

# **LONDON STOCK EXCHANGE ANNOUNCEMENT**

## **JPMORGAN JAPANESE INVESTMENT TRUST PLC**

### **UNAUDITED HALF YEAR RESULTS FOR THE SIX MONTHS**

**ENDED 31ST MARCH 2017**

#### **CHAIRMAN'S STATEMENT**

##### **Performance**

In the six months ended 31st March 2017 the total return on net assets was +2.3% relative to the Company's benchmark return of +9.0%. The share price rose over the same period from 335.0p to 341.3p, reflecting the rise in the NAV. This is a disappointing result after a number of years of strong performance and reflects a period in which the higher-rated stocks held by the Company underperformed the broader market, which rose in response to perceptions of improved prospects for global growth. Over the longer term the portfolio has significantly outperformed the benchmark in sterling terms. Over the five years to 31st March 2017 for example, the total return on net assets was 113.2% relative to the return for the benchmark index of 82.8%.

The Investment Managers' Report below reviews the market and provides more detail on performance.

##### **Revenue and Dividends**

As emphasised in previous Chairman's statements, dividend payments from Japanese companies are unpredictable and dividends paid to shareholders in previous years should not be taken as a guide to future payments. In respect of the year ended 30th September 2016, we paid a dividend of 3.65p per share, reflecting the available revenue for distribution.

##### **Discount Management**

The Board has guidelines in place with regard to the management of any discount/premium that may develop between the Company's share price and its net asset value per share and to enhance returns to shareholders. Over the period the share price discount ranged from 16.5% to 8.9%. The Company did not repurchase any shares during the six month period.

##### **Gearing**

The Board of Directors sets the overall strategic gearing policy and guidelines and reviews these at each meeting. The Investment Manager then manages the gearing within the agreed levels. The funds available to be drawn down by the Company are ¥15 billion, comprised of a ¥9 billion five year term loan and a ¥6 billion three year revolving credit facility, the latter having been agreed in December 2016. As at 31st March 2017 the Company's gearing level was 13.5%.

##### **New Zealand Listing**

As highlighted in my statement in the Annual Report, the Board had resolved to de-list the Company from the New Zealand Stock Exchange. A circular is expected to be sent to New Zealand registered shareholders shortly.

##### **Outlook**

Although economic growth is generally stronger globally the Japanese stockmarket, which has considerable cyclical characteristics, has not performed as well in recent months as might be expected. The stock market continues to be most correlated, negatively, with the yen-US dollar exchange rate. In periods when risk assets sell-off the yen tends to strengthen and Japanese equities tend to fall. Global investors remain generally sceptical of the prospects for Japanese equities usually citing as reasons a shrinking domestic population and a lack of structural reform in Prime Minister Abe's "Three Arrows" change agenda.

Progress on structural reform and changes to corporate governance and implementing a more shareholder friendly approach among Japanese companies is slow. But, it is happening. The Managers and the Board continue to be very encouraged by the investment opportunities to be found among quoted Japanese companies. Share buy backs and dividends are increasing and other more shareholder focussed policies, like return on equity targets, are being put in place. We continue to believe that a research-driven and selective, active, approach to Japanese company investment will continue to serve shareholders in the Company well.

**Andrew Fleming**  
Chairman

25th May 2017

## **INVESTMENT MANAGERS' REPORT**

The benchmark TOPIX Index rose by 9.0% in sterling terms during the six months ended 31st March 2017 with the Company's total return on net assets rising 2.3%. Over three years the Company's portfolio returned 69.3% versus 63.2% for the benchmark index. Over five years it returned 113.2% versus 82.8% for the index.

### **Review**

In the six months to 31st March 2017 the global economy performed well across all major regions despite concerns that Brexit and the election of President Trump could act as a brake on growth. Interest rates have, therefore, started to rise in the United States ('US') in response to the improved data. The increasing difference between US and Japanese interest rates is the major reason for the yen depreciating against the dollar from c¥101 to c¥111 over the period.

The Japanese economy continued to grow modestly over the period. The labour market remained particularly tight with, for example, 143 jobs for every 100 applicants. As a result wages have started to rise, particularly in the service sector. To date we have seen little impact of this flowing through to consumer spending but we expect to see this over time. Inflation has turned positive and is likely to accelerate through 2017 due to a combination of the weaker yen and higher commodity prices.

Japanese politics remains remarkable for its stability both historically and compared to the rest of the world. The governing Liberal Democratic Party recently changed its rules to allow Prime Minister Abe to remain as leader until 2021 so it is probable that this stability will continue, particularly given the low approval ratings of the main opposition party.

