Schroders

# Schroder Japan Trust plc

## Annual Report and Accounts

For the year ended
31 July 2023

## Investment objective

The principal investment objective of the Company is to achieve capital growth from an actively managed portfolio principally comprising securities listed on the Japanese stock markets, with the aim of achieving returns in excess of the TSE First Section Total Return Index in sterling over the longer term.

## Investment policy*

The Manager utilises an active stock driven investment approach, drawing on Schroders' extensive research resources in Japan. The portfolio is principally invested in a broad range of companies quoted on the Tokyo Stock Exchange, the regional stock markets of Fukuoka, Hiroshima, Kyoto, Nagoya, Niigata, Osaka and Sapporo and the Japanese over the counter (OTC) market. Investments may also be made in companies listed elsewhere but controlled from Japan or with a material exposure to the Japanese economy. There are no constraints on size of company or sector allocation. This flexibility will allow the Manager to take advantage of changes in market sentiment and in the domestic economic cycle as it develops.

The portfolio is mainly invested in equities but may also be invested in warrants, convertibles and other derivative instruments where appropriate. The Company may invest up to 5% of its assets in securities which are not listed on any stock exchange, but would not normally make such investment except where the Manager expects that the securities will shortly become listed on a Japanese stock market.


* Proposed amendment to the investment policy is set out on page 63.

# Contents

# Financial Highlights

**Some of the financial measures below are classified as Alternative Performance Measures, as defined by the European Securities and Markets Authority and are indicated with an asterisk (*). Definitions of these performance measures, and other terms used in this report, are given on page 67, together with supporting calculations where appropriate.**

## Total returns for the year ended 31 July 2023

**+11.7%**
(2022: +1.0%)
**Net asset value ("NAV") per share total return***

**+18.7%**
(2022: –2.0%)
**Share price total return***

**+9.4%**
(2022: –1.9%)
**Benchmark[1, 2]**

[1]Source: Thomson Reuters.
[2]The measure against which the Company compares its performance. The Benchmark is the TSE First Section Total Return Index in sterling terms.

## Other financial information

| | 31 July 2023 | 31 July 2022 | % change |
|---|---|---|---|
| Shareholders' funds (£'000) | **302,460** | 281,429 | +7.5 |
| NAV per share (pence) | **252.25** | 230.68 | +9.4 |
| Share price (pence) | **234.00** | 202.00 | +15.8 |
| Share price discount to NAV per share* (%) | **7.2** | 12.4 | |
| Gearing* (%) | **9.5** | 11.1 | |

| | Year ended 31 July 2023 | Year ended 31 July 2022 | % change |
|---|---|---|---|
| Net revenue attributable to shareholders (£'000) | **6,563** | 6,073 | +8.1 |
| Revenue return per share (pence) | **5.41** | 4.97 | +8.9 |
| Dividend per share (pence) | **5.40** | 4.90 | +10.2 |
| Ongoing Charges* (%) | **0.94** | 0.92 | |

# 10 Year Financial Record

**Definitions of terms and performance measures are given on page 67.**

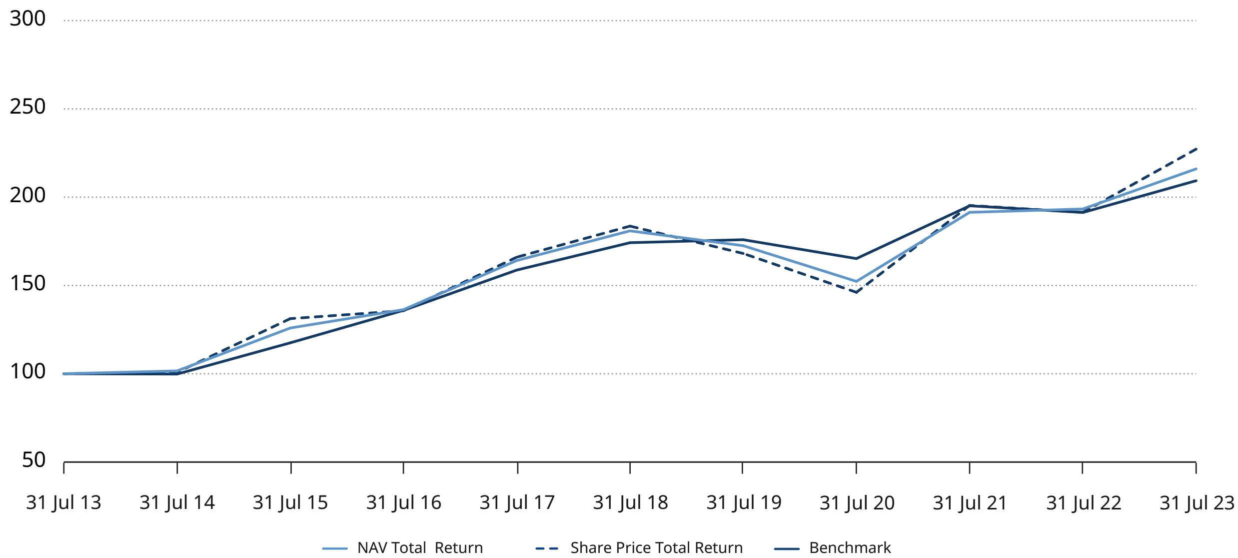
| At 31 July | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|---|---|---|---|
| Total assets (£'000)[1] | 202,254 | 243,135 | 270,783 | 310,493 | 333,130 | 318,944 | 279,365 | 323,180 | 318,321 | 336,950 |
| Shareholders' funds (£'000) | 173,455 | 212,101 | 226,688 | 269,304 | 292,268 | 273,812 | 236,128 | 283,859 | 281,429 | 302,460 |
| NAV per share (pence) | 138.75 | 169.67 | 181.34 | 215.43 | 233.80 | 219.04 | 189.24 | 232.40 | 230.68 | 252.25 |
| Share price (pence) | 123.75 | 158.75 | 162.00 | 195.00 | 212.00 | 190.50 | 161.50 | 210.00 | 202.00 | 234.00 |
| Share price discount to NAV per share* (%) | 10.8 | 6.4 | 10.7 | 9.5 | 9.3 | 13.0 | 14.7 | 9.6 | 12.4 | 7.2 |
| Gearing* (%)[2] | 12.8 | 12.5 | 12.1 | 11.2 | 11.7 | 12.3 | 13.3 | 10.4 | 11.1 | 9.5 |

| For the year ended 31 July | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|---|---|---|---|
| Net revenue after taxation (£'000) | 2,401 | 2,693 | 3,898 | 4,522 | 5,106 | 5,994 | 6,252 | 5,401 | 6,073 | 6,563 |
| Net return per share (pence) | 1.92 | 2.15 | 3.12 | 3.62 | 4.08 | 4.79 | 5.00 | 4.38 | 4.97 | 5.41 |
| Dividend per share (pence) | 1.80 | 2.00 | 2.80 | 3.50 | 4.00 | 4.70 | 4.90 | 4.30 | 4.90 | 5.40 |
| Ongoing charges* (%)[3] | 1.36 | 1.09 | 1.11 | 1.00 | 1.00 | 1.03 | 0.92 | 0.89 | 0.92 | 0.94 |

| Performance[4] | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| NAV total return* | 100.0 | 101.6 | 125.9 | 136.3 | 164.1 | 180.9 | 172.5 | 152.3 | 191.4 | 193.3 | 216.0 |
| Share price total return* | 100.0 | 100.8 | 131.2 | 135.7 | 166.0 | 183.6 | 168.1 | 146.1 | 195.3 | 191.4 | 227.2 |
| Benchmark[5] | 100.0 | 99.8 | 117.5 | 135.9 | 158.7 | 174.2 | 175.9 | 165.2 | 195.1 | 191.3 | 209.3 |

[1]Net assets plus borrowings used for investment purposes.
[2]Gearing represents borrowings used for investment purposes, less cash, expressed as a percentage of net assets.
[3]Ongoing charges represents the management fee and all other operating expenses excluding finance costs and transaction costs, expressed as a percentage of the average daily net asset values during the year.
[4]Source: Morningstar/Thomson Reuters. Rebased to 100 at 31 July 2013.
[5]The Company's Benchmark is the TSE First Section Total Return Index in sterling terms.
*Alternative performance measures.

## 10 year NAV, share price and benchmark total returns to 31 July 2023




Source: Morningstar/Thomson Reuters. Rebased to 100 at 31 July 2013.

Strategic Report

# Chairman's Statement

## Performance

For my first annual statement as Chairman, I am pleased to report that for the year under review our Manager's investment strategy has again generated superior returns to the Japanese stock market. During the year ended 31 July 2023, the Company's net asset value ("NAV") produced a total return of 11.7%, outperforming its benchmark index which ended the year with a total return of 9.4%. Meanwhile, the Company's share price produced a total return of 18.7%, as its discount to NAV narrowed on the back of this encouraging performance and improving sentiment towards the Japanese stock market. The Company's discount averaged 11.5% over the year, compared to 11% in the year ended 31 July 2022.

Our Portfolio Manager, Masaki Taketsume, has remained disciplined within a rising market and has positioned the portfolio to exploit opportunities in under-valued companies. The execution of this investment strategy has now resulted in three years of outperformance against the Company's benchmark.

Further details about the Company's investment strategy and portfolio activity during the year can be found in the Portfolio Manager's review.

During the year, the Company changed its name to Schroder Japan Trust plc. The Board decided to remove 'Growth' from the Company's name, to reflect more accurately the investment approach of the Manager.

Continued action taken by the Board has begun to show signs of bearing fruit. The Manager has produced excellent relative performance over each of the last three financial years when market conditions have remained challenging. He has achieved this by adopting a clear, well defined investment strategy centred on his disciplined bottom-up stock picking approach which utilises Schroders' resources on the ground in Japan. At the same time, Schroders has concentrated its promotional efforts on increasing the Manager's profile and in helping to raise awareness of his investment strategy and approach to a wider audience.

The Board supported the Company by introducing a conditional tender offer mechanism three years ago and has continued to manage an active buy-back programme, with the aim of assisting the reduction of volatility in the discount. The sharp re-rating of the share price during the year, which is reflected in an 18.7% total return, is indicative of the progress that has been made.

## Conditional Tender Offer

The Board continues to monitor the Company's performance against its tender performance target each year. The Company has a target to deliver net asset value total return performance of at least 2% per annum above the Benchmark over a four-year period starting from 1 August 2020. Should this target not be met, the Board will put to shareholders a proposal for a tender offer of 25% of the issued share capital at a price equal to the prevailing net asset value less costs. This would be contingent on the next continuation vote of the Company at the AGM in 2024 being successful.

The Manager has continued to deliver strong outperformance during the third year of the performance target, delivering a net asset value total return of 2.3% above the benchmark. As a result, over three years, the Company has now returned 12.4% on an annualised basis, which compares favourably to the annualised 8.2% return from the TOPIX Total Return Index.

## Discount and purchase of shares for cancellation

The Board monitors the discount of the share price to net asset value and, when necessary, implements a buyback programme. During the year, the Company repurchased a total of 2,096,597 shares for cancellation in line with this policy. The Board will continue to monitor the discount and will buy back shares when required. It is therefore seeking to renew the share buyback authority granted at the Company's AGM in December 2022 to purchase up to 14.99% of the Company's issued share capital for cancellation. Should permission be granted, the Board will continue to use these buyback powers.

## Gearing

The Company continues to maintain both a term loan and revolving credit facility. The gearing level was 11.1% at the start of the period and ended at 9.5%, with an average gearing level of 11.6%. Gearing had a positive effect on performance during the year. The Company's gearing continues to operate well within its pre-agreed limit of 25% of net asset value.

## Proposed change to the Investment Policy to allow for the use of Contracts for Difference

The Company is able to utilise traditional forms of bank debt to finance investment but, in current conditions in the lending markets, funding is more expensive to obtain. The Board believes that it is in the best interests of Shareholders for the Company to have the ability to employ alternative gearing through the use of Contracts for Difference (CFDs). The cost of using CFDs to increase investment exposure is currently lower than the cost of traditional borrowing.

CFDs are defined as a contract between two parties which stipulates that the buyer will receive from the seller, or the seller will pay to the buyer, the difference between the value of an asset at the time the parties enter into the contract and the value at the time the contract is closed, depending on whether the price of such asset increases or falls. The amount due under the contract is held in cash within a collateral account, which is updated on a daily basis. The Investment Manager already uses CFDs for other accounts which it manages.

# Chairman's Statement



A resolution to amend the Company's investment policy to allow for investment in CFDs will be included in the Notice of the Annual General Meeting.

## Revenue and dividend

Revenue during the year increased from 4.97p to 5.41p per share. In line with its stated policy, the Board will continue to pay out substantially all income to shareholders. The Board has therefore declared a final dividend for the year ended 31 July 2023 of 5.40p per share, representing an increase of 10% over the final dividend paid in 2022. This dividend will be paid on 8 December 2023 to shareholders on the register on 3 November 2023 subject to approval by shareholders at the Annual General Meeting ("AGM") on 5 December 2023.

Ten years ago, the Board highlighted the growing contribution from the yield paid by Japanese companies to the Company's own total return. At that time, it took action to ensure that it could pay out to its shareholders substantially all the income it received for each financial year.

Growth in yield has indeed been a feature of the market in recent years and dividend income paid out to shareholders, while still modest in terms of yield, has increased by 64.2% over the 10 years to 31 July 2023.

## Outlook

I have been involved in the Japanese equity market for over forty years and have seen many false dawns when market performance has failed to match up to investor expectations. Over the last year, foreign investors have shown growing interest in Japan and the market has performed well. Inevitably, therefore, the question arises whether this performance will continue. In other words, will it be different this time?

My fellow Directors and I continue to be excited about the Company's prospects, because we see two major developments which should continue to drive equity performance over the medium to long term. Firstly, corporate governance and stock market reforms in recent years have stimulated a tectonic shift in the attitude of many Japanese companies towards improving returns for shareholders. Secondly, the reappearance of inflation could signal the end of the deflationary spiral which has, for example, constrained consumer spending in Japan over the last two decades. The country's central bank, the Bank of Japan, has explicitly stated that its accommodative monetary policy is being pursued to achieve sustained, stable 2% inflation.

Against this macroeconomic background, there remain significant opportunities for our high conviction, bottom-up strategy to identify and exploit market opportunities and drive positive relative performance.

## AJ Bell Investment Awards winner

I am very pleased to announce that the Company has recently been notified that it is the winner of the 2023 AJ Bell Investment Awards in the Japan Equity – Active category. Recognition of the Company by a major provider of platform services to retail clients should help to further increase our profile within the retail investor community.

## AGM and shareholder engagement

The AGM will be held at 1.00 pm on Tuesday, 5 December 2023. Shareholders are asked to cast their votes by proxy. The Manager will be presenting at a webinar separately from the AGM on 5 December 2023 at 1p.m. and all shareholders are encouraged to sign up on the Company's website so that they can hear the portfolio manager's view and ask questions. Shareholders can also sign up using this link: https://www.schroders.events/sjg23. The Board would like shareholders to get in touch via the Company Secretary with any questions or comments, so that the Board can address them in advance of the AGM. To email, please use: amcompanysecretary@schroders.com or write to us at the Company's registered office address (Company Secretary, Schroder Japan Trust plc, 1 London Wall Place, London EC2Y 5AU). For regular news about the trust, shareholders are also encouraged to sign up to the Manager's investment trusts update by visiting the Company's website.

**Philip Kay**
Chairman

28 September 2023

# Investment Manager's Review

For the financial year to 31 July 2023, the Company's net asset value increased by 11.7%, while its benchmark rose by 9.4%.[1] Before we delve more deeply into the drivers of performance, we would like to explain the investment philosophy and approach that sits behind our decision-making. This should provide some important context to help you understand why the portfolio is positioned the way it is, and what you should expect in terms of future performance.

## Our investment approach

We believe the Japanese equity market ultimately acts efficiently in reflecting the intrinsic value of companies. In the short to medium-term, however, considerable inefficiencies are frequently evident in individual stocks. These inefficiencies provide repeatable opportunities to identify and invest in undervalued stocks, with the aim of delivering a better return than the market as a whole on a rolling three-to-five year view.

Our investment resource is entirely devoted to this aim, focusing on individual company fundamentals to understand the true worth of a stock and investing in a portfolio of 60-70 of the highest conviction ideas. These then tend to be held for the long term, with value being realised as the market gradually reflects their true value more efficiently.

Portfolio holdings tend to fall into three categories of inefficiency:

1. **Market misperception** – companies with self-improving credentials, with management initiatives to sustainably enhance operational performance, being under-appreciated by other investors.
2. **Market oversight** – undervalued companies, especially among small and mid caps where research coverage is less widespread, with strong and defendable business franchises in niche product areas.
3. **Short-term overreaction** – ideas arising from abrupt but transitory events which push valuations of quality companies temporarily to unsustainably low levels.

Outside these three categories, the balance of the portfolio represents "best in class" stocks with reasonable valuations. The weighting given to each of these segments evolves over time, but a reasonable exposure to each category ensures a good level of diversification for the portfolio as a whole. Meanwhile, the approach tends to result in a bias towards value stocks[2] and smaller companies, as well as an overall focus on quality.

The portfolio tends to exhibit a high "active share", which means that its constituents deviate significantly from the benchmark index. Gearing (financial leverage) typically ranges between 10% and 17.5%,[3] allowing shareholders to potentially benefit even more as the inefficiencies we have identified become more appropriately priced by the market.

## Portfolio strategy

So, what does this mean for current portfolio strategy and positioning? Currently, the biggest category within the portfolio is **market misperception** which accounts for almost 40% of assets. This includes companies such as Hitachi, Seven & I and Toyota Motors, where we see the prospect of sustainable improvements in returns from management efforts that are not yet reflected in valuations.

In the case of Toyota, the market views the business as a "dinosaur" in an industry that is rapidly shifting towards electric vehicles (EV). We believe this to be a **market misperception**, however, because the market underestimates Toyota's capabilities in EV. It has been accumulating knowledge and technologies in EV since launching its first hybrid vehicle, the Prius, in 1997. It is already profitable across its hybrid (HEV), plug-in (PHEV) and battery (BEV) powered vehicle range and, as it continues to reveal further details of its EV strategy, we expect investors gradually to re-evaluate its competitive strengths in EV, which should ultimately result in a deservedly higher market multiple.

Almost 30% of the portfolio is in **market oversights**, such as Fukushima Galilei and Hosokawa Micron, where we find highly competitive smaller businesses trading at a significant discount to their large cap and global peers. As the leading global provider of high-quality powder manufacturing machines, Hosokawa Micron is an excellent example of the type of **market oversights** we are able to find in Japan. It dominates its niche and is also benefiting from growing demand for its high-quality powders, which are used in fast growing product areas such as lithium-ion batteries. Nevertheless, its shares trade at an unwarranted discount to the shares of similar businesses elsewhere in the world.

14% of the portfolio is invested in **short-term overreactions**, including out-of-favour technology opportunities such as Nomura Research Institute (NRI) and Ibiden. These businesses are beneficiaries of long-term structural tailwinds but their shares were sold down aggressively – in our view, too aggressively – last year. NRI is one of the highest quality IT service companies in Japan. With its strong consulting capabilities, it is well positioned to capture rising demand from Japanese companies that are looking to digitally transform their business models. Its growth prospects therefore continue to look positive, but its valuation contracted significantly in 2022, during the widespread sell-off in technology and "growth stocks" more generally. This looks like a classic **short-term overreaction** to us, which we took advantage of by adding the shares to the portfolio.

The remaining portfolio is invested in what we consider to be best-in-class operators, such as Sumitomo Mitsui Financial Group, Asahi Group Holdings, Orix, and NTT.

From a sector perspective, this results in a bias towards Machinery, Glass & Ceramic Products, Other Financing Business, and Information & Communication. As is typical, the portfolio is also overweight towards small and mid cap stocks, where valuations look particularly attractive as the domestic Japanese economy recovers.

1 Source: Morningstar, cum-income NAV with dividends reinvested, 31 July 2023 data, net of fees. Past performance is not a guide to future performance and may not be repeated.

2 The term "value stocks" refers to shares that appear to trade at a lower price than justified by company fundamentals, such as dividends, earnings, sales and book value.

# Investment Manager's Review



## Recent performance drivers

Despite some weakness during the early months of the period under review, the Japanese stock market has performed strongly during 2023, reaching new 33-year highs in recent months. In sterling terms, however, the market's return was reduced somewhat by yen weakness. Value stocks outperformed growth stocks, but smaller companies generally lagged against larger caps. Meanwhile, there was a beneficial impact from the Company's gearing, and helpful contributions to relative performance also came from a range of individual stocks as we explain below. On balance, these factors were helpful to performance during the period, as reflected in the positive NAV return and the modest outperformance of the benchmark. Over three years, the Company has now returned 12.4% on an annualised basis, which compares favourably to the 8.2% return from the TOPIX Total Return Index.[3]

The strongest market influence came from developments in monetary policy, with resilient inflation data and stronger wage growth allowing the Bank of Japan (BOJ) to commence a process of "policy normalisation", which effectively marks the end of a prolonged period of ultra-low interest rates and yield curve control. This year's market rally has been driven by greater interest from foreign investors, attracted by positive momentum in the Japanese macroeconomy and ongoing expectations of corporate governance reforms.

Financial stocks generally performed well in this environment, with the portfolio's holdings in "mega bank" Sumitomo Mitsui Financial Group and insurance company T&D Holdings contributing positively. General trading companies also performed well, perhaps buoyed by news that Warren Buffett was building stakes in them. The portfolio holds a position in Mitsui & Co, which contributed strongly to performance and is, in our view, the most attractive of the general trading companies, thanks to its more favourable shareholder remuneration policy.

The biggest positive contribution to performance, however, came from a **short-term overreaction** stock. Ibiden is a mid cap electronic component maker, which specialises in providing foundational materials used in the construction of powerful central and graphics processing units (CPUs and GPUs). These are heavily used in cloud computing and artificial intelligence data centres. The exponential growth in these markets has driven stronger-than-expected results from Ibiden, leading to significant share price growth and a full recovery from last year's weakness which had allowed us to build a position in the shares.

Meanwhile, Disco Corporation, which sits within the **market oversight** category, also added value. Disco has a dominant market share in providing equipment for integrated circuit (IC) packaging, which is a process of enclosing semiconductors in protective, high-performance casements. The added value of IC packaging is becoming increasingly apparent in the semiconductor industry and, as a result, Disco is currently enjoying very significant volume growth as well as commanding higher prices.

By contrast, Mitsui Fudosan, one of Japan's largest property groups, disappointed amid concern about how the change in monetary policy may impact the Japanese property market. Meanwhile, Kureha, a small cap speciality chemicals company, and Aeon Financial Services, a small cap non-bank financial, also detracted due to weaker earnings progress.

## Attribution – stock selection

### 12 Months to 31 July 2023

| Top 5 contributors | Portfolio weight | Benckmark[1] weight | Portfolio return | Benchmark[1] return | Total effect |
|---|---|---|---|---|---|
| Ibiden Co Ltd | 1.8 | 0.1 | 99.2 | 99.2 | +1.14 |
| Mitsui & Co | 2.8 | 1.1 | 75.4 | 75.4 | +0.88 |
| Sumitomo Mitsui Fg | 3.7 | 1.3 | 52.7 | 52.7 | +0.84 |
| Disco Corporation | 1.0 | 0.2 | 125.2 | 125.2 | +0.59 |
| T&D Holdings Inc | 1.8 | 0.2 | 43.2 | 43.2 | +0.48 |

| Top 5 detractors | Portfolio weight | Benckmark[1] weight | Portfolio return | Benchmark[1] return | Total effect |
|---|---|---|---|---|---|
| Mitsubishi Corp | 0.0 | 1.1 | 0.0 | 70.5 | –0.57 |
| Mitsubishi Ufj Fin | 0.0 | 1.8 | 0.0 | 42.8 | –0.55 |
| Mitsui Fudosan Co | 1.6 | 0.4 | –10.3 | –10.3 | –0.47 |
| Kureha Corporation | 1.2 | 0.0 | –22.5 | –22.5 | –0.44 |
| Aeon Financial Ser | 1.2 | 0.0 | –18.5 | –18.5 | –0.39 |

Past performance is not a guide to future performance and may not be repeated. The value of investment can go down as well as up and is not guaranteed.

The return may increase or decrease as a result of currency fluctuations.

