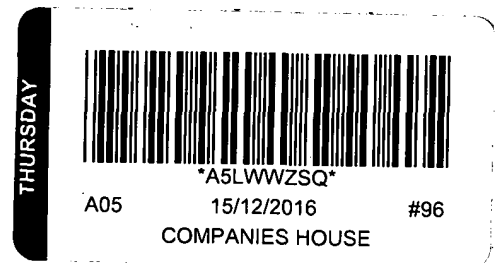


# JPMorgan Japanese Investment Trust plc

Annual Report & Accounts for the year ended 30th September 2016



# 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 2016, the Company's share capital comprised 161,248,078 (2015: 161,248,078) ordinary shares of 25p each.

## Management Company and Company Secretary

The Company employs JPMorgan Funds Limited ('JPMF' or the 'Manager') as its Alternative Investment Fund Manager ('AIFM') and Company Secretary. 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.jpmmjapanese.co.uk](http://www.jpmmjapanese.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)

**+31.5%**

Return to shareholders<sup>1,2</sup>  
(2015: +19.5%)

**3.65p**

Dividend  
(2015: 2.80p)

**+36.0%**

Return on net assets<sup>1,3</sup>  
(2015: +14.7%)

**+31.7%**

Benchmark return<sup>4</sup>  
(2015: +6.0%)

**+4.3%**

Outperformance of  
Benchmark<sup>4</sup>  
(2015: +8.7%)

Financial Data	2016	2015	% change
<b>Net asset value, share price and discount at 30th September</b>			
Shareholders' funds (£'000)	624,765	463,577	+34.8
Net asset value per share	387.5p	287.5p	+34.8
Share price	335.0p	257.3p	+30.2
Share price discount to net asset value	13.5%	10.5%	
Exchange rate	£1 = ¥131.5	£1 = ¥181.4	-27.5
Shares in issue	161,248,078	161,248,078	–
<b>Revenue for the year ended 30th September</b>			
Gross revenue attributable to shareholders (£'000)	8,725	6,970	+25.2
Net revenue attributable to shareholders (£'000)	6,406	4,928	+30.0
Earnings per share	3.97p	3.06p	+29.7
Dividend per share	3.65p	2.80p	+30.4
<b>Gearing<sup>5</sup></b>	<b>9.5%</b>	<b>6.4%</b>	
<b>Ongoing Charges</b>	<b>0.74%</b>	<b>0.77%</b>	

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

<sup>2</sup> Source: Morningstar.

<sup>3</sup> Source: J.P. Morgan.

<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> The methodology to calculate gearing has been amended during the year therefore the comparative figure has been recalculated for comparative purposes. Please refer to the glossary of terms and definitions on page 67 for the revised calculation.

A glossary of terms and definitions is provided on page 67.

# Strategic Report

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## CHAIRMAN'S STATEMENT

### Investment Performance

In the year to 30th September 2016, the Company's total return on net assets was 36.0% in sterling terms, compared with the Tokyo Stock Exchange First Section (TOPIX) Index (our benchmark), which rose by 31.7%. The returns are calculated on a total return basis in sterling terms and were improved by the movement in the yen/sterling rate from ¥181.4 at the beginning of the year to ¥131.5 at its conclusion. This change largely reflects weakness in sterling following the EU referendum rather than strength in the yen. The total return to shareholders was 31.5% during the year, assuming the reinvestment of the dividend, as the discount to net asset value widened slightly over the year. Additionally, I am very pleased to report, over the two, three and five years ended 30th September 2016, the portfolio has significantly outperformed the benchmark in sterling terms, and has achieved better performance returns relative to a range of peers.

### Revenue and Dividends

Income received during the year rose with earnings per share for the full year increasing to 3.97p (2015: 3.06p). The Board proposes, subject to shareholders' approval at the Annual General Meeting, to pay a final dividend of 3.65p per share (2015: 2.80p) on 28th December 2016 to shareholders on the register at the close of business on 25th November 2016 (ex-dividend date 24th November 2016). The objective of the Company is capital growth, any dividend paid being a residual of the portfolio structure. Clearly, both the level of dividends the Company receives from its investee companies and the translation of those dividends into sterling can vary significantly year on year. Additionally, 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.

### 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 2016, the Company had a gearing level of 9.5%. The management of gearing has been active during the year with the level ranging between geared positions of 3.4% and 10.1% (month end figures).

The funds available to be drawn down by the Company are ¥9 billion, comprised of a five year term loan. The term of the previous one year revolving credit facility for ¥6 billion expired in July and has not been replaced, however gearing requirements remain under review by the Board.

### Changes to the Company's Articles of Association

Following a review by the Board, it has been decided to amend the Company's Articles of Association to allow the payment of dividends out of capital. The Company has significant capital reserves. However, the Board is not currently seeking to utilise these powers.

Additionally, we are proposing an increase in the maximum aggregate annual limit on Directors' fees from £175,000 to £200,000, in response to increases in Directors' fees which have taken place over recent years, as documented within the Directors' Remuneration Report on page 32, and to provide flexibility for the future. It is not proposed to amend Directors fees for the current year (the year ending 30th September 2017).

## CHAIRMAN'S STATEMENT *CONTINUED*

A resolution has therefore been proposed to effect these changes, and a mark-up of the Articles of Association will be available for viewing at the Annual General Meeting.

### **New Zealand Listing**

The Board has resolved to de-list the Company from the New Zealand Stock Exchange. The level of holdings retained by shareholders in New Zealand has diminished and currently less than 1% of the register is held by these shareholders. It is anticipated that the delisting will take effect early in 2017. The Board has tried to manage this change in a professional manner which is helpful and responsible for New Zealand shareholders.

### **Management Fees**

The Board has conducted its annual detailed review of management fees and continues actively to monitor whether the fees paid to the Manager and other service providers represent good value for money. It concluded that the current Ongoing Charges rate of 0.74%, which is a reduction on the rate of 0.77% paid in the previous reporting year, is extremely competitive compared to the Company's peer group.

### **Investment Managers**

During the year under review the Investment Managers were Nicholas Weindling and Shoichi Mizusawa, both Managing Directors of JPMAM based in Japan. On behalf of the Board I would like to congratulate the Tokyo-based Investment Team on their delivery of strong investment returns achieved over the year under review and since management of the Company's assets was transferred to Tokyo in 2007.

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 stock selection and gearing. These results can be seen from the performance attribution data shown on page 8.

### **Board of Directors**

As announced in last year's Annual Report, Alan Barber and Keith Percy will not seek reappointment at this year's Annual General Meeting. Both have served the Company in excess of ten years and I and the Board are extremely grateful for their contributions, and to Alan for chairing the Audit Committee.

Dr George Olcott and Stephen Cohen have been appointed Directors of the Company with effect from the conclusion of this year's Annual General Meeting. Both have extensive experience of business and corporate governance in Japan and will be valuable additions to the Board.

In accordance with the Company's Articles of Association, having served on the Board for more than nine years, I will retire and seek reappointment at the forthcoming Annual General Meeting. The other continuing Directors, Sir Stephen Gomersall and Christopher Samuel will also retire and seek reappointment by the shareholders, in accordance with corporate governance best practice. It is proposed that Christopher Samuel will be appointed Chairman of the Audit Committee with effect from the conclusion of the 2016 Annual General Meeting.

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## 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 (2015: 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 decreasing discount volatility and this approach will be used when considered to be appropriate by the Board.

## Auditor

These accounts are the third 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 Tuesday, 20th December 2016 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 Managers who will answer questions on the portfolio and performance. There will also be an opportunity to meet the Board 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 ([www.jpmmjapanese.co.uk](http://www.jpmmjapanese.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.

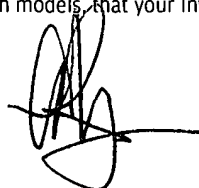
## Prospects

Against a background of the generally disappointing (certainly from the point of view of financial market participants) implementation of Prime Minister Abe's "three arrows" structural reform agenda, there are now real signs of progress following the new corporate governance and stewardship codes that were introduced in early 2015.

There is a greater interest on the part of quoted companies in criteria like Return on Equity to judge corporate progress, and over 80% of quoted medium or large sized companies now have independent directors. However, there is a long tradition of companies demonstrating only superficial support for these sorts of initiatives whilst continuing to behave as before. There are enough tangible, measurable, indications of real progress, for example, in share buybacks (at a level in the first half of 2016 similar to the whole of 2014) and higher dividends and pay-out ratios.

The Board continues to be very encouraged by the individual companies that are either performing well or which have new growth models that your Investment Managers select for inclusion in your Company's portfolio.

**Andrew Fleming**  
Chairman



15th November 2016

## INVESTMENT MANAGERS' REPORT

The benchmark TOPIX index rose by 31.7% in sterling terms during the year ended 30th September 2016 with the Company's total return on net assets being 36.0%. Over three years the Company's portfolio returned 49.1% versus 40.9% for the index. Over five years it has returned 112.9% versus 73.9%<sup>1</sup> for the index.

### Review

Nicholas Weindling

Investors continued to worry about the strength of the global economic recovery, the pace of interest rate hikes in the United States, the slowdown in Chinese economic growth and the consequences of Brexit. The most pertinent to shareholders was the decision by the United Kingdom to leave the European Union. This resulted in considerable weakness in sterling due to concerns that the British economy may deteriorate. Over the course of the Company's financial year the value of the pound against the yen weakened from a peak of almost ¥190 to ¥127 at the time of writing. This is the major reason for the strong sterling NAV performance of the Company.

Shoichi Mizusawa

In Japan, politics remained stable over the year under review. Prime Minister Abe continued to enjoy strong popularity and his Liberal Democratic Party won the Upper House election in July. The Bank of Japan continued with its aggressive monetary policies, which included a new negative interest rate policy, in line with its 2% inflation target. It has not yet achieved this target, with CPI again negative. Consumer spending also remained lacklustre. However, there have been several positive results on the economic front. The labour market has been as tight as at any point in the last twenty years with, currently, 136 jobs available for every 100 applicants and there has been some evidence of rising wages. Female participation has also continued to rise. Meanwhile the number of foreign tourist arrivals has increased to a record level and the government has revised up its mid-term target to forty million arrivals by 2020.

Finally, corporate performance was mixed as the stronger currency put pressure on exporter profits. Most importantly, improvements in corporate governance continued. Dividends continued to rise and the pace of share buybacks accelerated. The number of independent directors on boards has increased. We believe that the sustainability of improvements in corporate governance at Japanese companies can drive valuations of the market higher over the long term. The substantial improvement in corporate governance was the major reason for our purchases of insurer Tokio Marine and Japan Tobacco.

### Portfolio Performance

The outperformance versus the benchmark was due to both asset allocation including gearing and stock selection. At the asset allocation level the sector underweights in banks, which were hurt by the new negative interest rate policy, and utilities were particularly helpful. The main detractor was the gearing which detracted value as the market fell in yen terms.

