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# JPMorgan Japan Smaller Companies Trust plc

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Half Year Report & Accounts for the six months ended 30th September 2016



# Features

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## Investment objective

The Company's objective is to achieve long-term capital growth through investment in small and medium sized Japanese companies. Its benchmark is the S&P Japan SmallCap NR (in sterling terms).

## Investment policy

In order to achieve its investment objective and to seek to manage risk, the Company invests in a diversified portfolio of investments almost wholly invested in Japan, emphasising capital growth rather than income.

To obtain this exposure, investment is permitted in Japanese quoted companies other than the largest 200 measured by market capitalisation, Japanese domiciled unquoted companies, Japanese domiciled companies quoted on a non-Japanese stock exchange and non-Japanese domiciled companies which have at least 75% of their revenues derived from Japan. Investment is also permitted in UK and Japanese government bonds. Borrowings may be utilised to enhance shareholder returns.

The Board sets no minimum or maximum limit on the number of investments in the portfolio. For information only, in the financial year ended 31st March 2016, the number of investments ranged from 85 to 95 and in the six month period ended 30th September 2016, the number of investments ranged from 88 to 94.

## Investment restrictions and guidelines

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

- The Company will not invest more than 5% of its assets in any one individual stock, at the time of acquisition.
- The Company's current gearing policy is to operate within a gearing range of 5% net cash to 15% geared in normal market conditions with maximum levels of 10% net cash or 25% geared.
- The use of derivatives and currency hedging transactions are permitted with the prior approval of the Board. Such transactions will be used for the purposes of efficient portfolio management and not for speculative purposes.

Compliance with investment restrictions and guidelines is monitored by the Manager and is reported to the Board at each Board Meeting. The benchmark index, as well as the limits and restrictions described above, may be varied by the Board at any time at its discretion, although any material changes to the investment policy must be approved by Shareholders in accordance with the Listing Rules.

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# Half Year Performance

## TOTAL RETURNS

**+14.1%**

Return on net assets<sup>1,2</sup>

**+16.5%**

Return to Ordinary shareholders<sup>1</sup>

**+22.5%**

Benchmark return<sup>3</sup>

## Financial Data

	30th September 2016	31st March 2016	% change
Shareholders' funds (£'000)	178,812	152,714	+17.1
Ordinary shares in issue <sup>4</sup>	47,624,571	46,916,586	
Undiluted net asset value per Ordinary share (p)	375.5	325.5	+15.4
Diluted net asset value per Ordinary share (p)	356.8	312.7	+14.1
Ordinary share price (p)	314.0	269.5	+16.5
Ordinary share price discount to diluted net asset value per Ordinary share (%)	12.0	13.8	
Subscription share price (p)	58.5	26.8	
Subscription shares in issue	7,795,489	8,618,474	
Ongoing charges (%)	1.41	1.42	
Gearing (%) <sup>5</sup>	4.3	4.8	

<sup>1</sup> Source: J.P. Morgan.

<sup>2</sup> Return on net assets calculated using the diluted net asset value.

<sup>3</sup> Source: Datastream. The Company's benchmark is the S&P Japan SmallCap NR (in sterling terms).

<sup>4</sup> Excludes 524,500 (31st March 2016: 409,500) shares held in Treasury.

<sup>5</sup> The methodology to calculate gearing has been amended during the year therefore the comparative figure has been recalculated for comparative purposes. Please refer to the glossary of terms and definitions on page 18 for the revised calculation.

Glossary of terms and definitions is provided on page 18.

# About the Company

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## CHAIRMAN'S STATEMENT



Dear Shareholders,

The Company's undiluted total return on net assets, net of fees and expenses (or portfolio return) for the half year ended 30th September 2016, was 15.4%, versus 22.5% for the benchmark.

The Company's diluted return on net assets, which assumes that all of the Subscription shares in issue were exercised at the rate of 243 pence per share, was 14.1%. The share price total return was 16.5%.

### Investment Performance

As you will see from the Investment Managers' Report, the portfolio underperformed the benchmark S&P Japan SmallCap NR (in sterling terms) over the six months period. The opening months were favourable but, post-Brexit, market movements were particularly adverse, as the Managers explain in their report on pages 5 to 8.

The Board was notified during the period of Naohiro Ozawa's decision to resign from JPMorgan. Mr Ozawa acted as co-manager of the portfolio alongside Nicholas Weindling and Shoichi Mizusawa, the lead manager. The Board and the Manager wish Mr Ozawa every success with his future endeavours. His contributions to the management of the portfolio were highly valued. Mr Ozawa has been replaced by Eiji Saito, an experienced portfolio manager and a Japan specialist within JPMorgan's Emerging Markets and Asia Pacific equities team. Mr Saito joined JPMorgan in 2004 from Nikko Asset Management, Co. Ltd., where he spent eight years, initially responsible for managing Asian equities funds and latterly for Japanese mid to small-cap equity funds. Mr Saito is based in Tokyo along with our other portfolio managers.

### Borrowing

During the half-year period the Company replaced its three-year fixed rate Yen 3.0 billion loan facility with ING with a one year floating rate Yen 3.0 billion revolving term loan facility with Scotiabank. This decision followed the introduction of negative interest rates by the Bank of Japan, which reduced the Manager's flexibility to manage the portfolio's cash, including any un-deployed gearing. The loan facility with Scotiabank was secured on competitive terms.