Source: FactSet, GBP, Gross. [1]. Stocks mentioned are shown for illustrative purposes only and should not be viewed as a recommendation to buy/sell.

3 Source: Morningstar, cum-income NAV with dividends reinvested, 31 July 2023 data, net of fees. Past performance is not a guide to future performance and may not be repeated.

# Investment Manager's Review

## Portfolio activity

Our research team has continued to focus on individual stock ideas where we can identify positive, company-specific drivers for future performance. During the period, there were a number of changes to the portfolio that reflect our ongoing efforts to maintain an appropriate portfolio balance that provides exposure to our highest conviction ideas.

One new idea that was introduced to the portfolio during the year is Kyoritsu Maintenance, a small cap service company that operates reasonably-priced hotels under the Dormy Inn brand. We view the company as a key beneficiary of economic reopening and the return of inbound tourists to Japan. This bodes well for volume increases and potential price rises. The Dormy Inn brand has a strong competitive position and the company is maintaining higher occupancy and utilisation ratios in its hotels. We do not believe the market fully acknowledges the company's existing strengths, nor does it appreciate its growth prospects. Consequently, we initiated a position in June as a new **market oversight** idea.

We also initiated a position in Mitsui Chemicals, a mid cap diversified chemical company. For some time now, Mitsui Chemicals has been engaged in the process of transforming its business model and portfolio with the aim of improving profitability and better insulating its financial performance from the impact of the commodity cycle. We believe the company's strategy is sensible and comprehensive, and it is now beginning to realise the benefits of this transformation. During the current cyclical slowdown in its end markets, Mitsui's earnings have been much more resilient when compared to both history and its peers. Nevertheless, the shares remain considerably undervalued. A single digit price-earnings ratio and a price-to-book ratio of less than one suggest the market has not yet reflected the company's positive transformation, making this a new **market misperception** idea.

In terms of exits, we decided to take profits in Itochu and shift the portfolio towards stocks that we view as more attractively valued. Itochu has performed well for the portfolio, in part perhaps thanks to the news that Warren Buffet had added to his position in the shares.

We also sold out of East Japan Railway. We continue to view it as a best-in-class stock in the Transportation & Logistics sector, which is well-positioned to benefit from the reopening of the domestic economy. However, the pace of its earnings recovery has been held back by cost increases and regulatory headwinds. In combination with a relatively solid share price performance, we have concluded that its near-term earnings recovery prospects are already reflected in the share price. Meanwhile, we have several other positions that are more directly exposed to the domestic reopening theme, so we decided to reallocate capital towards those other positions in which we have stronger conviction.

## Outlook

We believe that the Japanese equity market currently provides one of the most attractive opportunities, particularly for long-term investors. Several developments that are unique to Japan should combine to support sustained corporate earnings growth and increasing valuation multiples in the years ahead.

From an economic perspective, we should see a continued cyclical recovery following the lifting of Covid restrictions. More importantly, after more than two decades of deflationary pressure, the emergence of "positive" inflation, led by wage growth, is immensely encouraging. Not all inflation can be viewed as positive, but Japan is experiencing lower rates of inflation than in many other parts of the world. This suggests that the re-emergence of inflation in Japan can be viewed as an opportunity rather than a threat.

Indeed, the implications of this positive inflation should not be under-estimated for corporate Japan. This is an environment in which Japanese companies can regain pricing power (the ability to raise prices in response to inflation) which, when coupled with improved consumer purchasing power through wage increases, should drive healthy levels of corporate earnings growth. An element of these higher profits can then be recycled back into the economy through further wage increases, driving a positive cycle of broader economic progress that has been largely absent from Japan for a generation.

Meanwhile, corporate governance reforms are likely to remain a structural driver of the Japanese equity market in the years ahead. Historically, the structure of corporate Japan has been dominated by the keiretsu system of cross-shareholdings and close relationships between customers, suppliers, their banks and competitors. This system has been increasingly criticised from a governance perspective because it can lead to inefficient capital allocation and poor decision-making. In recent years, however, we have begun to see meaningful change, with companies, investors and regulators such as the Tokyo Stock Exchange, working together to raise corporate governance standards, with the aim of improving returns and growth prospects. The success of these initiatives is reflected in the level of dividends and share buybacks from Japanese companies. These have been rising steadily in recent years and currently stand at record levels, but there remains scope for considerable further positive progress as the corporate governance revolution unfolds.

The Japanese stock market has reached multi-decade highs in recent months in response to these positive domestic developments. Nevertheless, the equity market as a whole looks attractively valued when compared to other regions' markets and in the context of history. Many listed Japanese companies continue to trade below their book value despite the ongoing corporate governance movement. This suggests the market is not yet fully reflecting the progress that many businesses are making to improve returns. We are confident we can continue to find selective opportunities for businesses to transform both their growth prospects and their market rating through better capital allocation and by considering the needs of all their stakeholders, shareholders included. These opportunities remain concentrated at the lower end of the market cap spectrum, where valuations are also even more attractive, despite the high quality of many businesses and their superior growth potential.

To conclude, there are many reasons to believe that we may be entering a period of sustained outperformance from the Japanese stock market. We are seeing renewed appetite for Japanese equity from global investors and this demand should continue to grow as the positive domestic story becomes better understood. This represents a fertile environment for active, high conviction stock pickers, and we are excited at the opportunity that lies ahead for investors in the company.

# Investment Portfolio
# As at 31 July 2023



Stocks in bold are the 20 largest investments, which by value account for 52.6% (2022: 49.6%) of total investments. All investments are equities.

| | £'000 | % |
|---|---|---|
| Electrical Appliances | | |
| **Hitachi** | **12,793** | **3.9** |
| **Ibiden** | **7,918** | **2.4** |
| **TDK** | **6,496** | **2.0** |
| **Ricoh** | **6,296** | **1.9** |
| Nihon Kohden | 3,747 | 1.1 |
| Fujikura | 989 | 0.3 |
| **Total Electrical Appliances** | **38,239** | **11.6** |
| Machinery | | |
| **Niterra** | **5,699** | **1.7** |
| Amada | 5,184 | 1.6 |
| Disco | 4,138 | 1.2 |
| Kohoku Kogyo | 3,763 | 1.1 |
| Rheon | 3,484 | 1.1 |
| Tazmo | 3,237 | 1.0 |
| Nichias | 3,230 | 1.0 |
| **Total Machinery** | **28,735** | **8.7** |
| Transportation Equipment | | |
| **Toyota Motor** | **15,510** | **4.7** |
| Toyota Industries | 4,452 | 1.3 |
| Suzuki Motor | 3,711 | 1.1 |
| Isuzu Motors | 2,714 | 0.8 |
| Teikoku Piston Ring | 822 | 0.2 |
| **Total Transportation Equipment** | **27,209** | **8.1** |
| Chemicals | | |
| **Nippon Soda** | **5,671** | **1.7** |
| Mitsui | 5,370 | 1.6 |
| Hosokawa Micron | 4,663 | 1.4 |
| Aica Kogyo | 4,518 | 1.4 |
| Kureha Chemical | 1,837 | 0.6 |
| NOF | 1,381 | 0.4 |
| **Total Chemicals** | **23,440** | **7.1** |
| Wholesale trade | | |
| **Mitsui & Co.** | **9,701** | **2.9** |
| Fukushima Galilei | 4,240 | 1.3 |
| Trusco Nakayama | 3,867 | 1.2 |
| Doshisha | 3,744 | 1.1 |
| **Total Wholesale Trade** | **21,552** | **6.5** |

| | £'000 | % |
|---|---|---|
| Information and Communication | | |
| **Nippon Telegraph and Telephone** | **13,226** | **4.0** |
| Otsuka | 4,781 | 1.4 |
| **Total Information and Communication** | **18,007** | **5.4** |
| Pharmaceutical | | |
| **Takeda Pharmaceutical** | **7,944** | **2.4** |
| Astellas Pharmaceutical | 5,473 | 1.6 |
| Ship Healthcare | 3,198 | 1.0 |
| **Total Pharmaceutical** | **16,615** | **5.0** |
| Securities and Commodity | | |
| **Orix** | **9,859** | **3.0** |
| **Nomura Research Institute** | **5,664** | **1.7** |
| **Total Securities and Commodity** | **15,523** | **4.7** |
| Insurance | | |
| **T&D Holdings** | **8,114** | **2.4** |
| **Tokio Marine** | **7,162** | **2.2** |
| **Total Insurance** | **15,276** | **4.6** |
| Construction | | |
| **Infroneer** | **6,507** | **2.0** |
| Nippon Densetsu Kogyo | 4,642 | 1.4 |
| Sanki Engineering | 3,950 | 1.2 |
| **Total Construction** | **15,099** | **4.6** |
| Precision Instruments | | |
| **Rohm** | **6,633** | **2.0** |
| Mimasu Semiconductors | 4,499 | 1.4 |
| SMC | 3,853 | 1.2 |
| **Total Precision Instruments** | **14,985** | **4.6** |
| Banks | | |
| **Sumitomo Mitsui Financial** | **13,349** | **4.0** |
| **Total Banks** | **13,349** | **4.0** |
| Other Products | | |
| Toho | 3,475 | 1.0 |
| Miura | 3,457 | 1.0 |
| Roland | 2,925 | 0.9 |
| Bandai Namco | 2,837 | 0.9 |
| **Total Other Products** | **12,694** | **3.8** |

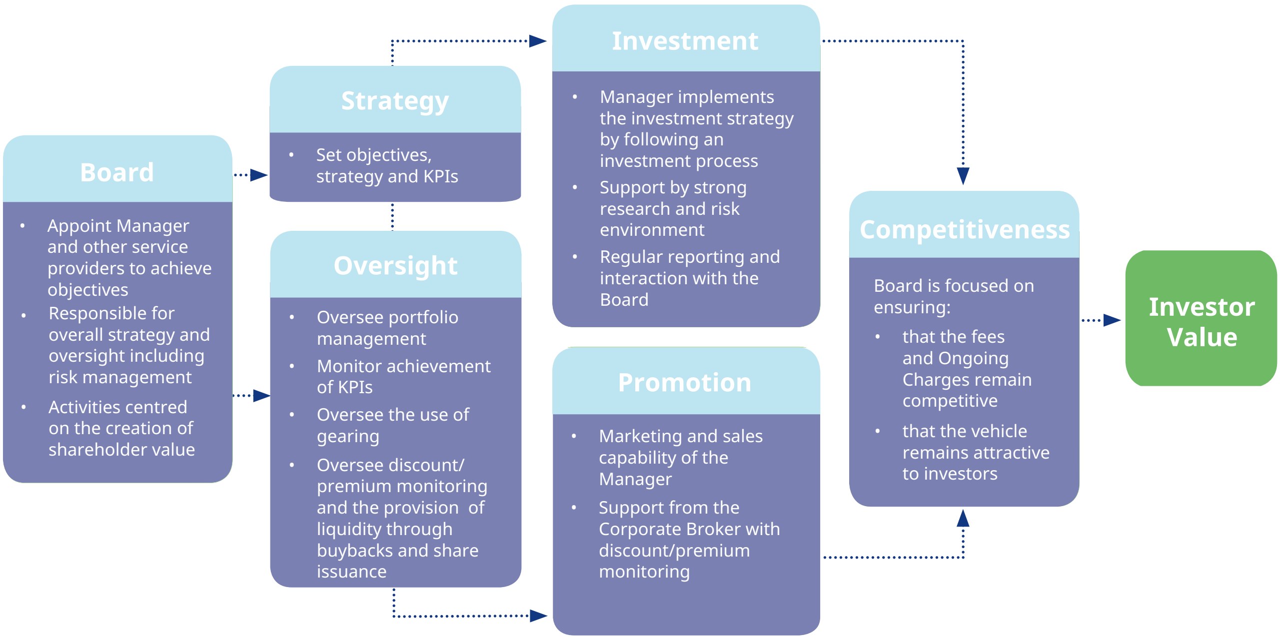
# Investment Portfolio As at 31 July 2023

| | £'000 | % |
|---|---|---|
| **Retail Trade** | | |
| **Seven & i Holdings** | **9,131** | **2.8** |
| Paltac | 2,966 | 0.9 |
| **Total Retail Trade** | **12,097** | **3.7** |
| **Technology** | | |
| NEC Systems | 4,576 | 1.4 |
| WingArc1st | 3,358 | 1.0 |
| Yokowo | 2,406 | 0.7 |
| Megachips | 1,031 | 0.3 |
| **Total Technology** | **11,371** | **3.4** |
| **Foods** | | |
| **Asahi Breweries** | **9,624** | **2.9** |
| **Total Foods** | **9,624** | **2.9** |
| **Services** | | |
| **Recruit Holdings** | **6,757** | **2.0** |
| Daiei Kankyo | 2,776 | 0.8 |
| **Total Services** | **9,533** | **2.8** |
| **Real Estate** | | |
| Park24 | 2,469 | 0.7 |
| Kyoritsu Maintenance | 2,358 | 0.7 |
| Mitsui Fudosan | 2,128 | 0.6 |
| **Total Real Estate** | **6,955** | **2.0** |

| | £'000 | % |
|---|---|---|
| **Glass and Ceramics** | | |
| Asahi glass | 4,967 | 1.5 |
| **Total Glass and Ceramics** | **4,967** | **1.5** |
| **Land Transportation** | | |
| Sankyu | 4,574 | 1.4 |
| **Total Land Transportation** | **4,574** | **1.4** |
| **Rubber Products** | | |
| Bridgestone | 3,740 | 1.1 |
| **Total Rubber Products** | **3,740** | **1.1** |
| **Other Financing Business** | | |
| AEON Financial Services | 3,581 | 1.1 |
| **Total Other Financing Business** | **3,581** | **1.1** |
| **Electric Power and Gas** | | |
| Nippon Gas | 3,446 | 1.0 |
| **Total Electric Power and Gas** | **3,446** | **1.0** |
| **Non-Ferrous Metals** | | |
| Are Holdings | 1,145 | 0.4 |
| **Total Non-Ferrous Metals** | **1,145** | **0.4** |
| **Total investments** | **331,756** | **100.0** |

# Strategic Report

**The Strategic Report sets out the Company's strategy for delivering the investment objective (set out on the inside front cover), the business model, the risks involved and how the Board manages and mitigates those risks. It also details the Company's purpose, values and culture, and how it interacts with stakeholders.**




## Business model

The Company is a listed investment trust, that has outsourced its operations to third party service providers. The Board has appointed the Manager, Schroder Unit Trusts Limited, to implement the investment strategy and to manage the Company's assets in line with the appropriate restrictions placed on it by the Board, including limits on the type and relative size of holdings which may be held in the portfolio and on the use of gearing, cash, derivatives and other financial instruments as appropriate. The terms of the appointment are described more completely in the Directors' Report. The Manager also promotes the Company using its sales and marketing teams. The Board and Manager work together to deliver the Company's investment objective, as demonstrated in the diagram above. The investment and promotion processes set out in the diagram are described in more detail below.

## Investment

### Investment process – an overview

The Manager's Japanese equity investment philosophy is based on the belief that a competitive advantage can be gained from in-house research which should translate into superior investment performance through disciplined portfolio construction.

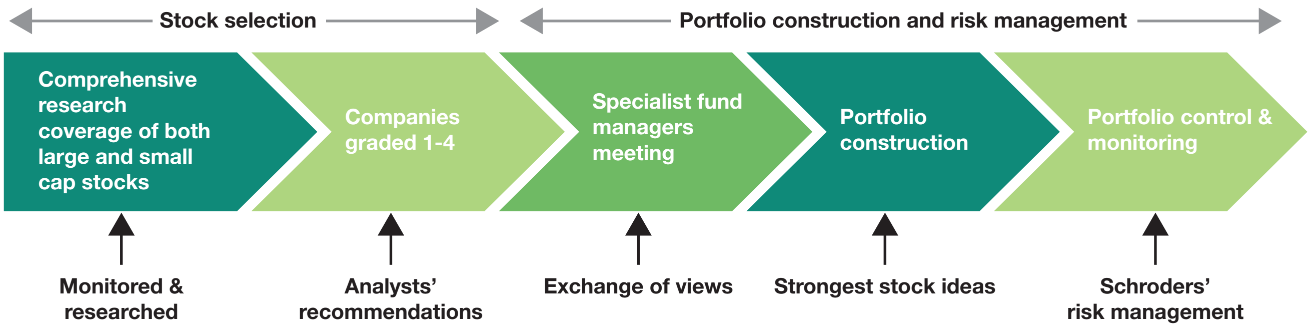
The research focuses on long-term value creation and strength of franchise, targeting undervalued companies where the long-term growth prospects are not fully priced in. The Manager prefers companies that can generate and sustain above average returns on their capital, and also looks for opportunities in turnaround situations where companies can improve returns from depressed levels.

The Manager uses a disciplined approach to managing the portfolio. It has a repeatable process that starts with research and portfolio construction, and is supported by ongoing monitoring and portfolio control. The research is based on an extensive programme of company meetings, over 2,400 each year.

The portfolio manager is Masaki Taketsume. Mr Taketsume has been part of Schroders since 2007.

# Strategic Report

## Disciplined and repeatable approach




Management of the portfolio is "bottom up" and long-term: the screening process begins with fundamental company analysis rather than shorter term macroeconomic impacts like changes in exchange rates. Given the long-term approach, portfolio turnover tends to be low. A stock will not be bought unless the Manager has met the management of the company concerned. Risk monitoring tools check that the bottom-up approach is on track.

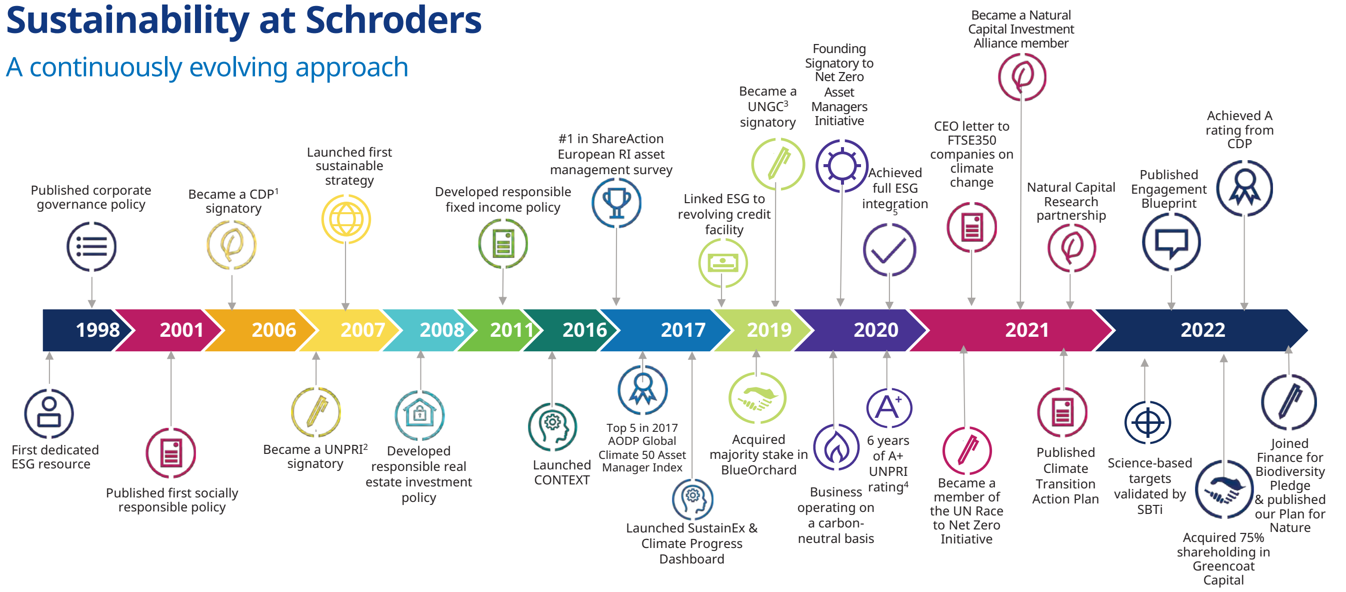
## Portfolio construction

An important part of the portfolio construction process is regular meetings to debate and receive peer group challenge. These meetings provide a forum to discuss and debate investment views and strategy, together with stock positions and stock ideas, and importantly, serve to ensure vigorous debate.

Portfolio construction for the Company is then the responsibility of the investment manager. His focus is on the highest conviction stock ideas within the context of an appropriate risk management framework, while also setting, in conjunction with the Board, the gearing of the portfolio.

## Sustainability at Schroders

### A continuously evolving approach




'Issues such as climate change, resource scarcity, population growth and corporate failure have put responsible investment at the forefront of investors' minds. We believe that companies with a strong environmental, social and governance ethos tend to deliver better results for our clients.'

Peter Harrison, Group Chief Executive, Schroders plc

Source: Schroders, December 2022.
[1]Carbon Disclosure Project. [2]UN Principles for Responsible Investing. [3]UN Global Compact. [4]Strategy and Governance module. [5]For certain businesses acquired more recently we have not yet accredited the integration of ESG factors into investment decision making. A small portion of our business for which the integration of ESG factors is not practicable or possible, for example our legacy businesses or investments in the process of being liquidated, and certain joint venture businesses are excluded.

## The Company's Approach to ESG factors

Schroder Japan Trust plc is managed utilising our bottom-up approach driven by internal research produced by Schroder analysts in Tokyo. Meetings with management are the bedrock of our research process and environmental, social and governance (ESG) factors are integrated throughout. Our investment views are structured around a long-term assessment of quality and central to this is an opinion on the sustainability of a company's business model. These views are explicitly quantified by our analysts within our Fair Value model for each stock under coverage. By forming a structural element within our Fair Value model, the positive and negative scoring applied to ESG factors contribute symmetrically to our views of both downside risk and upside potential.

Within the Japanese equity market, where disclosure and analysis of ESG issues is still evolving, it is critically important for us to identify, and differentiate between, early signs of positive change, even if these still appear modest in comparison to other developed markets. By identifying strengths, weakness and changes in these areas, especially in governance, we believe we can materially strengthen our understanding of companies and improve our investment decisions.

Our goal is long term outperformance of market benchmarks, measured over at least one market cycle or, in practice, 3 – 5 years. We achieve this by focussing on long-term growth factors. This helps us form an opinion that often differs from the consensus and then determines how much conviction we should have in our view. ESG factors are integral to understanding this differentiation of our views.

Although our processes have evolved over time, we have always been committed to identifying quality factors, with a focus on the long-term sustainability of company business models. ESG analysis is therefore a well-established, intrinsic part of our investment process. The established processes allow the team to anticipate and adapt to the market environment and regulatory changes, including successive revisions to the Corporate Governance Code in Japan.

Our principle of evolution and continuous improvement is designed to ensure that our processes remain forward-looking. The introduction of the Japanese Stewardship Code in 2014 and the Corporate Governance Code in 2015, together with subsequent revisions, is resulting in progressive improvements in corporate governance in Japan. Our commitment to stewardship and corporate governance is evident in our analysis and in our discussions both internally and when interacting with company management. Looking forward, we expect further regulation on company disclosures, particularly around succession planning and increased transparency around the nomination process. As a result, we have already begun proactively engaging with companies on these issues.

In principle, our ESG assessment is based on examining the quality of a company's relationships with 6 stakeholders, but the materiality of those stakeholders will differ depending on the industry and business model. Therefore, our analysts, who have an in-depth understanding of the business model and its financial implications, are able to tailor their analysis of ESG factors in view of the sustainability of the business model and profit growth by companies. Individual analysts are primarily responsible for financial forecasts and ESG assessment.