Top contributing stocks included M3, Keyence, Ono Pharmaceutical, Lion and Cosmos Pharmaceutical.

- M3 operates websites used by doctors and helps pharmaceutical companies to reduce their marketing expenses. It is the number one site in Japan and the United Kingdom amongst other regions. It is a globally unique business with top class management.
- Keyence is a sensor company that is benefitting as more industries automate. It has expanded aggressively overseas in the last few years such that sales outside of Japan now account for over 50% of the total as compared to around 25% five years ago. It makes

<sup>1</sup> Source: Morningstar.

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operating margins in excess of 50% which are some of the highest of any industrial company in the world. The trend towards more automation also benefits our holdings SMC and Fanuc which have margins of 31% and 35% respectively. Regardless of what happens in the global economy we believe companies will continue to automate to reduce costs and increase quality. We are aware of the threat of Asian competition but our bottom up research shows the gap between Japan and the rest of the world remains very wide.

- Ono Pharmaceutical's Opdivo immunotherapy cancer treatment drug is licensed out to Bristol Myers Squibb in the United States and is a way of treating cancer. The stock performed very well over the year and we sold the position as expectations for future growth became lower.
- Lion Corporation is a manufacturer of consumer goods that changed management in 2012. Its margins have been far below those of domestic and global peers and the new CEO has decided to focus on profits ahead of sales. The company is also expanding rapidly in Asia, particularly China and Thailand where Japanese quality, safety and reliability are significant competitive advantages. It is already number one in online toothpaste sales in China. We have other stocks that play the same theme. Kewpie is the number one mayonnaise company in Shanghai and Beijing with 90% and 60% shares respectively in the consumer mayonnaise market. Consumption of mayonnaise and dressings is relatively new in China and the market has the potential to mimic the strong growth of the Japanese market between 1960 and 1990. Similarly, Pigeon is the number one maker of baby bottles and other baby goods across Asia and has a big opportunity for expansion in India.
- Cosmos Pharmaceutical is a discount drugstore based on the southern island of Kyushu. It is only just beginning to expand across Japan and we believe its business model will be successful elsewhere in the country where there is strong demand for the lowest priced items. This is similar to the success of disruptors Lidl and Aldi in European food retail and, in addition to Cosmos, our holdings in Don Quijote and Seria (Y100 stores) should benefit. These companies will also benefit from increasing industry consolidation. For example, the top ten drugstores in Japan still only have around 25% market share whereas the top two in the UK have over 50%. Consolidation will mean increasing economies of scale for the winner companies. The other major trend in Japanese retail is the increasing penetration of e-commerce which is the reason for our holding in Start Today, an online apparel retailer.

Stocks that contributed negatively to performance included Cookpad, Laox, Toyo Tire, Rakuten and Kaken Pharmaceutical.

- Cookpad operates a recipe website and we had owned it for many years due to the potential for it to monetise its user base of women aged 20-50. However, there was a sudden change in strategy and we sold the shares as a result.
- Laox is a retailer catering to Chinese tourists visiting Japan. It was hit by a slowdown in purchases as the yen strengthened. We sold the shares after reassessing the company's competitive advantage.
- Toyo Tire was involved in a quality problem in one of its non-core businesses but we sold the shares due to concerns about oversupply in the global tyre industry.
- Rakuten is Japan's number one e-commerce company. We reduced the position on concerns of increasing industry competition.
- Kaken Pharmaceuticals new drugs grew more slowly than expected and we sold the shares.

## INVESTMENT MANAGERS' REPORT CONTINUED

### Current Portfolio

At the beginning of the Company's new financial year, the largest overweights were in Keyence, M3, Lion, Don Quijote and Start Today.

We seek companies that will be strong and have the greatest opportunities to grow earnings over the next five to ten years and beyond. These companies may not be operating in the areas of Japan's historic strength of motor manufacture and consumer electronics, where products are becoming increasingly commoditised, or there is a risk of significant industry disruption. For example, the ability to take photographs or videos using a smartphone makes the outlook for traditional camera and camcorder companies uncertain, while Taxi apps such as Uber, as well as car sharing and, in time, automated driving, pose a substantial challenge for the motor industry.

Looking at the characteristics of the portfolio, balance sheets and free cash flow are stronger, earnings growth faster and Return on Equity higher than the market as a whole. Much of this growth is structural and in aggregate the companies should do well regardless of what happens in the global or Japanese economy. The valuation, as measured by PE ratios is higher than the market average but we believe the strong long-term growth prospects more than justify this.

<b>PERFORMANCE ATTRIBUTION FOR THE YEAR ENDED 30TH SEPTEMBER 2016</b>		
	%	%
<b>Contributions to total returns</b>		
Benchmark return		+31.7
Asset allocation	+2.9	
Stock selection	+3.5	
Gearing/cash	-1.4	
<b>Investment Manager contribution</b>		<b>+5.0</b>
<b>Portfolio total return</b>		<b>+36.7</b>
Management fee/other expenses	-0.7	
<b>Return on net assets</b>		<b>+36.0</b>

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 67.

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## **Outlook**

The Japanese equity market as a whole is a cyclical one, due to its large exposure to global manufacturing sectors relative to other major markets, as well as relative to its own economy. As such, uncertainty about the macro environment, whether this be due to a stronger yen, the US election result or political uncertainty in Europe, could adversely influence the Japanese market.

However, the long-term outlook is positive: government policy is supportive, the global economy is slowly improving and companies are starting to emphasise increasing returns to shareholders. We continue to focus on structural growth areas such as the increasing penetration of internet shopping, the ageing population, factory automation, Japanese companies expanding in Asia and companies prioritising improving shareholder returns. We continue to be able to find compelling investment opportunities.

We believe strongly in active management and feel the case for doing so in Japan is particularly compelling. There are two underlying reasons. First, it is a very under-researched market. Of the roughly 1700 companies listed on the TOPIX index, more than half have two or fewer brokerage or investment bank analysts covering them. Second, as outlined above, the types of areas in which Japan may be strong in the future may not be the same as in the past.

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

15th November 2016

## PERFORMANCE

### Ten Year Performance

FIGURES HAVE BEEN REBASED TO 100 AT 30TH SEPTEMBER 2006

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Source: Morningstar/MSCI.

### Performance Relative to Benchmark

FIGURES HAVE BEEN REBASED TO 100 AT 30TH SEPTEMBER 2006

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Source: Morningstar/MSCI.

## TEN YEAR FINANCIAL RECORD

At 30th September	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Total assets less current liabilities (£'m)	511.7	431.8	298.1	315.7	306.1	326.6	302.1	494.8	408.4	513.2	693.2
Net asset value per share (p)	275.8	244.3	171.3	185.9	189.6	194.7	187.3	267.8	253.3	287.5	387.5
Share price (p)	254.5	214.5	145.5	157.0	160.0	166.8	154.5	238.3	218.0	257.3	335.0
Discount (%)	7.7	12.2	15.1	15.5	15.6	14.3	17.5	11.0	13.9	10.5	13.5
Gearing/(net cash) <sup>1</sup> (%)	12.5	12.3	8.0	7.6	(1.8)	(0.6)	9.0	13.7	12.7	6.4	9.5
Yen exchange rate (=£1)	220.5	234.3	189.2	143.2	131.6	120.1	125.6	158.9	177.8	181.4	131.5

### Year ended 30th September

Gross revenue attributable to shareholders (£'000)	8,450	7,068	7,160	7,596	6,138	7,323	8,121	6,041	5,715	6,970	8,725
Earnings per share (p)	3.60	2.96	2.97	2.96	2.91	3.49	4.10	2.78	2.46	3.06	3.97
Dividend per share (p)	Nil	2.80	2.80	2.80	2.80	3.30	3.65	2.80	2.80	2.80	3.65
Ongoing charges <sup>2</sup> (%)	0.78	0.75	0.79	0.77	0.81	0.86	0.77	0.78	0.78	0.77	0.74

### Rebased to 100 at 30th September 2005

Share price total return <sup>3</sup>	100.0	84.3	58.0	63.9	66.4	70.4	66.5	105.0	97.2	116.1	152.8
Net asset value total return <sup>4</sup>	100.0	87.6	62.4	69.3	71.4	74.3	72.8	106.2	101.5	116.4	158.3
Benchmark <sup>3,5</sup>	100.0	95.5	81.0	91.3	92.1	94.7	89.6	116.8	117.9	125.0	164.6

<sup>1</sup> The methodology to calculate gearing has been amended during the year therefore the 2015 comparative figure has been recalculated for comparative purposes. Please refer to the glossary of terms and definitions on page 67 for the revised calculation.

<sup>2</sup> Ongoing charges are calculated in accordance with guidance issued by the AIC in November 2014 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.

A glossary of terms and definitions is provided on page 67.

## TEN LARGEST INVESTMENTS AT 30TH SEPTEMBER

Company	Sector	2016		2015	
		Valuation £'000	% <sup>1</sup>	Valuation £'000	% <sup>1</sup>
Keyence	Electric Appliances	30,599	4.5	15,852	3.2
Nippon Telegraph & Telephone	Information & Communications	22,438	3.3	12,341	2.5
KDDI	Information & Communications	20,844	3.0	15,115	3.1
M3 <sup>2</sup>	Services	19,635	2.9	9,097	1.8
Tokio Marine <sup>3</sup>	Insurance	16,704	2.4	–	–
Lion <sup>2</sup>	Chemicals	16,414	2.4	7,612	1.5
Fuji Heavy Industries	Transportation Equipment	16,391	2.4	15,829	3.2
Don Quijote	Retail Trade	15,819	2.3	13,024	2.6
Japan Tobacco <sup>3</sup>	Foods	15,737	2.3	–	–
SMC <sup>2</sup>	Machinery	15,701	2.3	9,551	1.9
<b>Total<sup>4</sup></b>		<b>190,282</b>	<b>27.8</b>		

<sup>1</sup> Based on the total portfolio investments of £683.9m (2015: £493.3m).

<sup>2</sup> Not included in the ten largest investments at 30th September 2015.

<sup>3</sup> Not held in the Portfolio as at 30th September 2015.

<sup>4</sup> At 30th September 2015, the value of the ten largest investments amounted to £139.7m representing 28.4% of total portfolio investments.

