

# JPMorgan Japanese Investment Trust plc

Annual Report & Accounts for the year ended 30th September 2015



# Features

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## Objective

Capital growth from Japanese investments.

## Investment Policy

- To maintain a portfolio almost wholly invested in Japan.
- To use gearing to increase potential returns to shareholders. The Company's gearing policy is to operate within a range of 5% net cash to 15% geared in normal market conditions.
- To invest no more than 15% of its gross assets in any listed company (including investment trusts).

Further details on investment policies and risk management are given in the Business Review on pages 16 to 20.

## Benchmark

The Tokyo Stock Exchange First Section Index ('TOPIX') expressed in sterling terms.

## Capital Structure

UK domiciled. Full listing on the London Stock Exchange and the New Zealand Stock Exchange.

As at 30th September 2015, the Company's share capital comprised 161,248,078 (2014: 161,248,078) ordinary shares of 25p each.

## Management Company

The Company employs JPMorgan Funds Limited ('JPMF' or the 'Manager') as its Alternative Investment Fund Manager ('AIFM'). JPMF delegates the management of the Company's portfolio to JPMorgan Asset Management (UK) Limited ('JPMAM'). Further details are given on page 23.

## Association of Investment Companies

The Company is a member of the Association of Investment Companies ('AIC').

## FCA Regulation of 'Non-Mainstream Pooled Investments'

The Company currently conducts its affairs so that its shares can be recommended by Independent Financial Advisers to ordinary retail investors in accordance with the rules of the Financial Conduct Authority ('FCA') in relation to non-mainstream investment products and intends to continue to do so for the foreseeable future.

The shares are excluded from the FCA's restrictions which apply to non-mainstream investment products because they are shares in an investment trust.

## Website

The Company's website can be found at [www.jpmpjapanese.co.uk](http://www.jpmpjapanese.co.uk) and includes useful information about the Company, such as daily prices, factsheets and current and historic half year and annual reports.

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# Financial Results

## TOTAL RETURNS (INCLUDING DIVIDENDS REINVESTED)

**+19.5%**

Return to shareholders<sup>1,3</sup>  
(2014: -7.4%)

**2.80p**

Dividend  
(2014: 2.80p)

**+14.7%**

Return on net assets<sup>1,2</sup>  
(2014: -4.4%)

**+6.0%**

Benchmark return<sup>1,3,4</sup>  
(2014: +0.9%)

**+8.7%**

Overperformance of  
Benchmark<sup>4</sup>  
(2014: -5.3%)

Financial Data	2015	2014	% change
Net asset value, share price and discount at 30th September			
Shareholders' funds (£'000)	463,577	408,462	+13.5
Net asset value per share	287.5p	253.3p	+13.5
Share price	257.3p	218.0p	+18.0
Share price discount to net asset value	10.5%	13.9%	
Exchange rate	£1 = ¥181.4	£1 = ¥177.8	+2.0
Shares in issue	161,248,078	161,248,078	–
Revenue for the year ended 30th September			
Gross revenue attributable to shareholders (£'000)	6,970	5,715	+22.0
Net revenue attributable to shareholders (£'000)	4,928	3,963	+24.4
Earnings per share	3.06p	2.46p	+24.4
Dividend per share	2.80p	2.80p	–
Gearing <sup>5</sup>	7.7%	12.7%	
Ongoing Charges <sup>6</sup>	0.77%	0.78%	

A glossary of terms and definitions is provided on page 65.

<sup>1</sup> Total returns (includes dividends reinvested).

<sup>2</sup> Source: J.P. Morgan.

<sup>3</sup> Source: Morningstar.

<sup>4</sup> Source: Datastream. The Company's benchmark is The Tokyo Stock Exchange First Section Index (TOPIX) expressed in sterling terms.

<sup>5</sup> Gearing represents the excess amount above shareholders' funds of total assets (including net current assets/(liabilities)) less cash/cash equivalents, expressed as a percentage of shareholders' funds. If the amount calculated is negative, this is shown as a 'net cash' position.

<sup>6</sup> Ongoing Charges represents the management fee and all other operating expenses excluding interest, expressed as a percentage of the average daily net assets during the year and are calculated in accordance with guidance issued by the Association of Investment Companies in May 2012.

# Strategic Report

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## CHAIRMAN'S STATEMENT

### Investment Performance

In the year to 30th September 2015, the Company's net assets rose by 14.7% in sterling terms, compared with the Tokyo Stock Exchange First Section (TOPIX) Index (our benchmark), which rose by 6.0%. The returns are calculated on a total return basis and were modestly reduced by the movement in the yen/sterling rate from ¥177.8 at the beginning of the year to ¥181.4 at its conclusion. The share price of your Company rose by 19.5% during the year, assuming the reinvestment of the dividend. I am very pleased to report that the portfolio has now outperformed the benchmark in sterling terms over two, three and five years ended 30th September 2015. Over five years the share price has risen by 63.1% against 35.7% for the TOPIX Index in sterling terms.

### Revenue and Dividends

Income received during the year rose, with earnings per share for the full year increasing to 3.06p (2014: 2.46p). The Board proposes, subject to shareholders' approval at the Annual General Meeting, to pay a final dividend of 2.80p per share (2014: same) on 29th December 2015 to shareholders on the register at the close of business on 27th November 2015 (ex-dividend date 26th November 2015). The objective of the Company is capital growth, any dividend paid being a residual of the portfolio structure. Income received by the Company is subject to certain distribution requirements that must be met in order to retain the Company's investment trust status. The Board was prepared to propose the payment of a slightly "uncovered" dividend last year on the basis that Japanese companies are structurally looking to increase dividend payments and payment ratios. It is, therefore, encouraging to see an increase in dividends received from the companies in the portfolio over the year under review.

### Gearing

The Board of Directors sets the overall strategic gearing policy and guidelines, reviewing these at each meeting. The Investment Manager then manages the gearing within these agreed levels. On 30th September 2015, the Company had a gearing level of 7.7%. The management of gearing has been active during the year with the level ranging between geared positions of 13.5% and 6.4% (month end figures).

The funds available to be drawn down by the Company are ¥15 billion, comprised of a five year term loan for ¥9 billion plus a one year revolving credit facility for ¥6 billion. The Board found it attractive to lock in some longer term borrowing, the five year facility paying interest at a rate of 1.14% per annum.

### Management Fees and Other Costs

The Board has recently conducted a detailed review of its management fees, other costs and the services provided by the Manager. This included a review of the management fee in the context of both the Company's investment trust and open-ended fund peers and a detailed review of the significant other costs borne by your Company, reviewing both the absolute cost and value for money received from service providers. The Board has concluded that the current Ongoing Charges ratio of 0.77% is very competitive compared with the Company's peer group but will continue to monitor the cost base on a regular basis.

## CHAIRMAN'S STATEMENT *CONTINUED*

### **Investment Managers**

Your Company's assets continue to be managed by Nicholas Weindling as the primary named Investment Manager. In a change from last year, shareholders will note that the Investment Managers' report also carries the name of Shoichi Mizusawa, the Head of the Tokyo-based Japanese Equity Team of which Nicholas is a part. This is in recognition of the contribution of the team to the management of investments in your Company's portfolio.

The Company's objective is to provide shareholders with capital growth from a portfolio of investments in Japanese companies and your Investment Managers achieved outperformance against our benchmark, through asset allocation and stock selection. These results can be seen from the performance attribution data shown on page 8.

### **Board of Directors**

In accordance with the Company's Articles of Association, Keith Percy, Alan Barber and myself, having served on the Board for more than nine years, will retire and seek reappointment as Directors of the Company at the forthcoming Annual General Meeting. Sir Stephen Gomersall will also retire and seek reappointment to comply with the Company's Articles of Association which requires a third of the Board to retire by rotation (excluding those with tenure in excess of nine years). Christopher Samuel will also retire and seek reappointment by the shareholders, as it will be his first AGM as a Director of the Company. All Directors, therefore, are seeking reappointment at the AGM.

Alan Barber and Keith Percy intend to resign as Directors of the Company during 2016. No effective dates have been fixed yet. A recruitment process will be held in due course.

### **Authority to Repurchase the Company's Shares**

At last year's Annual General Meeting, shareholders granted the Directors authority to repurchase up to 14.99% of the Company's shares. No shares have been repurchased for cancellation during the year (2014: none). The Directors continue to believe that the power to repurchase shares is of ongoing benefit to shareholders and therefore propose that the authority be renewed for a further period. Share repurchases continue to be a useful tool for managing discount volatility and this approach will be used when considered to be appropriate by the Board.

### **Auditors**

These accounts are the second to be audited by PricewaterhouseCoopers LLP. You will find their report to shareholders on pages 36 to 41.

### **Annual General Meeting**

This year's Annual General Meeting will be held on Friday, 18th December 2015 at 2.00 p.m. at 60 Victoria Embankment, London EC4Y 0JP. As in previous years, in addition to the formal part of the meeting, there will be a presentation from the Investment Manager who will answer questions on the portfolio and performance. There will also be an opportunity to meet the Board, the Investment Manager and representatives of JPMorgan after the meeting. I look forward to welcoming as many of you as possible to this meeting.

If you have any detailed or technical questions, it would be helpful if you could raise these in advance of the meeting with the Company Secretary at 60 Victoria Embankment, London EC4Y 0JP. Alternatively, questions may be submitted via the Company's website

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([www.jpmpjapanese.co.uk](http://www.jpmpjapanese.co.uk)). Shareholders who are unable to attend the Annual General Meeting are encouraged to use their proxy votes. Proxy votes may be lodged electronically, whether shares are held through CREST or in certificate form, and full details are set out on the form of proxy.

### **Prospects**

Japan faces a number of structural 'headwinds' including an ageing, and now falling, population and very high levels of government debt relative to the size of the economy. Prime Minister Abe, supported by the Bank of Japan, has gone to enormous lengths to break the deflationary forces that had gripped the economy since the bursting of Japan's financial bubble in the early 1990s. The weaker yen, for example, has given a big boost to competitiveness to Japan's exporting companies. The global growth outlook is highly uncertain and emerging economies are showing particular signs of weakness. If this weakness develops into another downturn or recession, Japan's economy will not be immune, although Japanese companies have generally stronger financial positions than they did in 2008.

The big medium term political challenge remains implementation of reform plans to improve prospects in the domestic economy – the third of Mr Abe's 'three arrows' strategy agenda.

However, your Company's Investment Managers have been finding many more interesting opportunities, at reasonable valuations, to invest in companies operating in the local economy. This, along with investments in competitive exporting companies, has been reflected in the much improved relative and absolute investment performance achieved by your Company in recent years. The Board is very encouraged by the opportunities we continue to see for active stock selection in companies, that are showing an increasing interest in external shareholders, from a research-intensive Japan-based investment team.

**Andrew Fleming**  
Chairman

11th November 2015

## INVESTMENT MANAGERS' REPORT

The benchmark TOPIX index rose by 6.0% in sterling terms during the year ended 30th September 2015 with the company's NAV rising 14.7%. Over three years the Company has returned 60% versus 39.4% for the index. Over five years it has returned 63.1% versus 35.7% for the index.

### Review

Nicholas Weindling

Much progress has been made this year in the area of corporate governance with Japan introducing both a stewardship code last year and a corporate governance code in June. Although the pace of change may be slow we believe that it will be long-lasting in nature. Already the percentage of companies with an outside director has increased from under 50% five years ago to over 90% now. Some companies which we thought unlikely to alter shareholder policies have been at the forefront announcing significant changes. For example, robot company Fanuc, which continues to be a sizeable holding for the Company, announced this year that it would set up a shareholder relations department, cancel the majority of its treasury stock, change its dividend payout ratio from 30% to 60% and appoint two outside directors. We believe change may be more forthcoming in the future as much of the pressure today is coming from domestic Japanese investors who are themselves bound by the new stewardship code.

Shoichi Mizusawa

Prime Minister Abe won an election at the end of 2014 and although his popularity fell as he pushed through a controversial security bill it has since recovered. Stability in Japanese politics is positive and represents a change from the previous revolving door of Japanese leaders. It is also encouraging that the Bank of Japan is continuing with its aggressive stimulatory monetary policies, as it pursues its 2% inflation target. Although 'Abenomics' is frequently criticized for its lack of headway in structural reform, we think this judgement is too harsh. It is true that there has been little movement in immigration and labour policies but in other areas significant progress has been made. For example, at the beginning of October 2015 Japan signed up to the Trans Pacific Partnership which is the largest global trade deal in two decades and covers 40% of global GDP. Although it is not yet ratified and may have little or no impact on most company earnings for many years it is the clearest evidence yet that the government can take on vested interests such as agriculture and achieve results. Previous administrations have failed even to get Japan to the negotiating table.

Another positive has been the increase in the number of tourists visiting Japan. Originally the government targeted twenty million by 2020, the year when Tokyo will hold the Olympics but it is likely that this target will be achieved next year. This has happened for three reasons. First, the government relaxed visa restriction for visitors from some countries. Second, wages have increased across much of Asia with this emerging middle class wanting to travel more. Third, the depreciation of the yen has made it significantly less expensive to visit Japan. On a recent trip to Fukuoka on the southern island of Kyushu we were interested to note this effect extending beyond Tokyo. In June 2013 just one cruise ship called at Fukuoka port, in June 2015 this number hit 28.

Despite these positive developments, economic data was mixed. On the one hand the labour market is as tight as at any point in the last twenty years. There is some evidence of rising wages, and falling commodity prices should eventually feed through to higher disposable incomes. On the other hand GDP data has been disappointing largely due to poor export performance. This is particularly striking if one considers how far the yen has weakened over the past couple of years.

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Finally, corporate performance has continued to be strong with Japanese companies posting record profits for fiscal year 2014. Profits are likely to hit another new high this year while dividends also continue to rise.

### **Portfolio Performance**

The outperformance versus the benchmark was due to sector allocation and, primarily, stock selection. Performance was further enhanced through the decision to gear the Company. At the sector allocation level the overweight position in services was particularly helpful. The main sectoral detractor from performance was the overweight position in electric appliances although stock selection within this sector more than offset the negative effect.

The top performing stock was Sohgo Security Services which operates the Alsok brand of home security. It is benefitting from steady revenue growth which is substantially boosting profitability as its costs are relatively fixed. Margins still substantially lag those of the industry leader Secom suggesting a further source for improved profitability. Among the other substantial contributors we would highlight MonotaRo, a business-to-business e-commerce company that is challenging the traditional Japanese business model of supplying goods via trading companies. We believe that it has many years of growth ahead as it still has a very small share of this industry. Cookpad is an innovative internet company that started from a recipe website. The key point is that the site is used by the overwhelming majority of women aged 20-50. Access to this valuable demographic should allow it to expand into other areas. Finally, our long-standing holding in retailer Don Quijote and newer addition duty free store Laox both benefitted from the surge in tourists coming to Japan.

Stocks that detracted from performance included Hitachi, Minebea, Omron and SMC. Hitachi is an industrial conglomerate with a wide range of businesses from infrastructure to IT services. We still expect the company to deliver solid earnings growth over the medium term driven primarily by the growing revenues in its infrastructure business and the initiatives to improve efficiency. Minebea has a strong global position in miniature ball bearings. The bearings business has seen strong volume growth and we believe this trend will continue driven by their increased usage in automobiles, electric appliances and aircrafts. In the shorter-term, we are also positive on their LED backlights for smartphones where the company enjoys dominant technology and cost advantages. Omron is another conglomerate but our investment case is centered upon its strong position in the factory automation industry.

There are several companies in Japan that are global leaders in the field of factory automation such as Omron, Fanuc, Keyence and SMC, all of which are holdings of the Company. We believe they have an opportunity to grow strongly over the long-term as manufacturing companies in emerging counties will need to automate their production to cope with rising wages. All of these stocks have performed poorly since the summer in response to concerns about global, and in particular Chinese, growth. We continue own Hitachi, Minebea and SMC both because we see little change in their long-term positive outlook and because we believe their valuations already reflect the short-term risks. On the

## INVESTMENT MANAGERS' REPORT *CONTINUED*

other hand, we sold Omron in August in response to the increasingly cautious views expressed by our investment colleagues in Asia regarding China and South-East Asian countries.

### Current Portfolio

As we begin the Company's new financial year, the largest overweight positions are in MonotaRo, Keyence, Sohgo Security Services, Fuji Heavy Industries and Don Quijote. Fuji Heavy Industries is a car manufacturer under the 'Subaru' brand, and is our only holding amongst car assemblers. Fuji Heavy Industries has a high exposure to the US market where the demand is strong and Subaru has steadily gained market share. Its growth is currently constrained by capacity but the company plans to expand it 2016.

We do not own any other vehicle assemblers but instead own several parts suppliers such as Nifco, NIDEC, Murata Manufacturing, Minebea and TDK. Nifco manufactures plastic materials that help reduce the weight of automobiles and improve fuel efficiency. The others are electric component manufactures which all have strong presence in the auto industry. We believe automobiles will be equipped with an increasing number of electric components as ADAS (advanced driver assistance system) proliferates. What these holdings have in

PERFORMANCE ATTRIBUTION FOR THE YEAR ENDED 30TH SEPTEMBER 2015		
	%	%
<b>Contributions to total returns</b>		
Benchmark return		+6.0
Stock/sector	+8.0	
Gearing/cash	+1.5	
Investment Manager contribution		+9.5
Portfolio total return		+15.5
Management fee/other expenses	-0.8	
Return on net assets		+14.7
Source: JPMAM and Morningstar. All figures are on a total return basis. Performance attribution analyses how the Company achieved its recorded performance relative to its benchmark. A glossary of terms and definitions is provided on page 65.		

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common is that they have increased both their market shares and also the revenue they generate per vehicle. As a result, their growth rates are much higher than the underlying growth for the auto industry.

We also retain an overweight position in Don Quijote, a retailer that is strongly differentiated from its competitors with a unique store format, merchandising and a flexible pricing strategy. This will allow the company, as it has done in the past, to grow through new store openings. More recently, Don Quijote has also been successful in capturing strong demand from the increasing number of inbound tourists.

### **Outlook**

Japan is a cyclical market due to its large exposure to global manufacturing sectors relative to other major markets as well as relative to its own economy. Therefore increasing uncertainty over the global economic environment could weigh on the Japanese market in the near term. It is important to remember that Japan is heavily reliant on Asia as a destination for its exports. Over the last thirty years the percentage of exports destined for Asia has increased from around 25% to over 50% now. As such Japan will not be insulated from a slowdown in those markets. As a result of these concerns, we reduced the level of gearing in the Company towards the end of the review period.

However, the long-term outlook is positive: government policy is supportive, the economies of countries in developed markets are improving and, within Japan, companies are starting to emphasise increasing returns to shareholders. We continue to focus on companies benefitting from structural changes such as the increasing penetration of internet shopping, the aging population, factory automation, the increasing number of tourists visiting Japan and on companies that prioritise improved shareholder returns. We continue to find compelling investment opportunities in these sectors.

### **Active Management in Japan**

We believe in active management and believe the case for doing so in Japan is particularly strong for a couple of reasons. First, it is a very under researched market. Of the roughly 1,700 companies listed on the TOPIX index more than half have two or fewer brokerage analysts covering them. Second, the industries in which Japan may be strong in the future may not be the same as in the past. For example, historically Japan has been famous for its consumer electronic and car companies but these areas are now highly competitive with a large number of global competitors. We believe that it is in other sectors where Japan will be strong, for example in consumer goods where Japanese products stand for reliability, quality and safety.

Our large team based on the ground in Tokyo, something which remains unusual, should be a source of continued competitive advantage as we seek the best companies for the portfolio.

**Nicholas Weindling**  
**Shoichi Mizusawa**  
JPMorgan Asset Management  
Tokyo

11th November 2015

## **PERFORMANCE**

### **Ten Year Performance**

**FIGURES HAVE BEEN REBASED TO 100 AT 30TH SEPTEMBER 2005**

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Source: Morningstar/MSCI.

### **Performance Relative to Benchmark**

**FIGURES HAVE BEEN REBASED TO 100 AT 30TH SEPTEMBER 2005**

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Source: Morningstar.