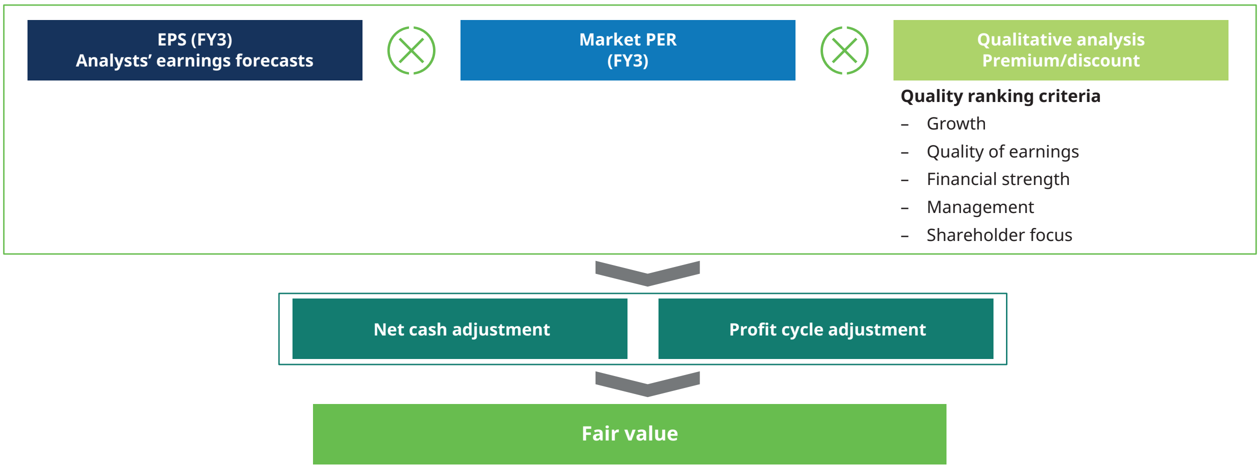
# Strategic Report

Our views on Environmental and Social factors are initially determined using **SustainEx**, developed by Schroders to scientifically combine external measures of both the harm companies can do and the good they can bring. The model arrives at an aggregate measure of each firm's Social and Environmental impact, allowing investors to target their ESG investments effectively. It quantifies the extent to which companies are in credit or deficit with the societies to which they belong, and the risks they face if the costs that they currently externalise are ultimately pushed into their own costs.

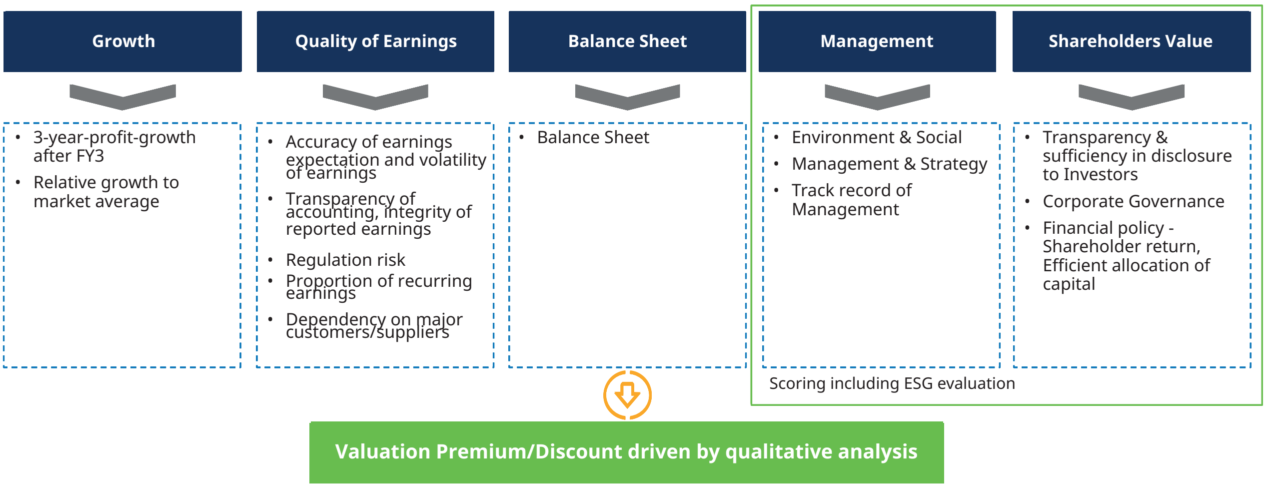
Together with SustainEx scores, the analyst's views on ESG factors are quantified alongside fundamental financial factors within our Fair Value model for each stock under coverage. Our conviction in each research idea is therefore impacted by a range of factors which can be collectively viewed as the sustainability of the company's business model.

One clear feature of our process is that these same factors are scored for each company under coverage which ensures consistency and comparability of views across stocks and sectors. This also forces us to be explicit when our investment thesis changes over time.

The process for establishing our Fair Value for each stock focuses on the broad factors circled below:



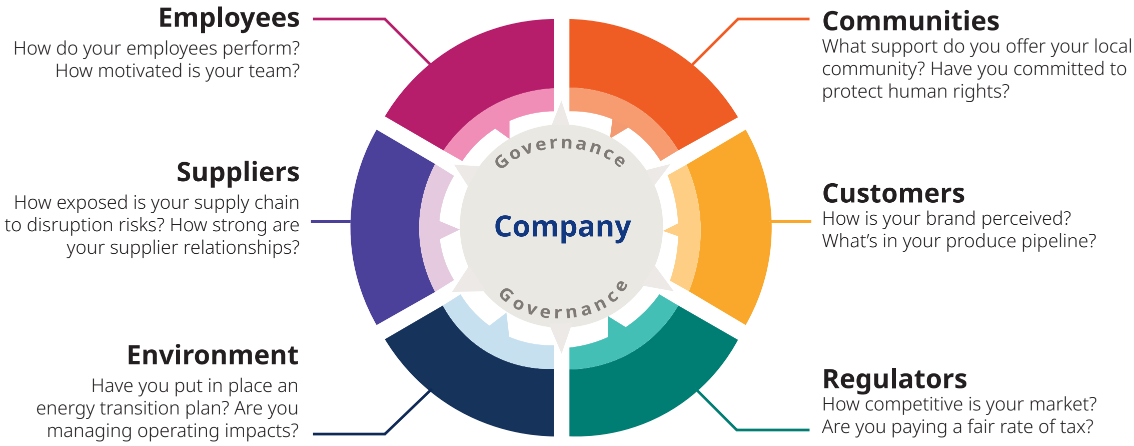

Behind those broad factors are a range of specific criteria which analysts explicitly score within the Fair Value Model. Specific Sustainability factors and ESG criteria are included within the broader categories of "Management" and "Shareholders Value", detailed below:




Analysts are responsible for assigning the scores to each component within the fair value model, reflecting their understanding of best practice within particular industries. To do this, analysts will draw on internal and external ESG information so they can form an opinion and assign an overall score to the stock which will be discussed and challenged during subsequent discussion within the broader team, including fund managers. This approach ensures our process is robust and consistent across sectors.

## ESG integration – CONTEXT framework

Stakeholder analysis provides insights into managing change




Source: Schroders

**Context** is Schroder's proprietary model providing a systematic framework for analysing a company's relationship with its stakeholders, the sustainability of its business model, and industry specific issues (such as regulations) allowing us to identify market sector trends and insights. The resulting Context scores are sector relative, while SustainEx illustrates the potential ESG risks and opportunities for each company relative to the benchmark, which fits well with our stock rating system.

In addition, while SustainEx is a rigorous numerical tool allocating potential ESG externalities across companies at a particular point in time, Context can shed light on historical trends and indicate which companies are improving stakeholder relationships relative to their peers. In that sense, Context can reflect analysts' future forecasts on companies' ESG issues. Analysts may therefore use the output from Context when they feel it is necessary to override SustainEx scores.

In practice, by utilizing Context, each analyst is responsible for:

- Identifying the most important stakeholders (customers/employees/regulators/communities/suppliers/environment) for each sector
- Identifying the key trends and issues for each stakeholder at a sector level and the prioritising the issues on which analysis should focus
- Assessing the effectiveness of companies' management of those issues through a combination of objective data and our analysts' knowledge of industries, companies and management teams
- Examining the strength of governance of each company, drawing on analysts' experiences with management, ensuring it is consistent with our voting principles and firm-wide views

Forming an overall view of the sustainability of companies' business models, including views on management quality and corporate governance and an assessment of stakeholder relationships. These are debated with the wider team, finalised and incorporated into our stock valuation model.

# Strategic Report

## Active Ownership at Schroders

Schroders has a long history of engagement and active ownership and we have engaged with companies on ESG related matters for the past two decades. As active investors we have always considered active ownership to be a key channel of influence on management teams so that more sustainable practices are properly considered in managing the companies and assets in which we invest on behalf of our clients. We aim to drive change that we believe should better protect and enhance the value of our clients' investments and we are committed to leveraging our influence as an investor to change how a company operates for the better. These regular engagements form an important aspect of our role as stewards of our clients' capital and allow us to deploy capital in businesses with long-term sustainability of returns and shareholder value creation.


Source: Schroders

## The Company's Active Ownership

Schroders' Japanese equity team is committed to local stewardship activities in Japan and, in demonstration of this, we have been signatories to the Japanese Stewardship Code since 2014. In 2015 we established our Stewardship Committee, chaired by Kazuhiro Toyoda and including four further members from our team in Tokyo. The purpose of the committee is to engage with companies on their ESG activities with the aim of encouraging best practice and influencing change over time.

The Stewardship Committee maintains a Focus List for engagement stocks, in consultation with the broader investment team. There are currently 19 companies on the Focus List and a further 11 companies have been removed from the list during the lifetime of the committee.

The prospects for improvement in these engagement stocks, within a stated timeframe, are judged against the ESG/Context analysis that is integrated into the research output for other positions. The process is designed to ensure that our resources are focussed on positions with the greatest potential for positive impact within our portfolios. The relevant analyst will attend the engagement meetings, ensuring that there is strong feedback within the process, which enables a robust debate on prioritisation, time horizon and themes for engagement.

In addition to the Focus List engagement, the team initiated the programme of Climate Engagement upon the group wide initiatives under Engagement Blueprint published in February 2022. The team started with 33 Japanese companies in 2022 and we have been discussing with company management on their climate policy and its disclosure. In 2023, we expanded the list to 45 companies and continue to engage with them periodically to advocate Schroders approach and expectation and shared our view on their climate disclosure including TCFD, and we have been trying to point out areas for improvement for individual companies based on our research output.

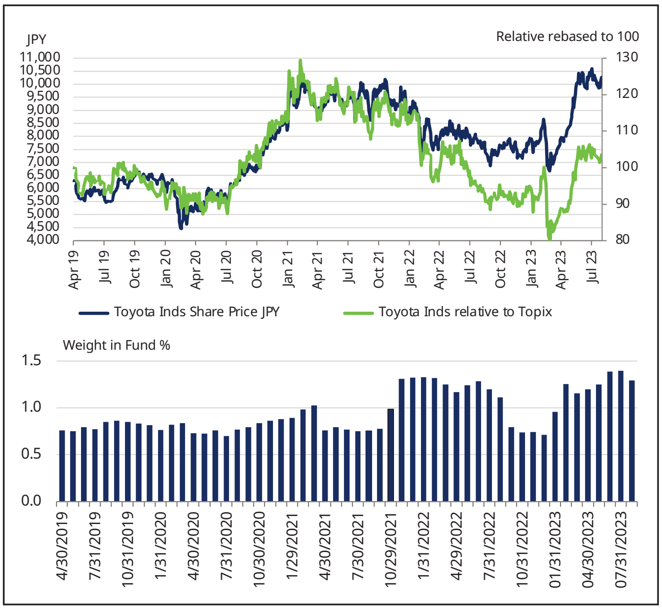
The Stewardship Committee members are also responsible for all proxy voting and the committee will discuss any contentious items. We are also in regular contact with the proxy voting team in London, which is responsible for voting for the Company, to ensure that our views are aligned and that we are sending consistent messages to companies. All records are disclosed in Japan locally and globally.

## Engagement case studies

We share below three examples of engagements we have carried out with investee company management under our Stewardship responsibilities.

## Investment case: Toyota Industries

A Japanese machine maker, originally, and still actively, a manufacturer of automatic looms, it is the company from which Toyota Motor Corporation developed. It is the world's largest manufacturer of forklift trucks measured by revenues.




Source: Schroders, EIKON, Factset. As at 31 August 2023. Holding weight is of Schroder Tokyo Fund. Performance is not a guide to future performance and may not be repeated. The securities shown above are for illustrative purposes only and are not to be considered a recommendation to buy or sell.

We held intensive discussions with the company in March 2022, covering various topics related to the company's environment, social, and governance practices, and we raised issues outlined below. The key areas we have been focusing on with this company's management are:

1. Understanding their carbon emissions ambitions and how these will be achieved
2. Company improvements in diversity
3. Improving Board independence and quality
4. Broader governance issues

We have targeted these key areas as we believe they have the potential to impact future company performance and so want to understand management's stance on the matters and action that may be taken.

1. **Understanding their carbon emissions ambitions and how these will be achieved:**

   Our engagements with management have given us greater clarity on the challenges they face and the actions taken. In terms of the environment, the company's existing $Co_2$ emission target for CY2025 looks low. They have however already met this CY2025 target in CY2020 according to CDP data. Looking further ahead, the company has set a CY2030 target of a 50% reduction from CY2013 but they consider this to be a challenge rather than a target. They are also targeting Carbon Neutral for CY2050, but the 25% reduction during the 5 years is quite a high hurdle to meet. On the solutions side, Vandarlande, a logistics solution business owned by the company, has a new department for providing energy saving solutions to their customers, and they are able to suggest solutions that meet their customer's requirements. The company is also developing an ammonia fuel.

2. **Company management improvements in diversity:**

   In terms of social practices, the company's female manager ratio was 1.6% in CY2020, and they aim for 2.4% in CY2025 and 3.6% in CY2030. They carry out an awareness survey questionnaire for each department and check survey results from a union, but they do not do those for overseas employees. We engaged to understand what is being done to improve this ratio.

3. **Improving Board independence and quality:**

   We raised particular concerns over one external director who had been involved in a series of misconduct claims. We also raised separating out the roles of CEO and Chairman as well as increasing female Directors. We continue to advise the importance of independent directors, especially as they are representatives for minority shareholders and that the disclosure of officer compensation improves transparency of management.

4. **Broader governance issues:**

The company has long maintained cross-shareholdings well in excess of 20% of shareholders' equity. It was advised that cross holdings of stocks which belong to the Toyota Motor group should be gradually changed if necessary.

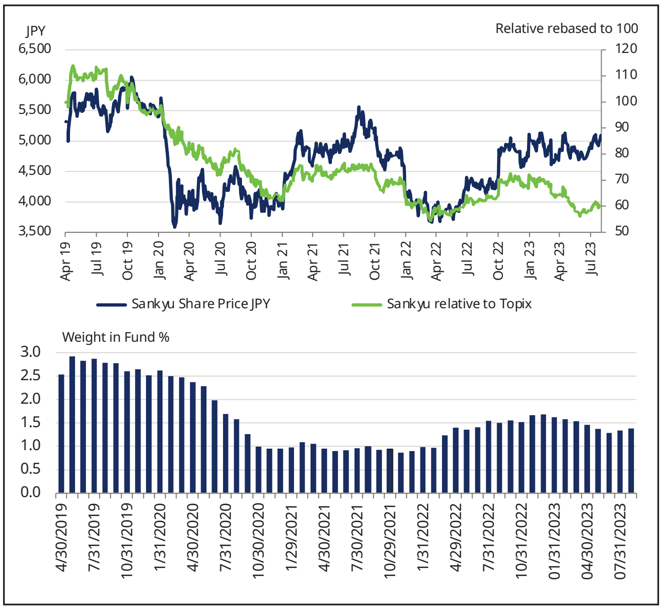
Looking at disclosure, we also discussed that more active disclosure and policy setting would enhance the current very low MSCI rating (BB).

Initially, the IR Head had indicated that there weren't plans to improve in these governance areas. However, we had a follow up discussion with the company in June 2023 and they confirmed that it has started to discuss these issues, driven by leadership of Toyota Motor, which hopes to learn lessons from recent problems at Daihatsu.

In that sense, we will continue to actively engage with the management to make clear progress in terms of capital allocation onwards.

## Investment case: Sankyu

A Japanese engineering and construction and logistics service provides. It mainly offers logistics solution, plant engineering/installation services, and on-site plant services.




Source: Schroders, EIKON, Factset. As at 31 August 2023. Holding weight is of Schroder Tokyo Fund. Performance is not a guide to future performance and may not be repeated. The securities shown above are for illustrative purposes only and are not to be considered a recommendation to buy or sell.

Our engagement is primarily aimed at more active shareholder remuneration, including the establishment of a formal policy for setting remuneration levels.

Since the Company's balance sheet moved to a net cash position in 2017, we have been engaging with the management and the investor relations (IR) team. We stepped up our efforts early in 2021 as we were aware the company was expected to announce the new mid-term plan. Prior to this, in addition to the engagement meetings and regular management meetings, we also sent a specific engagement letter to the management. The feedback from the company has been positive throughout and, after our activities, the company announced a share buyback programme with its full-year results in May 2021.

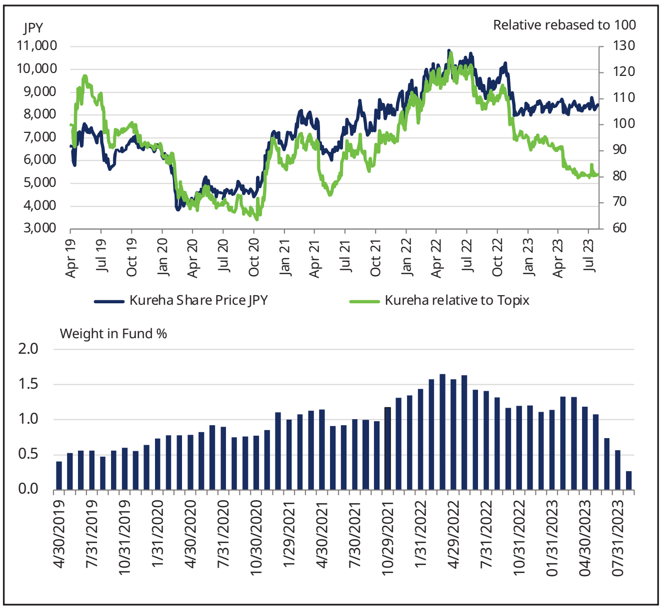
In May 2022, the dividend forecast for FY22 was expected to remain at Y110 and there would be no share buybacks. However, in June 2022, the CFO discussed strengthening shareholder returns based on the previously sent engagement letter, which was a sign that the company was considering ways to increase shareholder value. In November 2022, the full-year company plan was upwardly revised, and the full-year dividend forecast was raised to Y140 (pay-out 31.5%), indicating that the company was performing well financially and was able to increase returns to shareholders. In December 2022, the CFO was informed of the view that the response to climate change risks and the policy of returning profits to shareholders should be planned based on a "backcast" from their long-term vision, which shows that the company is considering long-term sustainability and shareholder value.

In January 2023, the long-term strategy for 2030 and the medium-term plan for 2026 were announced simultaneously, including targets for $CO_2$ emissions, the percentage of female managers, and capital policy. This shows that the company is committed to sustainability and diversity, as well as returning profits to shareholders. In March 2023, a follow-up meeting on the medium-term plan with the CFO was held, and it was conveyed that the contents of the medium-term plan were in line with the discussions held so far and were evaluated accordingly. This indicates that the company is committed to following through with its plans and keeping stakeholders informed.

Finally, in May 2023, at the FY22 final earnings announcement, the year-end dividend for FY22 was raised to Y80, and the annual dividend was set at Y150. In addition, the dividend forecast for FY23 is Y168 with a pay-out ratio of 40%. Furthermore, a share buyback of Y15 billion was announced, showing that the company is continuing to perform well financially and is committed to returning profits to shareholders.

## Investment case: Kureha

A Japanese manufacturer of specialty chemicals, polymers and agrichemicals.




Source: Schroders, EIKON, Factset. As at 31 August 2023. Holding weight is of Schroder Tokyo Fund. Performance is not a guide to future performance and may not be repeated. The securities shown above are for illustrative purposes only and are not to be considered a recommendation to buy or sell.

Our small cap analyst and sustainable equity analysts met with the president and head of corporate IR in March 2022 as a kick off engagement meeting for climate discussion. We explained Schroders' approach and expectation and also listened to their thoughts and plans.

In May 2022, Kureha made their first TCFD-aligned reporting. We appreciated the company's detailed analysis on climate-related risks and opportunities as well as their updated climate governance structure.

While Kureha made some progress over the years, we believe their mid-term target is still not aligned to the ambitions of the Paris Agreement. The company is aware of the target being not ambitious enough, but still faces challenges due to its reliance on the in-house coal-fired power plant.

We plan to continue our engagement with Kureha to understand how it can accelerate its actions and transition to net zero in the best way possible.

## Investment restrictions and spread of investment risk

The key restrictions imposed on the Manager are that: a) no more than 15% of the Company's total net assets, at the date of acquisition, may be invested in any one company; b) no more than 10% of the value of the Company's gross assets may be invested in other listed investment companies unless such companies have a stated investment policy not to invest more than 15% of their gross assets in other listed companies; c) the Company will not invest more than 15% of its gross assets in other listed investment companies or investment trusts; d) no more than 15% of the Company's total net assets may be invested in open-ended funds; and e) no more than 25% of the Company's total net assets may be invested in the aggregate of unlisted investments and holdings representing 20% or more of the equity capital of any company.

In accordance with the investment objective, the Company, while being invested in a single country, ensures that the objective of spreading risk has been achieved through portfolio diversification (66 investments spread over 24 sectors at 31 July 2023), the largest holding being Toyota Motor at 4.7%.

### Promotion

The Company promotes its shares to a broad range of investors who have the potential to be long-term supporters of the investment strategy. The Company seeks to achieve this through its Manager and corporate broker, which promote the shares of the Company through regular contact with both current and potential shareholders as well as their advisers.

These activities consist of investor lunches, one-on-one meetings, regional road shows and attendances at conferences for professional investors. In addition, the Company's shares are supported by the Manager's wider marketing of investment companies targeted at all types of investors; this includes maintaining close relationships with adviser and execution-only platforms, advertising in the trade press, maintaining relationships with financial journalists and the provision of digital information on Schroders' website. The Board also seeks active engagement with investors, and meetings with the Chairman are offered to investors when appropriate.

Shareholders are encouraged to sign up to the Manager's Investment Trusts update, to receive information on the Company directly https://www.schroders.com/en/uk/adviser/fund-centre/funds-in-focus/investment-trusts/schroders-investment-trusts/never-miss-an-update/.

Details of the Board's approach to discount management and share issuance may be found in the Chairman's Statement on page 4 and in the Annual General Meeting – Recommendations on page 63.

#### Relations with shareholders

Shareholder relations are given high priority by both the Board and the Manager. The Company communicates with shareholders through its webpages and the annual and half year reports which aim to provide shareholders with a clear understanding of the Company's activities and its results.

In addition to the engagement and meetings held during the year described in "Promotion" above, the Chairman of the Board, committee chairs and the other Directors attend the AGM and are available to respond to queries and concerns from shareholders.

## Key performance indicators (KPIs)

The Board reviews performance using a number of key measures, to monitor and assess the Company's success in achieving its objective. Further comment on performance can be found in the Chairman's statement. The following KPIs are used:

- NAV performance;
- Share price discount;
- Share price premium; and
- Ongoing charges ratio.

Some KPIs are Alternative Performance Indicators (APIs), and further details can be found on page 2 and definitions of these terms on page 67.

## Purpose, Values and Culture

The Company's purpose is to create long-term shareholder value, in line with the investment objective.

The Company's culture is driven by its values: Transparency, Engagement and Rigour, with collegial behaviour and constructive, robust challenge. The values are all centred on achieving returns for shareholders in line with the Company's investment objective. The Board is responsible for setting culture and communicating its values to its stakeholders by demanding high standards from service providers in order to deliver excellent performance for shareholders. The Board also promotes the effective management or mitigation of the risks faced by the Company and, to the extent it does not conflict with the investment objective, aims to structure the Company's operations with regard to all its stakeholders and take account of the impact of the Company's operations on the environment and community. Further details on ESG company engagement can be found on page 17.

Acting with high standards of integrity and transparency the Board is committed to encouraging a culture that is responsive to the views of shareholders and its wider stakeholders. As the Company has no employees and acts through its service providers, its culture is represented by the values and behaviour of the Board and third parties to which it delegates. The Board aims to fulfil the Company's investment objective by encouraging a culture of constructive challenge with all key suppliers and openness with all stakeholders. The Board is responsible for embedding the Company's culture in the Company's operations.

The Board recognises the Company's responsibilities with respect to corporate and social responsibility and engages with its outsourced service providers to safeguard the Company's interests. As part of this ongoing monitoring, the Board receives reporting from its service providers with respect to their anti-bribery and corruption policies; Modern Slavery Act 2015 statements; diversity policies; and greenhouse gas and energy usage reporting.

### Responsible investment

The Company delegates to its Manager the responsibility for taking environmental, social and governance issues into account when assessing the selection, retention and realisation of investments. The Board expects the Manager to engage with investee companies on social, environmental and business ethics issues and to promote best practice. The Board expects the Manager to exercise the Company's voting rights in consideration of these issues.