## SECTOR ANALYSIS

	30th September 2016		30th September 2015	
	Portfolio % <sup>1</sup>	Benchmark %	Portfolio % <sup>1</sup>	Benchmark %
<b>Processing</b>	49.6	48.7	60.0	46.1
Electric Appliances	13.5	12.2	20.1	11.5
Services <sup>~</sup>	9.3	3.9	16.7	3.3
Information & Communications	8.3	8.5	6.7	7.0
Machinery	6.8	5.0	3.3	4.3
Transportation Equipment	5.4	9.4	5.0	11.1
Other Products	3.2	2.0	2.1	1.7
Precision Instruments	1.3	1.5	1.6	1.4
Wholesale Trade	1.2	4.4	1.9	3.9
Rubber Products	0.6	0.9	2.2	1.0
Glass & Ceramics Products	–	0.9	0.4	0.9
<b>Consumer</b>	23.8	18.5	19.7	17.8
Retail Trade	12.5	4.9	10.7	5.2
Foods	6.3	5.0	2.3	4.5
Pharmaceuticals	5.0	5.5	6.7	5.0
Other Consumer	–	3.1	–	3.1
<b>Basic</b>	14.1	8.0	6.3	7.5
Chemicals	11.2	6.4	4.7	5.9
Metal Products	2.9	0.7	1.6	0.7
Non-Ferrous Metals	–	0.9	–	0.9
<b>Financial</b>	7.8	12.1	10.5	14.8
Other Financing Business	4.0	1.3	5.0	1.3
Insurance	2.4	2.3	–	2.6
Banks	1.4	7.5	5.5	9.6
Security & Commodity Futures	–	1.0	–	1.3
<b>Assets</b>	4.7	5.6	3.5	6.0
Real Estate	3.1	2.5	2.6	3.0
Construction	1.6	3.1	0.9	3.0
<b>Utilities</b>	–	7.1	–	7.8
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

<sup>1</sup> Based on the total portfolio investments of £683.9m (2015: £493.3m).

**LIST OF INVESTMENTS AT 30TH SEPTEMBER 2016**

Company	Valuation £'000	Company	Valuation £'000
<b>Processing</b>		<b>Other Products</b>	
<i>Electric Appliances</i>		Pigeon	11,602
Keyence	30,599	Nintendo	9,971
Fanuc	11,785		<b>21,573</b>
Systemex	10,311	<b>Precision Instruments</b>	
Tokyo Electron	9,831	Asahi Intecc	6,301
Nidec	9,662	Nakanishi	2,462
Mabuchi Motor	8,992		<b>8,763</b>
Sony	8,827	<b>Wholesale Trade</b>	
Zojirushi	2,561		
	<b>92,568</b>		<b>8,189</b>
<b>Services</b>		<b>Rubber Products</b>	
M3	19,635		
Nihon M&A Center	9,821		<b>3,959</b>
Rakuten	7,627	<b>Total Processing</b>	
Next	7,024		<b>339,403</b>
Infomart Corporation	6,057	<b>Consumer</b>	
H.I.S	5,374	<i>Retail Trade</i>	
Cyberagent	4,661	Don Quijote	15,819
Kakaku.com	3,504	Start Today	14,037
	<b>63,703</b>	Cosmos Pharmaceutical	13,749
<b>Information &amp; Communications</b>		MonotaRO	12,309
Nippon Telegraph & Telephone	22,438	Seria	11,347
KDDI	20,844	Sundrug	8,498
Otsuka	6,255	ABC-Mart	6,143
GMO Payment Gateway	4,131	Kusuri No Aoki	3,704
	<b>57,018</b>		<b>85,606</b>
<b>Machinery</b>		<b>Foods</b>	
SMC	15,701	Japan Tobacco	15,737
Daikin Industries	15,451	Meiji	13,264
Miura	6,485	Kewpie	7,417
Hoshizaki Electric	6,106	Asahi	6,951
	<b>46,818</b>		<b>43,369</b>
<b>Transportation Equipment</b>		<b>Pharmaceuticals</b>	
Fuji Heavy Industries	16,391	Nippon Shinyaku	9,661
Suzuki Motor	14,493	Sosei	9,596
	<b>36,812</b>	Santen Pharmaceutical	6,312
		Peptidream	5,884
			<b>34,194</b>
		<b>Total Consumer</b>	<b>163,169</b>

Company	Valuation £'000
<b>Basic</b>	
<i>Chemicals</i>	
Lion	16,414
Shin-Etsu Chemical	14,055
Pola Orbis Holdings	11,706
Kao	11,521
Nifco	9,595
Nippon Paint	8,163
	<b>76,617</b>
<i>Metal Products</i>	
Sanwa	12,983
Rinnai	6,575
	<b>19,558</b>
<b>Total Basic</b>	<b>96,175</b>
<b>Financial</b>	
<i>Other Financing Business</i>	
Orix	11,494
Japan Exchange	9,508
	<b>26,907</b>
<i>Insurance</i>	
	<b>16,704</b>
<i>Banks</i>	
	<b>9,583</b>
<b>Total Financial</b>	<b>53,194</b>
<b>Assets</b>	
<i>Real Estate</i>	
GLP J-REIT	7,601
Nippon Prologis REIT	7,052
	<b>21,427</b>
<i>Construction</i>	
Sho-Bond	6,653
Nishimatsu Construction	3,836
	<b>10,489</b>
<b>Total Assets</b>	<b>31,916</b>
<b>Total Portfolio</b>	<b>683,857</b>

The portfolio comprises entirely of 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, the Company's environmental, social and ethical policy, principal risks and how the Company seeks to manage those risks and its long term viability.

### 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 currently fully listed on the New Zealand Stock Exchange (although the intention is to de-list from the New Zealand Stock Exchange in the early 2017). 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 and JPMorgan Asset Management (Japan) 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 Guidance and Transparency Rules, Market Abuse Regulation, 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

### 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 2016: 100%).
- No investment to be more than 5% in excess of benchmark weighting at time of purchase. (30th September 2016: 3.56%).
- The Company does not normally invest in unquoted investments and to do so requires prior Board approval. (30th September 2016: 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 2016: 9.5%).
- The Company does not normally enter into derivative transactions and to do so requires prior Board approval. (30th September 2016: 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 2016: 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 2016, the Company produced a total return to shareholders of +31.5% and a total return on net assets of +36.0%. This compares with the return on the Company's

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benchmark of +31.7%. As at 30th September 2016, the value of the Company's investment portfolio was £683.9 million. The Investment 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 £171.3 million (2015: £64.7 million) and the net total return after deducting the management fee, other administrative expenses, finance costs and taxation, amounted to £165.7 million (2015: £59.6 million). Distributable income for the year amounted to £6.4 million (2015: £4.9 million).

The Directors have declared a dividend of 3.65p (2015: 2.80p) per share. This dividend amounts to £5.9 million (2015: £4.5 million) and the revenue reserve after allowing for the dividend will amount to £2.8 million (2015: £2.3 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 8 respectively.

### Performance Relative to Benchmark Index

FIGURES HAVE BEEN REBASED TO 100 AT 30TH SEPTEMBER 2006

### Ten Year Performance

FIGURES HAVE BEEN REBASED TO 100 AT 30TH SEPTEMBER 2006

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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 2016 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 policy 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 2016, the shares traded between a discount of 16.7% and 8.3% at an average of 12.7%, based on month end data.

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Source: Morningstar/MSCI.

- 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

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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 2016 were 0.74% (2015: 0.77%). 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 (2015: 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 or 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 to 64.

The Directors recommend a final dividend of 3.65p (2015: 2.80p) per share payable on 28th December 2016 to holders on the register at the close of business on 25th November 2016 (ex dividend date 24th November 2016).

### 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 2016, 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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## The Modern Slavery Act 2015 (the 'MSA')

The MSA requires companies to prepare a slavery and human trafficking statement for each financial year of the organisation. As the Company has no employees and does not supply goods and services, the MSA does not apply directly to it. The MSA requirements more appropriately relate to JPMF and JPMAM. JPMorgan's statement on Human Rights can be found on the following website: [www.jpmorganchase.com/corporate/About-JPMC/ab-human-rights.htm](http://www.jpmorganchase.com/corporate/About-JPMC/ab-human-rights.htm)

## 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 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 21 on pages 54 and 55.

- **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 Guidance and Transparency Rules ('DTRs') and, as an investment trust, the Alternative Investment Fund Managers Directive ('AIFMD').

## BUSINESS REVIEW *CONTINUED*

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, including information on relations with shareholders, are set out in the Corporate Governance Statement on pages 26 to 31.
- Operational and Cyber Crime: Disruption to, or failure of, the Manager's accounting, dealing or payments systems or the Depository 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. The threat of cyber attack, in all guises, is regarded as at least as important as more traditional physical threats to business continuity and security.
- Financial: The financial risks faced by the Company include market price risk, liquidity risk and credit risk. Further details are disclosed in note 21 on pages 54 to 59.

### 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



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

15th November 2016

# Governance

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## BOARD OF DIRECTORS

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

A Director since 2004.

Last reappointed to the Board: 2015.

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: 2015.

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: 2015.

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: 2015.

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

Connections with Manager: None.

Shared directorships with other Directors: None.

### **Christopher Samuel**

A Director since 2014.

Last reappointed to the Board: 2015.

Currently Chairman of Defaqto and a non-executive Director of Alliance Trust plc and Alliance Trust Investments (where he chairs the Audit & Risk Committee), BlackRock Throgmorton Trust plc, UIL Limited, and The London Community foundation. 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. He is a Chartered Accountant.

Connections with Manager: None.

Shared directorships with other Directors: None.

**All Directors are members of the Audit Committee, the Nomination and Remuneration Committee, and the Management Engagement 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 2016.

### 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. The Manager is a wholly-owned subsidiary of JPMorgan Chase Bank which, through other subsidiaries, also provides marketing, banking, dealing and custodian services to the Company.

Overall portfolio management is delegated to JPMorgan Asset Management (UK) Limited ('JPMAM'), 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.

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.

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 has appointed a Management Engagement Committee which 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.

The Management Engagement Committee 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 is the Company's alternative investment fund manager ('AIFM'). It is approved as an AIFM by the 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.

The Company has appointed BNY Mellon Trust and Depository (UK) Limited ('BNY') as its depository. BNY has appointed JPMorgan Chase Bank, N.A., as the Company's custodian, BNY is 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. An Investor Disclosure Document, which sets 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 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%

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.

### Directors

All Directors served throughout the year, Directors' details are included on pages 21 and 22. Details of their beneficial shareholdings may be found in the Directors' Remuneration Report on page 33.

Andrew Fleming, having been a Director for more than nine years, will retire and seek reappointment as a Director of the Company.

In accordance with corporate governance best practice, all continuing Directors will retire at the Company's forthcoming Annual General Meeting and, being eligible, will offer themselves for reappointment by shareholders.

## DIRECTORS' REPORT *CONTINUED*

Alan Barber and Keith Percy will retire as Directors of the Company at the close of the forthcoming Annual General Meeting. Dr George Olcott and Stephen Cohen will be appointed as Directors upon the close of the forthcoming AGM.