## TEN YEAR FINANCIAL RECORD

At 30th September	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Total assets less current liabilities (£'m)	504.3	511.7	431.8	298.1	315.7	306.1	326.6	302.1	494.8	408.4	513.2
Net asset value per share (p)	271.4	275.8	244.3	171.3	185.9	189.6	194.7	187.3	267.8	253.3	287.5
Share price (p)	263.0	254.5	214.5	145.5	157.0	160.0	166.8	154.5	238.3	218.0	257.3
Discount (%)	3.1	7.7	12.2	15.1	15.5	15.6	14.3	17.5	11.0	13.9	10.5
Gearing/(net cash) <sup>1</sup> (%)	13.8	12.5	12.3	8.0	7.6	(1.8)	(0.6)	9.0	13.7	12.7	7.7
Yen exchange rate (=£1)	200.5	220.5	234.3	189.2	143.2	131.6	120.1	125.6	158.9	177.8	181.4

### Year ended 30th September

Gross revenue attributable to shareholders (£'000)	6,537	8,450	7,068	7,160	7,596	6,138	7,323	8,121	6,041	5,715	6,970
Earnings per share (p)	2.75	3.60	2.96	2.97	2.96	2.91	3.49	4.10	2.78	2.46	3.06
Dividend per share (p)	Nil	Nil	2.80	2.80	2.80	2.80	3.30	3.65	2.80	2.80	2.80
Ongoing charges <sup>2</sup> (%)	0.73	0.78	0.75	0.79	0.77	0.81	0.86	0.77	0.78	0.78	0.77

### Rebased to 100 at 30th September 2005

Share price total return <sup>3</sup>	100.0	96.8	81.6	56.1	61.9	64.3	68.1	64.4	101.6	94.1	112.4
Net asset value total return <sup>4</sup>	100.0	102.0	89.3	63.6	70.6	72.7	75.8	74.2	108.2	103.4	118.6
Benchmark <sup>3,5</sup>	100.0	104.8	100.1	84.9	95.6	96.4	99.2	93.9	122.3	123.5	130.9

A glossary of terms and definitions is provided on page 65.

<sup>1</sup> Gearing represents the excess amount above shareholders' funds of total assets (including net current assets/(liabilities)) less cash/cash equivalents, expressed as a percentage of shareholders' funds. If the amount calculated is negative, this is shown as a 'net cash' position.

<sup>2</sup> Ongoing charges are calculated in accordance with guidance issued by the AIC in May 2012 as follows. Management fee and all other operating expenses excluding any finance costs, expressed as a percentage of the average daily net assets during the year (2009 to 2011: Total Expense Ratio: Management fee and all other operating expenses excluding any finance costs, expressed as a percentage of the average month end net assets during the year; 2008 and prior years: expressed as the average of the opening and closing net assets).

<sup>3</sup> Source: Morningstar.

<sup>4</sup> Source: J.P. Morgan.

<sup>5</sup> Source: Datastream. The Company's benchmark is The Tokyo Stock Exchange 1st Section Index (TOPIX) expressed in sterling terms.

## TEN LARGEST INVESTMENTS AT 30TH SEPTEMBER

Company	Sector	2015		2014	
		Valuation £'000	% <sup>1</sup>	Valuation £'000	% <sup>1</sup>
<b>Mitsubishi UFJ</b> Mitsubishi UFJ is Japan's largest bank which offers personal banking, corporate banking, investment banking, investment management, mortgage and credit card services worldwide.	Banks	15,936	3.2	13,767	3.0
<b>Keyence</b> Keyence develops, manufactures and sells sensors and measuring instruments used for factory automation and high technology hobby products. The company's products include fibre optic sensors, photoelectric sensors, programmable logic controllers, laser scan micrometers, bar code readers and radio-controlled model cars.	Electric Appliances	15,852	3.2	12,641	2.7
<b>Fuji Heavy Industries</b> Fuji Heavy Industries manufactures passenger cars, buses, motor vehicle parts and industrial machinery. The company also produces aircraft parts and supplies these to the defence agency and Boeing Co. Fuji Heavy Industries sells its passenger cars under the Subaru brand.	Transportation Equipment	15,829	3.2	11,169	2.4
<b>KDDI<sup>2</sup></b> KDDI provides mobile communication services and sells mobile devices. The company is also a broadband provider.	Information & Communication	15,115	3.1	10,185	2.2
<b>MonotaRO<sup>2</sup></b> MonotaRo mainly sells machine tools, engine parts, and factory consumable goods on its web site.	Retail Trade	13,606	2.8	6,999	1.5
<b>Sohgo Securities<sup>2</sup></b> Sohgo Securities operates around the clock security services. The company provides home and office security systems, an armoured car security service, and a network security solution service.	Services	13,124	2.7	6,368	1.4
<b>Don Quijote<sup>2</sup></b> Don Quijote operates discount stores which sell consumer electronics, daily necessities, groceries, watches, and sporting goods. The company mostly operates small scale stores based in Tokyo.	Retail Trade	13,024	2.6	9,317	2.0
<b>Murata<sup>2</sup></b> Murata manufactures and sells ceramic applied electronic components. The company's products include filters, capacitors, thermistors, resistors, noise suppression components, coils, piezoelectric sound components, power supplies, sensors, hybrid integrated circuit (IC), and microwave components.	Electric Appliances	12,747	2.6	9,795	2.1
<b>Nippon Telegraph &amp; Telephone<sup>2</sup></b> Nippon Telegraph & Telephone provides a variety of telecommunication services, including telephone, telegraph, leased circuits, data communication, terminal equipment sales, and related services. The company provides both local and long distance telephone services within Japan.	Information & Communication	12,341	2.5	8,123	1.8
<b>Nidec<sup>2</sup></b> Nidec is the world's leading manufacturer of small precision motors mainly used in HDD and optical disk drives. The company has extended its focus to the home appliance and automotive markets. NIDEC is active in M&A and its subsidiaries include the world's leading manufacturers of LCD panel handling robots and camera shutters.	Electric Appliances	12,158	2.5	6,396	1.4
<b>Total<sup>3</sup></b>		<b>139,732</b>	<b>28.4</b>		

<sup>1</sup> Based on total portfolio investments of £493.3m (2014: £459.6m).

<sup>2</sup> Not included in the ten largest investments at 30th September 2014.

<sup>3</sup> At 30th September 2014, the value of the ten largest investments amounted to £124.7m representing 27.0% of total portfolio investments.

## SECTOR ANALYSIS

	30th September 2015		30th September 2014	
	Portfolio %	Benchmark %	Portfolio %	Benchmark %
<b>Processing</b>	60.0	46.1	59.7	48.5
Electric Appliances	20.1	11.5	20.6	13.2
Services	16.7	3.3	11.3	2.5
Information & Communications	6.7	7.0	9.7	7.1
Transportation Equipment	5.0	11.1	7.6	11.9
Machinery	3.3	4.3	4.8	5.5
Rubber Products	2.2	1.0	–	–
Other Products	2.1	1.7	0.9	1.4
Wholesale Trade	1.9	3.9	2.2	4.5
Precision Instruments	1.6	1.4	–	1.4
Glass & Ceramics Products	0.4	0.9	2.6	1.0
<b>Consumer</b>	19.7	17.8	13.9	17.3
Retail Trade	10.7	5.2	7.0	4.1
Pharmaceuticals	6.7	5.0	5.4	4.6
Foods	2.3	4.5	1.5	4.0
Other Consumer	–	3.1	–	4.6
<b>Financial</b>	10.5	14.8	12.3	14.0
Banks	5.5	9.6	8.1	9.0
Other Financing Business	5.0	1.3	4.2	1.3
Insurance	–	2.6	–	2.2
Security & Commodity Futures	–	1.3	–	1.5
<b>Basic</b>	6.3	7.5	8.1	7.3
Chemicals	4.7	5.9	4.6	5.7
Metal Products	1.6	0.7	1.2	0.6
Nonferrous Metals	–	0.9	2.3	1.0
<b>Assets</b>	3.5	6.0	6.0	5.9
Real Estate	2.6	3.0	5.2	3.1
Construction	0.9	3.0	0.8	2.8
<b>Utilities</b>	–	7.8	–	7.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Based on the total portfolio investments of £493.3m (2014: £459.6m).

**LIST OF INVESTMENTS AT 30TH SEPTEMBER 2015**

Company	Valuation £'000	Company	Valuation £'000
<b>Processing</b>		<b>Machinery</b>	
<i>Electric Appliances</i>		SMC	9,551
Keyence	15,852	Kubota	6,482
Murata	12,747		<b>16,033</b>
Nidec	12,158	<b>Rubber Products</b>	
Casio Computer	12,154	Toyo Tire & Rubber	10,883
Fanuc	11,158		<b>10,883</b>
Minebea	9,113	<b>Other Products</b>	
Sysmex	8,944	Pigeon	5,668
Obara	4,567	Asics	4,638
Mabuchi Motor	4,329		<b>10,306</b>
Hitachi	4,328	<b>Wholesale Trade</b>	
TDK	3,721	DaiichiKosho	7,151
	<b>99,071</b>	Misumi	2,164
			<b>9,315</b>
<b>Services</b>		<b>Precision Instruments</b>	
Sohgo Securities	13,124	HOYA	5,619
Rakuten	11,559	Nakanishi	2,171
Cookpad	9,956		<b>7,790</b>
Oriental Land	9,267	<b>Glass &amp; Ceramics Products</b>	
M3	9,097	Taiheiyu Cement	2,112
Nihon M&A Center	6,403		<b>2,112</b>
Cyberagent	6,196	<b>Total Processing</b>	
Next	5,818		<b>295,688</b>
H.I.S	5,814	<b>Consumer</b>	
Infomart Corporation	5,072	<b>Retail Trade</b>	
	<b>82,306</b>	MonotaRO	13,606
<b>Information &amp; Communications</b>		Don Quijote	13,024
KDDI	15,115	Cosmos Pharmaceutical	7,280
Nippon Telegraph & Telephone	12,341	Laox	6,720
Otsuka	5,662	Fast Retailing	6,369
	<b>33,118</b>	Seria	6,000
			<b>52,999</b>
<b>Transportation Equipment</b>		<b>Pharmaceuticals</b>	
Fuji Heavy Industries	15,829	ONO Pharmaceutical	10,858
Shimano	8,925	Nippon Shinyaku	9,800
	<b>24,754</b>	Astellas Pharma	7,600
		Kaken Pharmaceutical	4,708
			<b>32,966</b>
		<b>Foods</b>	
		Asahi	11,322
			<b>11,322</b>
		<b>Total Consumer</b>	
			<b>97,287</b>

Company	Valuation £'000	Company	Valuation £'000
<b>Financial</b>		<b>Assets</b>	
<b>Banks</b>		<b>Real Estate</b>	
Mitsubishi UFJ	15,936	Japan Airport Terminal	8,404
Sumitomo Mitsui Financial	8,644	Sumitomo Realty & Development	4,454
Seven Bank	2,473		<b>12,858</b>
	<b>27,053</b>		
<b>Other Financing Business</b>		<b>Construction</b>	
Acom	8,863	Sho-Bond	4,685
Japan Exchange	6,627		<b>4,685</b>
Orix	4,798	<b>Total Assets</b>	<b>17,543</b>
Industrial & Infrastructure Fund	4,340	<b>Total Portfolio</b>	<b>493,278</b>
	<b>24,628</b>		
<b>Total Financial</b>	<b>51,681</b>		
<b>Basic</b>			
<b>Chemicals</b>			
Lion	7,612		
Unicharm	6,491		
Kose	4,599		
Nifco	4,448		
	<b>23,150</b>		
<b>Metal Products</b>			
Sanwa	7,929		
	<b>7,929</b>		
<b>Total Basic</b>	<b>31,079</b>		

The portfolio comprises entirely equity investments.

## BUSINESS REVIEW

The aim of the Strategic Report is to provide shareholders with the ability to assess how the Directors have performed their duty to promote the success of the Company during the year under review. To assist shareholders with this assessment, the Strategic Report sets out the structure and objective of the Company, its investment policies and risk management, investment limits and restrictions, performance and key performance indicators, share capital, principal risks and how the Company seeks to manage those risks, the Company's environmental, social and ethical policy, its long term viability and finally its future developments.

### Business of the Company

JPMorgan Japanese Investment Trust plc is an investment trust company that has a premium listing on the London Stock Exchange and is fully listed on the New Zealand Stock Exchange. In seeking to achieve its objectives, the Company employs JPMorgan Funds Limited ('JPMF' or the 'Manager') which, delegates portfolio management to JPMorgan Asset Management (UK) Limited, to actively manage the Company's assets. See page 23 for further information. The Board has determined investment policies and related guidelines and limits. These objectives, investment policies and related guidelines and limits are detailed below.

The Company is subject to UK and European legislation and regulations including UK company law, UK Financial Reporting Standards, the UK Listing, Prospectus, Disclosure and Transparency Rules, taxation law and the Company's own Articles of Association.

The Company is an investment company within the meaning of Section 833 of the Companies Act 2006 and has been approved by HM Revenue & Customs as an investment trust (for the purposes of Sections 1158 and 1159 of the Corporation Tax Act 2010). As a result the Company is not liable for taxation on capital gains. The Directors have no reason to believe that approval will not continue to be retained. The Company is not a close company for taxation purposes.

### Investment Objective

The Company's objective is to achieve capital growth from investments in Japanese companies by long term outperformance of the Company's benchmark index, the Tokyo Stock Exchange First Section Index ('TOPIX') expressed in sterling terms.

### Investment Policies and Risk Management

In order to achieve its stated investment policy and to seek to manage investment risks, the Company invests in a diversified portfolio of quoted Japanese companies. The number of investments in the portfolio will normally range between 50 and 100. The average number of holdings in the portfolio has reduced

in recent years as the Investment Managers have focused on those companies that have strong balance sheets and are not affected by macro-economic issues. The Company makes use of both long and short term borrowings to increase returns and focuses on first hand company research and analysis.

### Investment Restrictions and Guidelines

The Board seeks to manage the Company's risk by imposing various investment limits and restrictions:

- The Company must maintain 97.5% of investments in Japanese securities or securities providing an indirect investment in Japan. (30th September 2015: 100%).
- No investment to be more than 5% in excess of benchmark weighting at time of purchase. (30th September 2015: nil).
- The Company does not normally invest in unquoted investments and to do so requires prior Board approval. (30th September 2015: nil).
- The Company's gearing policy is to operate within a range of 5% net cash to 15% geared in normal market conditions. (30th September 2015: 7.7%).
- The Company does not normally enter into derivative transactions and to do so requires prior Board approval. (30th September 2015: nil).
- The Company will not invest more than 15% of its gross assets in other UK listed investment companies and will not invest more than 10% of its gross assets in companies that themselves may invest more than 15% of gross assets in UK listed investment companies. (30th September 2015: nil).
- The Investment Managers do not hedge the portfolio against foreign currency risk.

These limits and restrictions may be varied by the Board at any time at its discretion.

### Monitoring of Compliance

Compliance with the Board's investment restrictions and guidelines is monitored continuously by the Manager and is reported to the Board on a monthly basis.

### Performance

In the year ended 30th September 2015, the Company produced a total return to shareholders of +19.5% and a total return on net assets of +14.7%. This compares with the return on the Company's benchmark of +6.0%. As at 30th September 2015, the value of the Company's investment portfolio was £493.3 million. The Investment

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Managers' Report on pages 6 to 9 includes a review of developments during the year as well as information on investment activity within the Company's portfolio and the factors likely to affect the future performance of the Company.

### Total Return, Revenue and Dividends

Gross total return for the year amounted to £64.7 million (2014: £14.5 million loss) and the net total return after deducting the management fee, other administrative expenses, finance costs and taxation, amounted to £59.6 million (2014: £18.9 million loss). Distributable income for the year amounted to £4.9 million (2014: £4.0 million).

The Directors have declared a dividend of 2.80p (2014: 2.80p) per share. This dividend amounts to £4.5 million (2014: £4.5 million) and the revenue reserve after allowing for the dividend will amount to £2.3 million (2014: £1.9 million). The dividend will be subject to shareholder approval at the forthcoming Annual General Meeting and is detailed further below.

### Key Performance Indicators ('KPIs')

The Board uses a number of financial KPIs to monitor and assess the performance of the Company. The principal KPIs are:

- **Performance against the benchmark index**

This is the most important KPI by which performance is judged. Information on the Company's performance is given in the Chairman's Statement and the Investment Managers' Report on pages 3 to 5 and 6 to 9 respectively.

### Performance Relative to Benchmark Index

FIGURES HAVE BEEN REBASED TO 100 AT 30TH SEPTEMBER 2005

### Ten Year Performance

FIGURES HAVE BEEN REBASED TO 100 AT 30TH SEPTEMBER 2005

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Source: Morningstar/MSCI.

— JPMorgan Japanese - share price total return.  
— JPMorgan Japanese - net asset value total return.  
— Benchmark.

- **Performance against the Company's peers**

Whilst the principal objective is to achieve capital growth relative to the benchmark, the Board also monitors the performance relative to a broad range of competitor funds.

- **Performance attribution**

The purpose of performance attribution analysis is to assess how the Company achieved its performance relative to its benchmark index, i.e. to understand the impact on the Company's relative performance of the various components such as asset allocation and stock selection. Details of the attribution analysis for the year ended 30th September 2015 are given in the Investment Managers' Report on page 8.

- **Share price discount to net asset value ('NAV') per share**

The Board recognises that the possibility of a widening discount can be a key disadvantage of investment trusts that can discourage investors. The Board therefore has a share repurchase programme which seeks to address imbalances in supply of and demand for the Company's shares within the market. Its aim is to minimise the volatility and absolute level of the discount to NAV per share at which the Company's shares trade in relation to its peers in the sector. In the year to 30th September 2015, the shares traded between a discount of 8.7% and 13.8% at an average of 10.7%, based on month end data.

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Source: Morningstar

— JPMorgan Japanese - share price total return.  
— JPMorgan Japanese - net asset value total return.  
— Benchmark index is represented by the grey horizontal line.

## BUSINESS REVIEW CONTINUED

### Discount Performance

Source: Datastream (month end data).

— JPMorgan Japanese - discount.

#### • Ongoing charges

The ongoing charges represent the Company's management fee and all other operating expenses excluding any finance costs, expressed as a percentage of the average daily net assets during the year. The ongoing charges for the year ended 30th September 2015 were 0.77% (2014: 0.78%). Each year the Board reviews an analysis which shows a comparison of the Company's ongoing charges and its main expenses against those of its peers.

### Share Capital

The Company has the authority to repurchase shares in the market for cancellation (or to be held in Treasury) and to issue new shares for cash on behalf of the Company.

During the year the Company did not repurchase any ordinary shares (2014: nil). No shares have been repurchased for cancellation or into Treasury since the year end.

The Company did not issue any new shares during the year.

Resolutions to renew the authorities to issue new shares, reissue shares from Treasury and to repurchase shares for cancellation or to be held in Treasury will be put to shareholders at the forthcoming Annual General Meeting. It should be noted that the Board would only reissue shares from Treasury at a premium to NAV. It is not seeking authority to reissue shares from Treasury at a discount to NAV.

The full text of these resolutions is set out in the Notice of Meeting on pages 62 and 63.

The Directors recommend a final dividend of 2.80p (2014: 2.80p) per share payable on 29th December 2015 to holders on the register at the close of business on 27th November 2015 (ex dividend date 26th November 2015).

### Board Diversity

When recruiting a new Director, the Board's policy is to appoint individuals on merit. Diversity is important in bringing an appropriate range of skills and experience to the Board.

At 30th September 2015, there were five male Directors and no female Directors on the Board.

### Employees, Social, Community and Human Rights Issues

The Company is managed by JPMF, has no employees and all of its Directors are non-executive, the day to day activities being carried out by third parties. There are therefore no disclosures to be made in respect of employees. The Board notes the policy statements of JPMorgan Asset Management (UK) Limited ('JPMAM') in respect of Social, Community, Environmental and Human Rights issues, as highlighted in *italics*.