Corporate performance has remained strong with companies reporting profits at elevated levels. Most importantly, progress in corporate governance continues and record levels of dividends and share buybacks were reported in 2016. We believe that this is a structural change that will endure.

### **Portfolio Performance**

Underperformance versus the benchmark over the six months to 31st March 2017 was due principally to stock selection. At the asset allocation level gearing was positive in a rising market but this was offset by overweight positions in the retail sector and banks.

The second half of 2016 saw a period of reversion to the mean, with stocks that had struggled in the first half of the year rallying. Value stocks performed strongly as expectations of accelerating economic growth increased. Stocks exhibiting quality and growth characteristics struggled in this environment. As we detail in the 'Current Portfolio' section below we have a bias to the latter group of stocks. We believe that many of the stocks, which we do not own, that performed well have business models which will impact on their competitiveness in the coming years.

The top contributing stocks included Start Today, Tokyo Electron, Suzuki Motor and Shinetsu Chemical:

- Start Today is Japan's number one online apparel retailer; similar to ASOS and Zalando. Online clothes sales are 7% of the overall Japanese market versus 23% in Germany, 20% in the UK and 17% in France, demonstrating the substantial opportunity open to the company. This opportunity is enhanced by a competitive landscape in Japan that is relatively benign where traditional retailers have been very slow to understand the potential from online sales.
- Tokyo Electron is a semiconductor manufacturing equipment maker. The company's installed base is growing and this is expected to lead to an increase in high margin servicing-related sales.
- Suzuki Motor. We have been and remain underweight in the transportation equipment sector (autos) because we think the industry is highly competitive and faces structural challenges. We are, however, focusing on manufacturers with clear niches that offer protection from these adverse headwinds and the opportunity for profitable growth. Suzuki is an example of such a manufacturer. It has a 45% market share in India where car penetration is still very low by global standards and only 4% of people own a car. Its large dealer and service networks are sources of sustainable competitive advantage as it has three times the number of outlets compared to that of the nearest competitor in that market.
- Shinetsu Chemical is the global number one PVC and semiconductor wafer manufacturer. The PVC business is strongly geared to the US housing market which we expect to continue to improve. Meanwhile, after eight years, the semiconductor wafer market has a much better supply-demand balance and we now expect price increases.

We also benefited from not holding Toyota Motor which represents approximately 3.3% of the TOPIX Index, a traditional vehicle manufacturer, which faces the full force of the headwinds identified above.

Stocks that contributed negatively to performance over the six month period included M3, Sosei, Meiji Holdings, Sundrug and Sysmex:

- M3 operates an online portal accessed by doctors that enjoys a number one position in the Japanese and the UK markets and is growing rapidly in China. It offers pharmaceutical companies the opportunity to market drugs online with commensurate cost savings over traditional marketing methods. The company plans to expand both its geographical reach and the range of services it offers. Although the stock underperformed on concerns over the high valuation enjoyed by the shares, we do not believe there has been any change in the long-term outlook for the company and continue to hold the shares.
- Sosei is a biotechnology company. The development of one of its drugs, in partnership with Allergan, has been delayed. We do not believe this changes the positive long-term outlook for the company and continue to hold the shares. Customers include AstraZeneca, Merck, Pfizer and Novartis and the company is not dependent on any one compound for its business.
- Meiji Holdings is Japan's leading manufacturer of dairy and chocolate products. Growth has been recently driven by its hit probiotic yoghurt drink. Alongside the market as a whole, we became concerned about the sustainability of sales growth for this product and sold the shares to fund purchases elsewhere.
- Sundrug is a retail pharmacy company. We believe the industry will consolidate over the next few years as the top ten companies only have approximately 30% market share. Sundrug generates the highest returns on capital and operating margins of any company in the industry and we think it will be one of the winning companies in this sector. There has been no news that has changed our long-term view and we continue to hold the shares.
- Sysmex is the world's leading haematology company. We reduced the position during the period, having held it for several years, due to concerns over the valuation. We continue to hold the remaining stock as there has been no change to the long-term outlook which will be driven by emerging markets where we expect there to be limited competition from local manufactures.

## Current Portfolio

We made a number of changes to the portfolio during the period. The most noteworthy were the increase in gearing from 9.5% to 13.5%, the increase in our exposure to financial stocks from 7.8% to 17.2% and the increase in holdings of companies in the recruitment industry.

We have owned Mitsubishi UFJ Financial Group and Sumitomo Mitsui Financial Group in the past due to their increasing focus on shareholder returns and unwinding of cross-shareholdings. We sold the shares at the start of 2016 as we thought negative interest rates would put pressure on earnings and make shareholder returns less likely. We no longer believe that interest rates will be taken further into negative territory and reverted to our original investment thesis.