The Company voted all of its proxy votes in line with the Manager's corporate governance policy. This covered 1231 resolutions, of which the Company voted against management recommendations or abstained in 6.42% of cases. Voting instructions are considered on a case by case basis and are a result of continued engagement with the Company's holdings. Where the Manager believes the interests of minority shareholders are not adequately protected, they may look to vote against a variety of issues. These can range from a lack of independence or diversity on Board's pay packages which are not aligned with performance and capital issuance requests which are not in minority shareholder interests.

In addition to the description of the Manager's integration of ESG into the investment process and the details in the Manager's Review, a description of the Manager's policy and its engagement with investee companies on these matters, can be found on the Schroders website at https://www.schroders.com/en/sustainability/active-ownership/voting/.

The Board notes that Schroders believes that companies with good ESG management often perform better and deliver superior returns over time. Engaging with companies to understand how they approach ESG management is an integral part of the investment process. Schroders is compliant with the UK Stewardship Code and its compliance with the principles therein is reported on its website.

The Board has received reporting from the Manager on the application of its policy.

### Corporate and Social Responsibility

## Diversity

In accordance with the requirements of LR.9.8.6R, for the year ended 31 July 2023, the Company sets out data on the diversity of the individuals of the Company's Board and its executive management.

*Table for reporting on gender identity*

| | Number of Board members | Percentage of the Board % | Number of senior positions on the board (Chairman, CEO, CFO or SID)* | Number in executive management | Percentage of executive management |
|---|---|---|---|---|---|
| Men | 2 | 40 | 1 | n/a | n/a |
| Women | 2 | 40 | 0 | n/a | n/a |
| Other | n/a | n/a | n/a | n/a | n/a |
| Not specified/prefer not to say | 1 | 20 | 1 | n/a | n/a |

*Table for reporting on ethnic background*

| | Number of Board members | Percentage of the Board % | Number of senior positions on the board (Chairman, CEO, CFO or SID)* | Number in executive management | Percentage of executive management |
|---|---|---|---|---|---|
| White British or other White (including minority white groups) | 3 | 60 | 1 | n/a | n/a |
| Mixed Multiple Ethnic Groups | n/a | n/a | n/a | n/a | n/a |
| Asian/Asian British | 1 | 20 | 0 | n/a | n/a |
| Black/African/Caribbean/Black British | n/a | n/a | n/a | n/a | n/a |
| Other ethnic group, including Arab | n/a | n/a | n/a | n/a | n/a |
| Not specified/prefer not to say | 1 | 20 | 1 | n/a | n/a |

* The FCA defines senior Board positions as Chairman, Chief Executive Officer (CEO), Chief Financial Officer (CFO) or Senior Independent Director. As an investment trust with no executive officers, the Company has no CEO or CFO.

The Board has resolved that the Company's year end date is the most appropriate date for disclosure purposes. Data collection was done on a self-identifying reporting basis in a questionnaire which asked individuals to identify their gender identity and ethnic background categories as set out in the required table. The Company is an investment trust and has no employees or senior management.

As at 31 July 2023, the Company met the expected targets of 40% of the individuals on the Board being women and at least one individual on its Board being from an ethnic minority background. The Board has adopted a diversity and inclusion policy. With respect to recruitment of non-executive Directors, the Company has a strong commitment to appointing diverse candidates from a broad range of backgrounds and across genders these behaviours are set out in the policy. The Company will encourage any recruitment agencies it engages to find a diverse range of candidates that meet the objective criteria agreed for each appointment. Appointments will always be based on merit. Candidates for Board vacancies are selected based on their skills and experience, which are matched against the balance of skills and experience of the overall Board taking into account the criteria for the role being offered.

### Financial crime policy

The Company continues to be committed to carrying out its business fairly, honestly and openly operates a financial crime policy, covering bribery and corruption, tax evasion, money laundering, terrorist financing and sanctions, as well as seeking confirmations that the Company's service providers' policies are operating soundly.

### Greenhouse gas emissions and energy usage

As the Company outsources its operations to third parties, it has no significant greenhouse gas emissions and energy usage to report. Whilst the Company has a limited carbon footprint in respect of its day to day activities, the Board notes that the Investment Manager recognises that environmental responsibility is core to its longer term business success, and actively integrates environmental, social and corporate governance (ESG) issues when selecting investments for the portfolio.

**The Board's commitment to stakeholders – section 172 Companies Act 2006 statement**

The Board has identified its key stakeholders as the Company's shareholders and service providers. The Board notes the Company has no employees and the impact of its own operations on the environment and local community is through the impact its service providers have.

Engagement with key stakeholders assists the Board in meeting the obligation for Directors to act in a way that promotes the success of the Company, taking into account their interests. This statement outlines this engagement and the impact on decision-making where appropriate, and cross-refers to the decisions made by the Board during the year, detailed elsewhere in this report.

As detailed in "Promotion" on page 20 and Relations with Shareholders on page 20, the Company engages with its shareholders. The Board considered any feedback received by shareholders when making principal decisions during the year.

As detailed in "Purpose, Values and Culture" on page 20, the Board engages with service providers, and receives regular reporting, either directly, or through the Manager or Company Secretary, on performance and other matters. The effect of such engagement, if relevant, is detailed in the Chairman's Statement, Managers' Review, Audit and Risk Committee Report and Management Engagement Committee Report.

Principal decisions taken during the year were: (1) share buybacks, (2) the final dividend, (3) the change of the Company's name and (4) changes to the investment policy to allow for the use of CFD's. When making these decisions the Board took into account any feedback received from shareholders, either directly or through service providers and advisers. The Board also took into account the views of its service providers, including the Manager. The Board is pleased to report any engagements were constructive and led to positive outcomes, as detailed in the Chairman's Statement and committee reports.

## Principal risks and uncertainties

The Board is responsible for the Company's system of risk management and internal control and for reviewing its effectiveness. The Board has adopted a detailed matrix of principal risks affecting the Company's business as an investment trust and has established associated policies and processes designed to manage and, where possible, mitigate those risks, which are monitored by the audit and risk committee on an ongoing basis. This system assists the Board in determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives. Both the principal risks and the monitoring system are also subject to robust assessment at least annually. The last assessment took place in September 2023.

Although the Board believes that it has a robust framework of internal control in place this can provide only reasonable, and not absolute, assurance against material financial misstatement or loss and is designed to manage, not eliminate, risk.

Actions taken by the Board and, where appropriate, its committees, to manage and mitigate the Company's principal risks and uncertainties are set out in the table below.

## Emerging risks and uncertainties

During the year, the Board also discussed and monitored a number of risks that could potentially impact the Company's ability to meet its strategic objectives. These were political risk and climate change risk. The Board has determined they are not currently, as detailed below, sufficiently material for the Company to be categorised as independent principal risks. The Board receives updates from the Manager, Company Secretary and other service providers on other potential risks that could affect the Company. The Board were mindful of emerging risks during the year including the escalation or expansion of the conflict in Ukraine, rising inflation, the threat of a global recession and energy prices although they are not factors which explicitly impacted the Company's performance.

Political risk includes the impact of geopolitical risk, regional tensions, trade wars and sanctions against companies. Currency rates and borrowings drawn down by the Company, as well as markets generally, may be affected by geopolitical developments. Currency rate and borrowings drawn down by the Company may be affected by geopolitical developments particularly in relation to movements in sterling versus the yen. Note 20 of the financial statements provides more information on the effect of currency and market price movements.

Climate change risk includes how climate change could affect the Company's investments, and potentially shareholder returns. The Board notes the Manager has integrated ESG considerations, including climate change, into the investment process as detailed in the Strategic Report. The Board will continue to monitor this.

*The "Change" column on the right highlights at a glance the Board's assessment of any increases or decreases in risk during the year after mitigation and management. The arrows show if the risks increased, decreased or remained the same.

| Risk | Mitigation and management | Change* |
|---|---|---|
| **Strategic**<br>The Company's investment objectives may become out of line with the requirements of investors, resulting in a wide discount of the share price to underlying NAV per share. | The appropriateness of the Company's investment remit is periodically reviewed and the success of the Company in meeting its stated objectives is monitored.<br>The share price relative to NAV per share is monitored and the use of buy back authorities is considered on a regular basis.<br>The marketing and distribution activity is actively reviewed.<br>Proactive engagement with shareholders. | → |
| The Company's cost base could become uncompetitive, particularly in light of open-ended alternatives. | The ongoing competitiveness of all service provider fees is subject to periodic benchmarking against their competitors.<br>Annual consideration of management fee levels. | → |
| **Investment management**<br>The Manager's investment strategy, if inappropriate, may result in the Company underperforming the market and/or peer group companies, leading to the Company and its objectives becoming unattractive to investors. | Review of the Manager's compliance with its agreed investment restrictions, investment performance and risk against investment objectives and strategy; relative performance; the portfolio's risk profile; and whether appropriate strategies are employed to mitigate any negative impact of substantial changes in markets.<br>Annual review of the ongoing suitability of the Manager is undertaken. | → |

| Risk | Mitigation and management | Change* |
|---|---|---|
| **Financial and currency**<br>The Company is exposed to the effect of market fluctuations due to the nature of its business. A significant fall in Japanese equity markets could have an adverse impact on the market value of the Company's underlying investments and, as the Company invests predominantly in assets which are denominated in yen, its exposure to changes in the exchange rate between sterling and yen has the potential to have a significant impact on returns. | The risk profile of the portfolio considered appropriate strategies to mitigate any negative impact of substantial changes in markets discussed with the Manager.<br>The Board considers overall hedging policy on a regular basis. | → |
| **Custody**<br>Safe custody of the Company's assets may be compromised through control failures by the Depositary. | The depositary reports on safe custody of the Company's assets, including cash, and portfolio holdings independently reconciled with the Manager's records.<br>The review of audited internal controls reports covering custodial arrangements is undertaken.<br>Regular reports from the depositary on its activities, including matters arising from custody operations is received. | → |
| **Gearing and leverage**<br>The Company utilises credit facilities. These arrangements increase the funds available for investment through borrowing. While this has the potential to enhance investment returns in rising markets, in falling markets the impact could be detrimental to performance. | Gearing is monitored daily and strict restrictions on borrowings are imposed: gearing continues to operate within pre-agreed limits so as not to exceed 25% of shareholders' funds. | → |
| **Accounting, legal and regulatory**<br>In order to continue to qualify as an investment trust, the Company must comply with the requirements of Section 1158 of the Corporation Tax Act 2010.<br>Breaches of the UK Listing Rules, the Companies Act or other regulations with which the Company is required to comply, could lead to a number of detrimental outcomes. | The confirmation of compliance with relevant laws and regulations by key service providers is reviewed.<br>Shareholder documents and announcements, including the Company's published annual report, are subject to stringent review processes.<br>Procedures are established to safeguard against the disclosure of inside information. | → |
| **Service provider**<br>The Company has no employees and has delegated certain functions to a number of service providers, principally the Manager, Depositary and Registrar. Failure of controls, and poor performance of any service provider could lead to disruption, reputational damage or loss. | Service providers are appointed subject to due diligence processes and with clearly-documented contractual arrangements detailing service expectations.<br>Regular reporting is provided by key service providers and monitoring of the quality of their services provided. The Directors also receive presentations from the Manager, depositary and custodian, and the registrar on an annual basis.<br>Review of annual audited internal controls reports from key service providers, including confirmation of business continuity arrangements and IT controls, and follow up of remedial actions as required. | → |
| **Cyber**<br>The Company's service providers are all exposed to the risk of cyber attacks. Cyber attacks could lead to loss of personal or confidential information or disrupt operations. | Service providers report on cyber risk mitigation and management at least annually, which includes confirmation of business continuity capability in the event of a cyber attack.<br>In addition, the Board received presentations from the Manager, depositary and custodian, and the registrar on cyber risk.<br>The Board noted that following the invasion of Ukraine by Russia, cyber risk was assessed to be higher, and the Board sought further assurance from its service providers that they were able to manage the heightened threat. | → |

## Risk assessment and internal controls review by the Board

Risk assessment includes consideration of the scope and quality of the systems of internal control operating within key service providers, and ensures regular communication of the results of monitoring by such providers to the audit and risk committee, including the incidence of significant control failings or weaknesses that have been identified at any time and the extent to which they have resulted in unforeseen outcomes or contingencies that may have a material impact on the Company's performance or condition.

No significant control failings or weaknesses were identified from the audit and risk committee's ongoing risk assessment which has been in place throughout the financial year and up to the date of this report. The Board is satisfied that it has undertaken a detailed review of the risks facing the Company and that an appropriate controls framework is in place.

A full analysis of the financial risks facing the Company is set out in note 20 to the accounts on pages 57 to 61.

## Viability statement

The Directors have assessed the viability of the Company over a five year period, taking into account the Company's position at 31 July 2023 and the potential impacts of the principal risks and uncertainties it faces for the review period. The Directors have assessed the Company's operational resilience and they are satisfied that the Company's outsourced service providers will continue to operate effectively, following the implementation of their business continuity plans.

A period of five years has been chosen as the Board believes that this reflects a suitable time horizon for strategic planning, taking into account the investment policy, liquidity of investments, potential impact of economic cycles, nature of operating costs, dividends and availability of funding.

In its assessment of the viability of the Company, the Directors have considered each of the Company's principal risks and uncertainties detailed on pages 23 and 24 and in particular the impact of a significant fall in Japanese equity markets on the value of the Company's investment portfolio. The Directors also considered the beneficial tax treatment the Company is eligible for as an investment trust. If changes to these taxation arrangements were to be made it would affect the viability of the Company to act as an effective investment vehicle.

Whilst the Company's articles of association require that a proposal for the continuation of the Company be put forward at the AGM in 2024, the Directors have no reason to believe such a resolution will not be passed by shareholders.

The Directors have considered the Company's income and expenditure projections and the fact that the Company's investments comprise of readily realisable securities which can be sold to meet funding requirements if necessary and on that basis consider that five years is an appropriate time period.

The Directors also considered a stress test in which the Company's NAV dropped by 50% and noted that, based on the assumptions in the test, the Company would continue to be viable over a five year period.

Based on the Company's processes for monitoring operating costs, the Board's view that the Manager has the appropriate depth and quality of resource to achieve superior returns in the longer term, the portfolio risk profile, limits imposed on gearing, counterparty exposure, liquidity risk and financial controls, the Directors have concluded that there is a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the five year period of their assessment.

## Going concern

The Directors have assessed the principal risks, the impact of the emerging risks and uncertainties and the matters referred to in the viability statement. Based on the work the Directors have performed, they have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the period assessed by the Directors, being the period to 31 October 2024 which is at least 12 months from the date the financial statements were authorised for issue.

By order of the Board

**Schroder Investment Management Limited**
Company Secretary

28 September 2023

# Board of Directors

## Philip Kay

### Status: Chairman

**Length of service:** 1 year – appointed a Director in March 2022
**Experience:** Dr Kay has over 40 years' experience in the Japanese investment market. He is a former Director of Fidelity Japan Trust plc and of Schroder Securities Limited and of Smith New Court plc. He is currently Chairman of Hansard Global plc, a London listed financial services business. He is also a Director of CQS Asian Macro Fund.
**Committee membership:** Audit and Risk, Management Engagement (Chair) and Nomination (Chair) Committees
**Current remuneration:** £40,000 per annum (effective from 1 July 2023)
**Number of shares held:** 18,627*

## Helena Coles

### Status: Independent Non-Executive Director

**Length of service:** 1 year – appointed a Director in March 2022
**Experience:** Ms Coles has over 20 years' experience in emerging markets and Asian equity investment, which includes co-founding a specialist investment boutique, Rexiter Capital Management, part-owned by State Street Global Advisors. She has held roles with Fidelity International and the Bank of England. Helena is currently a non-executive Director of Shaftesbury Capital PLC and of JPMorgan Emerging Markets Investment Trust plc and Independent Investment Advisor to the Joseph Rowntree Charitable Trust.
**Committee membership:** Audit and Risk, Management Engagement and Nomination Committees
**Current remuneration:** £30,000 per annum (effective from 1 July 2023)
**Number of shares held:** nil*

## Alan Gibbs

### Status: Senior Independent Non-Executive Director

**Length of service:** 7 years – appointed a Director in February 2016
**Experience:** Mr Gibbs worked for the Fleming Group, after which he helped set up and run two Far Eastern brokerages before joining J.O. Hambro (latterly Waverton). Mr Gibbs is now Chairman of the Burdett Trust and a member of the Advisory Committee of the M&G Charibond Charities Fixed Interest Common Investment Fund and a member of the Advisory Committee of the M&G Equities Investment Fund for Charities.
**Committee membership:** Audit and Risk, Management Engagement and Nomination Committees
**Current remuneration:** £30,000 per annum (effective from 1 July 2023)
**Number of shares held:** 150,000*

# Board of Directors

## Angus Macpherson

### Status: Independent Non-Executive Director

**Length of service:** 3 years – appointed a Director in February 2020
**Experience:** Mr Macpherson's experience spans 30 years of working in corporate finance and capital markets, with Noble, Merrill Lynch and Lazard in London, Asia, New York and Edinburgh. He is currently the non-executive Chairman of Pacific Horizon Investment Trust plc and the non-executive Chairman of Henderson Diversified Income plc. Mr Macpherson is a non-executive directorship of Hampden plc. In addition, he is a Director of Noble & Company (UK) Limited.
**Committee membership:** Audit and Risk, Management Engagement and Nomination Committees
**Current remuneration:** £30,000 per annum (effective from 1 July 2023)
**Number of shares held:** 49,440*

## Belinda Richards

### Status: Independent Non-Executive Director

**Length of service:** 5 years – appointed a Director in January 2018
**Experience:** Mrs Richards is a former senior partner at Deloitte LLP. She is currently a non-executive Director and the Chair of the audit and risk committee of Avast plc and a non-executive Director of The Monks Investment Trust plc and Phoenix Group Holdings plc. Mrs Richards is a former Director of Aviva UK Life and Pensions, Balfour Beatty plc, Grainger plc, Jupiter Fund Management plc, Friends Life Group plc and Wm Morrison Supermarkets PLC.
**Committee membership:** Audit and Risk (Chair), Management Engagement and Nomination Committees
**Current remuneration:** £34,000 per annum (effective from 1 July 2023)
**Number of shares held:** 4,513*

*Shareholdings are as at 28 September 2023, full details of Directors' shareholdings are set out in the Remuneration Report on page 37.

# Directors' Report

The Directors submit their report and the audited financial statements of the Company for the year ended 31 July 2023.

## Directors and officers

### Chairman

The Chairman is an independent non-executive Director who is responsible for leadership of the Board and ensuring its effectiveness in all aspects of its role. The Chairman's significant commitments are detailed on page 26. He has no conflicting relationships.

### Company Secretary

Schroder Investment Management Limited provides company secretarial support to the Board and is responsible for assisting the Chairman with Board meetings and advising the Board with respect to governance. The Company Secretary also manages the relationship with the Company's service providers, except for the Manager. Shareholders wishing to lodge questions in advance of the AGM are invited to do so by writing to the Company Secretary at the address given on the back cover or by email: amcompanysecretary@schroders.com.

### Role and operation of the Board

The Board of Directors, listed on pages 26 and 27 is the Company's governing body; it sets the Company's strategy and is collectively responsible to shareholders for its long-term success. The Board is responsible for appointing and subsequently monitoring the activities of the Manager and other service providers to ensure that the investment objective of the Company continues to be met. The Board also ensures that the Manager adheres to the investment restrictions set by the Board and acts within the parameters set by it in respect of any gearing. The Strategic Report on pages 11 to 25 sets out further detail of how the Board reviews the Company's strategy, risk management and internal controls and also includes other information required for the Directors' Report, and is incorporated by reference.

A formal schedule of matters specifically reserved for decision by the Board has been defined and a procedure adopted for Directors, in the furtherance of their duties, to take independent professional advice at the expense of the Company.

The Chairman ensures that all Directors receive relevant management, regulatory and financial information in a timely manner and that they are provided, on a regular basis, with key information on the Company's policies, regulatory requirements and internal controls. The Board meets at least quarterly and receives and considers reports regularly from the Manager and other key advisers and ad hoc reports and information are supplied to the Board as required.

The Board is satisfied that it is of sufficient size with an appropriate balance of diverse skills and experience, independence and knowledge of the Company, its sector and the wider investment trust industry, to enable it to discharge its duties and responsibilities effectively and that no individual or group of individuals dominates decision making.

The Board has approved a policy on Directors' conflicts of interest. Under this policy, Directors are required to disclose all actual and potential conflicts of interest to the Board as they arise for consideration and approval. The Board may impose restrictions or refuse to authorise such conflicts if deemed appropriate. No Directors have any connections with the Manager, shared directorships with other Directors or material interests in any contract which is significant to the Company's business.

## Key service providers

The Board has adopted an outsourced business model and has appointed the following key service providers:

### Manager

The Company is an Alternative Investment Fund as defined by the AIFM Directive and has appointed Schroder Unit Trusts Limited ("SUTL") as the Manager in accordance with the terms of an Alternative Investment Fund Manager ("AIFM") agreement. The AIFM agreement, which is governed by the laws of England and Wales, can be terminated by either party on six months' notice or on immediate notice in the event of certain breaches or the insolvency of either party. As at the date of this report no such notice had been given by either party.

SUTL is authorised and regulated by the FCA and provides portfolio management, risk management, accounting and company secretarial services to the Company under the AIFM agreement. The Manager also provides general marketing support for the Company and manages relationships with key investors, in conjunction with the Chairman, other Board members or the corporate broker as appropriate. The Manager has delegated investment management, administrative, accounting and company secretarial services to another wholly owned subsidiary of Schroders plc, Schroder Investment Management Limited. The Company Secretary has an independent reporting line to the Manager and distribution functions within Schroders. The Manager has in place appropriate professional indemnity cover.

The Schroders Group manages £726.1 billion (as at 30 June 2023) on behalf of institutional and retail investors, financial institutions and high net worth clients from around the world, invested in a broad range of asset classes across equities, fixed income, multi-asset and alternatives.

The Manager is entitled to a fee at the rate of 0.75% per annum on assets up to and including £200 million and 0.65% per annum thereafter, charged on the net value of the Company's assets under management.

The management fee payable in respect of the year ended 31 July 2023 amounted to £2,023,000 (2022: £1,998,000).

A marketing support fee of £50,000 per annum is also payable to the Manager in respect of the promotion of the Company.

The Manager is also entitled to receive a fee for providing administration, accounting and company secretarial services to the Company. For those services, it receives an annual fee of £90,000.

Details of all amounts payable to the Manager are set out in note 17 on page 56.

The management engagement committee has reviewed the performance of the Manager during the year under review and continues to consider that it has the appropriate depth of resource to deliver above average returns over the longer term and that the continuing appointment of the Manager on the terms agreed remains in the best interests of shareholders as a whole.

### Depositary

HSBC Bank plc, which is authorised by the Prudential Regulation Authority ("PRA") and regulated by the FCA and the PRA, carries out certain duties of a depositary specified in the AIFM Directive including, in relation to the Company, as follows:

– safekeeping of the assets of the Company which are entrusted to it;
– cash monitoring and verifying the Company's cash flows; and
– oversight of the Company and the Manager.

The Company, the Manager and the depositary may terminate the Depositary Agreement at any time by giving 90 days' notice in writing. The Depositary may only be removed from office when a new Depositary is appointed by the Company.

## Revenue, final dividend and dividend policy

The net revenue return for the year, before finance costs and taxation, was £7,526,000 (2022: £6,975,000). After deducting finance costs and taxation the amount available for distribution to shareholders was £6,563,000 (2022: £6,073,000) equivalent to net revenue of 5.41p (2022: 4.97p) per ordinary share.

The Directors have recommended the payment of a final dividend for the year of 5.40p per share (2022: 4.90p) payable on 8 December 2023 to shareholders on the register on 3 November 2023, subject to approval by shareholders at the Annual General Meeting on 5 December 2023.

The Board's policy is to pay out substantially all the Company's revenue.

## Compliance with the AIC Code of Corporate governance

The Board has considered the principles and provisions of the AIC Code of Corporate Governance (the "AIC Code"). The AIC Code addresses the Principles and Provisions set out in the UK Corporate Governance Code (the "UK Code"), as well as setting out additional Provisions on issues that are of specific relevance to the Company. The Board considers that reporting against the Principles and Provisions of the AIC Code, provides more relevant information to shareholders.