The Company's investment policy permits gearing within a range of 10% net cash to 25% geared. However, the Board requires the Company, in normal market conditions, to operate in the range of 5% net cash to 15% geared.

The level of gearing is reviewed by the Directors at each Board meeting. During the year the Company's gearing level, based on month end data, ranged between 2.1% and 4.8% and finished the half year at 4.3%.

### Subscription Shares

In December 2014, Shareholders approved a further bonus issue to Ordinary shareholders of one Subscription share for every five Ordinary shares held. The final opportunity to convert your Subscription Shares into Ordinary Shares in the Company is between 9.00 a.m. on 1st November 2016 and 1.00 p.m. on 30th November 2016. If you do not convert your Subscription Shares within the period specified above then the Company's appointed trustee will decide, pursuant to the Articles, whether or not to exercise the outstanding Subscription

## CHAIRMAN'S STATEMENT *CONTINUED*

Shares. If so, the resulting Ordinary Shares will be sold in the market and the net proceeds will be distributed pro rata to the persons entitled. Following this, it is expected that the standard listing of the Subscription Shares will be cancelled and the Company's issued share capital will then comprise of only Ordinary Shares.

At the time of writing the mid-market price of the Ordinary Shares is 311.0 pence per share, while the exercise price of the Subscription Shares is 243 pence per share. The NAV per share at the close of business on 4th November 2016 was 386.76 pence per share, and at the time of writing, the mid-market price of the Subscription Shares is 71.5 pence per share. Further information on the Subscription Shares, including how to convert them, the daily prices of the Subscription Shares and a Subscription Share calculator is available on the Company's website [www.jpmmjapan.com](http://www.jpmmjapan.com) - under the 'Subscription Shares' section.

A total of 9,255,764 Subscription shares were duly allotted in December 2014 and, from 30th January 2015 to 30th September 2016, 1,460,275 Ordinary shares were issued following receipt of valid notices of exercise from Subscription shareholders. Between 30th September 2016 and the date of this report, a further 766,356 Ordinary shares have been issued on the same basis.

### Outlook

After enjoying extremely strong growth in our previous financial year, the latest six months have been more challenging for your Company. Looking forward, markets face uncertain times. The outcome of the US Presidential election will be a key determinant, whilst negotiations in the lead up to Brexit will also play a role. Other important elections in Europe could influence the sentiment as well.

At the margin, however, the global economy appears healthier than it did six months ago. This is reflected in, among other things, the rebound in commodity prices, the rally in emerging market equities and higher bond yields. Whatever the broader economic picture, however, I am confident that our Investment Managers will continue to serve shareholders well.

**Alan Clifton**  
Chairman

8th November 2016

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## INVESTMENT MANAGERS' REPORT



Shoichi Mizusawa



Nicholas Weindling



Eiji Saito

### Market Review

The portfolio's NAV gained 14.1% in sterling terms on an undiluted basis during the six-month period to the end of September 2016. This is 8.4% below the benchmark return of 22.5%. Over the same period, the TOPIX index, the bellwether for the Japanese equity market, fell by 1.8% in yen terms excluding dividends but rose by 20.6% in sterling terms.

The six months under review was a tale of two completely different markets: before and after Brexit. On June 29th, the UK voted to leave the European Union in a referendum. Since the end of 2015 to June, Japanese equities were on a downward trend while the yen strengthened and bond yields fell. Immediately after Brexit, the yen appreciated sharply, and touched 99 yen against the USD at one point. The equity market sold off and finished the day down almost 8%. Between April and June, the TOPIX Index fell by 7.5% (excluding dividends) in local currency terms.

However, the markets were quick to recover from the shock of the Brexit vote. Investors' risk aversion receded and the equity market rebounded by 6.2% during the following three months. There was also a stark difference in the equity market leadership. Before and immediately after the Brexit vote, quality companies with strong balance sheets and cash flows outperformed the broader market while value stocks which are primarily financials and cyclicals underperformed. This pattern reversed in the July-September period and the market rally was led by financials and economic sensitive cyclicals. Those stocks that outperformed the broader market prior to the referendum generally fell on profit-taking.

Aside from Brexit, the Bank of Japan ('BoJ') dominated the minds of investors and caused volatility in financial markets in Japan. The BoJ held three policy meetings during the six months. On April 28th, the BoJ disappointed the market by not expanding its monetary stimulus. On July 29th, the BoJ decided to increase its purchase of Exchanged Traded Funds from 3.3 trillion yen to 6 trillion yen. However, it did not cut interest rates further into the negative territory nor did it announce an expansion of Japanese Government Bonds purchases. More importantly, the BoJ added in the statement that they would make a 'comprehensive assessment' of the policy effects before the next meeting in September. Some market participants interpreted this to include a review of negative interest rate policy. This led to a sell off in bonds, i.e. yields rose, and financial stocks rallied. Despite the excitement and anxieties, however, the September meeting did not deliver surprises. Instead, the BoJ shifted its focus from quantitative easing to targeting the yield curve. The policy rate was maintained at -0.1%.

The 10-year government bond yield, which traded between +0.3 to +0.4% throughout 2015, fell to as low as -0.3% immediately after the Brexit vote before rebounding to around -0.1% at the end of September. The yen rose from circa 112 to 101 against the dollar and from about 160 to 130 against sterling. The corporate earnings for listed companies for the April-June period fell from the same period in the previous year due to the stronger yen. Over the six-month period, the best performing sectors were economic sensitive sectors such as non-ferrous metals, machinery, mining, chemicals and electric appliances. The bottom performers included airlines, real estate and brokers.