The aging population means that the shortage of workers in Japan is a structural challenge and companies such as Temp Holdings, which is steadily taking market share, stand to benefit. Recruit is also involved in staffing but is more global in its reach as it operates the world's number one employment website called *'indeed'*.

At the end of March the largest overweight positions in the portfolio were Start Today, Mitsubishi UFJ Financial Group, Suzuki Motor, Subaru and Shin-Etsu Chemical. The characteristics of the portfolio remain largely unchanged: company balance sheets and free cash flow are stronger; earnings growth faster and company return on equity higher than the market as a whole. Much of this growth in investee companies is structural and in aggregate these companies should do well regardless of what happens in the global or Japanese economy. Company valuations in the portfolio, as measured by PE ratios, are higher than the market average but we believe the strong long-term growth prospects more than justify this. Additionally, there is a bias to mid and smaller sized companies in the portfolio. Analyst coverage drops off as you go down the market capitalization range and we can find more focused companies in this part of the market. Investors should expect consistently to see these characteristics in the Company over the economic cycle.

## Outlook

Stable politics and an improving domestic economy at present combine with accelerating global growth and a weaker yen to mean that earnings momentum is currently strong in Japan with profit growth for the TOPIX Index projected to rise by 13% in the financial year 2017. The Japanese equity market is more cyclical than the US or Europe and an improving global economic backdrop bodes well for future profits. Valuations are not stretched by historic standards and are at a discount to other developed markets. The continuing improvement in corporate governance is the single most important structural shift that is happening and may mean that the valuation gap versus other markets can start to close.

## **INTERIM MANAGEMENT REPORT**

The Company is required to make the following disclosures in its half year report.

### **Principal Risks and Uncertainties**

The principal risks and uncertainties faced by the Company fall into the following broad categories: investment underperformance and strategy; market and currency; political, economic and governance; loss of investment team or investment manager; discount; change of corporate control of the Manager; accounting, legal and regulatory; corporate governance and shareholder relations; operational and financial. Information on each of these areas is given in the Business Review within the Annual Report and Accounts for the year ended 30th September 2016.

### **Related Parties Transactions**

During the first six months of the current financial year, no transactions with related parties have taken place which have materially affected the financial position or the performance of the Company during the period.

### **Going Concern**

The Directors believe, having considered the Company's investment objectives, risk management policies, capital management policies and procedures, nature of the portfolio and expenditure projections, that the Company has adequate resources, an appropriate financial structure and suitable management arrangements in place to continue in operational existence for the foreseeable future and more specifically, that there are no material uncertainties pertaining to the Company that would prevent its ability to continue in such operational existence for at least twelve months from the date of the approval of this half year financial report. For these reasons, they consider there is reasonable evidence to continue to adopt the going concern basis in preparing the accounts.

### **Directors' Responsibilities**

The Board of Directors confirms that, to the best of its knowledge:

- (i) the condensed set of financial statements contained within the interim financial report has been prepared in accordance with FRS 104 'Interim Financial Reporting' and gives a true and fair view of the state of the affairs of the Company and of the assets, liabilities, financial position and net return of the Company, as at 31st March 2017, as required by the UK Listing Authority Disclosure Guidance and Transparency Rule ('DTR') 4.2.4R; and
- (ii) the interim management report includes a fair review of the information required by DTR 4.2.7R and DTR 4.2.8R.

In order to provide these confirmations, and in preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards 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;

and the Directors confirm that they have done so.

