299	—	14,299
Foreign exchange losses	—	—	—	—	(642)	—	(642)
Investment management fees (see Note 4)	—	—	—	—	(1,018)	—	(1,018)
Other expenses (see Note 5)	—	—	—	—	(4)	—	(4)
Finance costs (see Note 6)	—	—	—	—	(106)	—	(106)
Revenue return on ordinary activities after taxation for the year	—	—	—	—	—	2,792	2,792
Repurchase of ordinary shares (see Note 13)	—	—	—	(6,276)	—	—	(6,276)
	-----	-----	-----	-----	-----	-----	-----
<b>At 31 December 2023</b>	34,041	20,722	2,767	40,382	165,416	(5,535)	257,793
	=====	=====	=====	=====	=====	=====	=====

	Share	Share	Capital		Capital	Revenue	Total
	capital	premium	redemption	Other	reserve	reserve	shareholders'
	£'000	account	reserve	reserve	£'000	£'000	funds
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>At 1 January 2022</b>	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)
	-----	-----	-----	-----	-----	-----	-----
<b>At 31 December 2022</b>	34,041	20,722	2,767	46,658	140,511	(8,327)	236,372
	=====	=====	=====	=====	=====	=====	=====

The capital reserve balance at 31 December 2023 includes investment holding gains of £9,460,000 (2022: losses of £11,387,000) as detailed in Note 9. See Note 2 (p) 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**

The calculation of the net asset value per ordinary share is based on the total shareholders' funds divided by the number of ordinary shares held outside of Treasury.

	2023	2022
Total shareholders' funds	£257,793,000	£236,372,000
Ordinary shares held outside of Treasury at the year end	126,086,249	129,701,893
Net asset value per ordinary share	204.46p	182.24p
	=====	=====

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; Environment, Social and Governance (ESG); business continuity; cybercrime and information security. 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:

	2023	2022
	£'000	£'000
<b>Exposure to financial instruments that bear interest</b>		
Long CFDs – Portfolio exposure less fair value	62,358	55,128
	-----	-----
	62,358	55,128
	=====	=====
<b>Exposure to financial instruments that earn interest</b>		
Cash collateral held with brokers	—	276
Cash at bank	3,073	5,556
	-----	-----
	3,073	5,832
	=====	=====

Net exposure to financial instruments that bear interest

59,285	49,296
=====	=====

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:

2023					
	Investments held at fair value £'000	Long exposure to derivative instruments £'000	Debtors £'000	Cash at bank £'000	Total £'000
Currency					
Japanese yen	253,843	63,521	610	2,950	320,924
UK sterling	–	–	98	123	221
	-----	-----	-----	-----	-----
	253,843	63,521	708	3,073	321,145
	=====	=====	=====	=====	=====
2022					
	Investments held at fair value £'000	Long exposure to derivative instruments £'000	Debtor <sup>1</sup> £'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.

Currency exposure of financial liabilities

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

	2023 Other creditors £'000	2022 Other creditors £'000
Currency		
Japanese yen	439	165
UK sterling	555	326
	-----	-----
	994	491
	=====	=====

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. Other price risks arising from derivative positions, mainly due to the underlying exposures, are estimated using Value at Risk and Stress Tests as set out in the Company’s internal Risk Management Process Document.

**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 2023, the undiscounted gross cash outflows of the financial liabilities were all repayable within one year and consisted of derivative instrument liabilities of £53,000 (2022: £1,100,000) and other creditors of £994,000 (2022: £491,000).

**Counterparty risk**

Certain derivative instruments in which the Company may invest are not traded on an exchange but instead will be 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 2023, £1,775,000 (2022: £nil) was held by the brokers in cash denominated in Japanese yen 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. This collateral comprised: J.P. Morgan Securities plc £574,000 (2022: £nil) and UBS AG £1,201,000 (2022: £nil). At 31 December 2023, there were no amounts held by the Company at futures clearing houses and brokers on the Balance Sheet, to reduce the credit risk exposure of the Company’s net unrealised losses on derivative positions (2022: £276,000). In the year to 31 December 2022, this collateral comprised: J.P. Morgan Securities plc £276,000 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 2023, an increase of 0.25% in interest rates throughout the year, with all other variables held constant, would have decreased the Company’s net return on ordinary activities after taxation for the year and decreased the Company’s net assets by £148,000 (2022: increased the net loss and decreased the net assets by £123,000). 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 2023, a 10% strengthening of the sterling exchange rate against the yen, with all other variables held constant, would have decreased the Company’s net return on ordinary activities after taxation for the year and decreased the Company’s net assets by £29,134,000 (2022: increased the net loss and decreased the net assets by £26,518,000). A 10% weakening of the sterling exchange rate against the yen would have increased the Company’s net return on ordinary activities after taxation for the year and increased the Company’s net assets by £35,609,000 (2022: decreased the net loss and increased the net assets by £32,411,000).