### Performance Review

Over the six months to September, the portfolio underperformed the benchmark S&P Japan SmallCap NR (in sterling terms). It delivered a return of 14.1% in sterling terms compared to the benchmark return of 22.5%. This is the first significant underperformance of over 1% on

## INVESTMENT MANAGERS' REPORT *CONTINUED*

a quarterly basis since the April-June 2014 quarter, but the portfolio is still well ahead of the benchmark on a three-year basis and on a five-year basis.

The portfolio maintained a bias towards domestically-orientated companies with strong balance sheets and positive growth outlook. The portfolio was most overweight software & services, insurance, and pharmaceuticals, biotechnology & life science. The largest underweights were food, beverage & tobacco, materials, transportation and banks. The gearing fell from 4.7% at the end of March to 4.3% at the end of September. During the six month period to the end of September 2016 the turnover was 13.4%.

The attribution analysis shows that both the sector allocation and stock selection detracted from performance. The largest detractors with respect to the sector allocation were insurance (in which the portfolio was overweight), cash (the portfolio was geared in a falling market in yen terms), and food, beverage & tobacco (in which the portfolio was underweight). The performance of the insurance sector is dictated by the biggest constituent Anicom. Food, beverage & tobacco outperformed during September as many stocks in the sector recovered from the summer sell-off. Despite this the portfolio stayed underweight the sector as we considered many stocks in the sector unattractive either because of poor long-term fundamentals, unattractive valuations, or a combination of both. The negative contribution from the above items was partially offset by a positive contribution from health care equipment & services (in which the portfolio was overweight) and transportation (in which the portfolio had no holding).

Approximately 60% of the underperformance is attributable to stock selection. Stocks that contributed most negatively included Invincible Investment Corp. (real estate), GMO Payment Gateway (software & services), Anicom (insurance), Casio Computer (consumer durables & apparel) and Wellnet (software & services). Invincible Investment Corp., GMO Payment Gateway and Anicom were among the five most significant contributors to performance during the year ended March 2016, and all of them fell on profit taking.

- Invincible Investment Corp. is a listed real estate investment trust (REIT) that specialises in hotels. After a very strong run to the end of March, the shares fell on the back of a stronger yen, which is negative for inbound tourism. We started to reduce the position in February and continued to take it down during the review period.
- GMO Payment Gateway provides a payment processing service, with primary focus on credit card payments for online shopping. It is dominant for small merchandisers and has grown strongly on the back of increasing diffusion of e-commerce. It is diversifying its customer base to larger firms and public entities as well as into overseas markets; and into new lines of businesses. We believe the company can continue to grow earnings by 20~30% per annum over the medium term, and therefore maintained the position.
- Anicom provides pet insurance, a market which is still in its infancy in Japan and continuing to grow strongly. The ageing population is a tailwind for the company as an increasing number of elderly people live with pets and they have a high propensity to spend on them. We maintained the position.
- Casio Computer sells watches and other digital devices, and is known for the G-SHOCK brand. The stock fell due to concerns that a stronger yen will adversely impact its exports.

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A stronger yen also makes it more expensive for foreign tourists to visit Japan. We sold the entire position in July after the company announced a disappointing set of results for fiscal year 2015 and profit guidance for 2016.

- Wellnet operates online payment systems. It enables cash payments for those who either do not wish to, or are unable to, pay by credit card. The stock fell sharply in August after the company announced that its profits would fall by as much as 50% in the new fiscal year. We sold the entire position in October. We concluded that the long-term investment case was invalidated as the pricing pressure was substantially greater than we originally anticipated.

On the positive side, M3 (health care equipment & services), SMS (software & services) and Seria (retailing) delivered strong performance.

- M3 operates the websites used by doctors and helps pharmaceutical companies to reduce their marketing expenses. It is the number one site in Japan and the United Kingdom amongst other regions. As required by the Company's Investment Policy, the portfolio's interest in M3 was sold in July after its market capitalisation rose to one of the top 100. This follows Sysmex (medical equipment) that we sold in March 2015 when its market capitalisation also rose to one of the top 100. We owned both M3 and Sysmex for a significant period of time and rode the volatility in share price in the interim period with strong conviction on their long-term growth outlook. We hope to repeat the same with many other holdings in the portfolio.
- SMS provides cloud-based business management solutions for nursing care operators. It also operates a staffing service specialising in nursing and medical care services by leveraging its social network site for medical and nursing professionals. As the population ages, the supply of nursing professionals is experiencing a serious shortage, the company is therefore well positioned to grow over the longer term. Its shares rose as the concern about dilutive equity finance receded after they secured long-term debt to finance part of their overseas acquisition.
- Seria operates 100-yen shops throughout the nation, and is steadily gaining share at the expense of ailing competition.

## Outlook and Portfolio Strategy

There remain elevated levels of uncertainties around the outlook for the global economy and political events. However, at the margin, the global economy appears healthier than it did six months ago. This is reflected in, among other things, the rebound in commodity prices, the rally in emerging market equities and higher bond yields.