The AIC Code is available on the AIC website (www.theaic.co.uk). It includes an explanation of how the AIC Code adopts the Principles and Provisions set out in the UK Code to make them relevant for investment companies.

The Financial Conduct Authority requires all UK listed companies to disclose how they have complied with the provisions of the UK Code. This statement, together with the Statement of Directors' Responsibilities, viability statement and going concern statement set out on page 25, respectively, indicates how the Company has complied with the principles of good governance of the AIC Code and its requirements on internal control. The Strategic Report and Directors' Report provide further details on the Company's internal controls (including risk management), governance and diversity policy.

The Board is satisfied that the Company's current governance framework is compliant with the AIC Code. The remuneration policy and remuneration of non-executive Directors are reviewed by the nomination committee and approved by the Board. The Company has neither executive Directors or employees, so does not apply the relating principles and provisions.

## Committees

In order to assist the Board in fulfilling its governance responsibilities, it has delegated certain functions to committees. The roles and responsibilities of these committees, together with details of work undertaken during the year under review, are outlined over the next few pages.

The reports of the audit and risk committee, nomination committee and management engagement committee are incorporated, and form part of, the Directors' Report.

## Other required Directors' Report disclosures under laws, regulations, and the Code

### Status

The Company carries on business as an investment trust. Its shares are listed and admitted to trading on the premium segment of the main market of the London Stock Exchange. It has been approved by HM Revenue & Customs as an investment trust in accordance with section 1158 of the Corporation Tax Act 2010, by way of a one-off application and it is intended that the Company will continue to conduct its affairs in a manner which will enable it to retain this status.

The Company is domiciled in the UK and is an investment company within the meaning of section 833 of the Companies Act 2006. The Company is not a "close" company for taxation purposes.

It is not intended that the Company should have a limited life but the Directors consider it desirable that the shareholders should have the opportunity to review the future of the Company at appropriate intervals. Accordingly, the articles of association contain provisions requiring the Directors to put a proposal for the continuation of the Company to shareholders at the Annual General Meeting ("AGM") in 2024 and thereafter at five yearly intervals.

## Share capital and substantial share interests

As at 27 September 2023, the Company had 119,528,965 ordinary shares of 10p in issue. No shares are held in treasury. Accordingly, the total number of voting rights in the Company as at 27 September 2023 were 119,528,965. Details of changes to the Company's share capital during the year are given in note 14 to the accounts on page 54. All shares in issue rank equally with respect to voting, dividends and any distribution on winding up.

The Board noted that the Company's shareholders appreciated the Board's discount management. The Board agreed to request renewal of the authorities to issue and buy back shares as described on page 4.

# Directors' Report

The Company has received notifications in accordance with the Financial Conduct Authority's ("FCA") Disclosure Guidance and Transparency Rule 5.1.2R of the following interests in 3% or more of the voting rights attached to the Company's issued share capital.

| | As at 31 July 2023 | % of total voting rights |
|---|---|---|
| City of London Investment Management Company Limited | 32,360,632 | 26.94 |
| 1607 Capital Partners, LLC | 21,935,856 | 18.04 |
| Allspring Global Investments, LLC | 15,820,767 | 13.01 |
| Global Investments Holdings | 14,691,625 | 12.07 |
| Wells Capital Management, Inc | 6,277,080 | 4.98 |
| Rathbone Brothers PLC | 6,219,182 | 4.98 |
| Lazard Asset Management LLC | 5,926,190 | 4.74 |
| Investec Wealth & Investment Limited | 5,786,222 | 4.74 |

Following the year end and at the date of this report, City of London Investment Management notified the Company that its holding decreased to 25.96%. Rathbones Investment Management Ltd notified the Company of the increase in shareholding to 5.02% driven by the all-share combination of Rathbones Group Plc with Investec Wealth & Investment Limited which completed on 21st September 2023. The other figures remain the same.

## Provision of information to the auditors

The Directors at the date of approval of this report confirm that, so far as each of them is aware, there is no relevant audit information of which the Company's auditor is unaware; and each Director has taken all the steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

## Directors' attendance at meetings

Four Board meetings are usually scheduled each year to deal with matters including: the setting and monitoring of investment strategy; approval of borrowings and/or cash positions; review of investment performance; the level of premium or discount of the Company's shares to NAV per share and promotion of the Company; and services provided by third parties. Additional meetings of the Board are arranged as required.

The number of scheduled and ad hoc meetings of the Board and its committees held during the financial year, and the attendance of individual Directors, is shown below. Whenever possible all Directors attend the AGM.

| Director | Board | Nomination Committee | Audit and Risk Committee | Management Engagement Committee |
|---|---|---|---|---|
| Anja Balfour[1] | 4/4 | – | 1/1 | – |
| Helena Coles[2] | 6/6 | 1/1 | 1/2 | 1/1 |
| Alan Gibbs | 6/6 | 1/1 | 2/2 | 1/1 |
| Philip Kay | 6/6 | 1/1 | 2/2 | 1/1 |
| Angus Macpherson | 6/6 | 1/1 | 2/2 | 1/1 |
| Belinda Richards | 6/6 | 1/1 | 2/2 | 1/1 |

[1] Mrs Balfour resigned on 5 December 2022.
[2] Ms Coles could not attend one audit and risk committee meeting held during the year due to a clash of appointments noted prior to appointment.

The Board is satisfied that the Chairman and each of the other non-executive Directors commits sufficient time to the affairs of the Company to fulfil their duties.

## Directors' and officers' liability insurance and indemnities

Directors' and officers' liability insurance cover was in place for the Directors throughout the year. The Company's articles of association provide, subject to the provisions of UK legislation, an indemnity for Directors in respect of costs which they may incur relating to the defence of any proceedings brought against them arising out of their positions as Directors, in which they are acquitted or judgment is given in their favour by the court. This is a qualifying third party indemnity provision and was in place throughout the year under review and to the date of this report.

By order of the Board

**Schroder Investment Management Limited**
Company Secretary

28 September 2023

# Audit and Risk Committee Report

The responsibilities and work carried out by the audit and risk committee during the year under review are set out in the following report. The duties and responsibilities of the committee, which include monitoring the integrity of the Company's financial reporting and internal controls, are set out in further detail below, and may be found in the terms of reference which are set out on the Company's webpages, https://www.schroders.com/japantrust.

All Directors are members of the committee. Belinda Richards is the Chair of committee and has significant audit experience. The AIC Code permits the Chairman of the Board to be a member of the audit committee of an investment trust. The Board has satisfied itself that at least one of the committee's members has recent and relevant financial experience and that the committee as a whole has competence relevant to the sector in which the company operates.

**Ongoing risk review**

Half year report → Audit planning → Audit → Annual report → Post-audit review

## Approach

The committee's key roles and responsibilities are set out below.

| Risks and Internal Controls | Financial Reports and Valuation | Audit |
|---|---|---|
| **Principal risks**<br>To establish a process for identifying, assessing, managing and monitoring emerging and principal risks of the Company. | **Financial statements**<br>To monitor the integrity of the financial statements of the Company and any formal announcements relating to the Company's financial performance and valuation. To review the half year report. | **Audit results**<br>To discuss any matters arising from the audit and recommendations made by the auditor. |
| **Emerging risks and uncertainties**<br>To ensure a robust assessment of the Company's emerging and principal risks and procedures are in place to identify emerging risks, and an explanation of how these are being managed or mitigated.<br>**Internal controls**<br>To undertake a robust annual review of the adequacy and effectiveness of internal controls. | **Going concern**<br>To review the position and make recommendations to the Board in relation to whether it considers it appropriate to adopt the going concern basis of accounting in preparing its annual and half-yearly financial statements. | **Auditors appointment, independence and performance**<br>To make recommendations to the Board, in relation to the appointment, re-appointment, effectiveness and removal of the external auditor, to review their independence, and to approve their remuneration and terms of engagement. Reviewing the audit plan and engagement letter. |

The below table sets out how the committee discharged its duties during the year. The committee met twice during the year. Further details on attendance can be found on page 30. An evaluation of the committee's effectiveness and review of its terms of reference was completed during the year.

Significant issues identified during the committee's review of the Company's principal risks and uncertainties, and key matters communicated by the auditor during its reporting are outlined in blue.

## Application during the year

| Risks and Internal Controls | Financial Reports and Valuation | Audit |
|---|---|---|
| **Service provider controls**<br>Reviewing the operational controls maintained by the Manager, depositary and registrar. | **Recognition of investment income**<br>Considered dividends received against forecast and the allocation of special dividends to income or capital. | **Effectiveness of the independent audit process and auditor performance**<br>Evaluated the effectiveness of the independent audit firm and process prior to making a recommendation that it should be re-appointed at the forthcoming AGM. Evaluated the auditor's performance against agreed criteria including: qualification; knowledge, expertise and resources; independence policies; effectiveness of audit planning; adherence to auditing standards; and overall competence was considered, alongside feedback from the Manager on the audit process. Professional scepticism of the auditor was questioned and the committee was satisfied with the auditor's replies. |

# Audit and Risk Committee Report

**Application during the year**

| Risks and Internal Controls | Financial Reports and Valuation | Audit |
|---|---|---|
| **Internal controls and risk management**<br>Consideration of several key aspects of internal control and risk management operating within the Manager, depositary and registrar, including assurance reports and presentations on these controls. | **Calculation of the investment management fee and performance fee**<br>Consideration of methodology used to calculate the fees, matched against the criteria set out in the AIFM agreement. | **Auditor independence**<br>Deloitte LLP has provided audit services to the Company since it was appointed on 19 June 2019.<br>The auditors are required to rotate the senior statutory auditor every five years.<br>There are no contractual obligations restricting the choice of external auditors.<br>This is the fifth year that the senior statutory auditor, Chris Hunter has conducted the audit of the Company's financial statements.<br>**Interaction with the Financial Reporting Council ("FRC")**<br>During the year, the FRC's Audit Quality Review ("AQR") team selected Deloitte's audit of the Company's 2022 financial statements as part of their 2022-2023 annual review of audit firms which was concluded on 6 June 2023. The AQR identified limited improvements were needed. The Committee subsequently reviewed the FRC's report, discussing it with Deloitte and scrutinising Deloitte's response on how it would address the FRC's limited findings on future audits of similar companies. |
| **Compliance with the investment trust qualifying rules in S1158 of the Corporation Tax Act 2010**<br>Consideration of the Manager's report confirming compliance. | **Overall accuracy of the annual report and accounts**<br>Consideration of the draft annual report and accounts and the letter from the Manager in support of the letter of representation to the auditor. | **Audit results**<br>Met with and reviewed a comprehensive report from the auditor which detailed the results of the audit, compliance with regulatory requirements, safeguards that have been established, and on their own internal quality control procedures. |
| **Principal risks**<br>Reviewing the principal risks faced by the Company and the system of internal control. | **Valuation and existence of holdings**<br>Quarterly review of portfolio holdings and assurance reports. | **Meetings with the auditor**<br>Met the auditors without representatives of the Manager present. Representatives of the auditors attended the committee meeting at which the draft annual report and accounts was considered. |
| | **Fair, balanced and understandable**<br>Reviewed the annual report and accounts to ensure that it was fair, balanced and understandable. | **Provision of non-audit services by the auditor**<br>The committee has reviewed the FRC's Guidance on Audit Committees and has formulated a policy on the provision of non-audit services by the Company's auditor. The committee has determined that the Company's appointed auditor will not be considered for the provision of certain non-audit services, such as accounting and preparation of the financial statements, internal audit and custody. The auditor may, if required, provide other non-audit services which will be judged on a case-by-case basis.<br>The auditor did not provide any non-audit services to the Company during the year. |
| | **Going concern and viability**<br>Reviewing the impact of risks on going concern and longer-term viability. | **Consent to continue as auditor**<br>Deloitte LLP indicated to the committee their willingness to continue to act as auditor. |

**Recommendations made to, and approved by, the Board:**

As a result of the work performed, the committee has concluded that the annual report for the year ended 31 July 2023, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position, performance, business model and strategy, and has reported on these findings to the Board. The Board's conclusions in this respect are set out in the Statement of Directors' Responsibilities on page 38.

Having reviewed the performance of the auditors as described above, the committee considered it appropriate to recommend the firm's re-appointment. Resolutions to re-appoint Deloitte LLP as auditor to the Company, and to authorise the Directors to determine their remuneration will be proposed at the AGM.

Belinda Richards

Audit and risk committee Chair

28 September 2023

# Management Engagement Committee Report

The management engagement committee is responsible for (1) the monitoring and oversight of the Manager's performance and fees, and confirming the Manager's ongoing suitability, and (2) reviewing and assessing the Company's other service providers, including reviewing their fees. All Directors are members of the committee. Philip Kay is the Chair of the committee. Its terms of reference are available on the Company's webpages, https://www.schroders.com/japantrust.

## Approach

### Oversight of the Manager

The committee:

- reviews the Manager's performance, over the short- and long-term, against the Benchmark, peer group and the market.
- considers the reporting it has received from the Manager throughout the year, and the reporting from the Manager to the shareholders.
- assesses management fees on an absolute and relative basis, receiving input from the Company's broker, including peer group and industry figures, as well as the structure of the fees.
- reviews the appropriateness of the Manager's contract, including terms such as notice period.
- assesses whether the Company receives appropriate administrative, accounting, company secretarial and marketing support from the Manager.

### Oversight of other service providers

The committee reviews the performance and competitiveness of the following service providers on at least an annual basis:

- Depositary and custodian
- Corporate broker
- Registrar
- Lender

The committee also receives a report from the Company Secretary on ancillary service providers, and considers any recommendations.

The committee notes the audit and the risk committee's review of the auditor.

## Application during the year

The committee undertook a detailed review of the Manager's performance and agreed that it has the appropriate depth and quality of resource to deliver superior returns over the longer term.

The committee also reviewed the terms of the AIFM agreement and agreed they remained fit for purpose.

The committee reviewed the other services provided by the Manager and agreed they were satisfactory.

The committee reviewed the progress of the Company with respect to the conditional tender offer conditions and noted that for the financial year the Company had delivered performance in excess over the conditions.

The annual review of each of the service providers was satisfactory.

The committee noted that the audit and risk committee had undertaken a detailed evaluation of the Manager, registrar, and depositary and custodian's internal controls.

**Recommendations made to, and approved by, the Board:**

- That the ongoing appointment of the Manager on the terms of the AIFM agreement, including the fee, was in the best interests of shareholders as a whole.
- That the Company's service providers' performance remained satisfactory.

# Nomination Committee Report

The nomination committee is responsible for (1) the recruitment, selection and induction of Directors, (2) their assessment during their tenure, and (3) the Board's succession. All Directors are members of the committee. Philip Kay is the Chair of the committee. Its terms of reference are available on the Company's webpages, https://www.schroders.com/japantrust.

## Oversight of Directors

Selection → Induction → Annual evaluation → Annual review of succession policy → Application of succession policy

## Approach

### Selection and induction

- Committee prepares a job specification for each role, and an independent recruitment firm is appointed. For the Chairman and the Chairs of committees, the committee considers current Board members too.
- Job specification outlines the knowledge, professional skills, personal qualities and experience requirements.
- Potential candidates assessed against the Company's diversity policy.
- Committee discusses the long list, invites a number of candidates for interview and makes a recommendation to the Board.
- Committee reviews the induction and training of new Directors.

### Board evaluation and Directors' fees

- Committee assesses each Director annually.
- Evaluation focuses on whether each Director continues to demonstrate commitment to their role and provides a valuable contribution to the Board during the year, taking into account time commitment, independence, conflicts and training needs.
- Following the evaluation, the committee provides a recommendation to shareholders with respect to the annual re-election of Directors at the AGM.
- All Directors retire at the AGM and their re-election is subject to shareholder approval.
- Committee reviews Directors' fees, taking into account comparative data and reports to shareholders.
- Any proposed changes to the remuneration policy for Directors are discussed and reported to shareholders.

### Succession

- The Board's succession policy is that Directors' tenure will be for no longer than nine years, except in exceptional circumstances, and that each Director will be subject to annual re-election at the AGM.
- Committee reviews the Board's current and future needs at least annually. Should any need be identified the committee will initiate the selection process.
- Committee oversees the handover process for retiring Directors.

# Nomination Committee Report

<table>
<tr><th colspan="3">Application during the year</th></tr>
<tr><th>Selection and induction</th><th>Board evaluation and Directors’ fees</th><th>Succession</th></tr>
<tr><td>• No new appointments were made during the year.</td><td>• The Board evaluation was undertaken in July 2023.<br>• The Chairman reported on the effectiveness of the Board, himself and its leadership following the internal evaluation lead by the Chairman and Senior independent Director where appropriate.<br>• The committee also reviewed each Director’s time commitment and independence by reviewing a complete list of appointments, including pro bono not for profit roles, to ensure that each Director remained free from conflict and had sufficient time available to discharge each of their duties effectively. All Directors were considered to be independent in character and judgement.<br>• The committee considered each Director’s contributions, and noted that in addition to extensive experience as professionals and non-executive Directors, each Director had valuable skills and experience, as detailed in their biographies on pages 26 and 27.<br>• Based on its assessment, the committee provided individual recommendations for each Director’s re-election.<br>• The committee reviewed Directors’ fees, using external benchmarking, and recommended an increase in Directors’ fees, as detailed in the remuneration report.</td><td>• The committee reviewed the succession policy and agreed it was still fit for purpose.<br>• The committee considered the future needs of the Company and the effect of individual Directors leaving and whether this would create a skills/knowledge/experience gap.</td></tr>
</table>

**Recommendations made to, and approved by, the Board:**

- That all Directors continue to demonstrate commitment to their roles, provide a valuable contribution to the deliberations of the Board, remuneration of the Directors was appropriate and Directors remain free from conflicts with the Company and its Directors, so should all be recommended for re-election by shareholders at the AGM.
- That Directors’ fees be increased to £40,000 for the Chairman, £30,000 for non-executive Directors and £34,000 for the audit and risk committee Chair.
- That the Remuneration Report be put to shareholders for approval.

# Directors' Remuneration Report for the year ended 31 July 2023

## Introduction

The following remuneration policy is currently in force and is subject to a binding vote every three years. The next vote will take place at the forthcoming AGM and the current policy provisions will apply until that date. An ordinary resolution to approve the Directors' Remuneration Policy will be put to Shareholders at the AGM (no changes are proposed). The below Directors' annual report on remuneration is subject to an annual advisory vote. An ordinary resolution to approve this report will be put to shareholders at the forthcoming AGM.

At the AGM held on 23 November 2020, 99.95% of the votes cast (including votes cast at the Chairman's discretion) in respect of approval of the Directors' Remuneration Policy were in favour, while 0.05% were against and 39,160 votes were withheld.

At the AGM held on 5 December 2022, 99.96% of the votes cast (including votes cast at the Chairman's discretion) in respect of approval of the Directors' Remuneration Report for the year ended 31 July 2022 were in favour, while 0.04% were against and 13,544 votes were withheld.

## Directors' remuneration policy

The determination of the Directors' fees is a matter considered by the nomination committee and the Board.

It is the nomination committee's policy to determine the level of Directors' remuneration having regard to amounts payable to non-executive Directors in the industry generally, the role that individual Directors fulfil in respect of Board and committee responsibilities, and time committed to the Company's affairs, taking into account the aggregate limit of fees set out in the Company's articles of association. This aggregate level of Directors' fees is currently set at £200,000 per annum.

The Chairman of the Board and the Chair of the audit and risk committee both receive fees at a higher rate than the other Directors to reflect their additional responsibilities. Directors' fees are set at a level to recruit and retain individuals of sufficient calibre, with the level of knowledge, experience and expertise necessary to promote the success of the Company in reaching its short and long-term strategic objectives. Any Director who performs services which in the opinion of the Directors are outside the scope of the ordinary duties of a Director, may be paid additional remuneration to be determined by the Directors, subject to the previously mentioned fee cap.

The Board and its committees exclusively comprise non-executive Directors. No Director past or present has an entitlement to a pension, and the Company has not, and does not intend to operate a share scheme for Directors or to award any share options or long-term performance incentives to any Director. No Director has a service contract with the Company. However, Directors have a letter of appointment. Directors do not receive exit payments and are not provided with any 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 to the Company's business.

## Implementation of policy

The terms of Directors' letters of appointment are available for inspection at the Company's registered office address during normal business hours and during the AGM at the location of such meeting.

The Board did not seek the views of shareholders in setting this policy. Any comments on the policy received from shareholders would be considered on a case-by-case basis.

As the Company does not have any employees, no employee pay and employment conditions were taken into account when setting this policy and no employees were consulted in its construction.

Directors' fees are reviewed annually and take into account research from third parties on the fee levels of Directors of peer group companies, as well as industry norms and factors affecting the time commitment expected of the Directors. New Directors are subject to the provisions set out in this remuneration policy.

## Directors' annual report on remuneration

This report sets out how the Directors' remuneration policy was implemented during the year ended 31 July 2023.

## Consideration of matters relating to Directors' remuneration

Directors' remuneration was last reviewed by the Board in June 2023. The members of the Board at the time that remuneration levels were considered were as set out on pages 26 and 27. Although no external advice was sought in considering the levels of Directors' fees, information on fees paid to Directors of other investment trusts managed by Schroders and peer group companies provided by the Manager and corporate broker was taken into consideration as was independent third party research.

Following the review of Directors' fees by the nomination committee. The nomination committee proposed an increase to all Directors' fees as detailed in its report. The new fees are effective from 1 July 2023. (Chairman £40,000, audit and risk committee Chair £34,000, non-executive Directors £30,000). The Board approved this recommendation.

# Directors' Remuneration Report for the year ended 31 July 2023

## Fees paid to directors

The following amounts were paid by the Company to Directors for their services in respect of the year ended 31 July 2023 and the preceding financial year. Directors' remuneration is all fixed; they do not receive any variable remuneration. The performance of the Company over the financial year is presented on page 2, under the heading "Financial highlights".

| | Fees | | Taxable benefits[1] | | Total | |
|---|---|---|---|---|---|---|
| | 2023 | 2022 | 2023 | 2022 | 2023 | 2022 |
| Director | £ | £ | £ | £ | £ | £ |
| Philip Kay[2] | **35,786** | 9,640 | **–** | – | **35,786** | 9,640 |
| Anja Balfour[3] | **13,534** | 38,000 | **2,464** | 3,327 | **15,998** | 41,327 |
| Helena Coles[4] | **29,167** | 9,487 | **–** | – | **29,167** | 9,487 |
| Alan Gibbs | **29,167** | 28,000 | **–** | 1,024 | **29,167** | 29,024 |
| Angus Macpherson | **29,167** | 28,000 | **–** | 404 | **29,167** | 28,404 |
| Belinda Richards | **33,167** | 32,100 | **–** | 404 | **33,167** | 32,504 |
| Total | **169,988** | 145,227 | **2,464** | 5,159 | **172,452** | 150,386 |

[1]Comprise amounts reimbursed for expenses incurred in carrying out business for the Company, and which have been grossed up to include PAYE and NI contributions.
[2]Appointed as Director on 28 March 2022, and appointed Chairman on 5 December 2022.
[3]Resigned as Chairman, and from the Board on 5 December 2022.
[4]Appointed as a Director on 30 March 2022.

The information in the above table has been audited.

| | Change in annual fee over years ended 31 July | | | |
|---|---|---|---|---|
| | 2023 | 2022 | 2021 | 2020 |
| Director | % | % | % | % |
| Philip Kay (Chairman) | **N/a** | N/a | N/a | N/a |
| Anja Balfour | **N/a** | 9.8 | (1.2) | (1.7) |
| Helena Coles | **N/a** | N/a | N/a | N/a |
| Alan Gibbs | **0.5** | 7.5 | – | 2.1 |
| Angus Macpherson | **2.7** | 5.2 | N/a | N/a |
| Belinda Richards | **2.0** | 4.5 | – | 5.2 |

| | Year ended 31 July 2023 £'000 | Year ended 31 July 2022 £'000 | % change |
|---|---|---|---|
| Remuneration payable to directors | **172** | 150 | 15.0 |
| Distributions paid to shareholders: | | | |
| Dividends | **5,961** | 5,249 | |
| Share buybacks | **4,359** | – | |
| Distributions paid to shareholders | **10,320** | 5,249 | 96.6 |

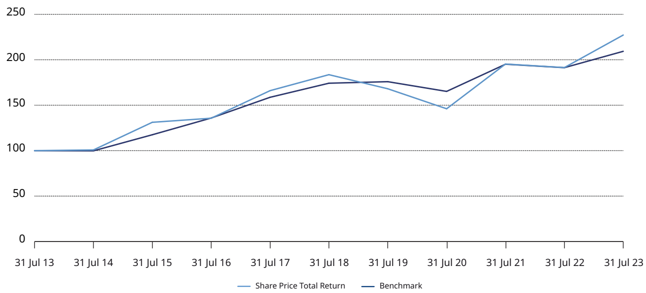
## Directors' share interests

The Company's articles of association do not require Directors to own shares in the Company. The interests of Directors, including those of connected persons, in the Company's ordinary shares of 10p each, at the beginning and end of the financial year under review are set out below.

| | At 31 July 2023 | At 31 July 2022 |
|---|---|---|
| Helena Coles | **nil** | nil |
| Alan Gibbs | **150,000** | 150,000 |
| Philip Kay | **18,627** | nil |
| Angus Macpherson | **49,440** | 49,440 |
| Belinda Richards | **4,513** | 4,513 |

The information in the above table has been audited. There have been no changes since the year end.