For and on behalf of the Board

**Andrew Fleming**  
Chairman

25th May 2017

**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE SIX MONTHS ENDED 31ST MARCH 2017**

	(Unaudited) Six months ended 31st March 2017			(Unaudited) Six months ended 31st March 2016			(Audited) Year ended 30th September 2016		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
<b>Gains on investments held</b>									
<b>at fair value through</b>									
<b>profit or loss</b>	—	7,928	7,928	—	70,108	70,108	—	179,145	179,145
Net foreign currency									
gains/(losses)	—	2,998	2,998	—	(5,239)	(5,239)	—	(16,545)	(16,545)
Income from investments	6,159	—	6,159	3,536	—	3,536	8,725	—	8,725
<b>Gross return</b>	<b>6,159</b>	<b>10,926</b>	<b>17,085</b>	<b>3,536</b>	<b>64,869</b>	<b>68,405</b>	<b>8,725</b>	<b>162,600</b>	<b>171,325</b>
Management fee	(379)	(1,515)	(1,894)	(319)	(1,276)	(1,595)	(673)	(2,691)	(3,364)
Other administrative									
expenses	(330)	—	(330)	(298)	—	(298)	(619)	—	(619)
<b>Net return on ordinary</b>									
<b>activities before finance</b>									
<b>costs and taxation</b>	<b>5,450</b>	<b>9,411</b>	<b>14,861</b>	<b>2,919</b>	<b>63,593</b>	<b>66,512</b>	<b>7,433</b>	<b>159,909</b>	<b>167,342</b>
Finance costs	(82)	(327)	(409)	(69)	(276)	(345)	(153)	(612)	(765)
<b>Net return on ordinary</b>									
<b>activities before taxation</b>	<b>5,368</b>	<b>9,084</b>	<b>14,452</b>	<b>2,850</b>	<b>63,317</b>	<b>66,167</b>	<b>7,280</b>	<b>159,297</b>	<b>166,577</b>
Taxation	(613)	—	(613)	(354)	—	(354)	(874)	—	(874)
<b>Net return on ordinary</b>									
<b>activities after taxation</b>	<b>4,755</b>	<b>9,084</b>	<b>13,839</b>	<b>2,496</b>	<b>63,317</b>	<b>65,813</b>	<b>6,406</b>	<b>159,297</b>	<b>165,703</b>
<b>Return per share (note 4)</b>	<b>2.95p</b>	<b>5.63p</b>	<b>8.58p</b>	<b>1.55p</b>	<b>39.27p</b>	<b>40.82p</b>	<b>3.97p</b>	<b>98.79p</b>	<b>102.76p</b>

**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE SIX MONTHS ENDED 31ST MARCH 2017**

	Called up share capital	Capital redemption reserve	Other reserve	Capital reserves	Revenue <sup>1</sup> reserve	Total
<b>Six months ended 31st March 2017</b>						
<b>(Unaudited)</b>						
<b>At 30th September 2016</b>	<b>40,312</b>	<b>8,650</b>	<b>166,791</b>	<b>400,299</b>	<b>8,713</b>	<b>624,765</b>
Net return on ordinary activities	—	—	—	9,084	4,755	13,839
Dividend paid in the period	—	—	—	—	(5,886)	(5,886)
<b>At 31st March 2017</b>	<b>40,312</b>	<b>8,650</b>	<b>166,791</b>	<b>409,383</b>	<b>7,582</b>	<b>632,718</b>
<b>Six months ended 31st March 2016</b>						
<b>(Unaudited)</b>						
<b>At 30th September 2015</b>	<b>40,312</b>	<b>8,650</b>	<b>166,791</b>	<b>241,002</b>	<b>6,822</b>	<b>463,577</b>
Net return on ordinary activities	—	—	—	63,317	2,496	65,813
Dividend paid in the period	—	—	—	—	(4,515)	(4,515)
<b>At 31st March 2016</b>	<b>40,312</b>	<b>8,650</b>	<b>166,791</b>	<b>304,319</b>	<b>4,803</b>	<b>524,875</b>
<b>Year ended 30th September 2016 (Audited)</b>						
<b>At 30th September 2015</b>	<b>40,312</b>	<b>8,650</b>	<b>166,791</b>	<b>241,002</b>	<b>6,822</b>	<b>463,577</b>
Net return on ordinary activities	—	—	—	159,297	6,406	165,703
Dividend paid in the year	—	—	—	—	(4,515)	(4,515)
<b>At 30th September 2016</b>	<b>40,312</b>	<b>8,650</b>	<b>166,791</b>	<b>400,299</b>	<b>8,713</b>	<b>624,765</b>

<sup>1</sup> This reserve forms the distributable reserve of the Company and may be used to fund distribution of profits to investors via dividend payments.



# STATEMENT OF FINANCIAL POSITION

## AT 31ST MARCH 2017

	(Unaudited) 31st March 2017 £'000	(Unaudited) 31st March 2016 £'000	(Audited) 30th September 2016 £'000
<b>Fixed assets</b>			
Investments held at fair value through profit or loss	718,358	569,625	683,857
<b>Current assets</b>			
Debtors	4,370	2,278	3,465
Cash and cash equivalents	17,790	9,334	6,118
	<b>22,160</b>	<b>11,612</b>	<b>9,583</b>
<b>Creditors: amounts falling due within one year</b>	(148)	(650)	(257)
<b>Net current assets</b>	<b>22,012</b>	<b>10,962</b>	<b>9,326</b>
<b>Total assets less current liabilities</b>	<b>740,370</b>	<b>580,587</b>	<b>693,183</b>
<b>Creditors: amounts falling due after more than one year</b>	(107,652)	(55,712)	(68,418)
<b>Net assets</b>	<b>632,718</b>	<b>524,875</b>	<b>624,765</b>
<b>Capital and reserves</b>			
Called up share capital	40,312	40,312	40,312
Capital redemption reserve	8,650	8,650	8,650
Other reserve	166,791	166,791	166,791
Capital reserves	409,383	304,319	400,299
Revenue reserve	7,582	4,803	8,713
<b>Total equity shareholders' funds</b>	<b>632,718</b>	<b>524,875</b>	<b>624,765</b>
<b>Net asset value per share (note 5)</b>	<b>392.4p</b>	<b>325.5p</b>	<b>387.5p</b>