We have recently reviewed our investment framework. The conclusion is that although the outlook is slightly better than six months ago, the pace of expansion is still sub-par. Companies are lacking the pricing power to justify the substantially higher bond yields than where they trade at present. As such, our base case remains that the market will continue to reward quality growth companies with strong free cash flow and steadily increasing shareholder returns. We also acknowledge risks to this scenario. The policy environment for banks is more benign as we do not believe the BoJ will cut rates further unless there is a

## INVESTMENT MANAGERS' REPORT *CONTINUED*

significant shock to the economy. There is a case for increasing exposure to economic sensitive stocks. However, we do not believe a broadly based rally in cyclicals is likely as many of them lack pricing power and demand growth is not strong enough for such an outcome. We will continue to work hard to identify new investment opportunities in cyclicals that we can invest in for the long-term.

### M3 5 year stock price



Although we cannot completely ignore the macroeconomic issues, our strength lies in stock selection, focusing on companies that have a durable competitive advantage and thus long-term growth in earnings and shareholder returns. Our investment in M3 (its five-year share performance is shown above) is an example that we will try to emulate in the future.

Japanese companies continue to improve their corporate governance arrangements. Both aggregate dividends and share buybacks are growing despite the fact that earnings are expected to fall in the current fiscal year. There does, however, remain a large gap in terms of governance between companies. This creates an opportunity for active management and we seek to take advantage of this gap in the portfolio.

**Shoichi Mizusawa**  
**Nicholas Weindling**  
**Eiji Saito**  
Investment Managers

8th November 2016

# Investment Review

## TOP TWENTY INVESTMENTS AT 30TH SEPTEMBER 2016

Company and Japanese Company Code	Sector	Valuation £'000	% <sup>1</sup>
Asahi Intecc (7747)	Precision Instruments	5,349	2.9
SMS (2175)	Services	4,731	2.5
Cosmos Pharmaceutical (3349)	Retail Trade	4,199	2.2
Anicom (8715)	Insurance	4,149	2.2
Sanwa (5929)	Metal Products	3,876	2.1
Seria (2782)	Retail Trade	3,813	2.0
Chiba (8331)	Banks	3,439	1.8
Nohmi Bosai (6744)	Electric Appliances	3,294	1.8
Aica Kogyo (4206)	Chemicals	3,146	1.7
Peptidream (4587)	Pharmaceuticals	3,123	1.7
Sosei (4565)	Pharmaceuticals	2,836	1.5
DTS (9682)	Information & Communication	2,806	1.5
GMO Payment Gateway (3769)	Information & Communication	2,799	1.5
Kumagai Gumi (1861)	Construction	2,771	1.5
Nifco (7988)	Chemicals	2,767	1.5
Harmonic Drive Systems (6324)	Machinery	2,762	1.5
SAN-A (2659)	Retail Trade	2,720	1.5
Aida Engineering (6118)	Machinery	2,632	1.4
Taiheiyo Cement (5233)	Glass & Ceramics Products	2,575	1.4
Daiichikosho (7458)	Wholesale Trade	2,565	1.4
<b>Total top twenty investments</b>		<b>66,352</b>	<b>35.6</b>

<sup>1</sup> Based on total investments of £186.5m.

## SECTOR ANALYSIS

	at 30th September 2016		at 31st March 2016	
	Portfolio % <sup>1</sup>	Benchmark %	Portfolio % <sup>1</sup>	Benchmark %
Services	14.7	6.3	17.9	6.3
Retail Trade	11.0	8.8	10.8	9.5
Information & Communication	9.0	5.2	8.6	4.8
Real Estate	7.9	8.1	9.9	8.9
Machinery	7.1	7.2	6.8	7.4
Electric Appliances	6.3	7.4	6.6	7.4
Construction	6.1	6.0	4.7	5.6
Chemicals	5.8	7.2	5.1	7.1
Metal Products	4.9	1.5	2.9	1.4
Precision Instruments	4.9	2.1	5.2	2.0
Pharmaceuticals	4.4	2.5	4.9	3.6
Wholesale Trade	3.5	6.4	3.4	6.0
Banks	3.2	6.0	1.1	5.2
Other Products	2.5	2.8	1.4	2.6
Insurance	2.2	0.1	2.7	0.1
Glass & Ceramic Products	1.4	1.3	1.2	1.1
Transportation Equipment	1.4	3.3	2.2	3.3
Non-Ferrous Metals	1.3	1.6	1.5	1.4
Foods, Beverage & Tobacco	1.2	4.4	0.9	4.3
Other Financing Business	1.2	0.9	2.2	1.7
Land Transportation	–	2.1	–	2.1
Textiles & Apparels	–	1.8	–	1.8
Iron & Steel	–	1.3	–	1.2
Securities & Commodity Futures	–	1.3	–	1.5
Pulp & Paper	–	0.8	–	0.8
Other	–	3.6	–	2.9
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

<sup>1</sup> Based on total investments of £186.5m (31st March 2016: £160.1m).