#### ***Social, Community, Environmental and Human Rights***

*JPMAM believes that companies should act in a socially responsible manner. Although our priority at all times is the best economic interests of our clients, we recognise that, increasingly, non-financial issues such as social and environmental factors have the potential to impact the share price, as well as the reputation of companies. Specialists within JPMAM's environmental, social and governance ('ESG') team are tasked with assessing how companies deal with and report on social and environmental risks and issues specific to their industry.*

*JPMAM is also a signatory to the United Nations Principles of Responsible Investment, which commits participants to six principles, with the aim of incorporating ESG criteria into their processes when making stock selection decisions and promoting ESG disclosure. Our detailed approach to how we implement the principles is available on request.*

#### **Greenhouse Gas Emissions**

The Company is managed by JPMF with portfolio management delegated to JPMAM. It has no employees and all of its Directors are non-executive, the day to day activities being carried out by third parties. There are therefore no disclosures to be made in respect of employees. The Company itself has no premises, consumes no electricity, gas or diesel fuel and consequently does not have a measurable carbon footprint. JPMAM is a signatory to the Carbon Disclosure Project and JPMorgan Chase is a signatory to the Equator Principles on managing social and environmental risk in project finance.

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## Principal Risks

The Directors confirm that they have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity. The risks identified have not changed over the year under review, and the ways in which they are managed or mitigated are summarised as follows.

With the assistance of the Manager, the Board has drawn up a risk matrix, which identifies the key risks to the Company. These key risks fall broadly under the following categories:

- **Investment Underperformance and Strategy:** An inappropriate investment strategy, for example asset allocation, the level of gearing or the degree of portfolio risk, may lead to underperformance against the Company's benchmark index and peer companies, resulting in the Company's shares trading on a wider discount.

The Board manages these risks by diversification of investments and through its investment restrictions and guidelines, which are monitored and reported on by the Manager. The Manager provides the Directors with timely and accurate management information, including performance data and attribution analyses, revenue estimates, liquidity reports and shareholder analyses. The Board monitors the implementation and results of the investment process with the Investment Managers, at least one of whom attends all Board meetings, and reviews data which show statistical measures of the Company's risk profile. The Investment Managers employ the Company's gearing tactically, within a strategic range set by the Board. The Board holds a separate meeting devoted to strategy each year.

- **Market and Currency:** Market risk arises from uncertainty about the future prices of the Company's investments. It represents the potential loss the Company might suffer through holding investments in the face of negative market movements. The Board considers asset allocation, stock selection and levels of gearing on a regular basis and has set investment restrictions and guidelines which are monitored and reported on by the Manager. The Board monitors the implementation and results of the investment process with the Manager. The majority of the Company's assets, liabilities and income are denominated in yen rather than in the Company's functional currency of sterling (in which it reports). As a result, movements in the yen : sterling exchange rate may affect the sterling value of those items and therefore impact on reported results and/or financial position. Therefore, there is an inherent risk from these exchange rate movements. It is the Company's policy not to undertake foreign currency hedging. Further details about the foreign currency risk may be found in note 22 on pages 55 and 56.

- **Political, Economic and Governance:** Administrative risks, such as the imposition of restrictions on the free movement of capital. These risks are discussed by the Board on a regular basis.
- **Loss of Investment Team or Investment Manager:** A sudden departure of an Investment Manager or several members of the investment management team could result in a short term deterioration in investment performance. The Manager takes steps to reduce the likelihood of such an event by ensuring appropriate succession planning and the adoption of a team based approach, as well as special efforts to retain key personnel. The Board engages with the senior management of the Manager in order to mitigate this risk.
- **Discount:** A disproportionate widening of the discount relative to the Company's peers could result in loss of value for shareholders. The Board regularly discusses discount policy and has set parameters for the Manager and the Company's broker to follow.
- **Change of Corporate Control of the Manager:** The Board holds regular meetings with senior representatives of the Manager in order to obtain assurance that the Manager continues to demonstrate a high degree of commitment to its investment trust business through the provision of significant resources.
- **Accounting, Legal and Regulatory:** In order to qualify as an investment trust, the Company must comply with Section 1158 of the Corporation Tax Act 2010 ('Section 1158'). Details of the Company's approval are given under 'Business of the Company' above. Were the Company to breach Section 1158, it may lose investment trust status and, as a consequence, gains within the Company's portfolio would be subject to Capital Gains Tax. The Section 1158 qualification criteria are continually monitored by the Manager and the results reported to the Board each month. The Company must also comply with the provisions of the Companies Act 2006 and, since its shares are listed on the London Stock Exchange, the UKLA Listing Rules, Disclosure and Transparency Rules ('DTRs') and, as an investment trust, the Alternative Investment Fund Managers Directive ('AIFMD'). A breach of the Companies Act could result in the Company and/or the Directors being fined or the subject of criminal proceedings. Breach of the UKLA Listing Rules or DTRs could result in the Company's shares being suspended from listing which in turn would breach Section 1158. The Board relies on the services of its Company Secretary, the Manager and its professional advisers to ensure compliance with the Companies Act 2006, the UKLA Listing Rules, DTRs and AIFMD.
- **Corporate Governance and Shareholder Relations:** Details of the Company's compliance with Corporate Governance best practice,

## BUSINESS REVIEW *CONTINUED*

including information on relations with shareholders, are set out in the Corporate Governance Statement on pages 26 to 31.

- Operational: Disruption to, or failure of, the Manager's accounting, dealing or payments systems or the Depositary or Custodian's records may prevent accurate reporting and monitoring of the Company's financial position. Details of how the Board monitors the services provided by JPMF and its associates and the key elements designed to provide effective risk management and internal control are included within the Risk Management and Internal Controls section of the Corporate Governance Statement on pages 29 and 30.
- Going concern: Boards are advised to consider going concern as a potential risk, whether or not there is an apparent issue arising in relation thereto. Going concern is considered rigorously on an ongoing basis and the Board's statement on going concern is detailed on page 24.
- Financial: The financial risks faced by the Company include market price risk, liquidity risk and credit risk. Further details are disclosed in note 22 on pages 55 to 60.

### Long Term Viability

The Company is an investment trust with an objective of achieving long term capital growth. Taking account of the Company's current position, the principal risks that it faces and their potential impact on its future development and prospects, the Directors have assessed the prospects of the Company, to the extent that they are able to do so, over the next five years. They have made that assessment by considering those principal risks, the Company's investment objective and strategy, the investment capabilities of the Manager and the current outlook for the Japanese economy and equity market.

In determining the appropriate period of assessment the Directors had regard to their view that, given the Company's objective of achieving capital growth, shareholders should consider the Company as a long term investment proposition. This is consistent with advice provided by independent financial advisers and wealth managers, that investors should consider investing in equities for a minimum of five years. Accordingly, the Directors consider five years to be an appropriate time horizon to assess the Company's viability.

The Directors confirm that they have a reasonable expectation, on the assumption that the principal risks identified above, including Investment Underperformance, are managed or mitigated effectively, that the Company will be able to continue in operation and meet its liabilities as they fall due over the five year period of assessment

### Future Developments

The future development of the Company is dependent on the success of the Company's investment strategy in the light of economic and equity market developments and the continued support of its shareholders. The Investment Manager discusses the outlook in his report on pages 6 to 9.

By order of the Board  
Juliet Dearlove, for and on behalf of  
JPMorgan Funds Limited  
Secretary

11th November 2015

# Governance

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## BOARD OF DIRECTORS

**Andrew Fleming (Chairman and Chairman of the Nomination and Remuneration Committee)**

A Director since 2004.

Last reappointed to the Board: 2014.

He has over thirty years of international investment management experience, which included six years running an investment company in Tokyo and is Chief Executive of Waverton Investment Management. Mr Fleming is a member of the Investment Committee of the National Trust.

Connections with Manager: None.

Shared directorships with other Directors: None.

**Alan Barber (Chairman of the Audit Committee)**

A Director since 2006.

Last reappointed to the Board: 2014.

Currently Non-Executive Chairman of the Management Consulting Group plc. Formerly a Director of Impax Asian Environmental Markets plc and a Director and Audit Committee Chairman of Witan Pacific Investment Trust plc, Mr Barber is a Chartered Accountant and was a partner in KPMG for twenty five years prior to his retirement in 2004.

Connections with Manager: None.

Shared directorships with other Directors: None.

**Sir Stephen Gomersall, KCMG**

A Director since 2013.

Last reappointed to the Board: 2013.

Deputy Chairman of Hitachi Europe and a director of a number of Hitachi Group companies in the UK. Sir Stephen entered the Foreign & Commonwealth Office in 1970 and held a number of appointments overseas including being Ambassador to Japan from 1999 to 2004. He has spent more than fourteen years living and working in Japan.

Connections with Manager: None.

Shared directorships with other Directors: None.

**BOARD OF DIRECTORS** *CONTINUED*

**Keith Percy**

A Director since 2004.

Last reappointed to the Board: 2014.

Currently Chairman of Brunner Investment Trust plc and a Director of Standard Life Equity Income Trust plc and Henderson Smaller Companies Investment Trust plc, Mr Percy was formerly a Director of F&C Asset Management plc.

Connections with Manager: None.

Shared directorships with other Directors: None.

**Christopher Samuel**

A Director since 2014.

Last reappointed to the Board: n/a.

Currently a non-executive Director of Alliance Trust plc and several smaller companies, Mr Samuel was previously Chief Executive Officer of Ignis Asset Management. He has considerable experience of the investment management industry and Japan, where he was based earlier in his career.

Connections with Manager: None.

Shared directorships with other Directors: None.

**All Directors are members of the Audit Committee. All Directors are members of the Nomination and Remuneration Committee. All Directors are considered independent of the Manager.**

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## DIRECTORS' REPORT

The Directors present their report and the audited financial statements for the year ended 30th September 2015.

A number of disclosures previously incorporated in the Directors' Report are now included in the Strategic Report. These include: Business of the Company; Investment Objective; Investment Policies and Risk Management; Investment Restrictions and Guidelines; Performance; Total Return. Revenue and Dividends; KPIs; Share Capital; Principal Risks; Employee, Social, Community and Human Rights Issues; and Future Developments.

### Management of the Company

The Manager and Company Secretary to the Company is JPMorgan Funds Limited ('JPMF'), a company authorised and regulated by the FCA. Prior to 1st July 2014, these roles were undertaken by JPMorgan Asset Management (UK) Limited ('JPMAM'). JPMF is an affiliate of JPMAM and was appointed as the Company's Alternative Investment Fund Manager ('AIFM') from 1st July 2014. JPMF is a wholly-owned subsidiary of JPMorgan Chase Bank which, through other subsidiaries, also provides marketing, banking, dealing and custodian services to the Company.

JPMF is employed under a contract which can be terminated on six months' notice, without penalty. If the Company wishes to terminate the contract on shorter notice, the balance of remuneration is payable by way of compensation.

Overall portfolio management is delegated to JPMorgan Asset Management (UK) Limited, a firm regulated by the FCA and under the Markets in Financial Instruments Directive, with day to day investment management activity conducted in Tokyo by JPMorgan Asset Management (Japan) Limited, a fellow investment management subsidiary and an affiliate of JPMorgan Chase Bank.

The current Management Agreement was entered into with effect from 1st July 2014 following the implementation of a number of changes required by the Alternative Investment Fund Managers Directive.

The Board conducts a formal evaluation of the performance of, and contractual relationship with, the Manager on an annual basis. Part of this evaluation includes a consideration of the management fees and whether the service received is value for money for shareholders. No separate management engagement committee has been established because all Directors are considered to be independent of the Manager and, given the nature of the Company's business, it is felt that all Directors should take part in the review process.

The Board has thoroughly reviewed the performance of the Manager in the course of the year. The review covered the performance of the Manager, its management processes, investment style, resources and risk controls and the quality of

support that the Company receives from the Manager including the marketing support provided. As part of this process, the Board visits Japan each year. The Board is of the opinion that the continuing appointment of the Manager is in the best interests of shareholders as a whole. Such a review is carried out on an annual basis.

### The Alternative Investment Fund Managers Directive ('AIFMD')

JPMF, an affiliate of JPMAM, has been appointed as the Company's alternative investment fund manager ('AIFM'). JPMF has been approved as an AIFM by the Financial Conduct Authority ('FCA'). For the purposes of the AIFMD the Company is an alternative investment fund ('AIF'). JPMF has delegated certain responsibilities as set out under 'Management of the Company' above.

JPMF is required to ensure that a depositary is appointed to the Company. The Company therefore has appointed BNY Mellon Trust and Depositary (UK) Limited ('BNY') as its depositary. BNY has delegated its safekeeping function to the custodian, JPMorgan Chase Bank, N.A., however, BNY remains responsible for the oversight of the custody of the Company's assets and for monitoring its cash flows.

The AIFMD requires certain information to be made available to investors in AIFs before they invest and requires that material changes to this information be disclosed in the annual report of each AIF. Investor Disclosure Documents, which set out information on the Company's investment strategy and policies, leverage, risk, liquidity, administration, management, fees, conflicts of interest and other shareholder information are available on the Company's website at [www.jpmmjapanese.co.uk](http://www.jpmmjapanese.co.uk)

There have been no material changes (other than those reflected in these financial statements) to this information requiring disclosure. Any information requiring immediate disclosure pursuant to the AIFMD will be disclosed to the London Stock Exchange through a primary information provider. As an authorised AIFM, JPMF will make the requisite disclosures on remuneration levels and policies to the FCA at the appropriate time.

### Management Fee

The fixed basic annual management fee, negotiated in 2005, is a sliding scale based on the Company's net assets. The management fee is charged monthly in arrears.

Net assets	Fee level
First £465 million under management	0.65%
£465 million to £930 million under management	0.485%
Over £930 million under management	0.40%

## DIRECTORS' REPORT CONTINUED

The management fee includes a contribution towards the Manager's general marketing and client administration costs.

If the Company invests in funds managed or advised by the Manager, or any of its associated companies, those investments are excluded from the calculation of the fixed basic annual management fee.

### Going Concern

The Directors believe that, having considered the Company's investment objective (see page 16), risk management policies (see page 16), liquidity risk (see note 22 on page 59), capital management policies and procedures (see note 23 on page 61), the nature of the portfolio and revenue and expenditure projections, the Company has adequate resources, an appropriate financial structure and suitable management arrangements in place to continue in operational existence. For these reasons, the Directors consider that there is reasonable evidence to continue to adopt the going concern basis in preparing the Company's financial statements. They have not identified any material uncertainties to the Company's ability to continue to do so over a period of at least 12 months from the date of approval of these financial statements.

### Directors

All Directors served throughout the year, except for Christopher Samuel who was appointed as a Director on 19th December 2014. Details of their beneficial shareholdings may be found in the Directors' Remuneration Report on page 33.

Andrew Fleming, Keith Percy and Alan Barber, having been Directors for more than nine years, will retire and seek reappointment as Directors of the Company.

In accordance with the Company's Articles of Association requirement that a third of Directors retire by rotation and seek reappointment each year (excluding those required to retire and seek reappointment annually), Sir Stephen Gomersall will retire by rotation and, being eligible, seeks reappointment at the forthcoming Annual General Meeting.

Christopher Samuel will seek reappointment as a Director of the Company at the Annual General Meeting on 18th December 2015, his first AGM since appointment as a Director. Alan Barber and Keith Percy will retire as Directors of the Company during 2016. No effective dates have been fixed yet. A recruitment process will be held in due course.

The Nomination and Remuneration Committee, having considered the Directors' qualifications, performance and contribution to the Board and its Committees, confirms that each Director continues to be effective and demonstrates commitment to the role and the

Board recommends to shareholders that those standing for reappointment be reappointed.

### Director Indemnification and Insurance

As permitted by the Company's Articles of Association, each Director has the benefit of an indemnity which is a qualifying third party indemnity, as defined by Section 234 of the Companies Act 2006. The indemnities were in place during the year and as at the date of this report.

An insurance policy is maintained by the Company which indemnifies the Directors of the Company against certain liabilities arising in the conduct of their duties. There is no cover against fraudulent or dishonest actions.

### Disclosure of information to the Auditors

In the case of each of the persons who are Directors of the Company at the time when this report was approved:

- (a) so far as each of the Directors is aware, there is no relevant audit information (as defined in the Companies Act 2006) of which the Company's Auditors are unaware, and
- (b) each of the Directors has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information (as defined) and to establish that the Company's Auditors are aware of that information.

The above confirmation is given and should be interpreted in accordance with the provisions of Section 418(2) of the Companies Act 2006.

### Independent Auditors

Further to a review of audit services in 2013, Begbies retired as the Company's Auditors at the 2013 Annual General Meeting. PricewaterhouseCoopers LLP were appointed Auditors of the Company in their place. PricewaterhouseCoopers LLP have expressed their willingness to continue in office as the Auditors and a resolution to reappoint PricewaterhouseCoopers LLP and authorise the Directors to determine their remuneration for the ensuing year, will be proposed at the Annual General Meeting.

### Section 992 Companies Act 2006

The following disclosures are made in accordance with Section 992 Companies Act 2006.

#### Capital Structure

As at 30th September 2015, the Company's issued share capital comprised 161,248,078 ordinary shares of 25p each. There were no shares held in Treasury.

### Voting Rights in the Company's shares

Details of the voting rights in the Company's shares as at the date of this report are given in note 16 to the Notice of Annual General Meeting on page 64.

### Notifiable Interests in the Company's Voting Rights

At the year end, the following had declared a notifiable interest in the Company's voting rights:

Shareholders	Number of voting rights	%
Lazard Asset Management <sup>1</sup>	32,354,845	20.65
1607 Capital Partners <sup>1</sup>	24,097,666	14.94
Rathbone Brothers <sup>1</sup>	8,070,709	5.01
Derbyshire County Council <sup>1</sup>	6,564,361	4.07
Legal & General <sup>2</sup>	4,928,847	3.06

<sup>1</sup> Indirect holding.

<sup>2</sup> Direct holding.

Since 30th September 2015, the Company has received several notifications of holdings by Rathbone Brothers, as a result of their holding being close to the 5% threshold and changes in the holding causing the threshold to be crossed. The latest notification from them was on 18th October 2015, when it was notified that the shareholder held 8,121,209 voting rights, or 5.04% of the Company's issued share capital. Otherwise, no further changes had been notified since the year end to the date of this report.

The Company is also aware that as at 30th September 2015, approximately 3.06% of the Company's total voting rights were held by individuals through the savings products managed by JP Morgan Asset Management and registered in the name of Chase Nominees Limited as at the year end. If those voting rights are not exercised by the beneficial holders, in accordance with the terms and conditions of the savings products, under certain circumstances, JP Morgan Asset Management has the right to exercise those voting rights. That right is subject to certain limits and restrictions and falls away at the conclusion of the relevant general meeting.

The rules concerning the appointment, reappointment and replacement of Directors, amendment of the Company's Articles of Association and powers to issue or buy back the Company's shares are contained in the Articles of Association of the Company and the Companies Act 2006.

There are no restrictions concerning the transfer of securities in the Company; no special rights with regard to control attached to securities; no agreements between holders of securities regarding their transfer known to the Company; no agreements to which the Company is party that affect its control following a takeover bid; and no agreements between the Company and its Directors concerning compensation for loss of office.

### Annual General Meeting

**NOTE: THIS SECTION IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.** If you are in any doubt as to the action you should take, you should seek your own personal financial advice from your stockbroker, bank manager, solicitor or other financial adviser authorised under the Financial Services and Markets Act 2000.

Resolutions relating to the following item of special business will be proposed at the forthcoming Annual General Meeting:

The full text of the resolutions is set out in the Notice of Annual General Meeting on pages 62 and 63.

#### (i) Authority to allot new shares and to disapply statutory pre-emption rights (resolutions 11 and 12)

The Directors will seek renewal of the authority at the Annual General Meeting to issue up to 8,062,400 new ordinary shares for cash or by way of a sale of Treasury shares up to an aggregate nominal amount of £2,015,600 such amount being equivalent to 5% of the present issued share capital (excluding Treasury shares) as at the last practicable date before the publication of this document or, if different, the number of ordinary shares which is equal to approximately 5% of the Company's issued share capital (excluding Treasury shares) as at the date of the passing of the resolution.

