

## **FIDELITY JAPAN TRUST PLC ANNOUNCES PLANS TO RAISE LIMIT FOR UNLISTED COMPANIES IN ANNUAL RESULTS**

- **The Company's NAV and share price increased by +1.8% and +3.9% respectively**
- **The Company was the best performing trust in its peer group over both three and five years to 31 December 2021**
- **The Company is proposing to increase the limit on investing in unlisted companies from 10% to 20%, subject to shareholder approval**
- **Stock selection was the primary driver of returns – largest contributors included Mitsui Hi-Tec, MISUMI Group and Recruit Holdings**

**London, 28 March 2022:** Fidelity Japan Trust PLC (The Company) today announces its annual results for the year ending 31 December 2021. The Company recorded a share price total return of +3.9%, outperforming its referenced index\*, which returned +2%. The NAV per share grew by +1.8% in sterling terms. The Company was the best performing trust in its peer group over both three and five years, with a NAV return of +73.5% and +96.7% respectively.

At the upcoming Annual General Meeting, the Company is placing a proposal to increase the limit on investing in unlisted holdings from 10% to 20% before shareholders. At the end of December, the Company had investments in six unlisted companies, accounting for roughly 5% of the portfolio.

**Commenting on the proposal, Chairman of the Company, David Graham, said:** "At present, the Company is permitted to invest up to 10% of its portfolio exposure in unlisted companies. However, there have been increasing opportunities in recent years to invest in companies prior to their listing on a recognised exchange. Often, they offer an excellent opportunity for patient, long-term investors. During the year, Coconala and Photosynth, two previously unlisted companies, both listed on the TSE Mothers market, while new investments were made in Business-to-Consumer online platforms in areas such as online travel services, personal finance and biotech. As the opportunities for investment in unlisted companies is expected to grow, we are seeking shareholder approval to increase the limit of the Company's assets in unlisted companies from 10% to 20%."

**On the subject of unlisted companies, Nicholas Price, Portfolio Manager, Fidelity International, added:** "There were 125 initial public offerings (IPOs) in calendar year 2021, marking the highest number of listings since 2006. Six companies listed directly on the TSE First Section, and around three-quarters of the IPOs were on the TSE Mothers market, an exchange

for emerging companies with high growth potential. Around 70% of the IPOs were for companies in the Information & Communication and Services sectors, reflecting growth trends in areas such as artificial intelligence, digital transformation and SaaS.

“Moreover, from a bottom-up perspective, we are seeing a lot more entrepreneurial activity in Japan compared with five to ten years ago. A number of new growth companies are also coming through which is creating opportunities in the IPO market. Being on the ground in Japan, and seeing many different companies, means that we are well placed to help entrepreneurs in the latter stages of their pre-IPO journey. We expect there to be an increase in such opportunities which offer a source of differentiated returns as we saw with the listings of Raksul and Coconala.

**Commenting on performance, Price added,** “At the start of the year, consensus-beating earnings results and the prospect of additional economic stimulus, primarily in the US, drove major market indices to multi-decade highs. However, gains were capped by inflation concerns and rising US Treasury yields, which weighed heavily on high-priced growth stocks. Ahead of the Tokyo Olympics, the Japanese government’s decision to extend the state of emergency and the slow start to the domestic COVID vaccine rollout generated further headwinds. Solid interim earnings results provided support, but Japanese equities succumbed to concerns over US tapering, rising oil prices and the spread of the Omicron variant of COVID towards the end of the year.

“The standout contributor to the Company’s performance over the period was Mitsui High-tec, now a top 10 holding, which dominates nearly 70% of the global motor core market, an essential component of power-train motors in electric vehicles (EV) and hybrid vehicles. The company’s strength lies in its ultra-precision machining and die technology which is used to create high-quality motor cores and machine tools. From the time the stock was added to the portfolio in late 2020, its market capitalisation has almost tripled to £2 billion.

“Another company tied to secular growth trends that made a material contribution to performance is MISUMI Group, a manufacturer and distributor of factory automation and metal die components. Against a backdrop of accelerating automation demand globally and persistent supply constraints, the company delivered earnings results that exceeded market expectations.

“On the services side, meanwhile, positions in Recruit Holdings and Open House added value. Staffing and HR company Recruit benefited from recovering labour markets while developer Open House saw a pickup in demand for single-family homes.

**Looking ahead**

“The election victory of the ruling Liberal Democratic Party under new Prime Minister Fumio Kishida increased expectations of policy continuity, at least in the near-term. Kishida’s government has come up with a huge supplementary budget to support Japan’s economic recovery, though the pandemic and a fragile political base provide little room for the new Prime Minister to make significant changes to the economic policy. Kishida came to power pledging to boost middle-class incomes and create a new brand of capitalism that spreads prosperity more widely. He also advocated tax breaks for companies that raise wages. Although such measures could help to lift incomes to a certain extent, the effect will likely prove transitory in the absence of broader reforms. In the end, it remains to be seen how the new Prime Minister’s pledge to promote economic growth and to narrow wealth gaps through an approach he calls “new capitalism” will develop.

“The start of 2022 saw weakness across all markets amidst fears that new COVID variants may stall the global economic recovery as well as concerns of growing inflationary pressure and the need for interest rates to rise. This has been exacerbated in recent weeks by the Russian invasion of Ukraine and the resulting volatility and huge uncertainty in global markets.

“The war in Ukraine is first and foremost a human tragedy and it remains unclear just how long it will last. Russia accounted for just 1% of Japanese exports and 1.8% of total imports in 2021, so the direct impact is not significant. Still, surging commodity prices, especially oil, are driving up costs and creating headwinds for both households and corporates in Japan. The direct impact of Russia’s invasion of Ukraine on portfolio holdings is relatively limited and there has not been a significant change in terms of positioning.”

**-ENDS-**

#### **Notes to editors:**

\* Tokyo Stock Exchange TOPIX Total Return Index

<sup>1</sup>**Source for all performance data:** Fidelity International, as at 31.12.21. Basis: bid-bid with income reinvested, in GBP, net of fees. \*Comparative Index: Russell/Nomura Mid Small Cap Japan Index with Dividends until 22 May 2018 and TOPIX Total Return Index from 23 May 2018.

#### **Rolling 12-month share price returns net of fees, GBP (%)**

	<b>31.01.16 - 31.01.17</b>	<b>31.12.17 - 31.12.18</b>	<b>31.12.18 - 31.12.19</b>	<b>31.12.19 - 31.12.20</b>	<b>31.12.20 - 31.12.21</b>
<b>Fidelity Japan Trust - NAV</b>	34.10	-15.44	36.59	24.79	1.77

<b>Index*</b>	17.47	-8.30	14.64	9.55	2.02
<b>Fidelity Japan Trust - Share price</b>	49.26	-16.17	39.37	24.58	3.85

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This fund uses financial derivative instruments for investment purposes, which may expose the fund to a higher degree of risk and can cause investments to experience larger than average price fluctuations.

This fund has, or is likely to have, high volatility owing to its portfolio composition or the portfolio management techniques.

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