# Financial Statements

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

	(Unaudited) Six months ended 30th September 2016			(Unaudited) Six months ended 30th September 2015			(Audited) Year ended 31st March 2016		
	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
<b>Gains/(losses) on investments held at fair value through profit or loss</b>	–	26,852	26,852	–	(7,204)	(7,204)	–	19,822	19,822
Net foreign currency (losses)/gains	–	(2,482)	(2,482)	–	539	539	–	(744)	(744)
Income from investments	1,592	–	1,592	941	–	941	2,259	–	2,259
<b>Gross return/(loss)</b>	<b>1,592</b>	<b>24,370</b>	<b>25,962</b>	<b>941</b>	<b>(6,665)</b>	<b>(5,724)</b>	<b>2,259</b>	<b>19,078</b>	<b>21,337</b>
Management fee	(921)	–	(921)	(735)	–	(735)	(1,510)	–	(1,510)
Other administrative expenses	(242)	–	(242)	(290)	–	(290)	(398)	–	(398)
<b>Net return/(loss) on ordinary activities before finance costs and taxation</b>	<b>429</b>	<b>24,370</b>	<b>24,799</b>	<b>(84)</b>	<b>(6,665)</b>	<b>(6,749)</b>	<b>351</b>	<b>19,078</b>	<b>19,429</b>
Finance costs	(184)	–	(184)	(127)	–	(127)	(261)	–	(261)
<b>Net return/(loss) on ordinary activities before taxation</b>	<b>245</b>	<b>24,370</b>	<b>24,615</b>	<b>(211)</b>	<b>(6,665)</b>	<b>(6,876)</b>	<b>90</b>	<b>19,078</b>	<b>19,168</b>
Taxation	(162)	–	(162)	(94)	–	(94)	(224)	–	(224)
<b>Net return/(loss) on ordinary activities after taxation</b>	<b>83</b>	<b>24,370</b>	<b>24,453</b>	<b>(305)</b>	<b>(6,665)</b>	<b>(6,970)</b>	<b>(134)</b>	<b>19,078</b>	<b>18,944</b>
<b>Return/(loss) per share (note 3)</b>									
- undiluted	0.18p	51.50p	51.68p	(0.65)p	(14.26)p	(14.91)p	(0.29)p	40.76p	40.47p
- diluted	0.17p	50.18p	50.35p	(0.65)p	(14.26)p	(14.91)p	(0.29)p	40.57p	40.28p

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

The 'Total' column of this statement is the profit and loss account of the Company and the 'Revenue' and 'Capital' columns represent supplementary information prepared under guidance issued by The Association of Investment Companies.

The return/(loss) per share represents the profit/(loss) per share for the period and also the total comprehensive income per share.

## STATEMENT OF CHANGES IN EQUITY

### FOR THE SIX MONTHS ENDED 30TH SEPTEMBER 2016

	Called up share capital £'000	Share premium £'000	Capital redemption reserve £'000	Other reserve £'000	Capital reserves £'000	Revenue reserve <sup>1</sup> £'000	Total £'000
<b>Six months ended 30th September 2016 (Unaudited)</b>							
<b>At 31st March 2016</b>	<b>4,741</b>	<b>13,889</b>	<b>1,836</b>	<b>314,775</b>	<b>(169,169)</b>	<b>(13,358)</b>	<b>152,714</b>
Repurchase of shares into Treasury	–	–	–	(355)	–	–	(355)
Conversion of Subscription shares into Ordinary shares	(1)	1	–	–	–	–	–
Issue of Ordinary shares on exercise of Subscription shares	82	1,918	–	–	–	–	2,000
Net return on ordinary activities	–	–	–	–	24,370	83	24,453
<b>At 30th September 2016</b>	<b>4,822</b>	<b>15,808</b>	<b>1,836</b>	<b>314,420</b>	<b>(144,799)</b>	<b>(13,275)</b>	<b>178,812</b>
<b>Six months ended 30th September 2015 (Unaudited)</b>							
<b>At 31st March 2015</b>	<b>4,678</b>	<b>12,414</b>	<b>1,836</b>	<b>314,775</b>	<b>(188,247)</b>	<b>(13,224)</b>	<b>132,232</b>
Conversion of Subscription shares into Ordinary shares	(1)	1	–	–	–	–	–
Issue of Ordinary shares on exercise of Subscription shares	56	1,305	–	–	–	–	1,361
Net loss on ordinary activities	–	–	–	–	(6,665)	(305)	(6,970)
<b>At 30th September 2015</b>	<b>4,733</b>	<b>13,720</b>	<b>1,836</b>	<b>314,775</b>	<b>(194,912)</b>	<b>(13,529)</b>	<b>126,623</b>
<b>Year ended 31st March 2016 (Audited)</b>							
<b>At 31st March 2015</b>	<b>4,678</b>	<b>12,414</b>	<b>1,836</b>	<b>314,775</b>	<b>(188,247)</b>	<b>(13,224)</b>	<b>132,232</b>
Conversion of Subscription shares into Ordinary shares	(1)	1	–	–	–	–	–
Issue of Ordinary shares on exercise of Subscription shares	64	1,474	–	–	–	–	1,538
Net return/(loss) on ordinary activities	–	–	–	–	19,078	(134)	18,944
<b>At 31st March 2016</b>	<b>4,741</b>	<b>13,889</b>	<b>1,836</b>	<b>314,775</b>	<b>(169,169)</b>	<b>(13,358)</b>	<b>152,714</b>