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, PricewaterhouseCoopers LLP were appointed Auditors of the Company with effect from the 2013 Annual General Meeting. 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 2016, 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>	33,578,253	20.82
1607 Capital Partners <sup>1</sup>	22,985,174	14.25
Rathbone Brothers <sup>1</sup>	8,121,209	5.04
Derbyshire County Council <sup>1</sup>	6,564,361	4.07
Legal & General <sup>2</sup>	4,928,847	3.05

<sup>1</sup> Indirect holding.

<sup>2</sup> Direct holding.

Since 30th September 2016, the Company has received a notification of voting rights by Lazard Asset Management on 1st November 2016, when it was notified that the shareholder held 33,884,464 voting rights, or 21.01%. 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 2016, approximately 2.45% of the Company's total voting rights were held by individuals through the savings products managed by JPMorgan 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, JPMorgan 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.

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## 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 to 64.

### **(i) Authority to allot new shares and to disapply statutory pre-emption rights (resolutions 9 and 10)**

The Directors will seek renewal of the authority at the Annual General Meeting to issue 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 2017 unless renewed at a prior general meeting.

Resolution 10 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 11)**

The authority to repurchase up to 14.99% of the Company's issued share capital, granted by shareholders at the 2015 Annual General Meeting, will expire on 17th June 2017 unless renewed at the forthcoming Annual General Meeting. The Directors consider that 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 11 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 15th November 2016 (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.

*If resolution 11 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 19th June 2018, but it is the Board's intention to seek renewal of the authority at the 2017 Annual General Meeting.

### **(iii) Amendment of Articles of Association (Resolution 12)**

The Companies Act 2006 (Amendment of Part 23) (Investment Companies) Regulation 2012 removed the requirement that the articles of association of an investment company must prohibit the distribution of capital profits. The Board will seek authority at the Annual General Meeting to amend the Articles of Association (the 'Articles') to allow the Company to distribute capital as dividends. The proposed Articles therefore reflect this change and remove all references to the prohibition of the distribution of capital profits by way of dividend. The proposed Articles also include an increase in the maximum aggregate annual limit on Directors' fees, from £175,000 to £200,000. Furthermore, a number of changes have been included which set out procedural and administrative matters resulting from legislative changes.

For a detailed explanation of the proposed amendments to the Company's current Articles please refer to the Appendix to the Notice of Meeting on pages 65 to 66 of this document.

## Recommendation

The Board considers that resolutions 9 to 12 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

## DIRECTORS' REPORT *CONTINUED*

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 2016, all of whom are regarded by the Board as independent of the Company's Manager, including the Chairman. Alan Barber and Keith Percy will retire as Directors and not seek reappointment at the 2016 Annual General Meeting and Dr George Olcott and Stephen Cohen will be appointed as Directors of the Company immediately following the conclusion of the 2016 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, who, having served in excess of nine years, retires and seeks reappointment as a Director at this year's AGM. Andrew Fleming has a wealth of experience in the financial sector and makes a valuable contribution to the workings of the Board. The Board considers that he demonstrates effective leadership of the Company. Sir Stephen Gomersall and Christopher Samuel will retire by rotation and seek reappointment as Directors 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 four Board meetings, in addition to a meeting devoted to strategy, two Audit Committee meetings, and one meeting of the Management Engagement Committee, 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	NRC/MEC <sup>1</sup>
Alan Barber	4/4	2/2	1/1
Andrew Fleming	4/4	2/2	1/1
Sir Stephen Gomersall	3/4	2/2	0/1
Keith Percy	4/4	2/2	1/1
Christopher Samuel	4/4	2/2	1/1

<sup>1</sup> Nomination and Remuneration Committee and Management Engagement Committee.

### 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 independent external recruitment consultants, may be used to ensure that a wide range of candidates is considered. Nurole Recruitment Consultants ('Nurole') were appointed, resulting in a decision to appoint Dr George Olcott and Stephen Cohen as Directors of the Company following the Annual General Meeting on 20th December 2016. Open advertising was not used as part of the process as it was felt that using Nurole, a specialist recruiting firm, would be most appropriate to the Company's circumstances. Nurole have no other connection with the Board or Manager.

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.

## DIRECTORS' REPORT *CONTINUED*

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. Upon Mr Barber's retirement as a Director on 20th December 2016, it is proposed that Mr Christopher Samuel will be appointed Chairman of the Audit Committee. As Chartered Accountants, both Alan Barber and Christopher Samuel have recent and relevant financial experience, and the Audit Committee as a whole has competence relevant to the sector.

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 2016, 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 45. Controls are in place to ensure that valuations are appropriate and existence is verified through Depositary and Custodian reconciliations.
Recognition of investment income	The recognition of investment income is undertaken in accordance with accounting policy note 1(c) to the accounts on page 45. 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 2016, 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 Control 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.

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 2016 is therefore the Audit Partner's third 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 6 on page 48.

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### Management Engagement Committee

The membership of the Management Engagement Committee consists of all the Directors and is chaired by Andrew Fleming. The Committee meets at least once a year to review the terms of the Management Agreement between the Company and the Manager, to review the performance of the Manager, to review the notice period that the Board has with the Manager and to make recommendations to the Board on the continued appointment of the Manager following these reviews.

### Terms of Reference

The Nomination and Remuneration Committee, Audit Committee and Management Engagement Committee 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.

### 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 21 on page 58), capital management policies and procedures (see note 22 on page 60), 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.

### 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 69. The Chairman can also be contacted via the Company's website by following the 'Ask a Question' link at [www.jpmpjapanese.co.uk](http://www.jpmpjapanese.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 69.

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 Control

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 control 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 control, 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 Depositary and the Manager and its associates, the Company's system of risk management and internal control mainly comprises monitoring the services provided by the Depositary and the Manager and its associates, including the 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

## DIRECTORS' REPORT *CONTINUED*

internal audit function of its own, the Board considers that it is sufficient to rely on the internal audit department of the Manager and regular direct reporting from the Depositary. This arrangement is kept under review.

The key elements designed to provide effective risk management and internal control 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 control 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 control 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 control 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 control for the year ended 30th September 2016 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 control were not significant and did not impact the Company.

### London and New Zealand Listings

The Company is listed on the London Stock Exchange and, currently, 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)

The Board has resolved to apply to the New Zealand Stock Exchange and New Zealand Companies Office for a delisting. This is on the basis of the small number of shares listed in New Zealand (less than 1% of the total register) and disproportionate associated costs.

### Corporate Governance and Voting Policy

The Company delegates responsibility for voting to the Manager. The following is a summary of the policy statements of JPMAM on corporate governance, voting policy and social and environmental issues, which has been reviewed and noted by the Board. Details of 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.*

#### 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*

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*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

15th November 2016

## DIRECTORS' REMUNERATION REPORT

The Board presents the Directors' Remuneration Report for the year ended 30th September 2016, 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 were 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 paid at 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. It is proposed in the changes to the Articles that the maximum aggregate annual limit on Directors' fees be increased to £200,000.

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 and Remuneration 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 26.

### 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 no changes to the policy implemented with effect from 1st October 2015 as described above.

At the Annual General Meeting held on 17th December 2015, of votes cast in respect of the Remuneration Policy and Remuneration Report, 99.9% were in favour (or granted discretion to the Chairman who voted in favour) and 0.1% voted against. Abstentions were received from less than 0.1% 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	2016			2015		
	Fees £	Taxable benefits <sup>2</sup> £	Total £	Fees £	Taxable benefits <sup>2</sup> £	Total £
Alan Barber	29,500	–	29,500	28,500	–	28,500
Andrew Fleming	36,000	–	36,000	31,846	–	31,846
Sir Stephen Gomersall	25,000	–	25,000	24,000	–	24,000
Jeremy Paulson-Ellis <sup>3</sup>	–	–	–	7,628	–	7,628
Keith Percy	25,000	37	25,037	24,000	–	24,000
Christopher Samuel <sup>4</sup>	25,000	108	25,108	18,831	–	18,831
<b>Total</b>	<b>140,500</b>	<b>145</b>	<b>140,645</b>	<b>134,805</b>	<b>–</b>	<b>134,805</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> Taxable benefits relate to travel and subsistence costs.

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

<sup>4</sup> Appointed December 2014

A table showing the total remuneration for the Chairman over the five years ended 30th September 2016 is below:

### Remuneration for the Chairman over the five years ended 30th September 2016

Year ended 30th September	Fees	Performance related benefits received as a percentage of maximum payable <sup>1</sup>
2016	£36,000	n/a
2015	£34,000	n/a
2014	£32,500	n/a
2013	£32,500	n/a
2012	£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	2016 Number of shares held	2015 Number of shares held
Alan Barber	5,300	5,300
Andrew Fleming	5,000	5,000
Sir Stephen Gomersall	3,049	3,049
Keith Percy	4,500	4,500
Christopher Samuel <sup>2</sup>	5,000	5,000
<b>Total</b>	<b>22,849</b>	<b>22,849</b>

<sup>1</sup> Audited information.

<sup>2</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.

### Seven Year Share Price and Benchmark Total Return Performance to 30th September 2016

Source: Morningstar/Datastream.

— Share price total return.  
— Benchmark.

## DIRECTORS' REMUNERATION REPORT *CONTINUED*

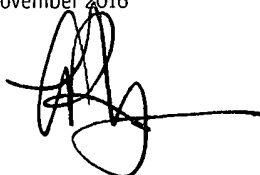
A table showing actual expenditure by the Company on remuneration and distributions to shareholders for the year and the prior year is below:

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

	Year ended 30th September	
	2016	2015
Remuneration paid to all Directors	£140,645	£134,805
Distribution to shareholders by way of:		
– dividend	£4,515,000	£4,515,000
– share repurchases	£nil	£nil
<b>Total distribution to shareholders</b>	<b>£4,515,000</b>	<b>£4,515,000</b>

For and on behalf of the Board  
Andrew Fleming  
Chairman

15th November 2016



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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) including FRS 102 'The Financial Reporting Standards applicable in the UK and Republic of Ireland' and applicable laws. 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 position and 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.

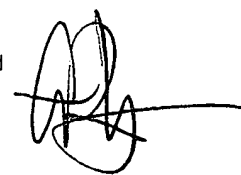
Each of the Directors, whose names and functions are listed on pages 21 and 22, confirms that, to the best of their knowledge:

- the financial statements, which have been prepared in accordance with United Kingdom Accounting Standards, and applicable law), (United Kingdom Generally Accepted Accounting Practice) give a true and fair view of the assets, liabilities, financial position and net 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 the Company 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 Company's position and 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.

For and on behalf of the Board  
Andrew Fleming  
Chairman

15th November 2016



# 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 of the Company'):

- give a true and fair view of the state of the Company's affairs as at 30th September 2016 and of its profit 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 Statement of Financial Position as at 30th September 2016;
- the Statement of Comprehensive Income for the year then ended;
- the Statement of Changes in Equity 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 United Kingdom Accounting Standards, comprising FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland', and applicable law (United Kingdom Generally Accepted Accounting Practice).