This authority will expire at the conclusion of the Annual General Meeting in 2016 unless renewed at a prior general meeting.

Resolution 12 will enable the allotment of shares otherwise than by way of a pro rata issue to existing shareholders. It is advantageous for the Company to be able to issue new shares (or to sell Treasury shares) to participants purchasing shares through the JPMorgan savings products and also to other investors when the Directors consider that it is in the best interests of shareholders to do so. Any such issues would only be made at prices greater than the net asset value ('NAV'), thereby increasing the NAV per share and spreading the Company's administrative expenses, other than the management fee which is charged on the value of the Company's market capitalisation, over a greater number of shares. The issue proceeds would be available for investment in line with the Company's investment policies. No issue of shares will be made which would effectively alter the control of the Company without the prior approval of shareholders in general meeting.

The Company currently does not hold any shares in the capital of the Company in Treasury.

#### (ii) Authority to repurchase the Company's shares (resolution 13)

The authority to repurchase up to 14.99% of the Company's issued share capital, granted by shareholders at the 2014 Annual General Meeting, will expire on 18th June 2016 unless renewed at the forthcoming Annual General Meeting. The Directors consider that

## DIRECTORS' REPORT CONTINUED

the renewal of the authority is in the interests of shareholders as a whole, as the repurchase of shares at a discount to their underlying NAV enhances the NAV of the remaining shares.

Resolution 13 gives the Company authority to repurchase its own issued shares in the market as permitted by the Companies Act 2006. The authority limits the number of shares that could be purchased to a maximum of 24,171,000 shares, representing approximately 14.99% of the Company's issued shares as at 5th November 2015 (being the latest practicable date prior to the publication of this document) or, if different, the number of ordinary shares which is equal to 14.99% of the Company's issued share capital (excluding Treasury shares) as at the date of the passing of the resolution. The authority also sets minimum and maximum prices. The authority also sets minimum and maximum prices.

If resolution 13 is passed at the Annual General Meeting, the Board may repurchase the shares for cancellation or hold them in Treasury pursuant to the authority granted to it for possible reissue at a premium to NAV.

Any repurchase will be at the discretion of the Board and will be made in the market only at prices below the prevailing NAV per share, thereby enhancing the NAV of the remaining shares, as and when market conditions are appropriate. The authority to repurchase shares will expire on 17th June 2017, but it is the Board's intention to seek renewal of the authority at the 2016 Annual General Meeting.

### Recommendation

The Board considers that resolutions 11 to 13 are likely to promote the success of the Company and are in the best interests of the Company and its shareholders as a whole. The Directors unanimously recommend that you vote in favour of the resolutions as they intend to do, where voting rights are exercisable, in respect of their own beneficial holdings which amount in aggregate to 22,849 shares representing approximately 0.01% of the voting rights of the Company.

## Corporate Governance Statement

### Compliance

The Company is committed to high standards of corporate governance. This statement, together with the Statement of Directors' Responsibilities on page 35, indicates how the Company has applied the principles of good governance of the Financial Reporting Council's UK Corporate Governance Code (the 'UK Corporate Governance Code') and the Association of Investment Companies' (AIC) Code of Corporate Governance (the 'AIC Code'), which complements the UK Corporate Governance Code and provides a framework of best practice for investment trusts.

The Board is responsible for ensuring the appropriate level of corporate governance and considers that the Company has complied with the best practice provisions of the UK Corporate Governance Code and of the AIC Code, other than in respect of the provision relating to the appointment of a senior independent director, and insofar as they are relevant to the Company's business, throughout the year under review.

### Role of the Board

The Management Agreement between the Company and the Manager sets out the matters which have been delegated to the Manager. This includes management of the Company's assets and the provision of accounting, company secretarial, administration, and some marketing services. All other matters are reserved for the approval of the Board. A formal schedule of matters reserved to the Board for decision has been approved. This includes determination and monitoring of the Company's investment objective and policy and its future strategic direction, gearing policy, management of the capital structure, appointment and removal of third party service providers, review of key investment and financial data and the Company's corporate governance and risk control arrangements.

At each Board meeting, Directors' interests are considered. These are reviewed carefully, taking into account the circumstances surrounding them, and, if considered appropriate, are approved. It was resolved that there were no actual or indirect interests of a Director which conflicted with the interests of the Company, which arose during the year.

Following the introduction of The Bribery Act 2010, the Board has adopted appropriate procedures designed to prevent bribery. It confirms that the procedures have operated effectively during the year under review.

The Board meets at least quarterly during the year and additional meetings are arranged as necessary. Full and timely information is provided to the Board to enable it to function effectively and to allow Directors to discharge their responsibilities.

There is an agreed procedure for Directors to take independent professional advice, if necessary, and at the Company's expense. This is in addition to the access that every Director has to the advice and services of the Company Secretary, which is responsible to the Board for ensuring that Board procedures are followed and for compliance with applicable rules and regulations.

### Board Composition

The Board, chaired by Andrew Fleming, consisted of five non-executive Directors during the year ended 30th September 2015, all of whom are regarded by the Board as independent of the Company's Manager, including the Chairman. Jeremy Paulson-Ellis retired following the last Annual General Meeting. Christopher

Samuel was appointed as a Director of the Company following the Annual General Meeting. The Directors have a breadth of investment knowledge, business and financial skills and experience relevant to the Company's business and brief biographical details of each Director are set out on pages 21 and 22.

There have been no changes to the Chairman's other significant commitments during the year under review.

A review of Board composition and balance is included as part of the annual performance evaluation of the Board, details of which may be found below. The Board has considered whether a senior independent director should be appointed, and has concluded that, due to the Company's nature of business as an investment trust and because the Board is comprised entirely of non-executive Directors, this is unnecessary at present. However, the Chairman of the Audit Committee leads the evaluation of the performance of the Chairman and is available to shareholders if they have concerns that cannot be resolved through discussions with the Chairman.

## Tenure

Directors are initially appointed until the following Annual General Meeting when, under the Company's Articles of Association, it is required that they be reappointed by shareholders. Thereafter, Directors are required to submit themselves for reappointment at least every three years. The Chairman will meet with each Director before the Director is proposed for reappointment, and subject to the performance evaluation carried out each year, the Board will agree whether it is appropriate for the Director to seek an additional term. The Board does not believe that length of service in itself necessarily disqualifies a Director from seeking reappointment but, when making a recommendation, the Board will take into account the ongoing requirements of the UK Corporate Governance Code, including the need to refresh the Board and its Committees.

Any Directors with more than nine years' service are required to submit themselves annually for reappointment. In this regard, the Board recommends the reappointment of Andrew Fleming, Keith Percy and Alan Barber who, having served in excess of nine years, retire and seek reappointment as Directors at this year's AGM. Andrew Fleming, Keith Percy and Alan Barber have a wealth of experience in the financial sector and make a valuable contribution to the workings of the Board. The Board considers that Andrew Fleming demonstrates effective leadership of the Company. Sir Stephen Gomersall will retire by rotation and seek reappointment as a Director at the forthcoming AGM. Christopher Samuel will seek reappointment as a Director at the forthcoming AGM.

The terms and conditions of Directors' appointments are set out in formal letters of appointment, copies of which are available for inspection on request at the Company's registered office and at the Annual General Meeting.

## Induction and Training

On appointment, the Manager and Company Secretary provide all Directors with induction training. Thereafter, regular briefings are provided on changes in law and regulatory requirements that affect the Company and Directors. Directors are encouraged to attend industry and other seminars covering issues and developments relevant to investment trust companies. Regular reviews of the Directors' training needs are carried out by the Chairman by means of the evaluation process described below.

## Meetings and Committees

The Board delegates certain responsibilities and functions to Committees. Details of membership of these Committees are shown with Directors' profiles on pages 21 and 22.

The table below details the number of formal Board and Committee meetings attended by each Director. During the year under review there were five Board meetings, in addition to a meeting devoted to strategy, two Audit Committee meetings and one meeting of the Nomination and Remuneration Committee. These meetings were supplemented by additional meetings held to cover procedural matters and formal approvals. In addition there is regular contact between the Directors and the Manager and Company Secretary throughout the year.

### Meetings Attended

Director	Board	Audit Committee	Nomination and Remuneration Committee
Alan Barber	5/5	2/2	1/1
Andrew Fleming	5/5	2/2	1/1
Sir Stephen Gomersall, KCMG	5/5	2/2	1/1
Jeremy Paulson-Ellis <sup>1</sup>	2/2	1/1	1/1
Keith Percy	5/5	2/2	1/1
Christopher Samuel <sup>2</sup>	3/3	1/1	–

<sup>1</sup> Retired December 2014.

<sup>2</sup> Appointed December 2014.

## Board Committees

### Nomination and Remuneration Committee

The Nomination and Remuneration Committee, chaired by Andrew Fleming, which consists of the entire Board, meets at least annually to ensure that the Board has an appropriate balance of skills and experience to carry out its fiduciary duties and to select and propose suitable candidates for appointment when necessary. The appointment process takes account of the benefits of diversity, including gender. A variety of sources, including the use of

## DIRECTORS' REPORT *CONTINUED*

independent external recruitment consultants, may be used to ensure that a wide range of candidates is considered. Trust Associates have been appointed to assist in the recruitment process by ensuring a wide range of candidates is considered, resulting in a decision to appoint Christopher Samuel as a Director of the Company following the Annual General Meeting on 19th December 2014. Open advertising was not used as part of the process as it was felt that using Trust Associates, a specialist investment trust recruiting firm, would be most appropriate to the Company's circumstances.

The Board's policy on diversity, including gender, is to take account of the benefits of these during the appointment process. However, the Board remains committed to appointing the most appropriate candidate, regardless of gender or other forms of diversity. Therefore, no targets have been set against which to report.

The Committee conducts an annual performance evaluation of the Board, its Committees and individual Directors to ensure that all Directors have devoted sufficient time and contributed adequately to the work of the Board and its Committees. The evaluation of the Board considers the balance of experience, skills, independence, corporate knowledge, its diversity, including gender, and how it works together.

Questionnaires, drawn up by the Board, with the assistance of the Manager and a firm of independent consultants, are completed by each Director. The responses are then collated and discussed by the Committee. The evaluation of individual Directors is led by the Chairman who also meets with each Director. The Audit Committee Chairman leads the evaluation of the Chairman's performance. An evaluation of the Board was carried out externally in 2011 by Stephenson & Co., which has no other connections with the Company. Further externally facilitated Board evaluations will take place as and when deemed appropriate by the Committee.

The Committee also reviews Directors' fees and makes recommendations to the Board as and when appropriate in relation to remuneration policy. This review forms only a minimal part of discussions and therefore it is felt to be appropriate for Andrew Fleming to act as Chairman of the Committee.

### Audit Committee

The Audit Committee, chaired by Alan Barber, and whose membership is set out on pages 21 and 22, meets at least twice each year. The members of the Audit Committee consider that they have the requisite skills and experience to fulfil the responsibilities of the Committee. At least one member of the Audit Committee has recent and relevant financial experience, being Alan Barber.

The Committee reviews the actions and judgements of the Manager in relation to the half year and annual accounts and the Company's compliance with the UK Corporate Governance Code.

During its review of the Company's financial statements for the year ended 30th September 2015, the Audit Committee considered the following significant issues, including those communicated by the Auditors during their reporting:

Significant issue	How the issue was addressed
Valuation, existence and ownership of investments	The valuation of investments is undertaken in accordance with the accounting policies, disclosed in note 1 to the accounts on page 46. Controls are in place to ensure that valuations are appropriate and existence is verified through Depository and Custodian reconciliations.
Recognition of investment income	The recognition of investment income is undertaken in accordance with accounting policy note 1(b) to the accounts on page 46. The Board regularly reviews subjective elements of income such as special dividends and agrees their accounting treatment.
Compliance with Sections 1158 and 1159 Corporation Tax Act 2010	Approval for the Company as an investment trust under Sections 1158 and 1159 for financial years commencing on or after 1st October 2012 has been obtained and ongoing compliance with the eligibility criteria is monitored on a regular basis.

Having taken all available information into consideration and having discussed the content of the annual report and accounts with the Alternative Investment Fund Manager, Investment Managers, Company Secretary and other third party service providers, the Audit Committee has concluded that the annual report and accounts for the year ended 30th September 2015, 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, and has reported these findings to the Board. The Board's conclusions in this respect are set out in the Statement of Directors' Responsibilities on page 35.

The Board was made fully aware of any significant financial reporting issues and judgements made in connection with the preparation of the financial statements.

The Audit Committee reviews the terms of the management agreement and examines the effectiveness of the Company's internal control systems and receives information from the Manager's Compliance department. The Directors' statement on the Company's system of Risk Management and Internal Controls is set out on pages 29 and 30. The Committee also reviews the scope and results of the external audit, its effectiveness and cost effectiveness, the balance of audit and non-audit services and the independence and objectivity of the external Auditors. In the Directors' opinion the Auditors are independent. The Committee also has primary responsibility for making recommendations to the Board on the reappointment and removal of the external Auditors.

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Representatives of the Company's Auditors attend the Audit Committee meeting at which the draft annual report and accounts are considered and also engage with the Directors as and when required. Having reviewed the performance of the external Auditors, including assessing the quality of work, timing of communications and work with the Manager, the Committee considered it appropriate to recommend the Auditors' reappointment. The Board supported this recommendation and a resolution will be put to shareholders at the forthcoming Annual General Meeting.

As part of its review of the continuing appointment of the Auditors, the Audit Committee considered the length of tenure of the audit firm, its fee, its independence from JPMF and the Investment Managers and any matters raised during the audit. A formal tender exercise was undertaken in 2013, as a result of which PricewaterhouseCoopers LLP was appointed in place of Begbies. The Company's year ended 30th September 2015 is therefore the Audit Partner's second of a five year maximum term. The Board reviews and approves any non-audit services provided by the independent Auditors and assesses the impact of any non-audit work on the ability of the Auditors to remain independent. No such work was undertaken during the year. Details of the fees paid for audit services are included in note 5 on page 48.

The Committee reviews the terms of the management agreement between the Company and the Manager, reviews the performance of the Manager, reviews the notice period that the Board has with the Manager and makes recommendations to the Board on the *continued appointment of the Manager following these reviews.*

### **Terms of Reference**

The Nomination and Remuneration and Audit Committees have written terms of reference which define clearly their respective responsibilities, copies of which are available on the Company's website and for inspection on request at the Company's registered office and at the Company's Annual General Meeting.

### **Relations with Shareholders**

The Board regularly monitors the shareholder profile of the Company. It aims to provide shareholders with a full understanding of the Company's activities and performance and reports formally to shareholders twice a year by way of the annual report and accounts and the half year report. These are supplemented by the daily publication, through the London Stock Exchange, of the net asset value of the Company's shares. Announcements released to the London Stock Exchange are also released to the New Zealand Stock Exchange.

All shareholders are encouraged to attend the Company's Annual General Meeting at which the Directors and representatives of the Manager are available to meet shareholders and answer their questions. In addition, a presentation is given by the Investment Manager who reviews the Company's performance.

During the year, the Company's brokers, the Investment Managers and JPMF hold regular discussions with larger shareholders. The Directors are made fully aware of their views. The Chairman and Directors make themselves available as and when required to *support these meetings and to address shareholder queries.* The Directors may be contacted through the Company Secretary whose details are shown on page 67. The Chairman can also be contacted via the Company's website by following the 'Ask a Question' link at [www.jpmmjapanese.co.uk](http://www.jpmmjapanese.co.uk)

The Company's annual report and accounts are published in time to give shareholders at least twenty working days' notice of the Annual General Meeting. Shareholders wishing to raise questions in advance of the meeting are encouraged to submit questions via the Company's website or write to the Company Secretary at the address shown on page 67.

Details of the proxy voting position on each resolution will be published on the Company website shortly after the Annual General Meeting.

### **Risk Management and Internal Controls**

The UK Corporate Governance Code requires the Directors, at least annually, to *review the effectiveness of the Company's system of risk management and internal controls and to report to shareholders that they have done so.* This encompasses a review of all controls, which the Board has identified as including business, financial, operational, compliance and risk management.

The Directors are responsible for the Company's system of risk management and internal controls, which is designed to safeguard the Company's assets, maintain proper accounting records and ensure that financial information used within the business, or published, is reliable. However, such a system can only be designed to manage rather than eliminate the risk of failure to achieve business objectives and therefore can only provide reasonable, but not absolute, assurance against fraud, material misstatement or loss.

Since investment management, custody of assets and all administrative services are provided to the Company by the Manager and its associates, the Company's system of risk management and internal controls mainly comprises monitoring the services provided by the Manager and its associates, including the

## DIRECTORS' REPORT CONTINUED

operating controls established by them, to ensure they meet the Company's business objectives. There is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company (see Principal Risks on pages 19 and 20). This process has been in place for the year under review and up to the date of the approval of the annual report and accounts, and it accords with the Financial Reporting Council's guidance. Whilst the Company does not have an internal audit function of its own, the Board considers that it is sufficient to rely on the internal audit department of the Manager. This arrangement is kept under review.

The key elements designed to provide effective internal controls are as follows:

**Financial Reporting** - Regular and comprehensive review by the Board of key investment and financial data, including management accounts, revenue projections, analysis of transactions and performance comparisons.

**Management** - Appointment of a manager, depositary and custodian regulated by the FCA, whose responsibilities are clearly defined in a written agreement.

**Management Systems** - The Manager's system of risk management and internal controls includes organisational agreements which clearly define the lines of responsibility, delegated authority, control procedures and systems. These are monitored by the Manager's Compliance department which regularly monitors compliance with FCA rules.

**Investment Strategy** - Authorisation and monitoring of the Company's investment strategy and exposure limits by the Board.

The Board, either directly or through the Audit Committee, keeps under review the effectiveness of the Company's system of risk management and internal controls by monitoring the operation of the key operating controls of the Manager and its associates as follows:

- reviews the terms of the management agreement and receives regular reports from the Manager's Compliance department;
- reviews reports on the risk management and internal controls and operations of its Depositary, BNY Mellon Trust & Depositary (UK) Limited, and its Custodian, JPMorgan Chase Bank, which are themselves independently reviewed; and
- reviews every six months an independent report on the risk management and internal controls and the operations of the Manager.

By the means of the procedures set out above, the Board confirms that it has reviewed the effectiveness of the Company's system of

risk management and internal controls for the year ended 30th September 2015 and to the date of approval of this annual report and accounts.

The Board confirms that any failings or weaknesses identified during the course of its review of the systems of risk management and internal controls were not significant and did not impact the Company.

### London and New Zealand Listings

The Company is listed on the London Stock Exchange and the New Zealand Stock Exchange. The corporate governance rules and principles of the UK Listing Authority and London Stock Exchange may differ materially from the New Zealand Stock Exchange's corporate governance rules and the principles of the Corporate Governance Best Practice Code. Investors may find out more information about the corporate governance and principles applicable in the United Kingdom for the UK Listing Authority and London Stock Exchange websites: [www.fca.org.uk/firms/markets/ukla](http://www.fca.org.uk/firms/markets/ukla) and [www.londonstockexchange.com](http://www.londonstockexchange.com)

### Corporate Governance and Voting Policy

The Company delegates responsibility for voting to the Manager. The following is a summary of the policy statements of JPMorgan Asset Management (UK) Limited ('JPMAM') on corporate governance, voting policy and social and environmental issues, which has been reviewed and noted by the Board. Details on social and environmental issues are included in the Strategic Report on page 18.