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

## STATEMENT OF FINANCIAL POSITION AT 30TH SEPTEMBER 2016

	(Unaudited) 30th September 2016 £'000	(Unaudited) 30th September 2015 £'000	(Audited) 31st March 2016 £'000
<b>Fixed assets</b>			
Investments held at fair value through profit or loss	186,509	137,468	160,080
<b>Current assets</b>			
Debtors	1,660	668	1,005
Cash and cash equivalents	14,422	5,253	10,643
	<b>16,082</b>	<b>5,921</b>	<b>11,648</b>
<b>Creditors:</b> amounts falling due within one year	(23,779)	(229)	(19,014)
<b>Net current (liabilities)/assets</b>	<b>(7,697)</b>	<b>5,692</b>	<b>(7,366)</b>
<b>Total assets less current liabilities</b>	<b>178,812</b>	<b>143,160</b>	<b>152,714</b>
<b>Creditors:</b> amounts falling due after more than one year	–	(16,537)	–
<b>Net assets</b>	<b>178,812</b>	<b>126,623</b>	<b>152,714</b>
<b>Capital and reserves</b>			
Called up share capital	4,822	4,733	4,741
Share premium	15,808	13,720	13,889
Capital redemption reserve	1,836	1,836	1,836
Other reserve	314,420	314,775	314,775
Capital reserves	(144,799)	(194,912)	(169,169)
Revenue reserve	(13,275)	(13,529)	(13,358)
<b>Total equity shareholders' funds</b>	<b>178,812</b>	<b>126,623</b>	<b>152,714</b>
<b>Net asset value per Ordinary share</b> (note 4)			
- undiluted	375.5p	270.3p	325.5p
- diluted	356.8p	266.0p	312.7p

**STATEMENT OF CASH FLOWS FOR THE SIX MONTHS ENDED 30TH SEPTEMBER 2016**

	(Unaudited) Six months ended 30th September 2016 £'000	(Unaudited) Six months ended 30th September 2015 £'000	(Audited) Year ended 31st March 2016 £'000
<b>Net cash outflow from operations before dividends and interest</b> (note 5)	(288)	(860)	(1,032)
Dividends received	1,431	862	1,793
Interest paid	(157)	(128)	(254)
<b>Net cash inflow/(outflow) from operating activities</b>	<b>986</b>	<b>(126)</b>	<b>507</b>
Purchases of investments	(22,812)	(26,245)	(44,433)
Sales of investments	22,953	26,898	49,571
Settlement of forward currency contracts	(3)	(12)	(11)
<b>Net cash inflow from investing activities</b>	<b>138</b>	<b>641</b>	<b>5,127</b>
Issue of Ordinary shares on exercise of Subscription shares	2,000	1,364	1,541
Costs in relation to issue of shares	–	(3)	(3)
Repurchase of shares into Treasury	(91)	–	–
<b>Net cash inflow from financing activities</b>	<b>1,909</b>	<b>1,361</b>	<b>1,538</b>
<b>Increase in cash and cash equivalents</b>	<b>3,033</b>	<b>1,876</b>	<b>7,172</b>
Cash and cash equivalents at start of the period	10,643	3,252	3,252
Exchange movements	746	125	219
Cash and cash equivalents at the end of the period	14,422	5,253	10,643
<b>Increase in cash and cash equivalents</b>	<b>3,033</b>	<b>1,876</b>	<b>7,172</b>
<b>Cash and cash equivalents consist of:</b>			
Cash and short term deposits	14,422	5,253	10,643
<b>Total</b>	<b>14,422</b>	<b>5,253</b>	<b>10,643</b>

The notes on pages 15 to 17 form an integral part of these interim financial statements.

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

### 1. Financial statements

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

The figures and financial information for the year ended 31st March 2016 are extracted from the latest published financial statements of the Company and do not constitute statutory accounts for that year. Those financial statements have been delivered to the Registrar of Companies and included the report of the auditors which was unqualified and did not contain a statement under either section 498(2) or 498(3) of the Companies Act 2006.

### 2. Accounting policies

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

FRS 104, 'Interim Financial Reporting', issued by the Financial Reporting Council ('FRC') in March 2015 has been applied in preparing this condensed set of financial statements for the six months ended 30th September 2016.

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

The accounting policies applied to this condensed set of financial statements are consistent with those applied in the financial statements for the year ended 31st March 2016.

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

	(Unaudited) Six months ended 30th September 2016 £'000	(Unaudited) Six months ended 30th September 2015 £'000	(Audited) Year ended 31st March 2016 £'000
Revenue return/(loss)	83	(305)	(134)
Capital return/(loss)	24,370	(6,665)	19,078
<b>Total return/(loss)</b>	<b>24,453</b>	<b>(6,970)</b>	<b>18,944</b>
Weighted average number of Ordinary shares in issue during the period used for the purpose of the diluted calculation	47,321,220	46,741,703	46,809,711
Weighted average number of Ordinary shares in issue during the period used for the purpose of the diluted calculation	48,564,858	46,741,703	47,030,398
<b>Undiluted</b>			
Revenue return/(loss) per Ordinary share	0.18p	(0.65)p	(0.29)p
Capital return/(loss) per Ordinary share	51.50p	(14.26)p	40.76p
<b>Total return/(loss) per Ordinary share</b>	<b>51.68p</b>	<b>(14.91)p</b>	<b>40.47p</b>
<b>Diluted</b>			
Revenue return/(loss) per Ordinary share	0.17p	(0.65)p	(0.29)p
Capital return/(loss) per Ordinary share	50.18p	(14.26)p	40.57p
<b>Total return/(loss) per Ordinary share</b>	<b>50.35p</b>	<b>(14.91)p</b>	<b>40.28p</b>

The diluted return/(loss) per Ordinary share represents the return/(loss) on ordinary activities after taxation divided by the weighted average number of Ordinary shares in issue during the period, as adjusted in accordance with IAS 33, as required by FRS 102.