#### Our audit approach

##### Overview

- Overall materiality: £6.2 million which represents 1% of net assets.
- 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.
- 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. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. 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.

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**Area of focus****How our audit addressed the area of focus**

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**Income from investments**

ISAs (UK & Ireland) presume there is a risk of fraud in income recognition because of the pressure management may feel to achieve capital growth in line with the objective of the Company.

We focused on the valuation of investments with respect to unrealised income (see below) and completeness of dividend income recognition and its presentation in the Statement of Comprehensive Income as set out in the requirements of The Association of Investment Companies Statement of Recommended Practice (the 'AIC SORP'). Capital gains in the year amounted to £179 million. Dividend income totalled £8.7 million.

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.

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.

We tested the allocation and presentation of dividend income between the income and capital return columns of the Statement of Comprehensive Income in line with the requirements set out in the AIC SORP.

The gains/losses on investments held at fair value comprise realised and unrealised gains/losses. For unrealised gains and losses, we tested the valuation of the portfolio at the year-end (see below), together with testing the reconciliation of opening and closing investments. For realised gains/losses, we tested disposal proceeds by agreeing the proceeds to bank statements. No misstatements were identified by our testing which required reporting to those charged with governance.

We understood and assessed the design and implementation of key controls surrounding income recognition.

In addition, we tested dividend receipts by agreeing the dividend rates from a sample of investments to independent third party sources and to bank statements. No misstatements were identified by our testing.

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.

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**Valuation and existence of investments**

The investment portfolio at the year-end principally comprised listed equity investments valued at £684 million.

We focused on the valuation and existence of investments because investments represent the principal element of the net asset value as disclosed on the Statement of Financial Position in the financial statements.

We tested the valuation of the listed equity investments by agreeing the prices used in the valuation to independent third party sources.

No misstatements were identified by our testing which required reporting to those charged with governance.

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.

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**How we tailored the audit scope**

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.

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.

## Independent Auditors' Report *continued*

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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.

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 types of investments within the Company, the involvement of the Manager and Administrator, the accounting processes and controls, and the industry in which the Company operates.

The Company's accounting is delegated to the Administrator who maintain their own accounting records and controls and report to the Manager and the directors.

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 6 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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Overall materiality	£6.2 million (2015: £4.6 million).
How we determined it	1% of net assets.
Rationale for benchmark applied	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 £309,000 (2015: £232,000) 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 29, in relation to going concern. We have nothing to report having performed our review.

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 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 reporting*

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 <i>Company acquired in the course of performing our audit</i>; or</li><li>- otherwise misleading.</li></ul></li></ul>  | We have no exceptions to report. |
| <hr/>   |                                  |
| <ul style="list-style-type: none"><li>• the statement given by the directors on page 35, in accordance with provision C.1.1 of the UK Corporate Governance Code (the 'Code'), 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 position and performance, business model and strategy is materially inconsistent with our knowledge of the company acquired in the course of performing our audit.</li></ul> | We have no exceptions to report. |
| <hr/>   |                                  |
| <ul style="list-style-type: none"><li>• the section of the Annual Report on page 28, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated to us by the Audit Committee.</li></ul>   | We have no exceptions to report. |
- 

### 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 on page 19 of the Annual Report, in accordance with provision C.2.1 of the Code, 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>   | We have nothing material to add or to draw attention to. |
| <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>   | We have nothing material to add or to draw attention to. |
| <hr/>   |  |
| <ul style="list-style-type: none"><li>• the directors' explanation on page 20 of the Annual Report, in accordance with provision C.2.2 of the Code, 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> | We have nothing material to add or to draw attention to. |
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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' statement in relation to the longer-term viability of the Company. 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 this responsibility.

### **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 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 Directors' Responsibilities Statement 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.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

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  
15th November 2016

# Financial Statements

## STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30TH SEPTEMBER 2016

	Notes	Revenue £'000	2016 Capital £'000	Total £'000	Revenue £'000	2015 Capital £'000	Total £'000
Gains on investments held at fair value through profit or loss	3	–	179,145	179,145	–	55,125	55,125
Net foreign currency (losses)/gains		–	(16,545)	(16,545)	–	2,587	2,587
Income from investments	4	8,725	–	8,725	6,970	–	6,970
<b>Gross return</b>		<b>8,725</b>	<b>162,600</b>	<b>171,325</b>	<b>6,970</b>	<b>57,712</b>	<b>64,682</b>
Management fee	5	(673)	(2,691)	(3,364)	(606)	(2,423)	(3,029)
Other administrative expenses	6	(619)	–	(619)	(592)	–	(592)
<b>Net return on ordinary activities before finance costs and taxation</b>		<b>7,433</b>	<b>159,909</b>	<b>167,342</b>	<b>5,772</b>	<b>55,289</b>	<b>61,061</b>
Finance costs	7	(153)	(612)	(765)	(147)	(587)	(734)
<b>Net return on ordinary activities before taxation</b>		<b>7,280</b>	<b>159,297</b>	<b>166,577</b>	<b>5,625</b>	<b>54,702</b>	<b>60,327</b>
Taxation	8	(874)	–	(874)	(697)	–	(697)
<b>Net return on ordinary activities after taxation</b>		<b>6,406</b>	<b>159,297</b>	<b>165,703</b>	<b>4,928</b>	<b>54,702</b>	<b>59,630</b>
Return per share	10	3.97p	98.79p	102.76p	3.06p	33.92p	36.98p

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. Net return on ordinary activities after taxation represents the profit for the year and also Total Comprehensive Income.

The notes on page 45 to 60 form part of these financial statements.

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## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30TH SEPTEMBER 2016

	Called up share capital £'000	Capital redemption reserve £'000	Other reserve £'000	Capital reserves £'000	Revenue reserve <sup>1</sup> £'000	Total £'000
<b>At 30th September 2014</b>	<b>40,312</b>	<b>8,650</b>	<b>166,791</b>	<b>186,300</b>	<b>6,409</b>	<b>408,462</b>
Net return on ordinary activities	–	–	–	54,702	4,928	59,630
Dividend paid in the year	–	–	–	–	(4,515)	(4,515)
<b>At 30th September 2015</b>	<b>40,312</b>	<b>8,650</b>	<b>166,791</b>	<b>241,002</b>	<b>6,822</b>	<b>463,577</b>
Net return on ordinary activities	–	–	–	159,297	6,406	165,703
Dividend paid in the year	–	–	–	–	(4,515)	(4,515)
<b>At 30th September 2016</b>	<b>40,312</b>	<b>8,650</b>	<b>166,791</b>	<b>400,299</b>	<b>8,713</b>	<b>624,765</b>

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

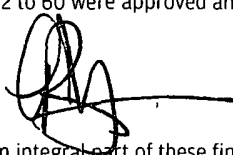
The notes on pages 45 to 60 form an integral part of these financial statements.

**STATEMENT OF FINANCIAL POSITION AT 30TH SEPTEMBER 2016**

	Notes	2016 £'000	2015 £'000
<b>Fixed assets</b>			
Investments held at fair value through profit or loss	11	683,857	493,278
<b>Current assets</b>	12		
Debtors		3,465	6,315
Cash and cash equivalents		6,118	46,923
		9,583	53,238
<b>Current liabilities</b>			
Creditors: amounts falling due within one year	13	(257)	(33,329)
<b>Net current assets</b>		9,326	19,909
<b>Total assets less current liabilities</b>		693,183	513,187
Creditors: amounts falling due after more than one year	14	(68,418)	(49,610)
<b>Net assets</b>		624,765	463,577
<b>Capital and reserves</b>			
Called up share capital	15	40,312	40,312
Capital redemption reserve	16	8,650	8,650
Other reserve	16	166,791	166,791
Capital reserves	16	400,299	241,002
Revenue reserve	16	8,713	6,822
<b>Total shareholders' funds</b>		624,765	463,577
<b>Net asset value per share</b>	17	387.5p	287.5p

The financial statements on pages 42 to 60 were approved and authorised for issue by the Directors on 15th November 2016 and were signed on their behalf by:

Andrew Fleming  
Chairman



The notes on pages 45 to 60 form an integral part of these financial statements.

Company registration number: 223583.

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH SEPTEMBER 2016

### 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'), including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and with the Statement of Recommended Practice 'Financial Statements of Investment Trust Companies and Venture Capital Trusts' (the 'SORP') issued by the Association of Investment Companies in November 2014.

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

The financial statements have been prepared on a going concern basis. The disclosures on going concern on page 29 of the Directors' Report form part of these financial statements.

#### (b) Transition to FRS 102

This set of financial statements, in accordance with the SORP includes changes arising from the adoption of FRS 102 which the Company is required to comply with for the first time for the year ended 30th September 2016. The Company's date of transition to FRS 102 was 1st October 2014.

No significant changes have arisen from the adoption of the new standard. Where changes have arisen, they are substantially in relation to presentation and disclosure. There has been no impact to financial position or financial performance and comparative figures which required restating were in respect of presentation only.

The Company has elected not to prepare a Statement of Cash Flows for the current year, applying the exemption from FRS 102 Section 7.1A(c).

#### Early adoption

In March 2016, the FRC published amendments to FRS 102 concerning the fair value hierarchy disclosures. These amendments are effective for accounting periods beginning on or after 1st January 2017. The Company has elected to adopt these amendments early in this set of financial statements. Full disclosure is given in note 20 on page 53.

#### (c) Valuation of investments

The Company has chosen to adopt Sections 11 and 12 of FRS 102 in respect of financial instruments.

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. The 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 held at fair value through profit or loss. 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. For investments which are not traded in active markets, unlisted and restricted investments, the Board takes into account the latest traded prices, other observable market data and asset values based on the latest management accounts.

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

#### (d) Accounting for reserves

Gains and losses on sales of investments including the related foreign exchange gains and losses, management fee and finance costs allocated to capital and any other capital charges, are included in the Statement of Comprehensive Income and 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 including the related foreign exchange gains and losses, are included in the Statement of Comprehensive Income and dealt with in capital reserves within 'Investment holding gains and losses'.

## NOTES TO THE FINANCIAL STATEMENTS *CONTINUED*

### 1. Accounting policies *continued*

#### (e) Income

Dividends receivable from equity shares are included in revenue 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 included gross of any withholding tax.

Special dividends are looked at individually to ascertain the reason behind the payment. This will determine whether they are treated as income or capital.

Deposit interest receivable is taken to revenue on an accruals basis.

#### (f) Expenses

All expenses are accounted for on an accruals basis. Expenses are allocated wholly to the 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 brokerage commission and stamp duty. Details of transaction costs are given in note 11 on page 50.

#### (g) Finance costs

Finance costs are accounted for on an accruals basis using the effective interest rate method.

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.

#### (h) Financial instruments

Cash and cash equivalents comprises cash, including demand deposits which are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value.