#### Corporate Governance

*JPMAM believes that corporate governance is integral to our investment process. As part of our commitment to delivering superior investment performance to our clients, we expect and encourage the companies in which we invest to demonstrate the highest standards of corporate governance and best business practice. We examine the share structure and voting structure of the companies in which we invest, as well as the board balance, oversight functions and remuneration policy. These analyses then form the basis of our proxy voting and engagement activity.*

#### Proxy Voting

*JPMAM manages the voting rights of the shares entrusted to it as it would manage any other asset. It is the policy of JPMAM to vote in a prudent and diligent manner, based exclusively on our reasonable judgement of what will best serve the financial interests of our clients. So far as is practicable, we will vote at all of the meetings called by companies in which we are invested.*

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### **Stewardship/Engagement**

*JPMAM recognises its wider stewardship responsibilities to its clients as a major asset owner. To this end, we support the introduction of the FRC Stewardship Code, which sets out the responsibilities of institutional shareholders in respect of investee companies. Under the Code, managers should:*

- *publicly disclose their policy on how they will discharge their stewardship responsibilities to their clients;*
- *disclose their policy on managing conflicts of interest;*
- *monitor their investee companies;*
- *establish clear guidelines on how they escalate engagement;*
- *be willing to act collectively with other investors where appropriate;*
- *have a clear policy on proxy voting and disclose their voting record; and*
- *report to clients.*

*JPMAM endorses the Stewardship Code for its UK investments and supports the principles as best practice elsewhere. We believe that regular contact with the companies in which we invest is central to our investment process and we also recognise the importance of being an 'active' owner on behalf of our clients.*

JPMAM's Voting Policy and Corporate Governance Guidelines are available on request from the Company Secretary or can be downloaded from JPMAM's website: <http://www.jpmorganinvestmenttrusts.co.uk/governance>, which also sets out its approach to the seven principles of the FRC Stewardship Code, its policy relating to conflicts of interest and its detailed voting record.

By order of the Board  
Juliet Dearlove, for and on behalf of  
JPMorgan Funds Limited,  
Secretary

11th November 2015

## DIRECTORS' REMUNERATION REPORT

The Board presents the Directors' Remuneration Report for the year ended 30th September 2015, which has been prepared in accordance with the requirements of Section 421 of the Companies Act 2006 as amended.

The law requires the Company's Auditors to audit certain of the disclosures provided. Where disclosures have been audited, they are indicated as such. The Auditors' opinion is included in their report on pages 36 to 41.

The Nomination and Remuneration Committee reviews Directors' fees on a regular basis and makes recommendations to the Board as and when appropriate.

### Directors' Remuneration Policy

The Directors' Remuneration Policy is subject to a triennial binding vote, however, a decision has been taken to seek approval annually and therefore an ordinary resolution to approve this policy will be put to shareholders at the forthcoming Annual General Meeting. The policy subject to the vote is set out in full below and is currently in force.

The Board's policy for this and subsequent years is that Directors' fees should properly reflect the time spent by the Directors on the Company's business and should be at a level to ensure that candidates of a high calibre are recruited to the Board and retained. The Chairman of the Board and the Chairman of the Audit Committee are paid higher fees than the other Directors, reflecting the greater time commitment involved in fulfilling those roles.

Reviews are based on information provided by the Manager and industry research carried out by third parties on the level of fees paid to the directors of the Company's peers and within the investment trust industry generally. The involvement of remuneration consultants has not been deemed necessary as part of this review. The Company has no Chief Executive Officer and no employees and therefore no consultation of employees is required and there is no employee comparative data to provide, in relation to the setting of the remuneration policy for Directors.

All of the Directors are non-executive. There are no performance-related elements to their fees and the Company does not operate any type of incentive, share scheme, award or pension scheme and therefore no Directors receive bonus payments or pension contributions from the Company or hold options to acquire shares in the Company. Directors are not granted exit payments and are not provided with compensation for loss of office. No other payments are made to Directors, other than the reimbursement of

reasonable out-of-pocket expenses incurred in attending the Company's business.

With effect from 1st October 2014, fees have been paid at the following rates: Chairman £34,000; Chairman of the Audit Committee £28,500; and other Directors £24,000.

With effect from 1st October 2015, fees were increased to the following rates: Chairman £36,000; Chairman of the Audit Committee £29,500; and other Directors £25,000.

The Company's Articles of Association (the 'Articles') provide that any increase in the maximum aggregate annual limit on Directors' fees, currently £175,000, requires both Board and shareholder approval.

The Articles further provide that any Director who performs services which go beyond the ordinary duties of a director may be paid such additional remuneration as the directors may determine.

The Company has not sought individual shareholder views on its remuneration policy. The Nomination Committee considers any comments received from shareholders on remuneration policy on an ongoing basis and takes account of those views.

The terms and conditions of Directors' appointments are set out in formal letters of appointment which are available for review at the Company's Annual General Meeting and the Company's registered office. Details of the Board's policy on tenure are set out on page 27.

### Directors' Remuneration Policy Implementation

The Directors' Remuneration Report, which includes details of the Directors' remuneration policy and its implementation, is subject to an annual advisory vote and therefore an ordinary resolution to approve this report will be put to shareholders at the forthcoming Annual General Meeting. There have been changes to the policy compared with the year ended 30th September 2014, as described above.

At the Annual General Meeting held on 19th December 2014, of votes cast in respect of the Remuneration Policy, 99.89% of votes cast were in favour (or granted discretion to the Chairman who voted in favour) and 0.11% voted against. Abstentions were received from 0.04% of the votes cast. In respect of the remuneration report, 98.70% of votes cast were in favour (or granted discretion to the Chairman who voted in favour) and 1.30% voted against. Abstentions were received from 0.05% of the votes cast.

Details of the implementation of the Company's remuneration policy are given above.

## Single total figure of remuneration

The single total figure of remuneration for each Director is detailed below together with the prior year comparative.

### Single total figure table<sup>1</sup>

Directors' Name	Total fees	
	2015 £	2014 £
Jeremy Paulson-Ellis <sup>2</sup>	7,628	32,500
Alan Barber	28,500	27,500
Andrew Fleming	31,846	22,500
Sir Stephen Gomersall, KCMG	24,000	22,500
David Pearson <sup>3</sup>	n/a	5,048
Keith Percy	24,000	22,500
Christopher Samuel <sup>4</sup>	18,831	—
<b>Total</b>	<b>134,805</b>	<b>132,548</b>

<sup>1</sup> Audited information. The other disclosure requirements set out in the reporting regulations are omitted because they are not applicable.

<sup>2</sup> Retired December 2014.

<sup>3</sup> Retired December 2013.

<sup>4</sup> Appointed December 2014.

A table showing the total remuneration for the Chairman over the five years ended 30th September 2015 is below:

### Remuneration for the Chairman over the five years ended 30th September 2015

Year ended 30th September	Fees	Performance related benefits received as a percentage of maximum payable <sup>1</sup>
2015	£34,000	n/a
2014	£32,500	n/a
2013	£32,500	n/a
2012	£30,000	n/a
2011	£30,000	n/a

### Directors' Shareholdings<sup>1</sup>

There are no requirements pursuant to the Company's Articles of Association for the Directors to own shares in the Company. The Directors' shareholdings are detailed below. All shares are held beneficially.

Directors' Name	2015 Number of shares held	2014 Number of shares held
Jeremy Paulson-Ellis <sup>2</sup>	n/a	9,000
Alan Barber	5,300	5,300
Andrew Fleming	5,000	1,500
Sir Stephen Gomersall, KCMG	3,049	3,049
Keith Percy	4,500	4,500
Christopher Samuel <sup>3</sup>	5,000	n/a
<b>Total</b>	<b>22,849</b>	<b>23,349</b>

<sup>1</sup> Audited information.

<sup>2</sup> Retired December 2014. Held 9,000 shares at date of retirement.

<sup>3</sup> Appointed December 2014.

As at the latest practicable date before the publication of this document, there have been no changes to the Directors' shareholdings. The Directors have no other share interests or share options in the Company and no share schemes are available.

In accordance with the Companies Act 2006, a graph showing the Company's share price total return compared with its benchmark, the Tokyo Stock Exchange First Section (TOPIX) Index expressed in sterling terms, over the last six years is shown below. Because the TOPIX Index is the adopted benchmark for the Company, it is deemed by the Board to be the most representative comparator. Although the Investment Manager does not track the TOPIX Index, the Index is the most representative of the Company's investment remit.

### Six Year Share Price and Benchmark Total Return Performance to 30th September 2015

Source: Morningstar/Datastream.

— Share price total return.  
— Benchmark.

## DIRECTORS' REMUNERATION REPORT *CONTINUED*

A table showing actual expenditure by the Company on remuneration and distributions to shareholders for the year and the prior year is below:

### Expenditure by the Company on remuneration and distributions to shareholders

	Year ended 30th September	
	2015	2014
Remuneration paid to all Directors	£134,805	£132,548
Distribution to shareholders by way of:		
– dividend	£4,515,000	£4,515,000
– share repurchases	£nil	£nil
<b>Total distribution to shareholders</b>	<b>£4,649,805</b>	<b>£4,647,548</b>

For and on behalf of the Board  
Andrew Fleming  
Chairman

11th November 2015

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## STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the annual report and accounts in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have elected to prepare the financial statements in accordance with United Kingdom generally accepted accounting practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that, taken as a whole, the annual report and accounts are fair, balanced and understandable, provide the information necessary for shareholders to assess the Company's performance, business model and strategy and that they give a true and fair view of the state of affairs of the Company and of the total return or loss of the Company for that period. 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 a 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.

The Directors are responsible for keeping proper 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 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.

The accounts are published on the [www.jpmmjapanese.co.uk](http://www.jpmmjapanese.co.uk) website, which is maintained by the Company's Manager. The maintenance and integrity of the website maintained by the Manager is, so far as

it relates to the Company, the responsibility of the Manager. The work carried out by the Auditors does not involve consideration of the maintenance and integrity of this website and, accordingly, the Auditors accept no responsibility for any changes that have occurred to the accounts since they were initially presented on the website. The accounts are prepared in accordance with UK legislation, which may differ from legislation in other jurisdictions.

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

Each of the Directors, whose names and functions are listed on pages 21 and 22, confirms that, to the best of their knowledge:

- the financial statements, which have been prepared in accordance with United Kingdom generally accepted accounting practice (United Kingdom Accounting Standards and applicable law), give a true and fair view of the assets, liabilities, financial position and return or loss of the Company; and
- 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 that it faces.

The Board confirms that it is satisfied that the annual report and accounts taken as a whole are fair, balanced and understandable and provide the information necessary for shareholders to assess the strategy and business model of the Company.

The Board also confirms that it is satisfied that the Strategic Report and Directors' Report include 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 that the Company faces.

For and on behalf of the Board  
Andrew Fleming  
Chairman

11th November 2015

# Independent Auditors' Report

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## TO THE MEMBERS OF JPMORGAN JAPANESE INVESTMENT TRUST PLC

### Report on the financial statements

#### Our opinion

In our opinion, JPMorgan Japanese Investment Trust plc's financial statements (the 'financial statements'):

- give a true and fair view of the state of the company's affairs as at 30th September 2015 and of its net return and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

#### What we have audited

The financial statements, included within the Annual Report, comprise:

- the Balance Sheet as at 30th September 2015;
- the Income Statement for the year then ended;
- the Cash Flow Statement for the year then ended;
- the Reconciliation of Movements in Shareholders' Funds for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

#### Our audit approach

##### Overview

##### *Materiality:*

- Overall materiality: £4.6 million which represents 1% of net assets.

##### *Audit Scope:*

- The company is a standalone Investment Trust Company and engages JPMorgan Funds Limited (the 'Manager') to manage its assets.
- We conducted our audit of the financial statements using information from JPMorgan Corporate & Investment Bank (the 'Administrator') to whom the Manager has, with the consent of the Directors, delegated the provision of certain administrative functions.
- We tailored the scope of our audit taking into account the types of investments within the company, the involvement of the third parties referred to above, the accounting processes and controls, and the industry in which the company operates.

##### *Areas of focus:*

- Income from investments.
- Valuation and existence of investments.

##### **The scope of our audit and our areas of focus**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)').

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as 'areas of focus' in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

Area of focus	How our audit addressed the area of focus
<p><b>Income from investments</b></p> <p>Refer to page 28 (Directors' Report), page 46 (Accounting Policies) and page 48 (notes).</p> <p>We focused on the accuracy and completeness of income recognition from investments and its presentation in the Income Statement as set out in the requirements of The Association of Investment Companies Statement of Recommended Practice (the 'AIC SORP').</p> <p>This is because inaccurate or incomplete income could have a material impact on the company's net asset value and dividend cover.</p>	<p>We assessed the accounting policy for income recognition for compliance with accounting standards and the AIC SORP and performed testing to check that income had been accounted for in accordance with this stated accounting policy.</p> <p>We found that the accounting policies implemented were in accordance with accounting standards and the AIC SORP, and that income has been accounted for in accordance with the stated accounting policy.</p> <p>We understood and assessed the design and implementation of key controls surrounding income recognition.</p> <p>We tested dividend receipts by agreeing the dividend rates from a sample of investments to independent third party sources. No misstatements were identified by our testing which required reporting to those charged with governance.</p> <p>To test for completeness, we tested that the appropriate dividends had been received in the year by reference to independent data of dividends declared by a sample of investment holdings in the portfolio. Our testing did not identify any unrecorded dividends which required reporting to those charged with governance.</p> <p>We tested the allocation and presentation of income from investments between the revenue and capital return columns of the Income Statement in line with the requirements set out in the AIC SORP.</p>
<p><b>Valuation and existence of investments</b></p> <p>Refer to page 28 (Directors' Report), page 46 (Accounting Policies) and page 50 (notes).</p> <p>The investment portfolio at the year-end principally comprised listed equity investments valued at £493 million.</p> <p>We focused on the valuation and existence of investments because investments represent the principal element of the net asset value as disclosed on the Balance Sheet in the financial statements.</p>	<p>We tested the valuation of the listed equity investments by agreeing the prices used in the valuation to independent third party sources.</p> <p>No misstatements were identified by our testing which required reporting to those charged with governance.</p> <p>We tested the existence of the investment portfolio by agreeing the holdings for investments to an independent Custodian confirmation from JPMorgan Chase Bank, N.A. No differences were identified which required reporting to those charged with governance.</p>
<p><b>How we tailored the audit scope</b></p>	
<p>We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the company, the accounting processes and controls, and the industry in which the company operates.</p>	

## Independent Auditors' Report *continued*

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The company is a standalone Investment Trust Company and engages JPMorgan Funds Limited (the 'Manager') to manage its assets.

We conducted our audit of the financial statements at JPMorgan Corporate & Investment Bank (the 'Administrator') to whom the Manager has, with the consent of the Directors, delegated the provision of certain administrative functions.

As part of our risk assessment, we assessed the control environment in place at both the Manager and the Administrator to the extent relevant to our audit. This assessment of the operating and accounting structure in place at both organisations involved obtaining and reading the relevant control reports issued by the independent auditor of the Manager and the Administrator in accordance with generally accepted assurance standards for such work. We then identified those key controls at the Administrator on which we could place reliance to provide audit evidence. We also assessed the gap period of six months between the period covered by the controls report and the year-end of the company. Following this assessment, we applied professional judgement to determine the extent of testing required over each balance in the financial statements, including whether we needed to perform additional testing in respect of those key controls to support our substantive work. For the purposes of our audit, we determined that additional testing of controls in place at the Administrator was not required because additional substantive testing was performed.

### Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

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<b>Overall materiality</b>	£4.6 million (2014: £4.1 million).
<b>How we determined it</b>	1% of net assets.
<b>Rationale for benchmark applied</b>	We have applied this benchmark, a generally accepted auditing practice for investment trust audits, in the absence of indicators that an alternative benchmark would be appropriate and because we believe this provides an appropriate and consistent year-on-year basis for our audit.

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We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £232,000 (2014: £204,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

### Going concern

Under the Listing Rules we are required to review the Directors' statement, set out on page 24, in relation to going concern. We have nothing to report having performed our review.

Under ISAs (UK & Ireland) we are also required to report to you if we have anything material to add or to draw attention to in relation to the Directors' statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements. We have nothing material to add or to draw attention to.

As noted in the Directors' statement, the Directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. The going concern basis presumes that the company has adequate resources to remain in operation, and that the Directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the Directors' use of the going concern basis is appropriate.

However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the company's ability to continue as a going concern.

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## Other required reporting

### Consistency of other information

#### *Companies Act 2006 opinion*

In our opinion, the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

#### *ISAs (UK & Ireland) reporting*

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

- 
- |   |   |
|---|---|
| <ul style="list-style-type: none"><li>• information in the Annual Report is:<ul style="list-style-type: none"><li>- materially inconsistent with the information in the audited financial statements; or</li><li>- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the company acquired in the course of performing our audit; or</li><li>- otherwise misleading.</li></ul></li></ul>   | <p>We have no exceptions to report.</p> |
| <hr/>   |   |
| <ul style="list-style-type: none"><li>• the explanation given by the Directors on page 35, in accordance with provision C.1.1 of the UK Corporate Governance Code (the 'Code'), as to why the Annual Report does not include a statement that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the company's performance, business model and strategy is materially inconsistent with our knowledge of the company acquired in the course of performing our audit.</li></ul> | <p>We have no exceptions to report.</p> |
| <hr/>   |   |
| <ul style="list-style-type: none"><li>• the explanation given by the Directors on page 35, as required by provision C.3.8 of the Code, as to why the Annual Report does not include a section that appropriately addresses matters communicated by us to the Audit Committee is materially inconsistent with our knowledge of the company acquired in the course of performing our audit.</li></ul>   | <p>We have no exceptions to report.</p> |
- 

### The Directors' assessment of the prospects of the company and of the principal risks that would threaten the solvency or liquidity of the company

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:

- 
- |   |   |
|---|---|
| <ul style="list-style-type: none"><li>• the Directors' confirmation in the Annual Report that they have carried out a robust assessment of the principal risks facing the company, including those that would threaten its business model, future performance, solvency or liquidity.</li></ul>   | <p>We have nothing material to add or to draw attention to.</p> |
| <hr/>   |   |
| <ul style="list-style-type: none"><li>• the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.</li></ul>   | <p>We have nothing material to add or to draw attention to.</p> |
| <hr/>   |   |
| <ul style="list-style-type: none"><li>• the Directors' explanation in the Annual Report as to how they have assessed the prospects of the Company, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.</li></ul> | <p>We have nothing material to add or to draw attention to.</p> |
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## Independent Auditors' Report *continued*

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Under the Listing Rules we are required to review the Directors' statement that they have carried out a robust assessment of the principal risks facing the Company and the Directors' statements in relation to the longer-term viability of the Company, set out on page 20. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit. We have nothing to report having performed our review.

### **Adequacy of accounting records and information and explanations received**

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

### **Directors' remuneration**

#### *Directors' Remuneration Report – Companies Act 2006 opinion*

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

#### *Other Companies Act 2006 reporting*

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from these responsibilities.

### **Corporate governance statement**

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to ten further provisions of the UK Corporate Governance Code. We have nothing to report having performed our review.

## **Responsibilities for the financial statements and the audit**

### **Our responsibilities and those of the Directors**

As explained more fully in the Statement of Directors' Responsibilities set out on page 35, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

### **What an audit of financial statements involves**

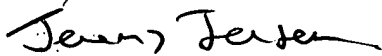
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

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We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.



Jeremy Jensen (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors,  
London

11th November 2015

# Financial Statements

## INCOME STATEMENT FOR THE YEAR ENDED 30TH SEPTEMBER 2015

	Notes	Revenue £'000	2015 Capital £'000	Total £'000	Revenue £'000	2014 Capital £'000	Total £'000
Gains/(losses) on investments held at fair value through profit or loss	2	–	55,125	55,125	–	(26,100)	(26,100)
Net foreign currency gains		–	2,587	2,587	–	5,933	5,933
Income from investments	3	6,970	–	6,970	5,715	–	5,715
<b>Gross return/(loss)</b>		<b>6,970</b>	<b>57,712</b>	<b>64,682</b>	<b>5,715</b>	<b>(20,167)</b>	<b>(14,452)</b>
Management fee	4	(606)	(2,423)	(3,029)	(525)	(2,099)	(2,624)
Other administrative expenses	5	(592)	–	(592)	(506)	–	(506)
<b>Net return/(loss) on ordinary activities before finance costs and taxation</b>		<b>5,772</b>	<b>55,289</b>	<b>61,061</b>	<b>4,684</b>	<b>(22,266)</b>	<b>(17,582)</b>
Finance costs	6	(147)	(587)	(734)	(149)	(596)	(745)
<b>Net return/(loss) on ordinary activities before taxation</b>		<b>5,625</b>	<b>54,702</b>	<b>60,327</b>	<b>4,535</b>	<b>(22,862)</b>	<b>(18,327)</b>
Taxation	7	(697)	–	(697)	(572)	–	(572)
<b>Net return/(loss) on ordinary activities after taxation</b>		<b>4,928</b>	<b>54,702</b>	<b>59,630</b>	<b>3,963</b>	<b>(22,862)</b>	<b>(18,899)</b>
<b>Return/(loss) per share</b>	9	<b>3.06p</b>	<b>33.92p</b>	<b>36.98p</b>	<b>2.46p</b>	<b>(14.18)p</b>	<b>(11.72)p</b>

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

The 'Total' column of this statement is the profit and loss account of the Company and the 'Revenue' and 'Capital' columns represent supplementary information prepared under guidance issued by the Association of Investment Companies. The Total column represents all the information that is required to be disclosed in a Statement of Total Recognised Gains and Losses ('STRGL'). For this reason a STRGL has not been presented.