## 10-year performance of share price and benchmark total returns[1]




[1] Source: Morningstar/Thomson Reuters.
Returned to 100 at 31 July 2013.

Definitions of terms and performance measures are provided on page 67.

**Philip Kay**
Chairman
28 September 2023

Governance

# Statement of Directors' Responsibilities

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the financial statements, the Directors are required to:

– select suitable accounting policies and then apply them consistently;

– state whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements;

– make judgements and accounting estimates that are reasonable and prudent; and

– prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006.

The Directors 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 Manager is responsible for the maintenance and integrity of the webpage dedicated to the Company. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors consider that the annual report and accounts, taken as a whole, are fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

Each of the Directors, whose names and functions are listed in the Board of Directors on pages 26 and 27 confirm that, to the best of their knowledge:

– the Company financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law), give a true and fair view of the assets, liabilities, financial position and profit of the Company; and

– the Strategic Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

On behalf of the Board

**Philip Kay**
Chairman

28 September 2023

# Independent Auditor's Report to the Members of Schroder Japan Trust plc

## Report on the audit of the financial statements

### 1. Opinion

In our opinion the financial statements of Schroder Japan Trust Plc (the 'company'):

– give a true and fair view of the state of the company's affairs as at 31 July 2023 and of its return for the year then ended;

– have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and the Statement of Recommended Practice issued by the Association of Investment Companies in October 2019 "Financial Statements of Investment Trust Companies and Venture Capital Trusts"; and

– have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

– the income statement;

– the statement of changes in equity;

– the statement of financial position; and

– the related notes 1 to 21.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice) and the Statement of Recommended Practice issued by the Association of Investment Companies ("SORP") in October 2019 "Financial Statements of Investment Trust Companies and Venture Capital Trusts".

### 2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that we have not provided any non-audit services prohibited by the FRC's Ethical Standard to the company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### 3. Summary of our audit approach

| | |
|---|---|
| **Key audit matters** | The key audit matter that we identified in the current year was: |
| | – Valuation and ownership of investments. |
| | Within this report, key audit matters are identified as follows:<br>Newly identified<br>Increased level of risk<br>Similar level of risk<br>Decreased level of risk |
| **Materiality** | The materiality that we used in the current year was £3.02m which was determined on the basis of 1% of net assets. |
| **Scoping** | We performed our audit scoping based upon quantitative and qualitative risk assessment factors for each account balance recorded as at 31 July 2023. |
| **Significant changes in our approach** | In the prior year we did not rely on controls, but in the current year we relied on the relevant controls over the valuation and ownership of investments established at the service provider.<br>There have been no other significant changes to our audit approach in the current year. |

Financial

# Independent Auditor's Report to the Members of Schroder Japan Trust plc

## 4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- Considering as part of our risk assessment the nature of the company, its business model and related principal risks, requirements of the applicable financial reporting framework and the system of internal control;
- Evaluating the underlying data and key assumptions used to make the assessment, and evaluating the directors' plans for future actions in relation to their going concern assessment;
- Assessing the liquidity and ability of the Manager to trade in the investment portfolio to cover operational expenditure as appropriate; and
- Assessing the appropriateness of the directors' going concern disclosure in note 1 to the financial statements.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In relation to the reporting on how the company has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

# Independent Auditor's Report to the Members of Schroder Japan Trust plc

### 5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Valuation and ownership of investments | |
|---|---|
| **Key audit matter description** | The investments of the Company of £331.8m (2022: £313.5) make up 98.5% (2022: 97.9%) of total assets of the Company at 31 July 2023.<br><br>There is a risk that the investments may not be valued correctly or may not represent the assets of the Company. Given the nature and size of the balance and its importance to the Company, we have considered that there is a potential risk of fraud in this area.<br><br>See the accounting policy in note 1(b) of the Financial Statements and note 10 of the Financial Statements. |
| **How the scope of our audit responded to the key audit matter** | We performed the following procedures to address the key audit matter identified:<br>– inspected the internal controls report over the custodian and the administrator to obtain an understanding of relevant controls;<br>– agreed 100% of the Company's investment portfolio at the year end to confirmations received directly from the depositary; and<br>– agreed 100% of the bid prices of quoted investments on the investment ledger at year end to closing bid prices published by an independent pricing source. |
| **Key observations** | Based on the work performed, we concluded that the valuation and ownership of investments were recorded appropriately. |

Financial

# Independent Auditor's Report to the Members of Schroder Japan Trust plc

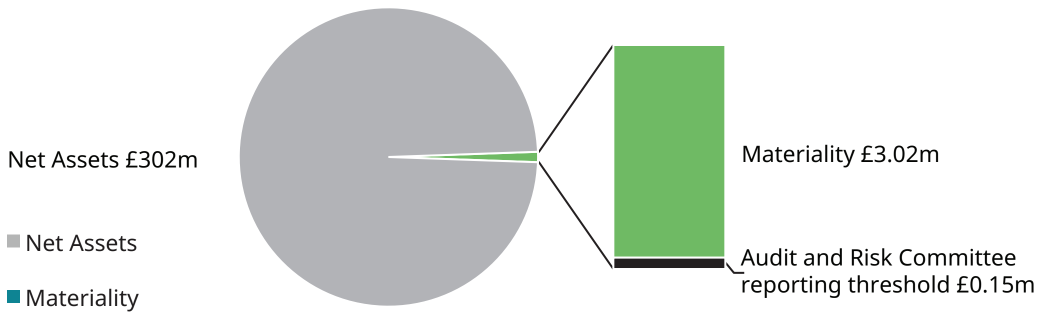
## 6. Our application of materiality

### 6.1 Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

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

| | |
|---|---|
| **Materiality** | £3.02m (2022: £2.81m) |
| **Basis for determining materiality** | 1% of net assets (2022: 1% of net assets) |
| **Rationale for the benchmark applied** | We have used net assets as our materiality benchmark as we consider it to be the most relevant indicator of the company's performance for the users of the Financial Statements, as well as being a key driver of shareholder value. |




### 6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 70% of materiality for the 2023 audit (2023: 70%). In determining performance materiality, we considered the following factors:

a. The company's structure and operating model.

b. The continuity in place within the business from the previous year with both management and the administrator.

c. The lack of changes to accounting policies during the current period which would require significant judgement.

d. Our experience from prior period audits, where there has not been a history of uncorrected misstatements or controls deficiencies.

e. Quality of the control environment and our ability to rely on controls over the valuation and ownership of investments.

### 6.3. Error reporting threshold

We agreed with the Audit and Risk Committee that we would report to the Committee all audit differences in excess of £0.15m (2022: £0.14m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit and Risk Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

## 7. An overview of the scope of our audit

### 7.1. Scoping

Our audit scope was determined by obtaining an understanding of the company and its environment, including internal controls, and assessing the risks of material misstatement. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

### 7.2. Our consideration of the control environment

We obtained an understanding of the relevant controls over the valuation and ownership of investments established at the service provider including obtaining an understanding of the main IT systems used by the service provider which are ICON and HSS Fund Trade Processing ("Markit EDM"). We were able to rely on these IT systems and relevant controls.

# Independent Auditor's Report to the Members of Schroder Japan Trust plc

### 7.3. Our consideration of climate-related risks

In planning our audit, we have considered the potential impact of climate change on the business and its financial statements. The company continues to develop its model for assessing and assigning an ESG score on existing and potential investments based on assessment of the potential impacts of environmental, social and governance ("ESG") related risks, including climate change, as outlined on pages 13-19. As a part of our audit, we held discussions with management to understand the process of identifying climate-related risks and the impact on the Company's financial statements. We have read the ESG related disclosures in the annual report to consider whether they are materially consistent with the financial statements and our knowledge obtained in the audit.

## 8. Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

## 9. Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

## 10. Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

## 11. Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

### 11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the company's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, directors and the Audit and Risk Committee about their own identification and assessment of the risks of irregularities, including those that are specific to the company's sector;
- any matters we identified having obtained and reviewed the company's documentation of their policies and procedures relating to:

  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations.
- the matters discussed among the audit engagement team and relevant internal specialists, including IT and financial instrument specialists, regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the valuation and ownership of investments. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the company operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules and Investment Trust Tax Regulations.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty. This included the requirements of the United Kingdom's Financial Conduct Authority (FCA).

**11.2. Audit response to risks identified**

As a result of performing the above, we identified the valuation and ownership of investments as a key audit matter related to the potential risk of fraud. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we have performed on the key audit matter.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management and the Audit and Risk Committee concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members, including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

## Report on other legal and regulatory requirements

### 12. Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- 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; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

### 13. Corporate Governance Statement

The Listing Rules require us to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the company's compliance with the provisions of the UK Corporate Governance Code specified for our review.

# Independent Auditor's Report to the Members of Schroder Japan Trust plc

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements and our knowledge obtained during the audit:

– the directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 25;

– the directors' explanation as to its assessment of the company's prospects, the period this assessment covers and why the period is appropriate set out on page 25;

– the directors' statement on fair, balanced and understandable set out on page 38;

– the board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 23;

– the section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 23; and

– the section describing the work of the Audit and Risk Committee set out on pages 31 and 32.

## 14. Matters on which we are required to report by exception

**14.1 Adequacy of explanations received and accounting records**

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 are not in agreement with the accounting records and returns.

***We have nothing to report in respect of these matters.***

**14.2 Directors' remuneration**

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns.

***We have nothing to report in respect of these matters.***

## 15. Other matters which we are required to address

**15.1 Auditor tenure**

Following the recommendation of the Audit and Risk Committee, we were appointed by the board of directors on 10 April 2019 to audit the financial statements for the year ending 31 July 2019 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 5 years, covering the years ending 31 July 2019 to 31 July 2023.

**15.2 Consistency of the audit report with the additional report to the Audit and Risk Committee**

Our audit opinion is consistent with the additional report to the Audit and Risk Committee we are required to provide in accordance with ISAs (UK).

## 16. Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Chris Hunter (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Edinburgh, United Kingdom

28 September 2023

# Income Statement
# for the year ended 31 July 2023

| | Note | 2023 Revenue £'000 | 2023 Capital £'000 | 2023 Total £'000 | 2022 Revenue £'000 | 2022 Capital £'000 | 2022 Total £'000 |
|---|---|---|---|---|---|---|---|
| Gains/(losses) on investments held at fair value through profit or loss | 2 | – | 22,484 | 22,484 | – | (3,439) | (3,439) |
| Net foreign currency gains | | – | 3,920 | 3,920 | – | 2,076 | 2,076 |
| Income from investments | 3 | 8,766 | – | 8,766 | 8,208 | – | 8,208 |
| Other interest receivable and similar income | 3 | 20 | – | 20 | 3 | – | 3 |
| **Gross return/(loss)** | | 8,786 | 26,404 | 35,190 | 8,211 | (1,363) | 6,848 |
| Investment management fee | 4 | (607) | (1,416) | (2,023) | (599) | (1,399) | (1,998) |
| Administrative expenses | 5 | (653) | – | (653) | (637) | – | (637) |
| **Net return/(loss) before finance costs and taxation** | | 7,526 | 24,988 | 32,514 | 6,975 | (2,762) | 4,213 |
| Finance costs | 6 | (86) | (200) | (286) | (81) | (189) | (270) |
| **Net return/(loss) before taxation** | | 7,440 | 24,788 | 32,228 | 6,894 | (2,951) | 3,943 |
| Taxation | 7 | (877) | – | (877) | (821) | – | (821) |
| **Net return/(loss) after taxation** | | 6,563 | 24,788 | 31,351 | 6,073 | (2,951) | 3,122 |
| **Return/(loss) per share** | 8 | 5.41p | 20.45p | 25.86p | 4.97p | (2.42)p | 2.55p |

The "Total" column of this statement is the profit and loss account of the Company. The "Revenue" and "Capital" columns represent supplementary information prepared under guidance issued by The Association of Investment Companies. The Company has no other items of other comprehensive income and therefore the net return/(loss) after taxation is also the total comprehensive income for the year.

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

The notes on pages 49 to 62 form an integral part of these accounts.

# Statement of Changes in Equity for the year ended 31 July 2023

| | Note | Called-up share capital £'000 | Share premium £'000 | Capital redemption reserve £'000 | Warrant exercise reserve £'000 | Share purchase reserve £'000 | Capital reserves £'000 | Revenue reserve £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|---|---|
| **At 31 July 2021** | | 12,214 | 7 | 287 | 3 | 91,540 | 173,298 | 6,510 | 283,859 |
| Repurchase of the Company's own shares for cancellation | | (14) | – | 14 | – | (303) | – | – | (303) |
| Net (loss)/return after taxation | | – | – | – | – | – | (2,951) | 6,073 | 3,122 |
| Dividend paid in the year | 9 | – | – | – | – | – | – | (5,249) | (5,249) |
| **At 31 July 2022** | | **12,200** | **7** | **301** | **3** | **91,237** | **170,347** | **7,334** | **281,429** |
| Repurchase of the Company's own shares for cancellation | | **(210)** | **–** | **210** | **–** | **(4,359)** | **–** | **–** | **(4,359)** |
| Net return after taxation | | **–** | **–** | **–** | **–** | **–** | **24,788** | **6,563** | **31,351** |
| Dividend paid in the year | 9 | **–** | **–** | **–** | **–** | **–** | **–** | **(5,961)** | **(5,961)** |
| **At 31 July 2023** | | **11,990** | **7** | **511** | **3** | **86,878** | **195,135** | **7,936** | **302,460** |

The notes on pages 49 to 62 form an integral part of these accounts.

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# Statement of Financial Position at 31 July 2023

| | Note | 2023 £'000 | 2022 £'000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Investments held at fair value through profit or loss | 10 | **331,756** | 313,454 |
| **Current assets** | | | |
| Debtors | 11 | **1,113** | 1,113 |
| Cash at bank and in hand | | **4,081** | 5,626 |
| | | **5,194** | 6,739 |
| **Current liabilities** | | | |
| Creditors: amounts falling due within one year | 12 | **(1,669)** | (1,872) |
| **Net current assets** | | **3,525** | 4,867 |
| **Total assets less current liabilities** | | **335,281** | 318,321 |
| Creditors: amounts falling due after more than one year | 13 | **(32,821)** | (36,892) |
| **Net assets** | | **302,460** | 281,429 |
| **Capital and reserves** | | | |
| Called-up share capital | 14 | **11,990** | 12,200 |
| Share premium | 15 | **7** | 7 |
| Capital redemption reserve | 15 | **511** | 301 |
| Warrant exercise reserve | 15 | **3** | 3 |
| Share purchase reserve | 15 | **86,878** | 91,237 |
| Capital reserves | 15 | **195,135** | 170,347 |
| Revenue reserve | 15 | **7,936** | 7,334 |
| **Total equity shareholders' funds** | | **302,460** | 281,429 |
| **Net asset value per share** | 16 | **252.25p** | 230.68p |

These accounts were approved and authorised for issue by the Board of Directors on 28 September 2023 and signed on its behalf by:

**Philip Kay**
Chairman

The notes on pages 49 to 62 form an integral part of these accounts.

Registered in England and Wales
Company registration number: 02930057

# Notes to the Accounts for the year ended 31 July 2023

## 1. Accounting Policies

### (a) Basis of accounting

Schroder Japan Trust plc ("the Company") is registered in England and Wales as a public company limited by shares. The Company's registered office is 1 London Wall Place, London EC2Y 5AU.

The accounts are prepared in accordance with the Companies Act 2006, United Kingdom Generally Accepted Accounting Practice ("UK GAAP"), in particular in accordance with Financial Reporting Standard (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 July 2022. All of the Company's operations are of a continuing nature.

The accounts have been prepared on a going concern basis under the historical cost convention, as modified by the revaluation of investments held at fair value through profit or loss. The Directors believe that the Company has adequate resources to continue operating to 30 November 2024, which is at least 12 months from the date of approval of these accounts. In forming this opinion, the Directors have taken into consideration: the controls and monitoring processes in place; the Company's level of debt and other payables; the level of operating expenses, comprising largely variable costs which would reduce pro rata in the event of a market downturn; and that the Company's assets comprise cash and readily realisable securities quoted in active markets. In forming this opinion, the Directors have also considered any potential impact of climate change, and the risk/impact of elevated and sustained inflation and interest rates on the viability of the Company. The Company has additionally performed stress tests which confirm that a 50% fall in the market prices of the portfolio would not affect the Board's conclusions in respect of going concern. Further details of Directors' considerations regarding this are given in the Chairman's Statement, Portfolio Managers' Review, Going Concern Statement, Viability Statement and under the Emerging Risks and Uncertainties heading on page 23.

The Company has not presented a statement of cash flows, as it is not required for an investment trust which meets certain conditions; in particular that substantially all of the Company's investments are highly liquid and carried at market value.

The accounts are presented in sterling and amounts have been rounded to the nearest thousand.

The accounting policies applied to these accounts are consistent with those applied in the accounts for the year ended 31 July 2022.

Other than the Directors' assessment of going concern, no significant judgements, estimates or assumptions have been required in the preparation of the accounts for the current or preceding financial year.

### (b) Valuation of investments

The Company's business is investing in financial assets with a view to profiting from their total return in the form of income and capital growth. This portfolio of financial assets is managed and its performance evaluated on a fair value basis, in accordance with a documented investment strategy and information is provided internally on that basis to the Company's Board of Directors. Accordingly, upon initial recognition, the investments are designated by the Company as "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 last traded prices as quoted on the Tokyo Stock Exchange.

Investments that are unlisted or not actively traded are valued using a variety of techniques to determine their fair value; all such valuations are reviewed by both the AIFM's Fair Value Pricing Committee and by the Directors. No investments held at the current or comparative year end have been valued using other techniques.

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

### (c) Accounting for reserves

Gains and losses on sales of investments are included in the income statement and in capital reserves within "gains and losses on sales of investments". Increases and decreases in the valuation of investments held at the year end are included in the income statement and in capital reserves within "investment holding gains and losses".

Foreign exchange gains and losses on cash and deposit balances and unrealised exchange gains and losses on foreign currency loans are included in the income statement and in capital reserves.

### (d) Income

Dividends receivable 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.

# Notes to the Accounts
# for the year ended 31 July 2023

Where the Company has elected to receive scrip dividends in the form of additional shares rather than in cash, the amount of the cash dividend foregone is recognised in revenue. Any excess in the value of the shares received over the amount of the cash dividend is recognised in capital.

Deposit interest outstanding at the year end is calculated and accrued on a time apportionment basis using market rates of interest.

### (e) Expenses

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

– The investment management fee is allocated 30% to revenue and 70% 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 or sale of an investment are charged to capital. These expenses are commonly referred to as transaction costs and mainly comprise brokerage commission. Details of transaction costs are given in note 10 on page 53.

### (f) Finance costs

Finance costs, including any premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis using the effective interest method in accordance with FRS 102.

Finance costs are allocated 30% to revenue and 70% to capital in line with the Board's expected long-term split of revenue and capital return from the Company's investment portfolio.

### (g) Financial instruments

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

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

Bank loans and overdrafts are classified as loans and receivables and are initially measured at fair value and subsequently measured at amortised cost. They are recorded at the proceeds received net of direct issue costs. Finance costs, including any premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis using the effective interest method.

### (h) Taxation

The tax charge for the year is based on amounts expected to be received or paid.

Deferred tax is accounted for in accordance with FRS 102.

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 probable that taxable profits will be available against which those timing differences can be utilised.

Tax relief is allocated to expenses charged to the capital column of the income statement 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.

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 accounting date and is measured on an undiscounted basis.

### (i) Foreign currency

In accordance with FRS 102, the Company is required to determine a functional currency, being the currency in which the Company predominantly operates. The Board, having regard to the currency of the Company's share capital and the predominant currency in which its shareholders operate, has determined that sterling is the functional currency and the currency in which the accounts are presented.

Transactions denominated in foreign currencies are converted at actual exchange rates as at the date of the transaction.

Monetary assets, liabilities and equity investments denominated in foreign currencies at the year end, are translated at the rates of exchange prevailing at the year end.

### (j) Dividend payable

In accordance with FRS 102, the final dividend is included in the accounts in the year in which it is paid.

# Notes to the Accounts for the year ended 31 July 2023

### (k) Repurchase of Ordinary Shares

The costs of repurchasing Ordinary shares including related stamp duty and transaction costs are taken directly to equity and reported through the Statement of Changes in Equity as a charge on the share purchase reserve. 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 the capital redemption reserve.

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

| | 2023 £'000 | 2022 £'000 |
|---|---|---|
| Gains on sales of investments based on historic cost | 16,885 | 17,772 |
| Amounts recognised in investment holding gains and losses in the previous year in respect of investments sold in the year | (17,909) | (18,239) |
| Losses on sales of investments based on the carrying value at the previous balance sheet date | (1,024) | (467) |
| Net movement in investment holding gains and losses | 23,508 | (2,972) |
| Gains/(losses) on investments held at fair value through profit and loss | 22,484 | (3,439) |

## 3. Income

| | 2023 £'000 | 2022 £'000 |
|---|---|---|
| **Income from investments:** | | |
| Overseas dividends | 8,766 | 8,208 |
| **Other interest receivable and similar income** | | |
| Deposit interest | 20 | 3 |
| **Total income** | 8,786 | 8,211 |

## 4. Investment management fee

| | 2023 Revenue £'000 | 2023 Capital £'000 | 2023 Total £'000 | 2022 Revenue £'000 | 2022 Capital £'000 | 2022 Total £'000 |
|---|---|---|---|---|---|---|
| Management fee | 607 | 1,416 | 2,023 | 599 | 1,399 | 1,998 |

The basis for calculating the investment management fee is set out in the Report of the Directors on page 28 and details of all amounts payable to the Manager are given in note 17 on page 56.

## 5. Administrative expenses

| | 2023 £'000 | 2022 £'000 |
|---|---|---|
| Administration expenses | 305 | 316 |
| Directors' fees[1] | 170 | 145 |
| Company secretarial fee | 90 | 90 |
| Marketing support fee | 50 | 50 |
| Auditor's remuneration for audit services | 38 | 36 |
| | 653 | 637 |

[1]Details of all amounts payable to Directors are given in the Remuneration Report on page 37.

Financial

# Notes to the Accounts for the year ended 31 July 2023

## 6. Finance costs

| | 2023 Revenue £'000 | 2023 Capital £'000 | 2023 Total £'000 | 2022 Revenue £'000 | 2022 Capital £'000 | 2022 Total £'000 |
|---|---|---|---|---|---|---|
| Interest on bank loans and overdrafts | **86** | **200** | **286** | 81 | 189 | 270 |

## 7. Taxation

| | 2023 £'000 | 2022 £'000 |
|---|---|---|
| **(a) Analysis of charge for the year:** | | |
| Irrecoverable overseas tax | **877** | 821 |
| **Taxation** | **877** | 821 |

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

The tax assessed for the year is lower (2022: higher) than the Company's applicable rate of corporation tax for the year of 21% (2022: 19%).