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

Bank loans are classified as financial liabilities measured at amortised cost. They are initially measured as proceeds net of direct issue costs and subsequently measured at amortised cost. Interest payable on the bank loan is accounted for on an accruals basis in the Statement of Comprehensive Income.

#### (i) 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 at 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.

#### (j) Value Added Tax ('VAT')

Expenses are disclosed inclusive of the related irrecoverable VAT. Recoverable VAT is calculated using the partial exemption method based on the proportion of zero rated supplies to total supplies.

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**(k) Foreign currency**

The Company is required to identify its functional currency, being the currency of the primary economic environment in which the Company 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 that sterling is the functional currency. Sterling is also the currency in which the financial statements 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 from a change in exchange rates subsequent to the date of the transaction is included in the Statement of Comprehensive Income as an exchange gain or loss in revenue or capital, depending on whether the gain or loss is of a revenue or capital nature.

**(l) Dividend payable**

Dividends are included in the financial statements in the year in which they are approved by shareholders.

**(m) Repurchase of ordinary shares for cancellation**

The cost of repurchasing ordinary shares including the related stamp duty and transactions costs is charged to 'Capital reserves' and dealt with in the Statement of Changes in Equity. Share repurchase transactions are accounted for on a trade date basis. The nominal value of ordinary share capital repurchased and cancelled is transferred out of 'Called up share capital' and into 'Capital redemption reserve'.

**2. Significant accounting judgements, estimates and assumptions**

The preparation of the Company's financial statements on occasion requires management to make judgements, estimates and assumptions that affect the reported amounts in the primary financial statements and the accompanying disclosures. These assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in the current and future periods, depending on circumstance.

Management do not believe that any significant accounting judgements or estimates have been applied to this set of financial statements, that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year.

**3. Gains on investments held at fair value through profit or loss**

	2016 £'000	2015 £'000
Gains on investments held at fair value through profit or loss based on historic cost	77,559	19,755
Amounts recognised as investment holding gains and losses in the previous year in respect of investments sold during the year	(60,260)	(21,734)
Gains/(losses) on sales of investments based on the carrying value at the previous balance sheet date	17,299	(1,979)
Net movement in investment holding gains and losses	161,853	57,106
Other capital charges	(7)	(2)
<b>Total capital gains on investments held at fair value through profit or loss</b>	<b>179,145</b>	<b>55,125</b>

**NOTES TO THE FINANCIAL STATEMENTS CONTINUED**

**4. Income**

	2016 £'000	2015 £'000
Income from investments		
Overseas dividends	8,725	6,970

**5. Management fee**

	Revenue £'000	2016 Capital £'000	Total £'000	Revenue £'000	2015 Capital £'000	Total £'000
Management fee	673	2,691	3,364	606	2,423	3,029

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

**6. Other administrative expenses**

	2016 £'000	2015 £'000
Other administration expenses	359	344
Directors' fees <sup>1</sup>	141	135
Depository fees	98	92
Auditors' remuneration for audit services	20	20
Remuneration for audit of New Zealand shareholder register <sup>1,2</sup>	1	1
	619	592

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

<sup>2</sup> Audit of share register services were provided by Grant Thornton (New Zealand).

**7. Finance costs**

	Revenue £'000	2016 Capital £'000	Total £'000	Revenue £'000	2015 Capital £'000	Total £'000
Interest on bank loans and overdrafts	153	612	765	147	587	734

**8. Taxation**

(a) Analysis of tax charge in the year

	Revenue £'000	2016 Capital £'000	Total £'000	Revenue £'000	2015 Capital £'000	Total £'000
Overseas withholding tax	874	–	874	697	–	697
Total tax charge for the year	874	–	874	697	–	697

(b) Factors affecting total tax charge for the year

The tax charge for the year is lower (2015: lower) than the Company's applicable rate of corporation tax of 20.0% (2015: 20.5%) The factors affecting the total tax charge for the year are as follows:

	Revenue £'000	2016 Capital £'000	Total £'000	Revenue £'000	2015 Capital £'000	Total £'000
Net return on ordinary activities before taxation	7,280	159,297	166,577	5,625	54,702	60,327
Net return on ordinary activities before taxation multiplied by the Company's applicable rate of corporation tax of 20.0% (2015: 20.5%)	1,456	31,859	33,315	1,153	11,214	12,367
Effects of:						
Non taxable capital gains	–	(32,520)	(32,520)	–	(11,831)	(11,831)
Non taxable overseas dividends	(1,667)	–	(1,667)	(1,399)	–	(1,399)
Unutilised expenses carried forward to future periods	211	661	872	246	617	863
Overseas withholding tax	874	–	874	697	–	697
<b>Total tax charge for the year</b>	<b>874</b>	<b>–</b>	<b>874</b>	<b>697</b>	<b>–</b>	<b>697</b>

(c) Deferred taxation

The Company has an unrecognised deferred tax asset of £6,083,633 (2015: £6,263,453) based on a prospective corporation tax rate of 17.0% (2015: 20.0%). The UK Government announced in July 2015 that the corporation tax rate is set to be cut to 19% in 2017 and 17% in 2020. These reductions in the standard rate of corporation tax were substantively enacted on 26th October 2015 and became effective from 18th November 2015. 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 financial statements.

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.

## 9. Dividends<sup>1</sup>

(a) Dividends paid and proposed

	2016 £'000	2015 £'000
<b>Dividend paid</b>		
2015 final dividend of 2.80p (2014: 2.80p) per share	4,515	4,515
<b>Dividend proposed</b>		
2016 final dividend proposed of 3.65p (2015: 2.80p) per share	5,886	4,515

<sup>1</sup> All dividends paid and proposed in the period are funded from the revenue reserve.

The dividend proposed in respect of the year ended 30th September 2016 is subject to shareholder approval at the forthcoming Annual General Meeting. In accordance with the accounting policy of the Company, this dividend will be reflected in the financial statements for the year ending 30th September 2017.

## NOTES TO THE FINANCIAL STATEMENTS *CONTINUED*

### 9. Dividends<sup>1</sup> *continued*

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

The requirements of Section 1158 are considered on the basis of the dividend proposed in respect of the financial year, shown below. The revenue available for distribution by way of dividend for the year is £6,406,000 (2015: £4,928,000).

	2016 £'000	2015 £'000
Final dividend proposed of 3.65p (2015: 2.80p) per share	5,886	4,515

<sup>1</sup> All dividends paid and proposed in the period are funded from the revenue reserve.

The revenue reserve after payment of the final dividend will amount to £2,827,000.

### 10. Return per share

	2016 £'000	2015 £'000
Revenue return	6,406	4,928
Capital return	159,297	54,702
<b>Total return</b>	<b>165,703</b>	<b>59,630</b>
Weighted average number of shares in issue during the year	161,248,078	161,248,078
Revenue return per share	3.97p	3.06p
Capital return per share	98.79p	33.92p
<b>Total return per share</b>	<b>102.76p</b>	<b>36.98p</b>

### 11. Investments

	2016 £'000	2015 £'000
Investments listed on a recognised stock exchange	683,857	493,278
Opening book cost	368,144	369,871
Opening investment holding gains	125,134	89,762
Opening valuation	493,278	459,633
Movements in the year:		
Purchases at cost	329,893	165,387
Sales - proceeds	(318,466)	(186,869)
Gains/(losses) on sales of investments based on the carrying value at the previous balance sheet date	17,299	(1,979)
Net movement in investment holding gains and losses	161,853	57,106
	683,857	493,278
Closing book cost	457,130	368,144
Closing investment holding gains	226,727	125,134
<b>Total investments held at fair value through profit or loss</b>	<b>683,857</b>	<b>493,278</b>

Transaction costs on purchases during the year amounted to £184,000 (2015: £76,000) and on sales during the year amounted to £179,000 (2015: £87,000). These costs comprise mainly brokerage commission.

During the year, prior year investment holding gains amounting to £60,260,000 have been transferred to Gains and Losses on Sales of Investments as disclosed in note 16 on page 52.

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## 12. Current assets

### Debtors

	2016 £'000	2015 £'000
Dividends and interest receivable	2,983	2,322
Securities sold awaiting settlement	430	3,946
Other debtors	52	47
	<b>3,465</b>	<b>6,315</b>

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

### Cash and cash equivalents

Cash and cash equivalents comprises bank balances and short term deposits. The carrying amount of these represents their fair value.

## 13. Current liabilities

	2016 £'000	2015 £'000
Bank loan	–	33,074
Loan interest payable	144	130
Other creditors and accruals	113	125
	<b>257</b>	<b>33,329</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.

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

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

	2016 £'000	2015 £'000
Bank loan - fixed rate loan with NAB (maturing 2020)	<b>68,418</b>	<b>49,610</b>

The Company has 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 expired on 29th July 2016. At 30th September 2016, the Company had drawn down the ¥9.0 billion (£68.4 million) fixed rate facility.

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

**15. Called up share capital**

	2016 £'000	2015 £'000
Issued and fully paid share capital:		
Ordinary shares of 25p each		
Opening balance of 161,248,078 (2015: 161,248,078) shares	40,312	40,312
<b>Closing balance</b>	<b>40,312</b>	<b>40,312</b>

Further details of transactions in the Company's shares are given in the Business Review on page 18.

**16. Capital and reserves**

	Called up share capital £'000	Capital redemption reserve £'000	Other <sup>1</sup> reserve £'000	Capital reserves				Revenue reserve <sup>2</sup> £'000	Total £'000
				Gains and losses on sales of investments £'000	Investment holding gains and losses £'000	Capital reserve unrealised £'000			
Opening balance	40,312	8,650	166,791	121,057	125,134	(5,189)	6,822	463,577	
Net gains on cash and cash equivalents	-	-	-	1,570	-	-	-	1,570	
Gains on sales of investments based on the carrying value at the previous balance sheet date	-	-	-	17,299	-	-	-	17,299	
Net movement in investment holding gains and losses	-	-	-	-	161,853	-	-	161,853	
Transfer on disposal of investments	-	-	-	60,260	(60,260)	-	-	-	
Realised gains on repayment of loans	-	-	-	693	-	-	-	693	
Unrealised exchange loss on foreign currency loan	-	-	-	-	-	(18,808)	-	(18,808)	
Transfer re loans repaid in period	-	-	-	(2,076)	-	2,076	-	-	
Management fee and finance costs charged to capital	-	-	-	(3,303)	-	-	-	(3,303)	
Other capital charges	-	-	-	(7)	-	-	-	(7)	
Dividend paid in the year	-	-	-	-	-	-	(4,515)	(4,515)	
Retained revenue for the year	-	-	-	-	-	-	6,406	6,406	
<b>Closing balance</b>	<b>40,312</b>	<b>8,650</b>	<b>166,791</b>	<b>195,493</b>	<b>226,727</b>	<b>(21,921)</b>	<b>8,713</b>	<b>624,765</b>	

<sup>1</sup> Created during the year ended 30th September 1999, following a cancellation of the share premium account.