The notes on pages 46 to 61 form an integral part of these accounts.

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## RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Called up share capital £'000	Capital redemption reserve £'000	Other reserve £'000	Capital reserves £'000	Revenue reserve £'000	Total £'000
At 30th September 2013	40,312	8,650	166,791	209,162	6,961	431,876
Net (loss)/return on ordinary activities	–	–	–	(22,862)	3,963	(18,899)
Dividends paid in the year	–	–	–	–	(4,515)	(4,515)
At 30th September 2014	40,312	8,650	166,791	186,300	6,409	408,462
Net return on ordinary activities	–	–	–	54,702	4,928	59,630
Dividends paid in the year	–	–	–	–	(4,515)	(4,515)
At 30th September 2015	40,312	8,650	166,791	241,002	6,822	463,577

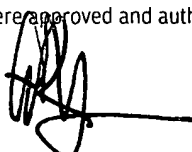
The notes on pages 46 to 61 form an integral part of these accounts.

**BALANCE SHEET AT 30TH SEPTEMBER 2015**

	Notes	2015 £'000	2014 £'000
<b>Fixed assets</b>			
Investments held at fair value through profit or loss	10	493,278	459,633
<b>Current assets</b>	11		
Debtors		6,315	13,201
Cash and short term deposits		46,923	15,463
		<b>53,238</b>	<b>28,664</b>
<b>Creditors: amounts falling due within one year</b>	12	(33,329)	(79,835)
<b>Net current assets/(liabilities)</b>		<b>19,909</b>	<b>(51,171)</b>
<b>Total assets less current liabilities</b>		<b>513,187</b>	<b>408,462</b>
<b>Creditors: amounts falling due after more than one year</b>	13	(49,610)	–
<b>Net assets</b>		<b>463,577</b>	<b>408,462</b>
<b>Capital and reserves</b>			
Called up share capital	14	40,312	40,312
Capital redemption reserve	15	8,650	8,650
Other reserve	15	166,791	166,791
Capital reserves	15	241,002	186,300
Revenue reserve	15	6,822	6,409
<b>Total equity shareholders' funds</b>		<b>463,577</b>	<b>408,462</b>
<b>Net asset value per share</b>	16	<b>287.5p</b>	<b>253.3p</b>

The accounts on pages 42 to 61 were approved and authorised for issue by the Directors on 11th November 2015 and were signed on their behalf by:

Andrew Fleming  
Chairman



The notes on pages 46 to 61 form an integral part of these accounts.

Company registration number: 223583.

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## CASH FLOW STATEMENT FOR THE YEAR ENDED 30TH SEPTEMBER 2015

	Notes	2015 £'000	2014 £'000
Net cash inflow from operating activities	17	2,215	2,352
Returns on investments and servicing of finance			
Interest paid		(619)	(735)
Capital expenditure and financial investment			
Purchases of investments		(177,624)	(132,450)
Sales of investments		194,214	136,596
Other capital charges		(3)	(3)
Net cash inflow from capital expenditure and financial investment		16,587	4,143
Dividend paid		(4,515)	(4,515)
Net cash inflow before financing		13,668	1,245
Financing			
Repayments of loans		(77,495)	–
Drawdown of loans		94,050	12,204
Net cash inflow from financing		16,555	12,204
Increase in cash and cash equivalents	18	30,223	13,449

The notes on pages 46 to 61 form an integral part of these accounts.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH SEPTEMBER 2015

### 1. Accounting policies

#### (a) Basis of accounting

The financial statements are prepared in accordance with the Companies Act 2006, 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 'SORP') issued by the AIC in January 2009. They have also been prepared on the assumption that approval as an investment trust will continue to be granted.

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

The financial statements have been prepared on a going concern basis under the historical cost convention, as modified by the revaluation of investments and derivative financial instruments at fair value. The Directors consider it appropriate to prepare the financial statements on a going concern basis. For more details see page 24.

The policies applied in these financial statements are consistent with those applied in the preceding year.

#### (b) Valuation of investments

The Company's business is investing in financial assets with a view to profiting from their total return in the form of income and capital growth. This portfolio of financial assets is managed and its performance evaluated on a fair value basis, in accordance with a documented investment strategy, and information is provided internally on that basis to the Company's Board of Directors. Accordingly, upon initial recognition, the investments are designated by the Company as at fair value through profit or loss ('FVTPL'). They are included initially at fair value which is taken to be their cost, excluding expenses incidental to purchase which are written off to capital at the time of acquisition. Subsequently the investments are valued at fair value which are quoted bid prices for investments traded in active markets.

Gains and losses on sales of investments, including the related foreign exchange gains and losses of a capital nature, are dealt with in capital reserves within 'Gains and losses on sales of investments'. Increases and decreases in the valuation of investments held at the year end are accounted for in capital reserves within 'Holding gains and losses on investments'.

All purchases and sales are accounted for on a trade date basis.

#### (c) Income

Dividends receivable from equity shares are included in income on an ex-dividend basis except where, in the opinion of the Board, the dividend is capital in nature, in which case it is included in capital.

Overseas dividends are shown gross of any withholding tax.

Interest receivable on deposits is taken to revenue on an accruals basis.

#### (d) Expenses

All expenses are accounted for on an accruals basis. Expenses are allocated wholly to revenue with the following exceptions:

- the management fee is allocated 20% to revenue and 80% to capital in line with the Board's expected long term split of revenue and capital return from the Company's investment portfolio.
- expenses incidental to the purchase and sale of an investment are charged to capital. These expenses are commonly referred to as transaction costs and comprise mainly brokerage commission. Details of transaction costs are given in note 10 on pages 50 and 51.

#### (e) Finance costs

Finance costs are accounted for on an accruals basis using the effective interest rate method in accordance with the provisions of FRS 25: 'Financial Instruments: Presentation' and FRS 26: 'Financial Instruments: Measurement'.

Finance costs are allocated 20% to revenue and 80% to capital in line with the Board's expected long term split of revenue and capital return from the Company's investment portfolio.

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**(f) Financial instruments**

Cash and short term deposits may comprise cash and demand deposits which are readily convertible to a known amount of cash and are subject to insignificant risk of changes in value.

Other debtors and creditors do not carry any interest, are short term in nature and are accordingly stated at nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Interest bearing bank loans and overdrafts are recorded at the proceeds received net of direct issue costs. Finance costs, including any premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in profit or loss using the effective interest rate method.

**(g) Foreign currency**

In accordance with FRS 23: 'The effects of changes in Foreign Currency Exchange Rates' the Company is required to nominate a functional currency, being the currency in which the Company predominantly operates. The Board, having regard to the currency of the Company's share capital and the predominant currency in which its shareholders operate, has determined the functional currency to be sterling. Sterling is also the currency in which the accounts are presented.

Transactions denominated in foreign currencies are converted at actual exchange rates at the date of the transaction. Monetary assets, liabilities and equity investments held at fair value, denominated in foreign currencies at the year end are translated at the rates of exchange prevailing at the year end.

Any gain or loss arising on monetary assets from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in revenue or capital, depending on whether the gain or loss is of a revenue or capital nature. Gains and losses on investments arising from a change in exchange rates are included in the Income statement within 'Gains or losses on investments held at fair value through profit or loss' and charged or credited to capital reserves.

**(h) Taxation**

Current tax is provided at the amounts expected to be paid or recovered.

Deferred tax is provided on all timing differences that have originated but not reversed by the balance sheet date. Deferred tax liabilities are recognised for all taxable timing differences but deferred tax assets are only recognised to the extent that it is more likely than not that taxable profits will be available against which those timing differences can be utilised.

Deferred tax is measured at the tax rate which is expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates that have been enacted or substantively enacted by the balance sheet date, and is measured on an undiscounted basis.

Tax relief is allocated to expenses charged to capital on the 'marginal basis'. On this basis, if taxable income is capable of being entirely offset by revenue expenses, then no tax relief is transferred to capital.

**(i) Dividend payable**

In accordance with FRS 21: 'Events after the Balance Sheet Date', the dividend payable is included in the accounts in the year in which it is approved by shareholders.

**(j) Repurchases of the Company's own shares for cancellation**

The costs of repurchasing the Company's own shares for cancellation, including any related stamp duty and transaction costs are charged to Capital Reserves and dealt with in the Reconciliation of Movements in Shareholders' Funds. Share repurchase transactions are accounted for on a trade date basis. The nominal value of share capital repurchased and cancelled is transferred out of called up Share Capital and into Capital Redemption Reserve.

**NOTES TO THE FINANCIAL STATEMENTS CONTINUED**

**2. Gains/(losses) on investments held at fair value through profit or loss**

	2015 £'000	2014 £'000
Gains on investments held at fair value through profit or loss based on historical cost	19,755	6,290
Amounts recognised as investment holding gains and losses in the previous year in respect of investments sold during the year	(21,734)	(37,125)
Losses on sales of investments based on the carrying value at the previous balance sheet date	(1,979)	(30,835)
Net movement in investment holding gains	57,106	4,738
Other capital charges	(2)	(3)
<b>Total capital gains/(losses) on investments held at fair value through profit or loss</b>	<b>55,125</b>	<b>(26,100)</b>

**3. Income**

	2015 £'000	2014 £'000
Income from investments		
Dividends from investments listed overseas	6,970	5,715

**4. Management fee**

	Revenue £'000	2015 Capital £'000	Total £'000	Revenue £'000	2014 Capital £'000	Total £'000
Management fee	606	2,423	3,029	525	2,099	2,624

Details of the management fee are given in the Directors' Report on page 23.

**5. Other administrative expenses**

	2015 £'000	2014 £'000
Other administration expenses	436	351
Directors' fees <sup>1</sup>	135	133
Auditors' remuneration for audit services <sup>2</sup>	20	20
Other Auditors' remuneration for audit of New Zealand shareholder register <sup>3</sup>	1	2
	<b>592</b>	<b>506</b>

<sup>1</sup> Full disclosure is given in the Directors' Remuneration Report on pages 32 to 34.

<sup>2</sup> No other payments were made to the Auditors (2014: nil).

<sup>3</sup> Audit services were provided by Grant Thornton (New Zealand).

## 6. Finance costs

	Revenue £'000	2015 Capital £'000	Total £'000	Revenue £'000	2014 Capital £'000	Total £'000
Interest on bank loans and overdrafts	147	587	734	149	596	745

## 7. Taxation

### (a) Analysis of tax charge in the year

	Revenue £'000	2015 Capital £'000	Total £'000	Revenue £'000	2014 Capital £'000	Total £'000
Overseas withholding tax	697	–	697	572	–	572
Current tax charge for the year	697	–	697	572	–	572

### (b) Factors affecting current tax charge for the year

The tax assessed for the year is lower (2014: lower) than the Company's applicable rate of corporation tax for the year of 20.5% (2014: 22.0%). The factors affecting the current tax charge for the year are as follows:

	Revenue £'000	2015 Capital £'000	Total £'000	Revenue £'000	2014 Capital £'000	Total £'000
Net return/(loss) on ordinary activities before taxation	5,625	54,702	60,327	4,535	(22,862)	(18,327)
Net return/(loss) on ordinary activities before taxation multiplied by the Company's applicable rate of corporation tax of 20.5% (2014: 22.0%)	1,153	11,214	12,367	998	(5,030)	(4,032)
Effects of:						
Non taxable overseas dividends	(1,399)	–	(1,399)	(1,225)	–	(1,225)
Non taxable capital (returns)/losses	–	(11,831)	(11,831)	–	4,437	4,437
Overseas withholding tax	697	–	697	572	–	572
Unutilised expenses carried forward to future periods	246	617	863	227	593	820
Current tax charge for the year	697	–	697	572	–	572

### (c) Deferred taxation

The Company has an unrecognised deferred tax asset of £6,263,453 (2014: £5,421,203) based on a prospective corporation tax rate of 20.0% (2014: 20.0%). The deferred tax asset has arisen due to the cumulative excess of deductible expenses over taxable income. Given the composition of the Company's portfolio, it is not likely that this asset will be utilised in the foreseeable future and therefore no asset has been recognised in the accounts. The UK Government announced in July 2015 that the corporation tax rate is set to be cut to 19% in 2017 and 18% in 2020. These rate reductions have not been substantively enacted, therefore the impact of these reductions has not been incorporated into the tax charge for the period.

Given the Company's status as an Investment Trust Company and the intention to continue meeting the conditions required to obtain approval, the Company has not provided deferred tax on any capital gains or losses arising on the revaluation or disposal of investments.

## NOTES TO THE FINANCIAL STATEMENTS *CONTINUED*

### 8. Dividends

#### (a) Dividends paid and proposed

	2015 £'000	2014 £'000
<b>Dividend paid</b>		
2014 final dividend of 2.80p (2013: 2.80p)	4,515	4,515
<b>Dividend proposed</b>		
2015 final dividend of 2.80p (2014: 2.80p)	4,515	4,515

The final dividend proposed in respect of the year ended 30th September 2015 is subject to approval at the forthcoming Annual General Meeting. In accordance with the accounting policy of the Company, this dividend will be reflected in the accounts for the year ending 30th September 2016.

#### (b) Dividend for the purposes of Section 1158 of the Corporation Tax Act 2010 ('Section 1158')

The proposed dividend of £4,515,000 (2014: £4,515,000) is the amount on which the requirements of Section 1158 are considered. The revenue available for distribution by way of dividend is £4,928,000 (2014: £3,963,000).

### 9. Return/(loss) per share

The revenue return per share is based on the revenue earnings attributable to the ordinary shares of £4,928,000 (2014: £3,963,000) and on the weighted average number of shares in issue throughout the year of 161,248,078 (2014: 161,248,078).

The capital return per share is based on the capital return attributable to the ordinary shares of £54,702,000 (2014: £22,862,000 loss) and on the weighted average number of shares in issue throughout the year of 161,248,078 (2014: 161,248,078).

The total return per share is based on the total return attributable to the ordinary shares of £59,630,000 (2014: £18,899,000 loss) and on the weighted average number of shares in issue throughout the year of 161,248,078 (2014: 161,248,078).

### 10. Investments

	2015 £'000	2014 £'000
Investments listed on a recognised stock exchange	493,278	459,633
Opening book cost	369,871	365,792
Opening investment holding gains	89,762	122,149
Opening valuation	459,633	487,941
Movements in the year:		
Purchases at cost	165,387	142,289
Sales - proceeds	(186,869)	(144,500)
Losses on sales of investments based on the carrying value at the previous balance sheet date	(1,979)	(30,835)
Net movement in investment holding gains	57,106	4,738
Closing valuation	493,278	459,633
Closing book cost	368,144	369,871
Closing investment holding gains	125,134	89,762
Total investments held at fair value through profit or loss	493,278	459,633

Transaction costs on purchases during the year amounted to £76,000 (2014: £91,000) and on sales during the year amounted to £87,000 (2014: £83,000). These costs comprise mainly brokerage commission.

During the year, prior year investment holding gains amounting to £21,734,000 have been transferred to Gains and Losses on Sales of Investments as disclosed in note 15 on page 52.

## 11. Current assets

### Debtors

	2015 £'000	2014 £'000
Securities sold awaiting settlement	3,946	11,291
Dividends and interest receivable	2,322	1,863
Other debtors	47	47
	<b>6,315</b>	<b>13,201</b>

The Directors consider that the carrying amount of debtors approximates to their fair value.

### Cash and short term deposits

Cash and short term deposits comprises bank balances and short term deposits. The carrying amount of these represents their fair value. Cash balances in excess of a predetermined amount are placed on short term deposit at market rates of interest.

## 12. Creditors: amounts falling due within one year

	2015 £'000	2014 £'000
Securities purchased awaiting settlement	–	12,237
Bank loan	33,074	67,479
Other creditors and accruals	255	119
	<b>33,329</b>	<b>79,835</b>

The Company's ¥15.0 billion multicurrency loan facility with Scotiabank matured on 29th July 2015. Interest was payable at yen LIBOR, as offered in the market for the relevant currency and loan period, plus a margin of 0.95% plus 'Mandatory costs', which are the lender's costs of complying with certain regulatory requirements of the Bank of England and the Financial Conduct Authority. The facility was secured against the Company's assets by way of a deed of security dated 30th July 2010 and was subject to covenants which are customary for a credit agreement of this nature. On maturity, this loan was replaced by two loan facilities with National Australia Bank ('NAB'). A ¥9.0 billion fixed rate loan facility, maturing on 29th July 2020 with an interest rate of 1.14%, and a ¥6.0 billion revolving credit facility maturing on 29th July 2016. At 30th September 2015, the Company had drawn down both the ¥9.0 billion (£49.6 million) fixed rate facility and the ¥6.0 billion (£33.1 million) revolving facility.

The Directors consider that the carrying amount of creditors falling due within one year approximates to their fair value.

## 13. Creditors: amounts falling due after more than one year

	2015 £'000	2014 £'000
Bank loan - fixed rate loan with NAB (maturing 2020)	49,610	–

For details of the bank loan, please refer to note 12 above.

**NOTES TO THE FINANCIAL STATEMENTS CONTINUED**

**14. Called up share capital**

	2015 £'000	2014 £'000
Allotted and fully paid Shares of 25p each		
Opening balance of 161,248,078 (2014: 161,248,078) shares	40,312	40,312
Closing balance	40,312	40,312

**15. Reserves**

	Capital reserves					Revenue reserve £'000
	Capital redemption reserve £'000	Other reserve £'000	Gains and losses on sales of investments £'000	Holding gains and losses on investments £'000	Capital reserve- unrealised £'000	
Opening balance	8,650	166,791	77,261	89,762	19,277	6,409
Realised exchange gains on cash and short term deposits	-	-	1,237	-	-	-
Losses on sales of investments based on the carrying value at the previous balance sheet date	-	-	(1,979)	-	-	-
Net movement in investment holding gains	-	-	-	57,106	-	-
Transfer on disposal of investments	-	-	21,734	(21,734)	-	-
Realised gains on repayment of loans	-	-	6,539	-	-	-
Transfer re loans repaid in period	-	-	19,277	-	(19,277)	-
Management fee and finance costs charged to capital	-	-	(3,010)	-	-	-
Unrealised exchange gain on foreign currency loan	-	-	-	-	(5,189)	-
Other capital charges	-	-	(2)	-	-	-
Dividend paid in the year	-	-	-	-	-	(4,515)
Net revenue for the year	-	-	-	-	-	4,928
Closing balance	8,650	166,791	121,057	125,134	(5,189)	6,822

**16. Net asset value per share**

The net asset value per share is based on the net assets attributable to the ordinary shareholders of £463,577,000 (2014: £408,462,000) and on the 161,248,078 (2014: 161,248,078) shares in issue at the year end.