The factors affecting the tax charge for the year are as follows:

| | 2023 Revenue £'000 | 2023 Capital £'000 | 2023 Total £'000 | 2022 Revenue £'000 | 2022 Capital £'000 | 2022 Total £'000 |
|---|---|---|---|---|---|---|
| Net return/(loss) before taxation | **7,526** | **24,988** | **32,514** | 6,894 | (2,951) | 3,943 |
| Net return/(loss) before taxation multiplied by the Company's applicable rate of corporation tax for the year of 21% (2022: 19%) | **1,562** | **5,206** | **6,768** | 1,310 | (561) | 749 |
| Effects of : | | | | | | |
| Capital (gains)/losses on investments | **–** | **(5,545)** | **(5,545)** | – | 259 | 259 |
| Income not chargeable to corporation tax | **(1,840)** | **–** | **(1,840)** | (1,560) | – | (1,560) |
| Unrelieved expenses | **278** | **339** | **617** | 250 | 302 | 552 |
| Irrecoverable overseas tax | **877** | **–** | **877** | 821 | – | 821 |
| **Taxation for the year** | **877** | **–** | **877** | 821 | – | 821 |

### (c) Deferred taxation

The Company has an unrecognised deferred tax asset of £10,682,000 (2022: £9,947,000) based on a prospective corporation tax rate of 25.0% (2022: 25%). The main rate of corporation tax increased to 25% for fiscal years beginning on or after 1 April 2023.

This deferred tax asset has arisen due to the cumulative excess of deductible expenses over taxable income. Given the composition of the Company's portfolio, it is not likely that this asset will be utilised in the foreseeable future and therefore no asset has been recognised in the accounts.

Given the Company's status as an Investment Trust Company, no provision has been made for deferred tax on any capital gains or losses arising on the revaluation or disposal of investments.

# Notes to the Accounts for the year ended 31 July 2023

## 8. Return/(loss) per share

| | 2023 £'000 | 2022 £'000 |
|---|---|---|
| Revenue return | **6,563** | 6,073 |
| Capital return/(loss) | **24,788** | (2,951) |
| Total return | **31,351** | 3,122 |
| Weighted average number of ordinary shares in issue during the year | **121,214,425** | 122,078,782 |
| Revenue return per share | **5.41p** | 4.97p |
| Capital return/(loss) per share | **20.45p** | (2.42)p |
| Total return per share | **25.86p** | 2.55p |

## 9. Dividends

### Dividend paid and proposed

| | 2023 £'000 | 2022 £'000 |
|---|---|---|
| 2022 final dividend of 4.90p (2021: 4.30p) paid out of revenue profits | **5,961**[1] | 5,249 |

| | 2023 £'000 | 2022 £'000 |
|---|---|---|
| 2023 final dividend proposed of 5.40p (2022: 4.90p) to be paid out of revenue profits | **6,475** | 5,978 |

[1]The 2022 final dividend amounted to £5,978,000. However the amount actually paid was £5,961,000 as shares were repurchased and cancelled, after the accounting date, but prior to the dividend Record Date.

The proposed dividend amounting to £6,475,000 (2022: £5,978,000) is the amount used for the basis of determining whether the Company has satisfied the distribution requirements of Section 1158 of the Corporation Tax Act 2010. The revenue available for distribution by way of dividend for the year is £6,563,000 (2022; £6,073,000).

## 10. Investments held at fair value through profit or loss

| | 2023 £'000 | 2022 £'000 |
|---|---|---|
| Opening book cost | **264,723** | 243,965 |
| Opening investment holding gains | **48,731** | 69,942 |
| Opening fair value | **313,454** | 313,907 |
| **Analysis of transactions made during the year** | | |
| Purchases at cost | **85,094** | 69,606 |
| Sales proceeds received | **(89,276)** | (66,620) |
| Gains/(losses) on investments held at fair value | **22,484** | (3,439) |
| Closing fair value | **331,756** | 313,454 |
| Closing book cost | **277,426** | 264,723 |
| Closing investment holding gains | **54,330** | 48,731 |
| **Closing fair value** | **331,756** | 313,454 |

All investments are listed on a recognised stock exchange.

The Company received £89,276,000 (2022: £66,620,000) from disposal of investments in the year. The book cost of these investments when they were purchased was £72,391,000 (2022: £48,848,000). These investments have been revalued over time and until they were sold any unrealised gains/losses were included in the fair value of the investments.

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# Notes to the Accounts for the year ended 31 July 2023

The following transaction costs, mainly comprising brokerage commissions, were incurred during the year:

| | 2023 £'000 | 2022 £'000 |
|---|---|---|
| On acquisitions | 23 | 16 |
| On disposals | 21 | 14 |
| | 44 | 30 |

## 11. Debtors

| | 2023 £'000 | 2022 £'000 |
|---|---|---|
| Securities sold awaiting settlement | 750 | 800 |
| Dividends and interest receivable | 338 | 295 |
| Other debtors | 25 | 18 |
| | 1,113 | 1,113 |

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

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

| | 2023 £'000 | 2022 £'000 |
|---|---|---|
| Securities purchased awaiting settlement | 951 | 1,177 |
| Other creditors and accruals | 718 | 695 |
| | 1,669 | 1,872 |

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

| | 2023 £'000 | 2022 £'000 |
|---|---|---|
| Bank loan | 32,821 | 36,892 |

The bank loan is a yen 6.0 billion three-year term loan from SMBC Bank International plc (formerly Sumitomo Mitsui Banking Corporation Europe Limited), expiring in January 2025 and carrying a floating interest rate, calculated at the daily Compounded Risk Free Rate, plus a margin. The loan is unsecured, but is subject to certain undertakings and restrictions, all of which have been complied with. The Directors consider that the carrying amount of the loan approximates to its fair value.

In addition to the term loan detailed above, the Company has a yen 2.0 billion credit facility available from Sumitomo Mitsui Banking Corporation, London Branch, which was undrawn at the year end (2022: undrawn). Further details of the facility are given in note 20 on page 59.

## 14. Called-up share capital

| | 2023 £'000 | 2022 £'000 |
|---|---|---|
| Ordinary shares allotted, called-up and fully paid: | | |
| Opening balance of 122,000,562 (2022: 122,143,262) ordinary shares of 10p each | 12,200 | 12,214 |
| Repurchase and cancellation of 2,096,597 (2022: 142,700) shares | (210) | (14) |
| Closing balance of 119,903,965 (2022: 122,000,562) shares | 11,990 | 12,200 |

# Notes to the Accounts for the year ended 31 July 2023

During the year, the Company purchased 2,096,597 of its own shares, nominal value £209,660, for cancellation, for a total consideration of £4,359,000, representing 1.72% of the shares outstanding at the beginning of the year. The reason for these share repurchases was to seek to manage the volatility of the share price discount to net asset value per share.

## 15. Reserves

### Year ended 31 July 2023

| | Share premium[1] £'000 | Capital redemption reserve[1] £'000 | Warrant exercise reserve[1] £'000 | Share purchase reserve[2] £'000 | Capital reserves: Gains and losses on sales of investments[2] £'000 | Capital reserves: Investment holding gains and losses[3] £'000 | Revenue reserve[4] £'000 |
|---|---|---|---|---|---|---|---|
| Opening balance | 7 | 301 | 3 | 91,237 | 119,908 | 50,439 | 7,334 |
| Losses on sales of investments based on the carrying value at the previous balance sheet date | – | – | – | – | (1,024) | – | – |
| Net movement in investment holding gains and losses | – | – | – | – | – | 23,508 | – |
| Transfer on disposal of investments | – | – | – | – | 17,909 | (17,909) | – |
| Realised exchange losses on cash and short-term deposits | – | – | – | – | (150) | – | – |
| Exchange gains on foreign currency loan | – | – | – | – | – | 4,070 | – |
| Management fee and finance costs allocated to capital | – | – | – | – | (1,616) | – | – |
| Share repurchases for cancellation | – | 210 | – | (4,359) | – | – | – |
| Dividend paid | – | – | – | – | – | – | (5,961) |
| Retained revenue for the year | – | – | – | – | – | – | 6,563 |
| **Closing balance** | 7 | 511 | 3 | 86,878 | 135,027 | 60,108 | 7,936 |

### Year ended 31 July 2022

| | Share premium[1] £'000 | Capital redemption reserve[1] £'000 | Warrant exercise reserve[1] £'000 | Share purchase reserve[2] £'000 | Capital reserves: Gains and losses on sales of investments[2] £'000 | Capital reserves: Investment holding gains and losses[3] £'000 | Revenue reserve[4] £'000 |
|---|---|---|---|---|---|---|---|
| Opening balance | 7 | 287 | 3 | 91,540 | 100,043 | 73,255 | 6,510 |
| Losses on sales of investments based on the carrying value at the previous balance sheet date | – | – | – | – | (467) | – | – |
| Net movement in investment holding gains and losses | – | – | – | – | – | (2,972) | – |
| Transfer on disposal of investments | – | – | – | – | 18,239 | (18,239) | – |
| Realised exchange losses on cash and short-term deposits | – | – | – | – | (354) | – | – |
| Exchange gains/(losses) on foreign currency loan | – | – | – | – | 4,035 | (1,605) | – |
| Management fee and finance costs allocated to capital | – | – | – | – | (1,588) | – | – |
| Share repurchases for cancellation | – | 14 | – | (303) | – | – | – |
| Dividend paid | – | – | – | – | – | – | (5,249) |
| Retained revenue for the year | – | – | – | – | – | – | 6,073 |
| **Closing balance** | 7 | 301 | 3 | 91,237 | 119,908 | 50,439 | 7,334 |

[1]These reserves are not distributable.
[2]These are realised (distributable) capital reserves which may be used to repurchase the Company's own shares or distributed as dividends.
[3]This reserve comprises holding gains on liquid investments (which may be deemed to be realised) and other amounts which are unrealised. An analysis has not been made between those amounts that are realised (and may be distributed as dividends or used to repurchase the Company's own shares) and those that are unrealised.
[4]The revenue reserve may be distributed as dividends or used to repurchase the Company's own shares.

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# Notes to the Accounts for the year ended 31 July 2023

## 16. Net asset value per share

| | 2023 | 2022 |
|---|---|---|
| Net assets attributable to shareholders (£'000) | 302,460 | 281,429 |
| Shares in issue at the year end | 119,903,965 | 122,000,562 |
| Net asset value per share | 252.25p | 230.68p |

## 17. Transactions with the Manager

Under the terms of the AIFM Agreement, the Manager is entitled to receive a management fee, a marketing support fee and a company secretarial fee. Details of the AIFM agreement are given in the Report of the Directors on page 28. Any investments in funds managed or advised by the Manager or any of its associated companies are excluded from the assets used for the purpose of the management fee calculation and therefore incur no fee.

The management fee payable in respect of the year ended 31 July 2023 amounted to £2,023,000 (2022: £1,998,000), of which £535,000 (2022: £502,000) was outstanding at the year end. The marketing support fee payable to the Manager amounted to £50,000 (2022: £50,000) of which £13,000 (2022: £13,000) was outstanding at the year end. The company secretarial fee payable to the Manager amounted to £90,000 (2022: £90,000) of which £23,000 (2022: £23,000) was outstanding at the year end. Outstanding amounts to the Manager are short-term in nature, these amounts are unsecured and not subject to interest charges.

## 18. Related party transactions

Details of the remuneration payable to Directors are given in the Remuneration Report on page 37 and details of Directors' shareholdings are given in in the Report of the Directors on page 37. Details of transactions with the Manager are given in note 17 above. There have been no other transactions with related parties during the year (2022: nil).

## 19. 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. The Company currently holds no derivative financial instruments.

FRS 102 requires financial instruments to be categorised into a hierarchy consisting of the three levels below.

Level 1 – valued using unadjusted quoted prices in active markets for identical assets.

Level 2 – valued using observable inputs other than quoted prices included within Level 1.

Level 3 – valued using inputs that are unobservable.

Details of the valuation techniques used by the Company are given in note 1(b) on page 49.

At 31 July 2023, all investments in the Company's portfolio are categorised as Level 1 (2022: same).

The following table sets out the fair value measurements using the FRS 102 hierarchy at 31 July:

| | 2023 | | | |
|---|---|---|---|---|
| | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 | Total £'000 |
| **Financial instruments held at fair value through profit or loss** | | | | |
| Equity investments | 331,756 | – | – | 331,756 |

| | 2022 | | | |
|---|---|---|---|---|
| | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 | Total £'000 |
| **Financial instruments held at fair value through profit or loss** | | | | |
| Equity investments | 313,454 | – | – | 313,454 |

# Notes to the Accounts for the year ended 31 July 2023

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

The investment objective is set out on the inside front cover of this report. In pursuing this objective, the Company is exposed to a variety of risks that could result in a reduction in the Company's net assets or a reduction in profits available for dividends.

These risks include market risk (comprising currency risk, interest rate risk and market price risk), liquidity risk and credit risk. The Directors' policy for managing these risks is set out below. The Board 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 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 credit facility and a term loan, the purpose of which are to manage working capital requirements and to gear the Company as appropriate.

### (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 market 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, 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 the exchange rate 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. It is currently not the Company's policy to actively hedge against currency risk. However any yen denominated borrowing acts to reduce 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.

*Foreign currency exposure*

The fair value of the Company's monetary items that have exposure to the yen at 31 July 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.

| | 2023 £'000 | 2022 £'000 |
|---|---|---|
| Debtors (securities sold awaiting settlement, dividends and interest receivable) | **1,080** | 1,093 |
| Cash at bank and in hand | **694** | 1,363 |
| Creditors (securities purchased awaiting settlement) | **(951)** | (1,177) |
| Bank loans (including accrued interest payable) | **(32,833)** | (36,905) |
| Foreign currency exposure on net monetary items | **(32,010)** | (35,626) |
| Investments held at fair value through profit or loss that are equities | **331,756** | 313,454 |
| Total net foreign currency exposure | **299,746** | 277,828 |

The above year end amounts are broadly representative of the exposure to foreign currency risk during the current and comparative year.

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# Notes to the Accounts for the year ended 31 July 2023

### *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, financial liabilities and exchange rates. The sensitivity analysis is based on the Company's monetary currency financial instruments held at each balance sheet date and assumes a 10% (2022: 10%) appreciation or depreciation in sterling against the yen, which is considered to be a reasonable illustration based on the volatility of exchange rates during the year.

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

| | 2023 £'000 | 2022 £'000 |
|---|---|---|
| Income statement – return after taxation | | |
| Revenue return | **782** | 731 |
| Capital return | **(3,221)** | (3,582) |
| Total return after taxation for the year | **(2,439)** | (2,851) |
| Net assets | **29,975** | 27,783 |
| | **27,536** | 24,932 |

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

| | 2023 £'000 | 2022 £'000 |
|---|---|---|
| Income statement – return after taxation | | |
| Revenue return | **(782)** | (731) |
| Capital return | **3,221** | 3,582 |
| Total return after taxation for the year | **2,439** | 2,851 |
| Net assets | **(29,975)** | (27,783) |
| | **(27,536)** | (24,932) |

In the opinion of the Directors, the above sensitivity analysis is broadly representative of the current and comparative year.

## (ii) Interest rate risk

Interest rate movements may affect the level of income receivable on cash deposits and the interest payable on variable rate borrowings when interest rates are re-set.

### *Management of interest rate risk*

Liquidity and borrowings are managed with the aim of increasing returns to shareholders. The Company's gearing policy is to limit gearing to 25% where gearing is defined as borrowings used for investment purposes, less cash expressed as a percentage of net assets.

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 credit facility. However, amounts drawn down on this facility are for short-term periods and therefore exposure to interest rate risk is not significant. The Company has a three year term loan which carries a floating rate of interest and which is therefore exposed to interest rate changes.

### *Interest rate exposure*

The exposure of financial assets and financial liabilities to floating interest rates, giving cash flow interest rate risk when rates are re-set, is shown below:

| | 2023 £'000 | 2022 £'000 |
|---|---|---|
| Exposure to floating interest rates: | | |
| Cash at bank and in hand | **4,081** | 5,626 |
| Creditors: amounts falling due after more than one year | | |
| Term loan | **(32,821)** | (36,892) |
| Total exposure | **(28,740)** | (31,266) |

The floating rate assets consist of cash deposits on call. Sterling cash deposits at call earn interest at floating rates based on Sterling Overnight Index Average ("SONIA") rates (2022: same).

The bank loan is a yen 6.0 billion three-year term loan from SMBC Bank International plc, expiring in January 2025 and carrying a floating interest rate, calculated at the daily Compounded Risk Free Rate, plus a 0.8% margin.

During the year, the Company extended its yen 2 billion, 364 day credit facility arrangement with SMBC, to 10 May 2024. Under the terms of the agreement, interest is payable at the "Compounded Reference Rate", being the aggregate of the Daily Non-Cumulative Compounded Risk Free Reference Rate plus the applicable Credit Adjustment Spread. The facility has not been utilised in the current or prior year.

The above year end amounts are not representative of the exposure to interest rates during the year as the level of cash balances has fluctuated. The maximum and minimum exposure during the year was as follows:

| | 2023 £'000 | 2022 £'000 |
|---|---|---|
| Maximum debit interest rate exposure during the year – net debt | (35,502) | (32,845) |
| Minimum debit interest rate exposure during the year – net debt | (27,447) | (29,697) |

### *Interest rate sensitivity*

The following table illustrates the sensitivity of the return after taxation for the year and net assets to a 1.0% (2022: 1.0%) increase or decrease in interest rates. 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 accounting date and which are exposed to interest rate movements, with all other variables held constant.

| | 2023 | | 2022 | |
|---|---|---|---|---|
| | 1.0% increase in rate £'000 | 1.0% decrease in rate £'000 | 1.0% increase in rate £'000 | 1.0% decrease in rate £'000 |
| Income statement – return after taxation | | | | |
| Revenue return | (58) | 58 | (54) | 54 |
| Capital return | (230) | 230 | (258) | 258 |
| Total return after taxation | (288) | 288 | (312) | 312 |
| Net assets | (288) | 288 | (312) | 312 |

In the opinion of the Directors, this sensitivity analysis may not be representative of the Company's future exposure to interest rate changes due to fluctuations in the level of cash balances and drawings on the credit facility.

## (iii) Market price risk

Market price risk includes changes in market prices, other than those arising from interest rate risk, which may affect the value of the Company's investments.

### *Management of market 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.

### *Market price risk exposure*

The Company's total exposure to changes in market prices at 31 July comprised its portfolio of investments as follows:

| | 2023 £'000 | 2022 £'000 |
|---|---|---|
| Investments held at fair value through profit or loss | 331,756 | 313,454 |

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

### *Concentration of exposure to market price risk*

An analysis of the Company's investments is given on page 9. The portfolio comprises securities listed on Japanese stock markets. Accordingly there is a concentration of exposure to that country. However it should be noted that an investment may not be entirely exposed to the economic conditions in its country of listing.

# Notes to the Accounts for the year ended 31 July 2023

### *Market price risk sensitivity*

The following table illustrates the sensitivity of the return after taxation for the year and net assets to an increase or decrease of 10% (2022: 10%) in the fair values of the Company's 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 exposure to market price risk through its portfolio of investments and includes the impact on the management fee but assumes all other variables are held constant.

| | 2023 | | 2022 | |
|---|---|---|---|---|
| | 10% increase in fair value £'000 | 10% decrease in fair value £'000 | 10% increase in fair value £'000 | 10% decrease in fair value £'000 |
| Income statement – return after taxation | | | | |
| Revenue return | (65) | 65 | (61) | 61 |
| Capital return | 33,025 | (33,025) | 31,203 | (31,203) |
| Total return after taxation and net assets | 32,960 | (32,960) | 31,142 | (31,142) |
| Percentage change in net asset value | 10.9% | (10.9%) | 11.1% | (11.1%) |

## (b) Liquidity risk

This is the risk that the Company will encounter difficulty in meeting its 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 mainly readily realisable securities, which can be sold to meet funding requirements if necessary. Short-term flexibility is achieved through the use of a credit facility. The Board's policy is for the Company to remain fully invested in normal market conditions and that the credit facility be used to manage working capital requirements and to gear the Company as appropriate.

### Liquidity risk exposure

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

| | 2023 | | | 2022 | | |
|---|---|---|---|---|---|---|
| | Within one year £'000 | One to two years £'000 | Total £'000 | Within one year £'000 | Two to three years £'000 | Total £'000 |
| **Creditors: amounts falling due within one year** | | | | | | |
| Securities purchased awaiting settlement | 951 | – | 951 | 1,177 | – | 1,177 |
| Other creditors and accruals | 706 | – | 706 | 682 | – | 682 |
| **Creditors: amounts falling due after more than one year** | | | | | | |
| Interest on term loan | 263 | 123 | 386 | 295 | 434 | 729 |
| Term loan | – | 32,821 | 32,821 | – | 36,892 | 36,892 |
| | 1,920 | 32,944 | 34,864 | 2,154 | 37,326 | 39,480 |

## (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

This risk is not significant and is managed as follows:

### Portfolio dealing

The Company invests in markets that operates a "Delivery Versus Payment" settlement process which mitigates the risk of losing the principal of a trade during settlement. The Manager continuously monitors dealing activity to ensure best execution, which involves measuring various indicators including the quality of trade settlement and incidence of failed trades. Counterparties must be pre-approved by the Manager's credit committee.

# Notes to the Accounts
# for the year ended 31 July 2023

### Exposure to the Custodian

The Custodian of the Company's assets is HSBC Bank plc which has Long-Term Credit Ratings of AA- with Fitch and A1 with Moody's.

The Company's investments are held in accounts which are segregated from the Custodian's own trading assets. If the the Custodian were to become insolvent, the Company's right of ownership of its investments is clear and they are therefore protected. However the Company's cash balances are all deposited with the Custodian as banker and held on the Custodian's balance sheet. Accordingly, in accordance with usual banking practice, the Company will rank as a general creditor to the Custodian in respect of cash balances.

### Credit risk exposure

The following amounts shown in the Statement of Financial Position, represent the maximum exposure to credit risk at the current and comparative year end.

| | 2023 £'000 | 2022 £'000 |
|---|---|---|
| **Current assets** | | |
| Debtors – securities sold awaiting settlement, dividends and interest receivable and other debtors | **1,113** | 1,113 |
| Cash at bank and in hand | **4,081** | 5,626 |
| | **5,194** | 6,739 |

No debtors are past their due date and no provision has been made for impairment.

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

All financial assets and liabilities are either carried at fair value or the amount in the Statement of Financial Position is a reasonable approximation of fair value.

## 21. Capital management policies and procedures

The Company's objectives, policies and processes for managing capital are unchanged from the preceding year.

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

| | 2023 £'000 | 2022 £'000 |
|---|---|---|
| **Debt** | | |
| Bank loan | **32,821** | 36,892 |
| **Equity** | | |
| Called-up share capital | **11,990** | 12,200 |
| Reserves | **290,470** | 269,229 |
| | **302,460** | 281,429 |
| **Total debt and equity** | **335,281** | 318,321 |

# Notes to the Accounts for the year ended 31 July 2023

The Company's capital management objectives are to ensure that it will continue as a going concern and to maximise the capital return to shareholders through an appropriate level of gearing. The Board's policy is to limit gearing to 25%. Gearing for this purpose is defined as borrowings used for investment purposes, less cash, expressed as a percentage of net assets.

| | 2023 £'000 | 2022 £'000 |
|---|---|---|
| Borrowings used for investment purposes, less cash | **28,740** | 31,266 |
| Net assets | **302,460** | 281,429 |
| Gearing | **9.5%** | 11.1% |

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 shares for cancellation, which takes into account the share price discount;
- the opportunity for issues of new shares; and
- the level of dividend distribution in excess of that which is required to be distributed.

# Annual General Meeting – Recommendations

**The Annual General Meeting ("AGM") of the Company will be held on Tuesday, 5 December 2023 at 1.00 p.m. The formal Notice of Meeting is set out on page 64.**

**The following information is important and requires your immediate attention. If you are in any doubt about the action you should take, you should consult an independent financial adviser, authorised under the Financial Services and Markets Act 2000. If you have sold or transferred all of your ordinary shares in the Company, please forward this document with its accompanying form of proxy at once to the purchaser or transferee, or to the stockbroker, bank or other agent through whom the sale or transfer was effected, for onward transmission to the purchaser or transferee.**

## Ordinary business

Resolutions 1 to 11 are all ordinary resolutions and ordinary business. Resolutions 12 and 13 are ordinary resolutions and special business. Resolution 1 is a required resolution. Resolution 2 invites shareholders to approve the final dividend. Resolution 3 invites shareholders to approve the Directors Remuneration Policy. Resolution 4 concerns the Remuneration Report set out on pages 36–37. Resolutions 5 to 9 invite shareholders to re-elect each of the Directors for another year, following the recommendations of the nomination committee, set out on pages 34 and 35 (their biographies are set out on pages 26 and 27). Resolutions 10 and 11 concern the re-appointment and remuneration of the Company's auditors, discussed in the audit and risk committee Report on pages 31 and 32.