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE SIX MONTHS ENDED 31ST MARCH 2017

#### 1. Financial statements

The information contained within the financial statements in this half year report has not been audited or reviewed by the Company's auditors.

The figures and financial information for the year ended 30th September 2016 are extracted from the latest published financial statements of the Company and do not constitute statutory accounts for that year. Those financial statements have been delivered to the Registrar of Companies including the report of the auditors which was unqualified and did not contain a statement under either section 498(2) or 498(3) of the Companies Act 2006.

#### 2. Accounting policies

The financial statements have been prepared in accordance with the Companies Act 2006, FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' of the United Kingdom Generally Accepted Accounting Practice ('UK GAAP') and with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' (the revised 'SORP') issued by the Association of Investment Companies in November 2014.

FRS 104, 'Interim Financial Reporting', issued by the Financial Reporting Council ('FRC') in March 2015 has been applied in preparing this condensed set of financial statements for the six months ended 31st March 2017.

The Company has elected not to prepare a statement of cash flows for the current period on the basis that substantially all of its investments are liquid and carried at market value.

All of the Company's operations are of a continuing nature.

The accounting policies applied to this condensed set of financial statements are consistent with those applied in the financial statements for the year ended 30th September 2016.

### 3. Dividends paid

	(Unaudited) Six months ended 31st March 2017 £'000	(Unaudited) Six months ended 31st March 2016 £'000	(Audited) Year ended 30th September 2016 £'000
2016 Final dividend of 3.65p (2015: 2.80p)	5,886	4,515	4,515

All dividends paid in the period have been funded from the Revenue Reserve.

No interim dividend has been declared in respect of the six months ended 31st March 2017 (2016: nil).

### 4. Return per share

	(Unaudited) Six months ended 31st March 2017 £'000	(Unaudited) Six months ended 31st March 2016 £'000	(Audited) Year ended 30th September 2016 £'000
Return per share is based on the following:			
Revenue return	4,755	2,496	6,406
Capital return	9,084	63,317	159,297
<b>Total return</b>	<b>13,839</b>	<b>65,813</b>	<b>165,703</b>
Weighted average number of shares in issue	161,248,078	161,248,078	161,248,078
Revenue return per share	2.95p	1.55p	3.97p
Capital return per share	5.63p	39.27p	98.79p
<b>Total return per share</b>	<b>8.58p</b>	<b>40.82p</b>	<b>102.76p</b>

### 5. Net asset value per share

	(Unaudited) 31st March 2017	(Unaudited) 31st March 2016	(Audited) 30th September 2016
Net assets (£'000)	632,718	524,875	624,765
Number of shares in issue	161,248,078	161,248,078	161,248,078
Net asset value per share	392.4p	325.5p	387.5p

### 6. Fair valuation of investments

The fair value hierarchy analysis for financial instruments held at fair value at the period end is as follows:

	(Unaudited) Six months ended 31st March 2017		(Unaudited) Six months ended 31st March 2016		(Audited) Year ended 30th September 2016	
	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000
Level 1	718,358	—	569,625	—	683,857	—
<b>Total</b>	<b>718,358</b>	<b>—</b>	<b>569,625</b>	<b>—</b>	<b>683,857</b>	<b>—</b>

25th May 2017

For further information, please contact:

Faith Pengelly

For and on behalf of

JPMorgan Funds Limited, Secretary 020 7742 4000

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.

**JPMORGAN FUNDS LIMITED**

ENDS

A copy of the half year will be submitted to the National Storage Mechanism and will shortly be available for inspection at [www.morningstar.co.uk/uk/NSM](http://www.morningstar.co.uk/uk/NSM)

The half year will also shortly be available on the Company's website at [www.ipmjapanese.co.uk](http://www.ipmjapanese.co.uk) here up to date information on the Company, including daily NAV and share prices, factsheets and portfolio information can also be found.