<sup>2</sup> This reserve forms the distributable reserve of the Company and may be used to fund distribution of profits to investors via dividend payments.

**17. Net asset value per share**

	2016	2015
Net assets (£'000)	624,765	463,577
Number of shares in issue	161,248,078	161,248,078
<b>Net asset value per share</b>	<b>387.5p</b>	<b>287.5p</b>

## 18. Contingent liabilities and capital commitments

At the balance sheet date there were no contingent liabilities or capital commitments (2015: same).

## 19. 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 £3,364,000 (2015: £3,029,000) of which £nil (2015: £nil) was outstanding at the year end.

Included in other administration expenses in note 6 on page 48 are safe custody fees amounting to £38,000 (2015: £43,000) payable to JPMorgan Investor Services Limited, of which £7,000 (2015: £10,000) 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 arm's length. The commission payable to JPMorgan Securities for the year was £33,000 (2015: £15,000) of which £nil (2015: £nil) was outstanding at the year end.

Handling charges on dealing transactions amounting to £7,000 (2015: £2,000) were payable to JPMorgan Chase Bank N.A. during the year of which £2,000 (2015: £nil) was outstanding at the year end.

At the year end, total cash of £6,118,000 (2015: £46,923,000) was held with JPMorgan Chase. A net amount of interest of £359 (2015: £206) was receivable by the Company during the year from JPMorgan Chase of which £nil (2015: £nil) was outstanding at the year end.

Full details of Directors' remuneration and shareholdings can be found on page 33 and in note 6 on page 48.

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

The Company's financial instruments within the scope of FRS 102 that are held at fair value comprise its investment portfolio and derivative financial instruments.

The investments are categorised into a hierarchy consisting of the following three levels:

- (1) The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.
- (2) Inputs other than quoted prices included within Level 1 that are observable (i.e.: developed using market data) for the asset or liability, either directly or indirectly.
- (3) Inputs are unobservable (i.e.: for which market data is unavailable) for the asset or liability.

Categorisation within the hierarchy has been determined on the basis of the lowest level input that is significant to the fair value measurement of the relevant asset.

Details of the valuation techniques used by the Company are given in note 1(c) on page 45.

The following table sets out the fair value measurements using the FRS 102 hierarchy at 30th September.

	2016		2015	
	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000
Level 1	683,857	–	493,278	–
<b>Total</b>	<b>683,857</b>	<b>–</b>	<b>493,278</b>	<b>–</b>

There were no transfers between Level 1, 2 or 3 during the year (2015: same).

**NOTES TO THE FINANCIAL STATEMENTS CONTINUED****21. Financial instruments' exposure to risk and risk management policies**

As an investment trust, the Company invests in equities 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 financial risks that could result in a reduction in the Company's net assets or a reduction in the profits available for dividends.

These financial 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 policy.

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 classes of financial instruments are as follows:

- 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
- a loan facility.

**(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 21(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.

	2016			2015		
	Yen £'000	NZD £'000	Total £'000	Yen £'000	NZD £'000	Total £'000
Current assets	9,215	6	9,221	53,174	5	53,179
Creditors	(68,418)	–	(68,418)	(82,684)	–	(82,684)
Foreign currency exposure on net monetary items	(59,203)	6	(59,197)	(29,510)	5	(29,505)
Investments held at fair value through profit or loss	683,857	–	683,857	493,278	–	493,278
<b>Total net foreign currency exposure</b>	<b>624,654</b>	<b>6</b>	<b>624,660</b>	<b>463,768</b>	<b>5</b>	<b>463,773</b>

In the opinion of the Directors, the above year end amounts are broadly representative of the exposure to foreign currency risk during the year.

#### 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 the income receivable in foreign currency and assumes a 10% (2015: 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.

	2016		2015	
	If sterling strengthens by 10%	If sterling weakens by 10%	If sterling strengthens by 10%	If sterling weakens by 10%
	£'000	£'000	£'000	£'000
Statement of Comprehensive Income - return after taxation				
Revenue return	(872)	872	(697)	697
Capital return	5,920	(5,920)	2,951	(2,951)
Total return after taxation	5,048	(5,048)	2,254	(2,254)
<b>Net assets</b>	<b>5,048</b>	<b>(5,048)</b>	<b>2,254</b>	<b>(2,254)</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.

**NOTES TO THE FINANCIAL STATEMENTS CONTINUED**

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

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

**(ii) Interest rate risk**

Interest rate movements may affect the level of income receivable on cash deposits and the liquidity fund 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.

	2016 £'000	2015 £'000
Exposure to floating interest rates:		
Cash and short term deposits	6,118	46,923
Creditors: amounts falling due within one year		
Bank loan – floating rate loan with NAB (matured 2016)	–	(33,074)
<b>Total exposure</b>	<b>6,118</b>	<b>13,849</b>

Interest receivable on cash balances, or paid on overdrafts, is at a margin below or above LIBOR respectively (2015: same).

**Interest rate sensitivity**

The following table illustrates the sensitivity of the return after taxation for the year and net assets to a 1% (2015: 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.

	2016		2015	
	1% increase in rate £'000	1% decrease in rate £'000	1% increase in rate £'000	1% decrease in rate £'000
Statement of Comprehensive Income - return after taxation				
Revenue return	61	(61)	403	(403)
Capital return	–	–	(265)	265
<b>Total return after taxation for the year</b>	<b>61</b>	<b>(61)</b>	<b>138</b>	<b>(138)</b>
<b>Net assets</b>	<b>61</b>	<b>(61)</b>	<b>138</b>	<b>(138)</b>

In the opinion of the Directors, the above sensitivity analysis are broadly representative of the Company's future exposure to interest rate changes.

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**(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 equity 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 total exposure to changes in market prices at 30th September comprises its holdings in equity investments as follows:

	2016 £'000	2015 £'000
Equity investments held at fair value through profit or loss	683,857	493,278

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

**Concentration of exposure to other price risk**

An analysis of the Company's investments is given on pages 14 and 15. This shows that all investments are in Japanese listed equities. Accordingly, there is a concentration of exposure to that country. However, it should also be noted that an investment may not be entirely 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% (2015: 10%) in the market value of equity investments. 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, adjusting for changes in the management fee but with all other variables held constant.

	2016		2015	
	10% increase in fair value £'000	10% decrease in fair value £'000	10% increase in fair value £'000	10% decrease in fair value £'000
Statement of Comprehensive Income - return after taxation				
Revenue return	(66)	17	(48)	55
Capital return	68,120	(68,319)	49,136	(49,109)
Total return after taxation	68,054	(68,302)	49,088	(49,054)
Net assets	68,054	(68,302)	49,088	(49,054)

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

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

**(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 14 on page 51.

**Liquidity risk exposure**

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

	2016			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	336	588	70,770	71,694
Other creditors and accruals	113	–	–	113
	<b>449</b>	<b>588</b>	<b>70,770</b>	<b>71,807</b>
	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	83	33,189	–	33,272
Other creditors and accruals	125	–	–	125
Creditors: amounts falling due after more than one year				
Bank loan - including interest	235	426	51,778	52,439
	<b>443</b>	<b>33,615</b>	<b>51,778</b>	<b>85,836</b>

The liabilities shown above represent future contractual payments and therefore may differ from the amounts shown in the Statement of Financial Position.

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**(c) Credit risk**

Credit risk is the risk that the failure of the counterparty to a transaction to discharge its obligations under that transaction could result in 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 principal of a trade during the settlement process. However, the Company's holdings in Participatory Notes and Warrants are subject to counterparty risk associated with each issuer. 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 and cash equivalents***

Counterparties are subject to regular credit analysis by the Manager and deposits can only be placed with counterparties that have been approved by JPMAM's Counterparty Risk Group and the Board.

JPMorgan Chase Bank N.A. has an S+P credit rating of A-1.

***Exposure to JPMorgan Chase***

JPMorgan Chase Bank, N.A. is the custodian of the Company's assets. The Company's assets are segregated from JPMorgan Chase's own trading assets. Therefore these assets are designed to be protected from creditors in the event that JPMorgan Chase were to cease trading. The Depository, BNY Mellon Trust and Depository (UK) Limited, is responsible for the safekeeping of all custodial assets of the Company and for verifying and maintaining a record of all other assets of the Company. However, no absolute guarantee can be given on the protection of all the assets of the Company.

**Credit risk exposure**

The amounts shown in the Statement of Financial Position under debtors and cash and cash equivalents represent the maximum exposure to credit risk at the current and comparative year ends.

There were no stocks on loan at 30th September 2016 (2015: 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 Statement of Financial Position at fair value or the carrying amount is a reasonable approximation of fair value.

## NOTES TO THE FINANCIAL STATEMENTS *CONTINUED*

### 22. Capital management policies and procedures

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

	2016 £'000	2015 £'000
<b>Debt:</b>		
Bank loans	68,418	82,684
<b>Equity:</b>		
Called up share capital	40,312	40,312
Reserves	584,453	423,265
<b>Total equity</b>	<b>624,765</b>	<b>463,577</b>
<b>Total debt and equity</b>	<b>693,183</b>	<b>546,261</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.

	2016 £'000	2015 £'000
Investments held at fair value through profit or loss	683,857	493,278
Net assets	624,765	463,577
Gearing	9.5%	6.4%

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 planned level of gearing, which takes into account the Manager's views on the market;
- 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.

### 23. Subsequent events

The Directors have evaluated the period since the year end and have not noted any subsequent events.

# Regulatory Disclosures

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## ALTERNATIVE INVESTMENT FUND MANAGERS DIRECTIVE ('AIFMD') DISCLOSURES (UNAUDITED)

### 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.

The Company's maximum and actual leverage levels at 30th September 2016, calculated as prescribed by the AIFMD, are shown below:

Leverage Exposure	Gross Method	Commitment Method
Maximum limit	200%	200%
Actual	111%	111%

### JPMF Remuneration

JPMF is the authorised manager of the Company and is part of the J.P. Morgan Chase & Co. group of companies. In this disclosure, the terms 'J.P. Morgan' or 'Firm' refer to that group, and each of the entities in that group globally, unless otherwise specified.

This disclosure has been prepared in accordance with the AIFMD, the European Commission Delegated Regulation supplementing the AIFMD, the 'Guidelines on Sound Remuneration Policies' under the AIFMD issued by the European Securities and Markets Authority and the Financial Conduct Authority Handbook (SYSC 19B: The AIFM Remuneration Code and FUND 3.3).

### JPMF Remuneration Policy

The current remuneration policy for the EMEA Global Investment business of J.P. Morgan can be found at <https://am.jpmorgan.com/gb/en/asset-management/gim/adv/legal/emea-remuneration-policy>. This policy includes details of the alignment with risk management, the financial and non-financial criteria used to evaluate performance and the measures adopted to avoid or manage conflicts of interest.