## Special business

## Resolution 12: change of investment policy (ordinary resolution)

Resolution 12 set out in the Notice of AGM is an ordinary resolution. The Board is proposing that the Investment Policy be amended to allow the Company to use Contracts for Difference ("CFDs") to provide exposure to Japanese equities on a geared basis as an alternative to utilising bank borrowings. Derivatives (including CFDs) may currently only be used for efficient portfolio management to protect the portfolio against market risk. The Board will continue to monitor and review the Company's gearing level on an ongoing basis. It should be stressed that the majority of the Company's exposure to Japanese equities will continue to be through direct investment, not CFDs. The limits on exposure to individual companies and groups will be calculated on the basis that the Company had acquired the securities to which any CFD is providing exposure.

The proposed New Investment Policy is as follows:

"The Company may use gearing (including the use of CFDs) to enhance performance but investment exposure will not exceed 125% of net asset value."

### Resolution 13: Directors' authority to allot shares (ordinary resolution) and Resolution 14: power to disapply pre-emption rights (special resolution)

The Directors are seeking authority to allot a limited number of unissued ordinary shares for cash without first offering them to existing shareholders in accordance with statutory pre-emption procedures.

Appropriate resolutions will be proposed at the forthcoming AGM and are set out in full in the Notice of AGM. An ordinary resolution will be proposed to authorise the Directors to allot shares up to a maximum aggregate nominal amount of £597,644 (being 5% of the issued share capital as at 27 September 2023). A special resolution will also be proposed to give the Directors authority to allot securities for cash on a non pre-emptive basis up to a maximum aggregate nominal amount of £597,644 (being 5% of the Company's issued share capital as at 27 September 2023).

The Directors do not intend to allot shares pursuant to these authorities other than to take advantage of opportunities in the market as they arise and only if they believe it to be advantageous to the Company's existing shareholders to do so and when it would not result in any dilution of NAV per share.

If approved, both of these authorities will expire at the conclusion of the AGM in 2024 unless renewed, varied or revoked earlier.

### Resolution 15: authority to make market purchases of the Company's own shares (special resolution)

At the AGM held on 5 December 2022, the Company was granted authority to make market purchases of up to 18,261,923 ordinary shares of 10p each for cancellation. As at 27 September 2023 2,080,907 shares have been bought back under this authority granted on 5 December 2022 and the Company therefore has remaining authority to purchase up to 16,181,016 ordinary shares. This authority will expire at the forthcoming AGM.

The Directors believe it is in the best interests of the Company and its shareholders to have a general authority for the Company to buy back its ordinary shares in the market as they keep under review the share price discount to NAV and the purchase of ordinary shares. A special resolution will be proposed at the forthcoming AGM to give the Company authority to make market purchases of up to 14.99% of the ordinary shares in issue as at the date of the Notice of the AGM. The Directors will exercise this authority only if the Directors consider that any purchase would be for the benefit of the Company and its shareholders, taking into account relevant factors and circumstances at the time. Any shares so purchased would be cancelled or held in treasury for potential reissue. If renewed, the authority to be given at the 2022 AGM will lapse at the conclusion of the AGM in 2024 unless renewed, varied or revoked earlier.

### Resolution 16: notice period for general meetings (special resolution)

Resolution 16 set out in the Notice of AGM is a special resolution and will, if passed, allow the Company to hold general meetings (other than annual general meetings) on a minimum notice period of 14 clear days, rather than 21 clear days as required by the Companies Act 2006. The approval will be effective until the Company's next AGM to be held in 2024. The Directors will only call general meetings on 14 clear days' notice when they consider it to be in the best interests of the Company's shareholders and will only do so if the Company offers facilities for all shareholders to vote by electronic means and when the matter needs to be dealt with expediently.

## Recommendations

The Board considers that the resolutions relating to the above items of special business are in the best interests of shareholders as a whole. Accordingly, the Board unanimously recommends to shareholders that they vote in favour of the above resolutions and the other resolutions to be proposed at the forthcoming AGM, as they intend to do in respect of their own beneficial holdings.

# Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Schroder Japan Trust plc will be held on Tuesday, 5 December 2023 at 1.00 p.m. at **1 London Wall Place, London EC2Y 5AU** to consider the following resolutions of which resolutions 1 to 13 will be proposed as ordinary resolutions and resolutions 14 to 15 will be proposed as special resolutions:

1. To receive the Report of the Directors and the audited Accounts for the year ended 31 July 2023.
2. To approve a final dividend of 5.40p per share for the year ended 31 July 2023.
3. To approve the Directors' Remuneration Policy.
4. To approve the Directors' Remuneration Report for the year ended 31 July 2023.
5. To approve the re-election of Alan Gibbs as a Director of the Company.
6. To approve the re-election of Angus Macpherson as a Director of the Company.
7. To approve the re-election of Belinda Richards as a Director of the Company.
8. To approve the re-election of Helena Coles as a Director of the Company.
9. To approve the re-election of Philip Kay as a Director of the Company.
10. To re-appoint Deloitte LLP as auditors to the Company.
11. To authorise the Directors to determine the remuneration of Deloitte LLP as auditors to the Company.
12. To consider, and if thought fit, pass the following resolution as an ordinary resolution:

    "THAT the Company's investment policy be amended by expanding the current limit on gearing at 25% of shareholders' funds to allow for the use of Contracts for Difference ("CFDs") to gain exposure to the Japanese market, with a new restriction as follows:-

    "The Company may use gearing to enhance performance (including the use of CFDs) but investment exposure will not exceed 125% of net asset value."
13. To consider, and if thought fit, pass the following resolution as an ordinary resolution:

    "THAT in substitution for all existing authorities the Directors be generally and unconditionally authorised pursuant to section 551 of the Companies Act 2006 (the "Act") to exercise all the powers of the Company to allot relevant securities (within the meaning of section 551 of the Act) up to an aggregate nominal amount of £597,644 (being 5% of the issued ordinary share capital, excluding shares held in treasury, as at 27 September 2023) for a period expiring (unless previously renewed, varied or revoked by the Company in general meeting) at the conclusion of the next Annual General Meeting of the Company, but that the Company may make an offer or agreement which would or might require relevant securities to be allotted after expiry of this authority and the Board may allot relevant securities in pursuance of that offer or agreement."
14. To consider and, if thought fit, to pass the following resolution as a special resolution:

    "That, subject to the passing of Resolution 13 set out above, the Directors be and are hereby empowered, pursuant to Section 571 of the Act, to allot equity securities (including any shares held in treasury) (as defined in section 560(1) of the Act) pursuant to the authority given in accordance with section 551 of the Act by the said Resolution 13 and/or where such allotment constitutes an allotment of equity securities by virtue of section 560(2) of the Act 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 up to an aggregate nominal amount of £597,644 (representing 5% of the aggregate nominal amount of the share capital in issue as at 27 September 2023); and provided that this power shall expire at the conclusion of the next Annual General Meeting of the Company but so that this power shall enable the Company to make offers or agreements before such expiry which would or might require equity securities to be allotted after such expiry."
15. To consider and, if thought fit, to pass the following resolution as a special resolution:

    "THAT the Company be and is hereby generally and unconditionally authorised in accordance with Section 701 of the Companies Act 2006 (the "Act") to make market purchases (within the meaning of Section 693 of the Act) of ordinary shares of 10p each in the capital of the Company ("Share") at whatever discount the prevailing market price represents to the prevailing net asset value per Share provided that:

    (a) the maximum number of Shares which may be purchased is 17,917,392, representing 14.99% of the Company's issued ordinary share capital as at 27 September 2023 (excluding treasury shares);

    (b) the maximum price (exclusive of expenses) which may be paid for a Share shall not exceed the higher of;

    i) 105% of the average of the middle market quotations for the Shares as taken from the London Stock Exchange Daily Official List for the five business days preceding the date of purchase; and

    ii) the higher of the last independent bid and the highest current independent bid on the London Stock Exchange;

    (c) the minimum price (exclusive of expenses) which may be paid for a Share shall be 10p, being the nominal value per Share;

    (d) this authority hereby conferred shall expire at the conclusion of the next Annual General Meeting of the Company in 2024 (unless previously renewed, varied or revoked by the Company prior to such date);

    (e) the Company may make a contract to purchase Shares under the authority hereby conferred which will or may be executed wholly or partly after the expiration of such authority and may make a purchase of Shares pursuant to any such contract; and

    (f) any Shares so purchased will be cancelled or held in treasury."
16. To consider and, if thought fit, to pass the following resolution as a special resolution:

    "That a general meeting, other than an Annual General Meeting, may be called on not less than 14 clear days' notice."

By order of the Board
For and on behalf of
Schroder Investment Management Limited
Registered number: 02930057

Registered Office:
1 London Wall Place,
London EC2Y 5AU

28 September 2023

# Explanatory Notes to the Notice of Meeting

1. Ordinary shareholders are entitled to attend and vote at the meeting and to appoint one or more proxies, who need not be a shareholder, as their proxy to exercise all or any of their rights to attend, speak and vote on their behalf at the meeting.

   A proxy form is attached. If you wish to appoint a person other than the Chairman as your proxy, please insert the name of your chosen proxy holder in the space provided at the top of the form. If the proxy is being appointed in relation to less than your full voting entitlement, please enter in the box next to the proxy holder's name the number of shares in relation to which they are authorised to act as your proxy. If left blank your proxy will be deemed to be authorised in respect of your full voting entitlement (or if this proxy form has been issued in respect of a designated account for a shareholder, the full voting entitlement for that designated account). Additional proxy forms can be obtained by contacting the Company's Registrars, Equiniti Limited, on 0800 032 0641 or +44(0) 121 415 0207 for overseas callers, or you may photocopy the attached proxy form. Please indicate in the box next to the proxy holder's name the number of shares in relation to which they are authorised to act as your proxy. Please also indicate by ticking the box provided if the proxy instruction is one of multiple instructions being given. Completion and return of a form of proxy will not preclude a member from attending the Annual General Meeting and voting in person.

   On a vote by show of hands, every ordinary shareholder who is present in person has one vote and every duly appointed proxy who is present has one vote. On a poll vote, every ordinary shareholder who is present in person or by way of a proxy has one vote for every share of which he/she is a holder.

   The "Vote Withheld" option on the proxy form is provided to enable you to abstain on any particular resolution. However it should be noted that a "Vote Withheld" is not a vote in law and will not be counted in the calculation of the proportion of the votes 'For' and 'Against' a resolution.

   A proxy form must be signed and dated by the shareholder or his or her attorney duly authorised in writing. In the case of joint holdings, any one holder may sign this form. The vote of the senior joint holder who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other joint holder and for this purpose seniority will be determined by the order in which the names appear on the Register of Members in respect of the joint holding. To be valid, proxy form(s) must be completed and returned to the Company's Registrars, Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA, in the enclosed envelope together with any power of attorney or other authority under which it is signed or a copy of such authority certified notarially, to arrive no later than 48 hours before the time fixed for the meeting, or an adjourned meeting. Shareholders may also appoint a proxy to vote on the resolutions being put to the meeting electronically at www.sharevote.co.uk. Shareholders who are not registered to vote electronically, will need to enter the Voting ID, Task ID and Shareholder Reference Number set out in their personalised proxy form. Alternatively, shareholders who have already registered with Equiniti's Shareview service can appoint a proxy by logging onto their portfolio at www.shareview.co.uk using their user ID and password. Once logged in, click "view" on the "My Investments" page, click on the link to vote, then follow the on-screen instructions. The on-screen instructions give details on how to complete the appointment process. Please note that to be valid, your proxy instructions must be received by Equiniti no later than 1.00 p.m. on 11 December 2023. If you have any difficulties with online voting, you should contact the shareholder helpline on 0800 032 0641 (or +44(0) 121 415 0207 for overseas callers).

   If an ordinary shareholder submits more than one valid proxy appointment, the appointment received last before the latest time for receipt of proxies will take precedence.

   Shareholders may not use any electronic address provided either in this Notice of Annual General Meeting or any related documents to communicate with the Company for any purposes other than expressly stated.

   Representatives of shareholders that are corporations will have to produce evidence of their proper appointment when attending the Annual General Meeting.

2. Any person to whom this notice is sent who is a person nominated under section 146 of the Companies Act 2006 to enjoy information rights (a "Nominated Person") may, under an agreement between him or her and the shareholder by whom he or she was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the Annual General Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he or she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.

   The statement of the rights of ordinary shareholders in relation to the appointment of proxies in note 1 above does not apply to Nominated Persons. The rights described in that note can only be exercised by ordinary shareholders of the Company.

3. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company has specified that only those shareholders registered in the Register of Members of the Company business at 6.30 p.m. on 1 December 2023, or 6.30 p.m. two days prior to the date of an adjourned meeting, shall be entitled to attend and vote at the meeting in respect of the number of shares registered in their name at that time. Changes to the Register of Members after 6.30 p.m. on 1 December 2023 shall be disregarded in determining the right of any person to attend and vote at the meeting.

4. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST manual. The CREST manual can be viewed at www.euroclear.com. A CREST message appointing a proxy (a "CREST proxy instruction") regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction previously given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA19) by the latest time for receipt of proxy appointments.

# Explanatory Notes to the Notice of Meeting

5. Copies of the terms of appointment of the non-executive Directors and a statement of all transactions of each Director and of his family interests in the shares of the Company, will be available for inspection by any member of the Company at the registered office of the Company during normal business hours on any weekday (English public holidays excepted) and at the Annual General Meeting by any attendee, for at least 15 minutes prior to, and during, the Annual General Meeting. None of the Directors has a contract of service with the Company.
6. The biographies of the Directors offering themselves for election and re-election are set out on pages 26 and 27 of the Company's annual report and accounts for the year ended 31 July 2023.
7. As at 27 September 2023, 119,528,965 ordinary shares of 10 pence each were in issue (no shares were held in treasury). Therefore the total number of voting rights of the Company as at 27 September 2023 was 119,528,965.
8. A copy of this notice of meeting, which includes details of shareholder voting rights, together with any other information as required under Section 311A of the Companies Act 2006, is available from the Company's webpages, https://www.schroders.com/japantrust.
9. Pursuant to Section 319A of the Companies Act 2006, the Company must cause to be answered at the Annual General Meeting any question relating to the business being dealt with at the Annual General 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 that the question be answered or if to do so would involve the disclosure of confidential information.
10. The Company's privacy policy is available on its webpages. https://www.schroders.com/japantrust. Shareholders can contact Equiniti for details of how Equiniti processes their personal information as part of the AGM.

# Definitions of Terms and Performance Measures

**The terms and performance measures below are those commonly used by investment companies to assess values, investment performance and operating costs. Numerical calculations are given where relevant. Some of the financial measures below are classified Alternative Performance Measures ("APMs") as defined by the European Securities and Markets Authority. Under this definition, APMs include a financial measure of historical financial performance or financial position, other than a financial measure defined or specified in the applicable financial reporting framework. APMs have been marked with an asterisk.**

## Net asset value ("NAV") per share

The NAV per share of 252.25p (2022: 230.68p) represents the net assets attributable to equity shareholders of £302,460,000 (2022: £281,429,000) divided by the number of shares in issue of 119,903,965 (2022: 122,000,562).

The change in the NAV amounted to +9.4% (2022: -0.7%) over the year. However this performance measure excludes the positive impact of dividends paid out by the Company during the year. When these dividends are factored into the calculation, the resulting performance measure is termed the "total return". Total return calculations and definitions are given below.

## Total return*

The combined effect of any dividends paid, together with the rise or fall in the share price or NAV per share. Total return statistics enable the investor to make performance comparisons between investment companies with different dividend policies. Any dividends received by a shareholder are assumed to have been reinvested in either the assets of the Company at its NAV per share at the time the shares were quoted ex-dividend (to calculate the NAV per share total return) or in additional shares of the Company (to calculate the share price total return).

The NAV total return for the year ended 31 July 2023 is calculated as follows:

| | | | | |
|---|---|---|---|---|
| Opening NAV at 31/7/22 | | | | 230.68p |
| Closing NAV at 31/7/23 | | | | 252.25p |
| Dividend received 4.9p | XD date 3/11/22 | NAV on XD date 228.35p | Factor 1.0214 | |
| NAV total return, being the closing NAV, multiplied by the factor, expressed as a percentage increase in the opening NAV: | | | | +11.7% |

The NAV total return for the year ended 31 July 2022 is calculated as follows:

| | | | | |
|---|---|---|---|---|
| Opening NAV at 31/7/21 | | | | 232.40p |
| Closing NAV at 31/7/22 | | | | 230.68p |
| Dividend received 4.3p | XD date 4/11/21 | NAV on XD date 248.09p | Factor 1.0173 | |
| NAV total return, being the closing NAV, multiplied by the factor, expressed as a percentage increase in the opening NAV: | | | | +1.0% |

The share price total return for the year ended 31 July 2023 is calculated as follows:

| | | | | |
|---|---|---|---|---|
| Opening share price at 31/7/22 | | | | 202.00p |
| Closing share price at 31/7/23 | | | | 234.00p |
| Dividend received 4.9p | XD date 3/11/22 | Share price on XD date 200.5p | Factor 1.0244 | |
| Share price total return, being the closing share price, multiplied by the factor, expressed as a percentage increase in the opening share price: | | | | +18.7% |

The share price total return for the year ended 31 July 2022 is calculated as follows:

| | | | | |
|---|---|---|---|---|
| Opening share price at 31/7/21 | | | | 210.00p |
| Closing share price at 31/7/22 | | | | 202.00p |
| Dividend received 4.3p | XD date 4/11/21 | Share price on XD date 223.00p | Factor 1.0193 | |
| Share price total return, being the closing share price, multiplied by the factor, expressed as a percentage increase in the opening share price: | | | | –2.0% |

## Benchmark

The measure against which the Company compares its performance. The Benchmark is the TSE First Section Total Return Index in sterling terms.

## Discount/premium*

The amount by which the share price of an investment trust is lower (discount) or higher (premium) than the NAV per share. If shares are trading at a discount, investors would be paying less than the value attributable to the shares by reference to the underlying assets. A premium or discount is generally the consequence of supply and demand for the shares on the stock market The discount or premium is expressed as a percentage of the NAV per share. The discount at the year end amounted to 7.2% (31 July 2022: 12.4%), as the closing share price at 234.00p (31 July 2022: 202.00p) was 7.2% (31 March 2022:

12.4%) lower than the closing NAV of 252.25p (31 July 2022: 230.68p).

## Gearing*

The gearing percentage reflects the amount of borrowings (i.e. bank loans or overdrafts) which the Company has drawn down and invested in the market. This figure is indicative of the extra amount by which shareholders' funds would move if the Company's investments were to rise or fall. Gearing is define as: borrowings used for investment purposes, less cash, expressed as a percentage of net assets. The gearing figure at the year end is calculated as follows:

| | 2023 £'000 | 2022 £'000 |
|---|---|---|
| Borrowings used for investment purposes, less cash | 28,740 | 31,266 |
| Net assets | 302,460 | 281,429 |
| Gearing | 9.5% | 11.1% |

## Leverage*

For the purpose of the Alternative Investment Fund Managers (AIFM) Directive, leverage is any method which increases the Company's exposure, including the borrowing of cash and the use of derivatives. It is expressed as the ratio of the Company's exposure to its net asset value and is required to be calculated both on a "Gross" and a "Commitment" method. Under the Gross method, exposure represents the sum of the absolute values of all positions, so as to give an indication of overall exposure. Under the Commitment method, exposure is calculated in a similar way, but after netting off hedges which satisfy certain strict criteria.

## Ongoing Charges*

Ongoing Charges is calculated in accordance with the AIC's recommended methodology and represents the management fee and all other operating expenses excluding finance costs and transaction costs, amounting to £2,676,000 (2022: £2,635,000), expressed as a percentage of the average daily net asset values during the year of £286.2 million (2022: £285.8 million).

*Alternative performance Measures ("APMs").

# Shareholder Information

## Webpages and share price information

The Company has dedicated webpages, which may be found at https://www.schroders.com/japantrust. The webpages have been designed to be utilised as the Company's primary method of electronic communication with shareholders. It contains details of the Company's ordinary share price and copies of annual reports and other documents published by the Company as well as information on the Directors, terms of reference of committees and other governance arrangements. In addition, the webpages contain links to announcements made by the Company to the market, Equiniti's shareview service and Schroders' website. There is also a section entitled "How to Invest".

The Company releases its NAV on both a cum and ex-income basis to the market on a daily basis.

Share price information may also be found in the Financial Times and on the Company's webpages.

## Association of Investment Companies

The Company is a member of the Association of Investment Companies. Further information on the Association can be found on its website, www.theaic.co.uk.

## Individual Saving Account ("ISA") status

The Company's shares are eligible for stocks and shares ISAs.

## Non-Mainstream Pooled Investments status

The Company currently conducts its affairs so that its shares can be recommended by IFAs to ordinary retail investors in accordance with the FCA's rules in relation to non-mainstream investment products and intends to continue to do so for the foreseeable future. The Company's shares are excluded from the FCA's restrictions which apply to non-mainstream investment products because they are shares in an investment trust.

## Financial calendar

| | |
|---|---|
| Half year results announced | March |
| Financial year end | 31 July |
| Annual results announced | September |
| Final dividend paid | December |
| Annual General Meeting | December |

## Alternative Investment Fund Managers ("AIFM") Directive

Certain pre-sale, regular and periodic disclosures required by the AIFM Directive may be found either in this annual report or on the Company's webpages.

The Company's leverage policy and details of limits on leverage required under the AIFM Directive are published on the Company's webpages.

### Leverage

The Company's leverage policy and details of its leverage ratio calculation and exposure limits as required by the AIFM Directive are published on the Company's webpages and within this report. The Company is also required to publish periodically its actual leverage exposures. As at 31 July 2023 these were:

| Leverage exposure | Maximum ratio | Actual ratio |
|---|---|---|
| Gross method | 200.0% | 121.9% |
| Commitment method | 200.0% | 120.8% |

### Illiquid assets

As at the date of this report, none of the Company's assets are subject to special arrangements arising from their illiquid nature.

### Remuneration disclosures

Quantitative remuneration disclosures to be made in this annual report in accordance with FCA Handbook rule FUND3.3.5 may also be found in the AIFM's website www.schroders.com/rem-disclosures, which will have the information for the reporting period 31 December 2022.

### Publication of Key Information Document ("KID") by the AIFM

Pursuant to the Packaged Retail and Insurance Based Products ("PRIIPs") Regulation, the Manager, as the Company's AIFM, is required to publish a short KID on the Company. KIDs are designed to provide certain prescribed information to retail investors, including details of potential returns under different performance scenarios and a risk/reward indicator. The Company's KID is available on its webpages.

https://www.schroders.com/japantrust

## Directors

Philip Kay (Chairman)
Helena Coles
Alan Gibbs
Angus Macpherson
Belinda Richards

## Advisers

### Alternative Investment Fund Manager ("Manager")

Schroder Unit Trusts Limited
1 London Wall Place
London EC2Y 5AU

### Investment Manager and Company Secretary

Schroder Investment Management Limited
1 London Wall Place
London EC2Y 5AU
Telephone: 020 7658 3847

### Registered Office

1 London Wall Place
London EC2Y 5AU

### Depositary and Custodian

HSBC Bank plc
8 Canada Square
London E14 5HQ

### Lending Bank

Sumitomo Banking Corporation, London Branch
99 Queen Victoria Street
London EC4V 4EH

### Corporate Broker

Winterflood Securities Limited
The Atrium Building
Cannon Bridge
25 Dowgate Hill
London EC4R 2GA

### Independent Auditor

Deloitte LLP
9 Haymarket Square
Edinburgh
EH3 8RY

### Registrar

Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA
Shareholder Helpline 0800 032 0641*
Website: www.shareview.co.uk
*Calls to this number are free of charge from UK landlines.

Communications with shareholders are mailed to the address held on the register. Any notifications and enquiries relating to shareholdings, including a change of address or other amendment should be directed to Equiniti Limited at the address above.

### Shareholder enquiries

General enquiries about the Company should be addressed to the Company Secretary at the address set out above.

### Dealing Codes

ISIN: GB0008022849
SEDOL: 0802284
Ticker: SJG

### Global Intermediary Identification Number (GIIN)

7T0909.99999.SL.826

### Legal Entity Identifier (LEI)

549300SSPK3AXNJOC673

**The Company's privacy notice is available on its webpage.**