**17. Reconciliation of total return/(loss) on ordinary activities before finance costs and taxation to net cash inflow from operating activities**

	2015 £'000	2014 £'000
Net total return/(loss) on ordinary activities before finance costs and taxation	61,061	(17,582)
(Less capital return)/add capital loss before finance costs and taxation	(55,289)	22,266
(Increase)/decrease in accrued income	(459)	333
Increase in other debtors	–	(7)
Increase in accrued expenses	22	13
Overseas taxation	(697)	(572)
Management fee charged to capital	(2,423)	(2,099)
<b>Net cash inflow from operating activities</b>	<b>2,215</b>	<b>2,352</b>

**18. Analysis of changes in net funds/(debt)**

	At 30th September 2014 £'000	Cash flow £'000	Exchange movements £'000	At 30th September 2015 £'000
Cash and short term deposits	15,463	30,223	1,237	46,923
Bank loan falling due within one year	(67,479)	29,942	4,463	(33,074)
Bank loan falling due in after more than one year	–	(46,497)	(3,113)	(49,610)
<b>Net debt</b>	<b>(52,016)</b>	<b>13,668</b>	<b>2,587</b>	<b>(35,761)</b>

**19. Contingent liabilities and capital commitments**

There were no contingent liabilities or capital commitments at the balance sheet date (2014: £nil).

## NOTES TO THE FINANCIAL STATEMENTS *CONTINUED*

### 20. Related Party Transactions

Details of the management contract are set out in the Directors' Report on page 23. The management fee payable to the Manager for the year was £3,029,000 (2014: £2,624,000) of which £nil (2014: £nil) was outstanding at the year end.

Included in other administrative expenses in note 5 on page 48 are safe custody fees amounting to £43,000 (2014: £63,000) payable to JPMorgan Investor Services Limited as affiliate of the Manager, of which £10,000 (2014: £17,000) was outstanding at the year end.

The Manager may carry out some of its dealing transactions through group subsidiaries. These transactions are carried out at arms' length. The commission payable to JPMorgan Securities for the year was £15,000 (2014: £11,000) of which £nil (2014: £nil) was outstanding at the year end.

Handling charges payable on dealing transactions undertaken by overseas sub custodians on behalf of the Company during the year amounted to £2,000 (2014: £3,000) of which £nil (2014: £nil) was outstanding at the year end.

At the year end, a bank balance of £46,923,000 (2014: £15,463,000) was held with JPMorgan Chase. A net amount of interest of £206 (2014: £153) was receivable by the Company during the year from JPMorgan Chase of which £nil (2014: £nil) was outstanding at the year end.

Details of Directors' transactions in the Company's shares and Directors' fees are included in the Directors' Remuneration Report on pages 32 to 34.

### 21. Disclosures regarding financial instruments measured at fair value

The following table sets out the fair value measurements using the FRS 29 hierarchy as at 30th September:

	2015			Total £'000
	Level 1 £'000	Level 2 £'000	Level 3 £'000	
Financial assets held at fair value through profit or loss				
Equity investments	493,278	–	–	493,278
<b>Total</b>	<b>493,278</b>	<b>–</b>	<b>–</b>	<b>493,278</b>
	2014			Total £'000
	Level 1 £'000	Level 2 £'000	Level 3 £'000	
Financial assets held at fair value through profit or loss				
Equity investments	459,633	–	–	459,633
<b>Total</b>	<b>459,633</b>	<b>–</b>	<b>–</b>	<b>459,633</b>

There have been no transfers between Levels 1, 2 or 3 during the current or comparative year.

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## 22. Financial instruments' exposure to risk and risk management policies

As an investment trust, the Company invests in equities and other securities for the long term so as to secure its investment objective stated on the 'Features' page. In pursuing this objective, the Company is exposed to a variety of risks that could result in a reduction in the Company's net assets or a reduction in the profits available for dividends. These risks include market risk (comprising currency risk, interest rate risk and other price risk), liquidity risk and credit risk. The Directors' policy for managing these risks is set out below. The Company Secretary, in close cooperation with the Board and the Manager, coordinates the Company's risk management strategy.

The objectives, policies and processes for managing the risks and the methods used to measure the risks that are set out below, have not changed from those applying in the comparative year.

The Company's financial instruments may comprise the following:

- investments in equity shares of Japanese companies which are held in accordance with the Company's investment objective;
- short term debtors, creditors and cash arising directly from its operations; and
- floating/fixed rate loan facility with National Australia Bank.

### (a) Market risk

The fair value or future cash flows of a financial instrument held by the Company may fluctuate because of changes in market prices. This market risk comprises three elements - currency risk, interest rate risk and other price risk. Information to enable an evaluation of the nature and extent of these three elements of market risk is given in parts (i) to (iii) of this note 22(a), together with sensitivity analyses where appropriate. The Board reviews and agrees policies for managing these risks and these policies have remained unchanged from those applying in the comparative year. The Manager assesses the exposure to market risk when making each investment decision and monitors the overall level of market risk on the whole of the investment portfolio on an ongoing basis.

#### (i) Currency risk

The Company's functional currency and the currency in which it reports, is sterling. However the Company's assets, liabilities and income are almost entirely denominated in yen. As a result, movements in exchange rates will affect the sterling value of those items.

#### Management of currency risk

The Manager monitors the Company's exposure to foreign currencies on a daily basis and reports to the Board, which meets on at least four occasions each year. The Manager measures the risk to the Company of the foreign currency exposure by considering the effect on the Company's net asset value and income of a movement in the yen/sterling exchange rate. Yen denominated borrowing may be used to limit the exposure of the Company's portfolio to the yen/sterling exchange rate. Income is converted to sterling on receipt. The Company may use short term forward currency contracts to manage working capital requirements. It is currently not the Company's policy to hedge against foreign currency risk.

#### Foreign currency exposure

The fair value of the Company's monetary items that have exposure to the yen at 30th September are shown below. The Company's investments (which are not monetary items) have been included separately in the analysis so as to show the overall level of exposure.

**NOTES TO THE FINANCIAL STATEMENTS *CONTINUED***

**22. Financial instruments' exposure to risk and risk management policies *continued***

(a) Market risk *continued*

(i) Currency risk *continued*

Foreign currency exposure

	2015			2014		
	Yen £'000	NZD £'000	Total £'000	Yen £'000	NZD £'000	Total £'000
Current assets	53,174	5	53,179	28,574	1	28,575
Creditors	(82,684)	–	(82,684)	(79,717)	–	(79,717)
Foreign currency exposure on net monetary items	(29,510)	5	(29,505)	(51,143)	1	(51,142)
Investments held at fair value through profit or loss that are equities	493,278	–	493,278	459,633	–	459,633
<b>Total net foreign currency exposure</b>	<b>463,768</b>	<b>5</b>	<b>463,773</b>	<b>408,490</b>	<b>1</b>	<b>408,491</b>

The above year end amounts are not representative of the exposure to foreign currency risk during the current or comparative year due to fluctuation in drawings on the yen loan facility.

**Foreign currency sensitivity**

The following tables illustrate the sensitivity of return after taxation for the year and net assets with regard to the Company's monetary financial assets and financial liabilities and exchange rates. The sensitivity analysis is based on the Company's monetary currency financial instruments held at each balance sheet date and assumes a 10% (2014: 10%) appreciation or depreciation in sterling against the yen, which is considered to be a reasonable illustration based on the volatility of exchange rates during the year.

If sterling had weakened by 10% this would have had the following effect:

	2015 £'000	2014 £'000
Income statement return after taxation		
Revenue return	697	571
Capital return	(2,951)	(5,114)
<b>Total return after taxation for the year</b>	<b>(2,254)</b>	<b>(4,543)</b>
<b>Net assets</b>	<b>(2,254)</b>	<b>(4,543)</b>

Conversely if Sterling had strengthened by 10% this would have had the following effect:

	2015 £'000	2014 £'000
Income statement return after taxation		
Revenue return	(697)	(571)
Capital return	2,951	5,114
<b>Total return after taxation for the year</b>	<b>2,254</b>	<b>4,543</b>
<b>Net assets</b>	<b>2,254</b>	<b>4,543</b>

In the opinion of the Directors, the above sensitivity analysis is not representative of the whole of the current or comparative year due to fluctuation in drawings on the yen loan facility.

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(ii) **Interest rate risk**

Interest rate movements may affect the level of income receivable on cash deposits and the interest payable on the Company's variable rate cash borrowings.

**Management of interest rate risk**

The Company does not normally hold significant cash balances. Short term borrowings are used when required. The Company may finance part of its activities through borrowings at levels approved and monitored by the Board. The possible effects on cash flows that could arise as a result of changes in interest rates are taken into account when the Company borrows on the loan facility. However, amounts drawn down on this facility are for short term periods and therefore exposure to interest rate risk is not significant.

**Interest rate exposure**

The exposure of financial assets and liabilities to floating interest rates, giving cash flow interest rate risk when rates are reset, is shown below.

	2015 £'000	2014 £'000
Exposure to floating interest rates:		
Cash and short term deposits	46,923	15,463
Creditors: amounts falling due within one year		
Bank loan – floating rate loan with NAB (maturing 2016)	(33,074)	(67,479)
<b>Total exposure</b>	<b>13,849</b>	<b>(52,016)</b>

Interest receivable on cash balances is at a margin below LIBOR.

For details of the bank loan, please refer to note 12 on page 51.

The exposure to floating interest rates has fluctuated during the year between net cash and loan balances as follows:

	2015 £'000	2014 £'000
Maximum credit/(minimum debit) interest rate exposure to floating rates		
- net cash/(loan) balances	17,506	(44,096)
Maximum debit interest rate exposure to floating rates - net loan balances	(67,878)	(62,014)

**Interest rate sensitivity**

The following table illustrates the sensitivity of return after taxation for the year and net assets to a 1% (2014: 1%) increase or decrease in interest rates in regards to the Company's monetary financial assets and financial liabilities. This level of change is considered to be a reasonable illustration based on observation of current market conditions. The sensitivity analysis is based on the Company's monetary financial instruments held at the balance sheet date, with all other variables held constant.

**NOTES TO THE FINANCIAL STATEMENTS CONTINUED**

**22. Financial instruments' exposure to risk and risk management policies *continued***

**(a) Market risk *continued***

**(ii) Interest rate risk *continued***

**Interest rate sensitivity *continued***

	2015		2014	
	1% increase	1% decrease	1% increase	1% decrease
	in rate	in rate	in rate	in rate
	£'000	£'000	£'000	£'000
Income statement - return after taxation				
Revenue return	403	(403)	20	(20)
Capital return	(265)	265	(540)	540
Total return after taxation for the year	138	(138)	(520)	520
Net assets	138	(138)	(520)	520

In the opinion of the Directors, the above sensitivity analysis may not be representative of the Company's future exposure to interest rate changes due to fluctuation in drawings on the loan facility.

**(iii) Other price risk**

Other price risk includes changes in market prices, other than those arising from interest rate risk or currency risk, which may affect the value of investments.

**Management of other price risk**

The Board meets on at least four occasions each year to consider the asset allocation of the portfolio and the risk associated with particular industry sectors. The investment management team has responsibility for monitoring the portfolio, which is selected in accordance with the Company's investment objective and seeks to ensure that individual stocks meet an acceptable risk/reward profile.

**Other price risk exposure**

The Company's exposure to changes in market prices at 30th September comprises its holdings in equity investments as follows:

	2015	2014
	£'000	£'000
Equity investments held at fair value through profit or loss	493,278	459,633

The above data is broadly representative of the exposure to other price risk during the year.

**Concentration of exposure to other price risk**

An analysis of the Company's investments is given on pages 14 to 15 and this shows that all of the investments are in Japanese listed equities. Accordingly there is a concentration of exposure to that country. However, it should be noted that an investment may not necessarily be wholly exposed to the economic conditions in its country of domicile or of listing.

### Other price risk sensitivity

The following table illustrates the sensitivity of return after taxation for the year and net assets to an increase or decrease of 10% (2014: 10%) in the fair value of the Company's equities. This level of change is considered to be a reasonable illustration based on observation of current market conditions. The sensitivity analysis is based on the Company's equities and adjusting for change in the management fee, but with all other variables held constant.

	2015		2014	
	10% increase in fair value £'000	10% decrease in fair value £'000	10% increase in fair value £'000	10% decrease in fair value £'000
Income statement - return after taxation				
Revenue return	(48)	55	(46)	60
Capital return	49,136	(49,109)	45,778	(45,724)
<b>Total return after taxation for the year and net assets</b>	<b>49,088</b>	<b>(49,054)</b>	<b>45,732</b>	<b>(45,664)</b>

### (b) Liquidity risk

This is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

#### Management of the risk

Liquidity risk is not significant as the Company's assets comprise readily realisable securities, which can be sold to meet funding requirements if necessary. Short term flexibility is achieved through the use of overdraft facilities. The Board's policy is for the Company to remain fully invested in normal market conditions and that short term borrowings be used to manage short term liabilities, working capital requirements and to gear the Company as appropriate. Details of the current loan facilities are given in note 12 on page 51.

#### Liquidity risk exposure

Contractual maturities of the financial liabilities at the year end, based on the earliest date on which payment can be required by the lender are as follows:

	2015			Total £'000
	Three months or less £'000	More than three months but not more than one year £'000	More than one year £'000	
Creditors: amounts falling due within one year				
Bank loan - including interest	49	33,189	-	33,238
Other creditors and accruals	255	-	-	255
Creditors: amounts falling due after more than one year				
Bank loan - including interest	139	426	51,778	52,343
	<b>443</b>	<b>33,615</b>	<b>51,778</b>	<b>85,836</b>

**NOTES TO THE FINANCIAL STATEMENTS CONTINUED**

**22. Financial instruments' exposure to risk and risk management policies *continued***

**(b) Liquidity risk *continued***

**Liquidity risk exposure *continued***

	2014			Total £'000
	Three months or less £'000	More than three months but not more than one year £'000	More than one year £'000	
Creditors: amounts falling due within one year				
Securities purchased awaiting settlement	12,237	–	–	12,237
Other creditors and accruals	119	–	–	119
Bank loan - including interest	172	67,883	–	68,055
	12,528	67,883	–	80,411

**(c) Credit risk**

Credit risk is the risk that the counterparty to a transaction fails to discharge its obligations under that transaction which could result in a loss to the Company.

**Management of credit risk**

***Portfolio dealing***

The Company invests in markets that operate DVP (Delivery Versus Payment) settlement. The process of DVP mitigates the risk of losing the principle of a trade during the settlement process. The Manager continuously monitors dealing activity to ensure best execution, a process that involves measuring various indicators including the quality of trade settlement and incidence of failed trades. Counterparty lists are maintained and adjusted accordingly.

***Cash***

Counterparties are subject to regular credit analysis by the Manager and trades can only be placed with counterparties that have been approved by both the JPMorgan Counterparty Risk Group and the Board.

***Exposure to JPMorgan Chase***

JPMorgan Chase is the custodian of the Company's assets. The custody agreement grants a general lien over the securities credited to the securities account. The Company's assets are segregated from JPMorgan's own trading assets. Therefore, these assets are designed to be protected from creditors in the event that JPMorgan Chase were to cease trading. However, no absolute guarantee can be given to investors on the protection of all assets of the Company.

**Credit risk exposure**

The amounts shown in the balance sheet under debtors and cash and short term deposits represent the maximum exposure to credit risk at the current and comparative year end.

Cash and short term deposits comprises balances held at banks that have a minimum rating of A1/P1 (2014: A1/P1) from Standard & Poor's and Moody's respectively.

There were no stocks on loan at 30th September 2015 (2014: nil). There has been no stock lending during the current or comparative year.

**(d) Fair values of financial assets and financial liabilities**

All financial assets and liabilities are either included in the balance sheet at fair value or the carrying amount in the balance sheet is a reasonable approximation of fair value.

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### 23. Capital management policies and procedures

The Company's debt and capital structure comprises the following:

	2015 £'000	2014 £'000
<b>Debt:</b>		
Bank loans	82,684	67,479
<b>Equity:</b>		
Share capital	40,312	40,312
Reserves	423,265	368,150
<b>Total equity</b>	<b>463,577</b>	<b>408,462</b>
<b>Total debt and equity</b>	<b>546,261</b>	<b>475,941</b>

The Company's capital management objectives are to ensure that it will continue as a going concern and to maximise capital return to its equity shareholders through an appropriate level of gearing.

The Board's policy is to limit gearing within the range of 5% net cash to 15% geared in normal market conditions. Gearing for this purpose is defined as total assets expressed as a percentage of the shareholders' funds. Total assets include total investments and net current assets/liabilities less cash/cash equivalents and excluding bank loans of less than one year.

	2015 £'000	2014 £'000
Investments excluding liquidity holdings	493,278	459,633
Current assets excluding cash	6,315	13,201
Current liabilities excluding bank loans	(255)	(12,356)
<b>Total assets</b>	<b>499,338</b>	<b>460,478</b>
<b>Net assets</b>	<b>463,577</b>	<b>408,462</b>
<b>Gearing</b>	<b>7.7%</b>	<b>12.7%</b>

The Board, with the assistance of the Manager, monitors and reviews the broad structure of the Company's capital on an ongoing basis. This review includes:

- the ability to employ gearing when the Manager believes it to be appropriate;
- the need to buy back equity shares, either for cancellation or to hold in Treasury, which takes into account the share price discount or premium; and
- the need for issues of new shares, including issues from Treasury.

# Shareholder Information

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## NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the eighty seventh Annual General Meeting of JPMorgan Japanese Investment Trust plc will be held at 60 Victoria Embankment, London EC4Y 0JP on Friday, 18th December 2015 at 2.00 p.m. for the following purposes:

1. To receive the Directors' Report & Accounts and the Auditors' Report for the year ended 30th September 2015.
2. To approve the Director's Remuneration Policy.
3. To approve the Directors' Remuneration Report for the year ended 30th September 2015.
4. To approve a final dividend of 2.80p per share.
5. To reappoint Alan Barber as a Director of the Company.
6. To reappoint Andrew Fleming as a Director of the Company.
7. To reappoint Keith Percy as a Director of the Company.
8. To reappoint Sir Stephen Gomersall as a Director of the Company.
9. To reappoint Christopher Samuel as a Director of the Company.
10. To reappoint PricewaterhouseCoopers LLP as the Auditors of the Company and to authorise the Directors to determine their remuneration.

### Special Business

To consider the following resolutions:

#### Authority to allot new shares - Ordinary Resolution

11. THAT the Directors of the Company be and they are hereby generally and unconditionally authorised, (in substitution of any authorities previously granted to the Directors), pursuant to and in accordance with Section 551 of the Companies Act 2006 (the 'Act') to exercise all the powers for the Company to allot shares in the Company and to grant rights to subscribe for, or to convert any security into, shares in the Company ('Rights') up to an aggregate nominal amount of £2,015,600 or, if different the aggregate nominal amount representing approximately 5% of the Company's issued Ordinary share capital as at the date of the passing of this resolution, provided that this authority shall expire at the conclusion of the Annual General Meeting of the Company to be held in 2016 unless renewed at a general meeting prior to such time, save that the Company may before such expiry make offers or agreements which would or might require shares to be allotted or Rights to be granted after such expiry and so that the Directors of the Company may allot shares and grant Rights in pursuance of such offers or agreements as if the authority conferred hereby had not expired.

#### Authority to disapply pre-emption rights on allotment of relevant securities - Special Resolution

12. THAT subject to the passing of Resolution 11 set out above, the Directors of the Company be and they are hereby empowered pursuant to Sections 570 and 573 of the Act to allot equity securities (within the meaning of Section 560 of the Act) for cash pursuant to the authority conferred by Resolution 9 or by way of a sale of Treasury shares as if Section 561(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities for cash up to an aggregate nominal amount of £2,015,600 or, if different the aggregate nominal amount representing approximately 5% of the issued share capital as at the date of the passing of this resolution at a price of not less than the net asset value per share and shall expire upon the expiry of the general authority conferred by Resolution 11 above, save that the Company may before such expiry make offers or agreements which would or might require equity securities to be allotted after such expiry and so that the Directors of the Company may allot equity securities in pursuance of such offers or agreements as if the power conferred hereby had not expired.

#### Authority to repurchase the Company's shares - Special Resolution

13. THAT the Company be generally and, subject as hereinafter appears, unconditionally authorised in accordance with Section 701 of the Act to make market purchases (within the meaning of Section 693 of the Act) of its issued Ordinary shares of 25p each in the capital of the Company on such terms and in such manner as the Directors may from time to time determine.