**NOTES TO THE FINANCIAL STATEMENTS CONTINUED**
**4. Net asset value per Ordinary share**

	(Unaudited) Six months ended 30th September 2016	(Unaudited) Six months ended 30th September 2015	(Audited) Year ended 31st March 2016
<b>Undiluted</b>			
Net assets (£'000)	178,812	126,623	152,714
Number of Ordinary shares in issue	47,624,571	46,843,971	46,916,586
Net asset value per Ordinary share	375.5p	270.3p	325.5p
<b>Diluted</b>			
Net assets assuming exercise of dilutive Subscription shares and reissuance of any dilutive Treasury shares (£'000)	197,755	147,743	173,657
Number of potential Ordinary shares in issue	55,420,060	55,535,060	55,535,060
Net asset value per Ordinary share	356.8p	266.0p	312.7p

**5. Reconciliation of net return/(loss) on ordinary activities before finance costs and taxation to net cash outflow from operations before dividends and interest**

	(Unaudited) Six months ended 30th September 2016 £'000	(Unaudited) Six months ended 30th September 2015 £'000	(Audited) Year ended 31st March 2016 £'000
Net return/(loss) on ordinary activities before finance costs and taxation	24,799	(6,749)	19,429
(Less capital return)/add capital loss on ordinary activities before finance costs and taxation	(24,370)	6,665	(19,078)
Decrease/(increase) in accrued income and other debtors	9	22	(247)
(Decrease)/increase in accrued expenses	(144)	47	113
Overseas withholding tax	(162)	(94)	(224)
Dividends received	(1,431)	(862)	(1,793)
Realised gains on foreign currency transactions	1,011	111	768
<b>Net cash outflow from operations before dividends and interest</b>	<b>(288)</b>	<b>(860)</b>	<b>(1,032)</b>

**6. Fair valuation of investments**

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

	(Unaudited) Six months ended 30th September 2016		(Unaudited) Six months ended 30th September 2015		(Audited) Six months ended 31st March 2016	
	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000	Assets £'000	Liabilities £'000
Level 1: Quoted prices for identical instruments in active markets	186,509	–	137,468	–	160,080	–
<b>Total</b>	<b>186,509</b>	<b>–</b>	<b>137,468</b>	<b>–</b>	<b>160,080</b>	<b>–</b>

# Shareholder Information

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## INTERIM MANAGEMENT REPORT

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

### Principal Risks and Uncertainties

The principal risks and uncertainties faced by the Company have not changed and fall into the following broad categories: investment and strategy; discount; operational; loss of investment team; and political and economic. Information on each of these areas is given in the Business Review within the Annual Report and Accounts for the year ended 31st March 2016.

### Related Parties Transactions

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

### Going Concern

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

### Directors' Responsibilities

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

- (i) the condensed set of financial statements contained within the half yearly financial report has been prepared in accordance with FRS 104 'Interim Financial Reporting' and gives a true and fair view of the state of the affairs of the Company and of the assets, liabilities, financial position and net return of the Company as at 30th September 2016, as required by the UK Listing Authority Disclosure and Transparency Rule 4.2.4R; and
- (ii) the interim management report includes a fair review of the information required by DTRs 4.2.7R and 4.2.8R of the UK Listing Authority Disclosure and Transparency Rules.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business;

and the Directors confirm that they have done so.

For and on behalf of the Board

**Alan Clifton**  
Chairman

8th November 2016

## GLOSSARY OF TERMS AND DEFINITIONS

### Return to Ordinary Shareholders

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

### Return on Net Assets

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

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

### Benchmark Return

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

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

### Gearing/(Net Cash)

Gearing represents the excess amount above shareholders' funds of total investments expressed as a percentage of the shareholders' funds. If the amount calculated is negative, this is shown as a 'net cash' position.

### Share Price Discount to Diluted NAV per Ordinary Share

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

### Diluted Net Asset Value Per Ordinary Share

The diluted NAV per Ordinary share assuming that all outstanding dilutive Subscription shares were converted into Ordinary shares at the year end and all shares held in Treasury at the year end were reissued where this has a dilutive effect.

### Ongoing Charges

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

### Return/(Loss) Per Ordinary Share – Diluted

The diluted return/(loss) per Ordinary share represents the return/(loss) on ordinary activities after taxation divided by weighted average number of Ordinary shares in issue during the year as adjusted in accordance with the requirements of Financial Reporting Standard FRS 102 'Earnings per share'.

### Return/(Loss) Per Ordinary Share – Undiluted

The undiluted return/(loss) per Ordinary share represents the return/(loss) on ordinary activities after taxation divided by the weighted average number of Ordinary shares in issue during the year.

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

You can invest in a J.P. Morgan investment trust through the following;

### 1. Directly from J.P. Morgan

#### Investment Account

The Company's shares are available in the J.P. Morgan Investment Account, which facilitates both regular monthly investments and occasional lump sum investments in the Company's Ordinary shares. Shareholders who would like information on the Investment Account should call J.P. Morgan Asset Management free on 0800 20 40 20 or visit its website at [am.jpmorgan.co.uk/investor](http://am.jpmorgan.co.uk/investor).