**Other price risk – exposure to investments sensitivity analysis**

Based on the listed investments held and share prices at 31 December 2023, an increase of 10% in share prices, with all other variables held constant, would have increased the Company’s net return on ordinary activities after taxation for the year and increased the Company’s net assets by £23,744,000 (2022: decreased the net loss and increased the net assets by £21,175,000). 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 2023, an increase of 10% in share prices, with all other variables held constant, would have increased the Company’s net return on ordinary activities after taxation for the year and increased the Company’s net assets by £1,640,000 (2022: decreased the net loss and increased the net assets by £1,893,000). 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 2023, an increase of 10% in the share prices underlying the long CFDs, with all other variables held constant, would have increased the Company’s net return on ordinary activities after taxation for the year and increased the Company’s net assets by £6,352,000 (2022: decreased the net loss and increased the net assets by £5,487,000). 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), 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
<b>Level 1</b>	Valued using quoted prices in active markets for identical assets
<b>Level 2</b>	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
<b>Level 3</b>	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). The table below sets out the Company’s fair value hierarchy:

	2023			
	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Financial assets at fair value through profit or loss				
Investments	237,440	–	16,403	253,843
Derivative instrument assets	–	1,216	–	1,216
	-----	-----	-----	-----
	237,440	1,216	16,403	255,059
	=====	=====	=====	=====
<b>Financial liabilities at fair value through profit or loss</b>				
Derivative instrument liabilities	–	(53)	–	(53)
	=====	=====	=====	=====
	2022			
	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Financial assets at fair value through profit or loss				
Investments	211,747	–	18,933	230,680
Derivative instrument assets	–	838	–	838
	-----	-----	-----	-----
	211,747	838	18,933	231,518
	=====	=====	=====	=====
<b>Financial liabilities at fair value through profit or loss</b>				
Derivative instrument liabilities	–	(1,100)	–	(1,100)
	=====	=====	=====	=====

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

		2023		2022
		Book cost	Level 3	Level 3
Name	Business	£'000	£'000	£'000
Asoview	Online booking website for leisure facilities	6,602	5,740	6,872
GO Inc	Japan’s largest ride-hailing company	2,378	2,487	–
iYell	Mortgage Fintech company	2,641	2,189	2,469
Studyplus	Online educational company	2,257	2,110	2,402
Moneytree	Developer of personal asset management applications	3,016	1,832	2,564
Yoriso	Online funeral planning platform	2,627	1,034	2,516
Spiber	Bio-tech company	2,512	1,011	1,823
Innophys	Developer of elderly care and welfare equipment	–	–	287
		-----	-----	-----
<b>End of the year</b>		22,033	16,403	18,933
		=====	=====	=====

The valuation of GO Inc at 31 December 2023 is based on the cost of the investment when it was purchased in November 2023 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 2023 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. For more details on the technique applied to the value of unlisted investments, see Note 2 (j) in the Accounting Policies section above.

	31.12.23	31.12.22
	Level 3	Level 3
	£'000	£'000
Movements in level 3 financial instruments during the year:		
<b>Beginning of the year</b>	18,933	17,201
Purchases at cost	2,378	2,257
Sales proceeds – Innophys	(274)	–
Sales loss – Innophys	(639)	–
Movement in investment holding losses (including foreign exchange movement)	(3,995)	(525)
	-----	-----
<b>End of the year</b>	16,403	18,933
	=====	=====

### 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 above 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 £1,362,000 (2022: £1,598,000) and secretarial and administration fees of £50,000 (2022: £50,000) were payable to FII. At the Balance Sheet date, net fees for portfolio management services of £106,000 (2022: £102,000) and secretarial and administration fees of £13,000 (2022: £13,000) were accrued and included in other creditors. FII also provides the Company with marketing services. The total amount payable for these services during the year was £166,000 (2022: £177,000). At the Balance Sheet date, marketing services of £18,000 (2022: £39,000) 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, £14,000 (2022: £13,000) of Employers’ National Insurance Contributions was also paid by the Company. As at 31 December 2023, Directors’ fees of £18,000 (2022: £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 per ordinary share of the Company and the ordinary share price and is expressed as a percentage of the NAV per ordinary share. Details of the Company’s discount are on the Financial Highlights in the Annual Report and are both 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. Gearing is defined in the Glossary of Terms in the Annual Report.

#### NET ASSET VALUE (NAV) PER ORDINARY SHARE

The NAV per ordinary share is considered to be an Alternative Performance Measure. See the Balance Sheet on and Note 15 above for further details.

#### ONGOING CHARGES RATIO

The ongoing charges ratio is considered to be an Alternative Performance Measure. It has been calculated in accordance with guidance issued by the AIC as the total of management fees and other expenses expressed as a percentage of the average net assets throughout the year.

	2023	2022
Investment management fees (£'000)	1,721	1,670
Other expenses (£'000)	712	705
	-----	-----
<b>Ongoing charges (£'000)</b>	2,433	2,375
	=====	=====
Variable management fee (£'000)	(359)	(72)
Average net assets (£'000)	245,972	238,468
<b>Ongoing charges ratio</b>	0.99%	0.99%
<b>Ongoing charges ratio including variable management fee</b>	0.84%	0.96%
	=====	=====



REVENUE, CAPITAL AND TOTAL RETURN PER ORDINARY SHARE

Revenue, capital and total returns 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 NAV per ordinary share and the ordinary share price of the Company, the impact of the dividend reinvestments and the total returns for the years ended 31 December 2023 and 31 December 2022.

	Net asset value per ordinary share	Ordinary share price
2023		
31 December 2022	182.24p	164.75p
31 December 2023	204.46p	185.00p
	-----	-----
Total return for the year	+12.2%	+12.3%
	=====	=====
	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%
	=====	=====

The Annual Financial Report Announcement is not the Company's statutory accounts. The above results for the year ended 31 December 2023 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 2022 and 2023 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 2022 is derived from the statutory accounts for 2022 which have been delivered to the Registrar of Companies. The 2023 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](http://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/japan](http://www.fidelity.co.uk/japan) 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.

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