PROVIDED ALWAYS THAT

- (i) the maximum number of Ordinary shares hereby authorised to be purchased shall be 24,171,000 or, if less, that number of Ordinary shares which is equal to 14.99% of the Company's issued share capital as at the date of the passing of this resolution;
- (ii) the minimum price which may be paid for an Ordinary share shall be 25p;
- (iii) the maximum price which may be paid for an Ordinary share shall be an amount equal to the highest of:
  - (a) 105% of the average of the middle market quotations for an Ordinary share taken from and calculated by reference to the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the Ordinary share is contracted to be purchased; or
  - (b) the price of the last independent trade; or
  - (c) the highest current independent bid;

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- (iv) any purchase of Ordinary shares will be made in the market for cash at prices below the prevailing net asset value per Ordinary share (as determined by the Directors);
  - (v) the authority hereby conferred shall expire on 17th June 2017 unless the authority is renewed at the Company's Annual General Meeting in 2016 or at any other general meeting prior to such time; and
  - (vi) the Company may make a contract to purchase Ordinary shares under the authority hereby conferred prior to the expiry of such authority which contract will or may be executed wholly or partly after the expiry of such authority and may make a purchase of Ordinary shares pursuant to any such contract.

By order of the Board  
Juliet Dearlove, for and on behalf of  
JPMorgan Funds Limited,  
Secretary

17th November 2015

#### Notes

These notes should be read in conjunction with the notes on the reverse of the proxy form.

1. A member entitled to attend and vote at the Annual General Meeting (the 'Meeting') may appoint another person(s) (who need not be a member of the Company) to exercise all or any of his rights to attend, speak and vote at the Meeting. A member can appoint more than one proxy in relation to the Meeting, provided that each proxy is appointed to exercise the rights attaching to different shares held by him.
2. A proxy does not need to be a member of the Company but must attend the Meeting to represent you. Your proxy could be the Chairman, another Director of the Company or another person who has agreed to attend to represent you. Details of how to appoint the Chairman or another person(s) as your proxy or proxies using the proxy form are set out in the notes to the proxy form. If a voting box on the proxy form is left blank, the proxy or proxies will exercise his/their discretion both as to how to vote and whether he/they abstain(s) from voting. Your proxy must attend the Meeting for your vote to count. Appointing a proxy or proxies does not preclude you from attending the Meeting and voting in person.
3. Any instrument appointing a proxy, to be valid, must be lodged in accordance with the instructions given on the proxy form no later than 2.00 p.m. two business days prior to the Meeting (i.e. excluding weekends and bank holidays).
4. You may change your proxy instructions by returning a new proxy appointment. The deadline for receipt of proxy appointments (see above) also applies in relation to amended instructions. Any attempt to terminate or amend a proxy appointment received after the relevant deadline will be disregarded. Where two or more valid separate appointments of proxy are received in respect of the same share in respect of the same Meeting, the one which is last received (regardless of its date or the date of its signature) shall be treated as replacing and revoking the other or others as regards that share; if the Company is unable to determine which was last received, none of them shall be treated as valid in respect of that share.
5. To be entitled to attend and vote at the Meeting (and for the purpose of the determination by the Company of the number of votes they may cast), members must be entered on the Company's register of members as at 6.00 p.m. two business days prior to the Meeting (the 'specified time'). If the Meeting is adjourned to a time not more than 48 hours after the specified time applicable to the original Meeting, that time will also apply for the purpose of determining the entitlement of members to attend and vote (and for the purpose of determining the number of votes they may cast) at the adjourned Meeting. If however the Meeting is adjourned for a longer period then, to be so entitled, members must be entered on the Company's register of members as at 6.00 p.m. two business days prior to the adjourned Meeting or, if the Company gives notice of the adjourned Meeting, at the time specified in that notice. Changes to entries on the register after this time shall be disregarded in determining the rights of persons to attend or vote at the Meeting or adjourned Meeting.
6. Entry to the Meeting will be restricted to shareholders and their proxy or proxies, with guests admitted only by prior arrangement.

## NOTICE OF ANNUAL GENERAL MEETING *CONTINUED*

7. A corporation, which is a shareholder, may appoint an individual(s) to act as its representative(s) and to vote in person at the Meeting (see instructions given on the proxy form). In accordance with the provisions of the Companies Act 2006, each such representative(s) may exercise (on behalf of the corporation) the same powers as the corporation could exercise if it were an individual member of the Company, provided that they do not do so in relation to the same shares. It is therefore no longer necessary to nominate a designated corporate representative.
- Representatives should bring to the Meeting evidence of their appointment, including any authority under which it is signed.
8. Members that satisfy the thresholds in Section 527 of the Companies Act 2006 can require the Company to publish a statement on its website setting out any matter relating to (a) the audit of the Company's accounts (including the Auditors' report and the conduct of the audit) that are to be laid before the Meeting; or (b) any circumstances connected with Auditors of the Company ceasing to hold office since the previous AGM, which the members propose to raise at the Meeting. The Company cannot require the members requesting the publication to pay its expenses. Any statement placed on the website must also be sent to the Company's Auditors no later than the time it makes its statement available on the website. The business which may be dealt with at the Meeting includes any statement that the Company has been required to publish on its website pursuant to this right.
9. Pursuant to Section 319A of the Companies Act 2006, the Company must cause to be answered at the Meeting any question relating to the business being dealt with at the Meeting which is put by a member attending the Meeting except in certain circumstances, including if it is undesirable in the interests of the Company or the good order of the Meeting or if it would involve the disclosure of confidential information.
10. Under Sections 338 and 338A of the 2006 Act, members meeting the threshold requirements in those sections have the right to require the Company: (i) to give, to members of the Company entitled to receive notice of the Meeting, notice of a resolution which those members intend to move (and which may properly be moved) at the Meeting; and/or (ii) to include in the business to be dealt with at the Meeting any matter (other than a proposed resolution) which may properly be included in the business at the Meeting. A resolution may properly be moved, or a matter properly included in the business unless: (a) (in the case of a resolution only) it would, if passed, be ineffective (whether by reason of any inconsistency with any enactment or the Company's constitution or otherwise); (b) it is defamatory of any person; or (c) it is frivolous or vexatious. A request made pursuant to this right may be in hard copy or electronic form, must identify the resolution of which notice is to be given or the matter to be included in the business, must be accompanied by a statement setting out the grounds for the request, must be authenticated by the person(s) making it and must be received by the Company not later than the date that is six clear weeks before the Meeting, and (in the case of a matter to be included in the business only) must be accompanied by a statement setting out the grounds for the request.
11. A copy of this Notice of Meeting has been sent for information only to persons who have been nominated by a member to enjoy information rights under Section 146 of the Companies Act 2006 (a 'Nominated Person'). The rights to appoint a proxy cannot be exercised by a Nominated Person: they can only be exercised by the member. However, a Nominated Person may have a right under an agreement between him and the member by whom he was nominated to be appointed as a proxy for the Meeting or to have someone else so appointed. If a Nominated Person does not have such a right or does not wish to exercise it, he may have a right under such an agreement to give instructions to the member as to the exercise of voting rights.
12. In accordance with Section 311A of the Companies Act 2006, the contents of this Notice of Meeting, details of the total number of shares in respect of which members are entitled to exercise voting rights at the Meeting, the total voting rights members are entitled to exercise at the Meeting and, if applicable, any members' statements, members' resolutions or members' matters of business received by the Company after the date of this Notice will be available on the Company's website [www.jpmmjapanese.co.uk](http://www.jpmmjapanese.co.uk).
13. The register of interests of the Directors and connected persons in the share capital of the Company and the Directors' letters of appointment are available for inspection at the Company's registered office during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted). It will also be available for inspection at the Meeting. No Director has any contract of service with the Company.
14. You may not use any electronic address provided in this Notice of Meeting to communicate with the Company for any purposes other than those expressly stated.
15. As an alternative to completing a hard copy Form of Proxy/Voting Instruction Form, you can appoint a proxy or proxies electronically by visiting [www.sharevote.co.uk](http://www.sharevote.co.uk). You will need your Voting ID, Task ID and Shareholder Reference Number (this is the series of numbers printed under your name on the Form of Proxy/Voting Instruction Form). Alternatively, if you have already registered with Equiniti Limited's online portfolio service, Shareview, you can submit your Form of Proxy at [www.shareview.co.uk](http://www.shareview.co.uk). Full instructions are given on both websites.
16. As at 10th November 2015 (being the latest business day prior to the publication of this Notice), the Company's issued share capital consists of 161,248,078 ordinary shares carrying one vote each. Therefore the total voting rights in the Company are 161,248,078.

### **Electronic appointment – CREST members**

CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so for the Meeting and any adjournment(s) thereof by using the procedures described in the CREST Manual. See further instructions on the proxy form.

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## GLOSSARY OF TERMS AND DEFINITIONS

### Return to Shareholders

Total return to the investor, on a mid-market price to mid-market price basis, assuming that all dividends received were reinvested, without transaction costs, into the shares of the Company at the time the shares were quoted ex-dividend.

### Return on Net Assets

Total return on net asset value ('NAV') per share, on a bid value to bid value basis, assuming that all dividends paid out by the Company were reinvested, without transaction costs, into the shares of the Company at the NAV per share at the time the shares were quoted ex-dividend.

In accordance with industry practice, dividends payable which have been declared but which are unpaid at the balance sheet date are deducted from the NAV when calculating the total return on net assets.

### Benchmark Return

Total return on the benchmark, on a mid-market value to mid-market value basis, assuming that all dividends received were reinvested, without transaction costs, into the shares of the underlying companies at the time the shares were quoted ex-dividend.

The benchmark is a recognised index of stocks which should not be taken as wholly representative of the Company's investment universe. The Company's investment strategy does not track this index and consequently, there may be some divergence between the Company's performance and that of the benchmark.

### Gearing/Net Cash

Gearing represents the excess amount above shareholders' funds of total assets (including net current assets/(liabilities)) less cash/cash equivalents, expressed as a percentage of shareholders' funds. If the amount calculated is negative, this is shown as a 'net cash' position.

### Leverage

For the purposes of the Alternative Investment Fund Managers Directive ('AIFMD'), leverage is any method which increases the Company's exposure, including the borrowing of cash and the use of derivatives. It is expressed as a ratio between the Company's exposure and its net asset value and is calculated on a gross and a commitment method' in accordance with AIFMD. Under the gross method, exposure represents the sum of the Company's positions without taking into account any hedging and netting arrangements. Under the commitment method, exposure is calculated after certain hedging and netting positions are offset against each other.

### Alternative Investment Fund Managers – Leverage

The Company's maximum and actual leverage levels at 30th September 2015 are shown below:

Leverage Exposure	Gross method	Commitment method
Maximum limit	200%	200%
Actual	117%	117%

### Ongoing Charges

The ongoing charges represent the Company's management fee and all other operating expenses excluding interest payable, expressed as a percentage of the average of the daily net assets during the year.

### Share Price Discount/Premium to Net Asset Value ('NAV') Per Share

If the share price of an investment trust is lower than the NAV per share, the shares are said to be trading at a discount. The discount is shown as a percentage of the NAV per share. The opposite of a discount is a premium. It is more common for an investment trust's shares to trade at a discount than at a premium.

### Performance Attribution

Analysis of how the Company achieved its recorded performance relative to its benchmark.

- **Stock/Sector**  
Measures the effect of investing in securities/sectors to a greater or lesser extent than their weighting in the benchmark, or of investing in securities which are not included in the benchmark.
- **Currency Effect**  
Measures the effect of currency exposure differences between the Company's portfolio and its benchmark.
- **Gearing/Cash**  
Measures the impact on returns of borrowings or cash balances on the Company's relative performance.
- **Management Fee/Other Expenses**  
The payment of fees and expenses reduces the level of total assets, and therefore has a negative effect on relative performance.
- **Share Repurchases**  
Measures the effect on relative performance of repurchasing and cancelling the Company's own shares, or holding them in Treasury, at a price which is less than the net asset value per share.

## WHERE TO BUY J.P. MORGAN INVESTMENT TRUSTS

### Savings Plan

The Company participates in the J.P. Morgan Investment Trusts Savings Plan, which facilitates both regular monthly investments and occasional lump sum investments in the Company's ordinary shares. Shareholders who would like information on the Savings Plan should call J.P. Morgan Asset Management free on 0800 731 1111 or visit its website at <https://am.jpmorgan.co.uk/investor/guidance-and-planning/guides/regular-savings-made-simple-guide.aspx>.

### Stocks & Shares Individual Savings Accounts (ISA)

The Company's shares are eligible investments within J.P. Morgan's Stocks & Shares ISA. For the 2015/16 tax year, from 6th April 2015 and ending 5th April 2016, the total ISA allowance is £15,240. Details are available from J.P. Morgan Asset Management free on 0800 731 1111 or via its website at <https://am.jpmorgan.co.uk/investor/isas/what-is-a-stocks-and-shares-isa.aspx>.

There are a number of ways that you can buy shares in investment trust companies; you can invest through J.P. Morgan WealthManager+ or on the following:

### Fund supermarkets:

AJ Bell	James Brearley
Alliance Trust	James Hay
Barclays Stockbrokers	Selftrade
Bestinvest	TD Direct
Charles Stanley Direct	The Share Centre
Halifax Share Dealing Service	Transact
Hargreaves Lansdown	
Interactive Investor	

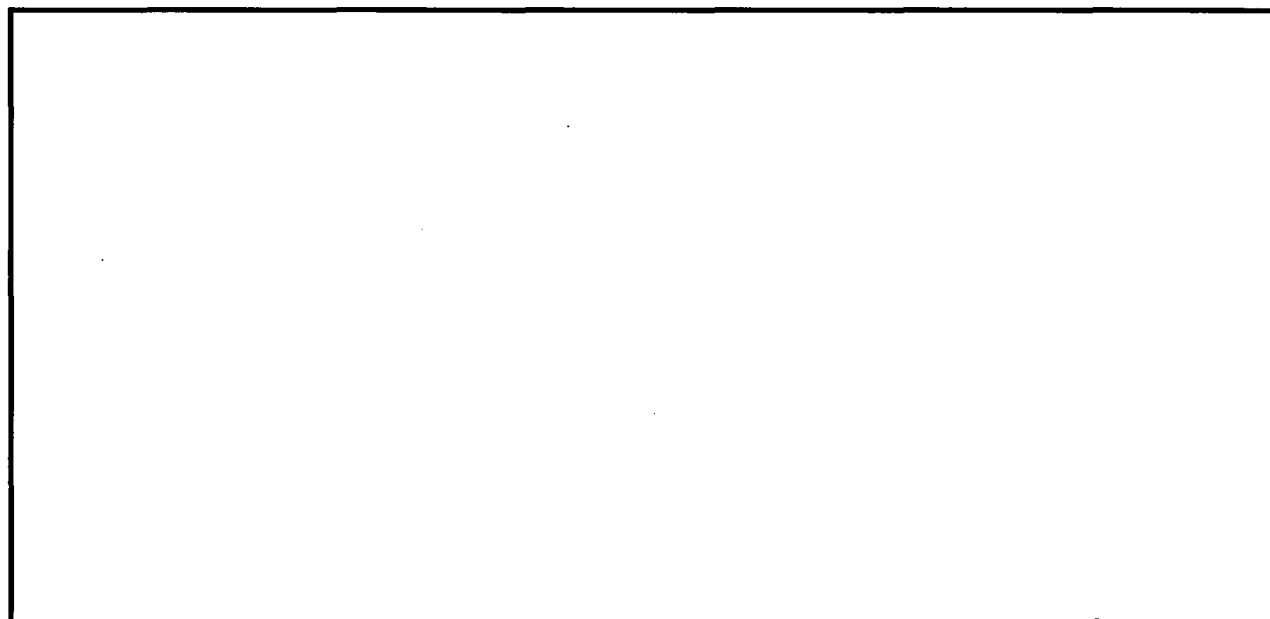
Alternatively you can invest through an Investment Professional (e.g. a Financial Adviser) on the following 3rd party platforms:

Ascentric	Nucleus
Avalon	Praemium
Axa Elevate	Transact
Novia	

Please note that these websites are third party websites and J.P. Morgan Asset Management does not endorse or recommend any of them. This list is not exhaustive and is subject to change. Please observe each site's privacy and cookie policies as well as their platform charges structure.

You can also buy investment trusts through stockbrokers, wealth managers and banks.

To familiarise yourself with the Financial Conduct Authority ('FCA') adviser charging and commission rules, visit [www.fca.org.uk](http://www.fca.org.uk).



# Information about the Company

## FINANCIAL CALENDAR

Financial year end	30th September
Final results announced	November
Half year end	31st March
Half year results announced	May/June
Dividend on ordinary shares paid	December
Annual General Meeting	December

## History

The Company was formed in 1927 as The Capital & National Trust Limited. It was a general investment trust until 1982, when its shareholders approved a change of name to The Fleming Japanese Investment Trust plc and the adoption of a policy of specialising in investment in Japan. It is the largest UK investment trust specialising in Japan. The Company adopted its current name in December 2006.

## Company Numbers

Company registration number: 223583  
London Stock Exchange number: 0174002  
ISIN: GB0001740025  
Bloomberg code: JFJ LN

## Market Information

The Company's unaudited net asset value ('NAV') is published daily via the London Stock Exchange.

The Company's shares are listed on the London Stock Exchange and the New Zealand Stock Exchange. The market price is shown daily in the Financial Times, The Times, The Daily Telegraph, The Scotsman and on the Company's website at [www.jpjapanese.co.uk](http://www.jpjapanese.co.uk), where the share price is updated every fifteen minutes during trading hours.

## Website

[www.jpjapanese.co.uk](http://www.jpjapanese.co.uk)

## Share Transactions

The Company's shares may be dealt in directly through a stockbroker or professional adviser acting on an investor's behalf. They may also be purchased and held through the J.P. Morgan Investment Account and J.P. Morgan ISA. These products are all available on the online service, [www.jpmorgan.co.uk/online](http://www.jpmorgan.co.uk/online)

## Manager and Company Secretary

JPMorgan Funds Limited

## Company's Registered Office

60 Victoria Embankment  
London EC4Y 0JP  
Telephone: 020 7742 4000

For company secretarial and administrative matters, please contact Juliet Dearlove at the above address.

## Depositary

BNY Mellon Trust & Depositary (UK) Limited  
BNY Mellon Centre  
160 Queen Victoria Street  
London EC4V 4LA

The Depositary has appointed JPMorgan Chase Bank, N.A. as the Company's custodian.

## Registrars (UK)

Equiniti Limited  
Reference 1090  
Aspect House  
Spencer Road  
Lancing  
West Sussex BN99 6DA  
Telephone number: 0371 384 2328

Lines open 8.30 a.m. to 5.30 p.m. Monday to Friday. Calls to the helpline will cost no more than a national rate call to a 01 or 02 number. Callers from overseas should dial +44 121 415 0225

Notifications of changes of address and enquiries regarding share certificates or dividend cheques should be made in writing to the Registrar quoting reference 1090. Registered shareholders can obtain further details on their holdings on the internet by visiting [www.shareview.co.uk](http://www.shareview.co.uk).

## Registrars (New Zealand)

Computershare Investor Services Limited  
Private Bag 92119, Victoria Street West  
Auckland 1142  
Level 2, 159 Hurstmere Road  
Takapuna, Auckland  
New Zealand  
Telephone number: 09 488 8777

## Independent Auditors (UK)

PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
7 More London Riverside  
London SE1 2RT

## Brokers

Canaccord Genuity  
88 Wood Street  
London EC2V 7QR

## Savings Product Administrators

For queries on the J.P. Morgan Investment Account and J.P. Morgan ISA, see contact details on the back cover of this report.

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The Association of  
Investment Companies

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[www.jpmmjapanese.co.uk](http://www.jpmmjapanese.co.uk)

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#### **NEXT STEPS**

Find out more at [www.jpmorgan.co.uk/investor](http://www.jpmorgan.co.uk/investor) or call  
freephone 0800 20 40 20 (or +44 (0)1268 444470).  
Telephone lines are open Monday to Friday, 9am to 5.30pm.

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