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

The Company's shares are eligible investments within a J.P. Morgan ISA. For the 2016/17 tax year, from 6th April 2016 to 5th April 2017, the total ISA allowance is £15,240. The shares are also available in a J.P. Morgan Junior ISA. Details are available from J.P. Morgan Asset Management free on 0800 20 40 20 or via its website at [am.jpmorgan.co.uk/investor](http://am.jpmorgan.co.uk/investor).

### 2. Via a third party provider

Third party providers include;

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

Please note this list is not exhaustive and the availability of individual trusts may vary depending on the provider. These websites are third party sites and J.P. Morgan Asset Management does not endorse or recommend any. Please observe each site's privacy and cookie policies as well as their platform charges structure.

### 3. Through a professional adviser

Professional advisers are usually able to access the products of all the companies in the market and can help you find an investment that suits your individual circumstances. An adviser will let you know the fee for their service before you go ahead. You can find an adviser at [unbiased.co.uk](http://unbiased.co.uk).

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

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

## Financial Conduct Authority

### Beware of share fraud



In association with:  
**icsa.**  
Registrar's  
Group

**Fraudsters use persuasive and high-pressure tactics to lure investors into scams. They may offer to sell shares that turn out to be worthless or non-existent, or to buy shares at an inflated price in return for an upfront payment. While high profits are promised, if you buy or sell shares in this way you will probably lose your money.**

#### How to avoid share fraud

- 1 Keep in mind that firms authorised by the FCA are unlikely to contact you out of the blue with an offer to buy or sell shares.
- 2 Do not get into a conversation, note the name of the person and firm contacting you and then end the call.
- 3 Check the Financial Services Register from [www.fca.org.uk](http://www.fca.org.uk) to see if the person and firm contacting you is authorised by the FCA.
- 4 Beware of fraudsters claiming to be from an authorised firm, copying its website or giving you false contact details.
- 5 Use the firm's contact details listed on the Register if you want to call it back.
- 6 Call the FCA on **0800 111 6768** if the firm does not have contact details on the Register or you are told they are out of date.
- 7 Search the list of unauthorised firms to avoid at [www.fca.org.uk/scams](http://www.fca.org.uk/scams).
- 8 Consider that if you buy or sell shares from an unauthorised firm you will not have access to the Financial Ombudsman Service or Financial Services Compensation Scheme.
- 9 Think about getting independent financial and professional advice before you hand over any money.
- 10 **Remember:** if it sounds too good to be true, it probably is!

#### Report a scam

If you are approached by fraudsters please tell the FCA using the share fraud reporting form at [www.fca.org.uk/scams](http://www.fca.org.uk/scams), where you can find out more about investment scams.

You can also call the FCA Consumer Helpline on **0800 111 6768**.

If you have already paid money to share fraudsters you should contact Action Fraud on **0300 123 2040**.

**5,000 people contact the Financial Conduct Authority about share fraud each year, with victims losing an average of £20,000**

# Information about the Company

## FINANCIAL CALENDAR

Financial year end	31st March
Final results announced	June
Half year end	30th September
Half year results announced	November
Annual General Meeting	July 2017

## History

The Company and its predecessor, JF Fledgeling Japan Limited, have been investing in Japanese smaller companies since 1984. In early 2000, JF Fledgeling Japan Limited was placed into voluntary liquidation and JPMorgan Fleming Japanese Smaller Companies Investment Trust plc was incorporated and took over its assets and undertakings. Dealings on the new Company began on the London Stock Exchange on 11th April 2000. The Company changed its name to JPMorgan Japan Smaller Companies Trust plc in July 2010.

## Directors

Alan Clifton (Chairman)  
Deborah Guthrie  
Alexa Henderson  
Yuuichiro Nakajima  
Robert White

## Company Numbers

Company registration number: 3916716

## Ordinary Shares

London Stock Exchange Sedol number: 0316581  
ISIN: GB0003165817  
Bloomberg ticker: JPS LN

## Market Information

The Company's unaudited net asset value ('NAV') per share is published daily, via the London Stock Exchange. The Company's shares are listed on the London Stock Exchange and are quoted daily in the Financial Times, The Times, The Daily Telegraph, The Scotsman and on the Company's website at [www.jpmmjapan.com](http://www.jpmmjapan.com), where the share price is updated every fifteen minutes during trading hours.

## Website

[www.jpmmjapan.com](http://www.jpmmjapan.com)

## Share Transactions

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

## Manager and Company Secretary

JPMorgan Funds Limited

## Company's Registered Office

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

For company secretarial matters, please contact Rhys Williams.

## Depository

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

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

## Registrars

Equiniti Limited  
Reference 2093  
Aspect House  
Spencer Road  
Lancing  
West Sussex BN99 6DA  
Telephone: 0371 384 2539

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

Notifications of changes of address and enquiries regarding share certificates or dividend cheques should be made in writing to the Registrar quoting reference 2093.

Registered shareholders can obtain further details on individual holdings on the internet by visiting [www.shareview.co.uk](http://www.shareview.co.uk).

## Independent Auditor

Grant Thornton UK LLP  
Chartered Accountants and Statutory Auditor  
30 Finsbury Square  
London EC2P 2YU

## Brokers

Canaccord Genuity Limited  
88 Wood Street  
London EC2V 7QR

## Savings Product Administrators

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

**aic**

The Association of  
Investment Companies

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

**J.P. Morgan Helpline**

Freephone 0800 20 40 20 or +44 (0) 1268 444470.  
Telephone lines are open Monday to Friday, 9am to 5.30pm.

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