Disclosures in accordance with FUND 3.3.5, Article 22(2)e and 22(2)f of the AIFMD and Article 107 of the Delegated Regulation are disclosed on the Company's website at [www.jpmmjapanese.co.uk](http://www.jpmmjapanese.co.uk).

# Shareholder Information

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## NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the eighty eighth Annual General Meeting of JPMorgan Japanese Investment Trust plc will be held at the Offices of JPMorgan, 60 Victoria Embankment, London EC4Y 0JP on 20th December 2016 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 2016.
2. To approve the Director's Remuneration Policy.
3. To approve the Directors' Remuneration Report for the year ended 30th September 2016.
4. To approve a final dividend of 3.65p per share.
5. To reappoint Andrew Fleming as a Director of the Company.
6. To reappoint Sir Stephen Gomersall as a Director of the Company.
7. To reappoint Christopher Samuel as a Director of the Company.
8. 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

9. 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 2017 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

10. THAT subject to the passing of Resolution 9 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 9 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

11. 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 19th June 2018 unless the authority is renewed at the Company's Annual General Meeting in 2017 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.

**Authority to amend the Articles of Association - Special Resolution**

12. THAT the Articles of Association contained in the document produced for the meeting and signed by the Chairman for the purposes of identification, be approved and adopted as the new Articles of Association of the Company in the substitution for and to the exclusion of, the existing Articles of Association, with effect from the conclusion of the 2016 Annual General Meeting.

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

18th November 2016



**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 6.30 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 6.30 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 15th November 2016 (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.
17. A copy of the current articles of association of the Company and the proposed new articles of association of the Company will be available for inspection during normal business hours (Saturdays, Sundays and public holidays excepted) at the offices of JPMorgan Asset Management (UK) Limited, 60 Victoria Embankment, London EC4Y 0JP, from the date of the Annual Report in which this notice is included up until the close of the AGM. Copies will also be available at 60 Victoria Embankment, London EC4Y 0JP, being the place of the Annual General Meeting, for 15 minutes prior to, and during, the meeting.

### **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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## APPENDIX TO NOTICE OF MEETING

Resolution 12, seeks approval from shareholders to adopt new articles of association for the Company (the 'New Articles'). The principal changes proposed to be introduced in the New Articles and their effect are set out below.

### 1. The Alternative Investment Fund Managers Directive (2011/61/EU) ('AIFMD') and the Alternative Investment Fund Managers Regulations 2013 (SI 2013/1773) (the 'AIFM Regulations')

The Board is proposing to make amendments to the current articles of association of the Company (the 'Existing Articles') in response to the AIFMD and all applicable rules and regulations implementing that Directive. The proposed new provisions are as follows:

- 1.1. The Existing Articles will be amended to provide that the net asset value per share of the Company shall be calculated at least annually and be disclosed to shareholders from time to time in such manner as may be determined by the Board. The amendment will have no bearing on current practice and simply articulates the minimum requirements of the AIFM Regulations.
- 1.2. The AIFM Regulations require that prior to any new or existing investor making an investment in the Company certain prescribed information is to be made available to them. Therefore, the New Articles will include language with the effect that such information shall be made available to prospective and existing shareholders in such manner as may be determined by the Board from time to time (including, in certain cases, on the Company's website or by electronic notice).
- 1.3. The valuation of the Company's assets will be performed in accordance with prevailing accounting standards, in line with guidance from the Financial Conduct Authority. This reflects best practice and has no bearing on current practice and simply articulates the minimum requirements of the AIFM Regulations.
- 1.4. The Existing Articles will be amended to provide that the Company's annual report and accounts may be prepared either in accordance with generally acceptable accounting principles of the United Kingdom or such other international accounting standards as may be permitted under the law of England and Wales. The amendment will have no bearing on current practice and simply articulates the minimum requirements of the AIFM Regulations.

### 2. Increase in the cap on annual aggregate Directors' fees

The Existing Articles will be amended to provide that the aggregate fees that the Directors will be paid out of the funds of the Company by way of remuneration for their services as Directors will not exceed £200,000 per annum (or such larger sum as the Company may by ordinary resolution determine). For further information please refer to the Chairman's Statement on page 3 and the Directors' Report on page 25.

### 3. Distributions out of capital reserves

The statutory rules governing investment trusts were amended in 2012. In particular, the rule which prohibited an investment trust from distributing any surplus arising from the realisation of its investments was repealed. In compliance with the previous statutory regime, the Company has provisions in the Existing Articles which expressly prohibit the distribution of any surplus arising from the realisation of any investment. In the light of the amended statutory rules, the Board no longer considers it appropriate to have such a prohibition in the Company's articles of association and therefore proposes that it is removed. The New Articles, if adopted, remove this prohibition.

The Board believes that the removal of this restriction will give the Company greater flexibility in the long term as it will enable the Company to make distributions from any surplus arising from the realisation of any investment. However, the Board has no intention of exercising this authority at the current time.

### 4. International tax regimes requiring the exchange of information

Finally, the Board is proposing to include provisions in the New Articles to provide the Company with the ability to require shareholders to co-operate in respect of the exchange of information to comply with the Company's international tax reporting obligations.

The Hiring Incentives to Restore Employment Act 2010 of the United States of America commonly known as the Foreign Account Tax Compliance Act and all associated regulations and official guidance ('FATCA') imposes a system of information reporting on certain entities including foreign financial institutions such as the Company following the enactment of the UK International Tax Compliance (United States of America) Regulations 2013 on 1st September 2013. These regulations have now been replaced by the International Tax Compliance Regulations 2015 (the 'Regulations').

The Existing Articles will be amended to provide the Company with the ability to require shareholders to co-operate with it in ensuring that the Company is able to comply with its obligations under the Regulations in order to avoid being deemed to be a 'Nonparticipating Financial Institution' for the purposes of FATCA and consequently having to pay withholding tax to the US Internal Revenue Service. The Existing Articles will also be amended to ensure that the Company will not be liable for any monies that become subject to a deduction or withholding relating to FATCA, as such liability would be to the detriment of shareholders as a whole.

**APPENDIX TO NOTICE OF MEETING *CONTINUED***

The Regulations also include the automatic exchange of information regimes being brought in by the new tax regulation under the OECD (Organisation for Economic Co-operation and Development) Common Reporting Standard for Automatic Exchange of Financial Account Information (the Common Reporting Standard) which will require investment trust companies to provide personal information to HMRC on certain investors who purchase shares in investment trusts. As a result, the Company will have to provide information annually to the local tax authority on the tax residency of a number of non-UK based certified Shareholders and corporate entities.

Therefore, the Existing Articles will also be amended in order to provide the Company with the ability to require shareholders to co-operate in respect of these broader obligations including its obligations under the OECD and FATCA.

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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 investments, expressed as a percentage of the shareholders' funds. Previously gearing represented the excess amount above shareholders' funds of total assets expressed as a percentage of shareholders' funds. Total assets included total investments and net current assets/liabilities less cash/cash equivalents and excluding bank loans of less than one year. If the amount calculated is negative, this is shown as a 'net cash' position.

### 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 20 40 20 or visit its website at [am.jpmorgan.co.uk](http://am.jpmorgan.co.uk)

### 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 20 40 20 or via its website at [am.jpmorgan.co.uk](http://am.jpmorgan.co.uk)

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

#### Fund supermarkets:

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

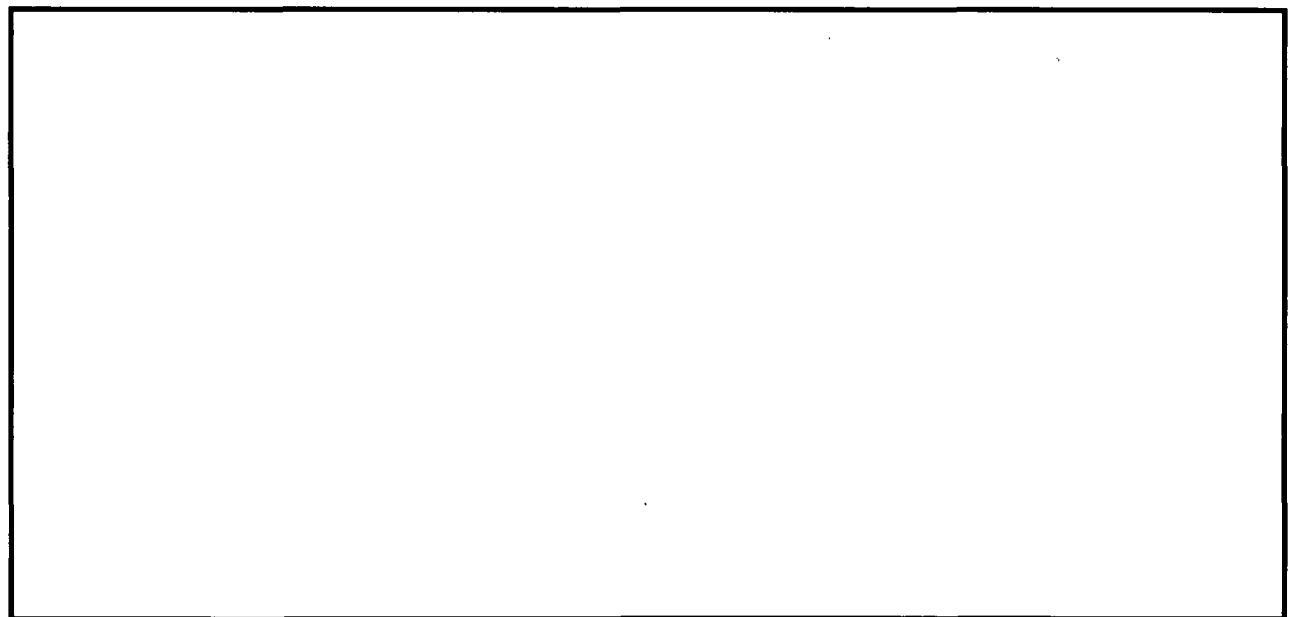
Alternatively you can invest through an Investment Professional (e.g. a Financial Adviser) on the following 3rd party platforms:

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.jpmmjapanese.co.uk](http://www.jpmmjapanese.co.uk), where the share price is updated every fifteen minutes during trading hours.

## Website

[www.jpmmjapanese.co.uk](http://www.jpmmjapanese.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, J.P. Morgan ISA and J.P. Morgan Junior ISA. These products are all available on the online service at [jpmorgan.co.uk/online](http://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.

## Depository

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

The Depository 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.

**aic**  
The Association of  
Investment Companies

A member of the AIC

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

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**J.P. Morgan Helpline**

Freephone 0800 20 40 20 or +44 (0) 1268 444470.

Telephone lines are open Monday to Friday, 9am to 5.30pm.

Telephone calls may be recorded and monitored for security and training purposes.