

# Fidelity Japanese Values PLC

## Final Results for the year ended 31 December 2016

### Financial Highlights:

- Fidelity Japanese Values NAV performance ranked in first place, against peers, for the year under review with NAV total return of 20.5%.
- Appointment of portfolio manager Nicholas Price, with a focus on bottom up research into small and medium sized companies, has led to a marked improvement in performance.
- Ongoing charge reduced from 1.52% to 1.46%.

*“The Board has been very focused on improving the performance of the Company, believing that this, coupled with increasing interest in Japan itself, will make the Company more appealing to existing and potential investors. To this end, the Board and Fidelity changed the Portfolio Manager in 2015 and introduced Nicholas Price. His particular focus on bottom up research into small and medium sized companies, identifying those with above average growth potential at a reasonable valuation, has led to a marked improvement in performance. The Board believes that the Company is now well positioned to offer a sharp focus to those investors seeking differentiated exposure to the Japanese market.”* David Robins, Chairman

### Contacts

#### For further information, please contact:

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## **Chairman's Statement**

I have pleasure in presenting the Annual Report of Fidelity Japanese Values PLC for the year ended 31 December 2016.

The Board has been very focused on improving the performance of the Company, believing that this, coupled with increasing interest in Japan itself, will make the Company more appealing to existing and potential investors. To this end, the Board and Fidelity changed the Portfolio Manager in 2015 and introduced Nicholas Price. His particular focus on bottom up research into small and medium sized companies, identifying those with above average growth potential at a reasonable valuation, has led to a marked improvement in performance. The Board believes that the Company is now well positioned to offer a sharp focus to those investors seeking differentiated exposure to the Japanese market.

### **PERFORMANCE REVIEW**

Following a significant correction in the first half of 2016, the Japanese market rebounded on the back of a pickup in the global economic cycle and the renewed depreciation of the yen. As risk sentiment improved and corporate earnings, which had fallen sharply in the first half of the year, reversed course, share prices recouped their earlier losses. While the broad-based TOPIX was largely unchanged in local currency terms, the appreciation of the yen over the calendar year, when it rose by almost 20% against sterling, meant that the Japanese market delivered strong gains in sterling terms. The dilutive effect of the subscription shares exercised in 2016 reduced the NAV per share return by 3.0%. Despite this, NAV performance compared favourably with that of our peer group, and the Company ranked in first place over the year under review. The share price also went up, but only by 17.0% per share to 101.50 pence, as the Company's share discount to NAV widened to 17.1%. However, against the Company's peers, the share price performed favourably and ranked second for the reporting period.

### **DUE DILIGENCE VISIT TO OSAKA AND TOKYO**

Towards the end of October 2016, the Board carried out its annual due diligence visit to Japan. This began with a company meeting with Zojirushi in Osaka. This meeting provided the opportunity to meet independently with senior management of the company, which represented 2.8% of the portfolio at that time. The remainder of the trip was undertaken in Tokyo, starting with attendance at the annual Economist conference, at which a number of important corporate and political figures made presentations and took questions. This was followed by meetings in Fidelity International's Japanese office with management and analysts, which included a review of Fidelity's investment processes, as well as meetings with external specialists on the economy, political background and the market. Further company meetings were also held with Ryohin Keikaku and AEON Financial Services, at that time representing 3.0% and 3.8% respectively of the portfolio. These meetings allowed the Board to observe Nicholas and Fidelity's analysts in action as they discussed and challenged management teams. The result of this intensive meeting schedule was that the Board came away with a good overview of the current investment backdrop in Japan and prospects for the equity market.

### **RESULTS AND DIVIDENDS**

For the first time since 2011, the Company has a revenue return of £92,000 (2015: loss of £160,000), as can be seen in the revenue column of the Income Statement. The Directors do not recommend the payment of a dividend, but, as Japanese companies are beginning to raise their dividend pay-out ratios generally, this is an area which the Board will continue to monitor closely.

### **GEARING**

The Company is permitted to gear through the use of long contracts for difference ("CFDs"). Total portfolio exposure at the end of the year was £206.9m, equating to gearing of 24.3% compared with 16.6% at the end of 2015. Further information can be found in the Strategic Report. As the Portfolio Manager intends to use gearing more dynamically, the Board has given him discretion to move between being 25% geared to holding 5% net cash.

The Board continues to be of the view that using CFDs provides more flexibility for the Company's needs at a much lower cost than traditional bank debt, despite the low level of interest rates.

### **ONGOING CHARGES**

On behalf of the Board, Fidelity continues to negotiate fees with third party service providers. These efforts have led to some reduction of fees, in particular bringing the Share Plan administration in-house. This has contributed to a reduction in the ongoing charge from 1.52% in 2015 to 1.46% for the reporting year. This is below the Company's peer group average of 1.70%. The Board will continue to monitor costs closely.

### **THE BOARD**

David Miller stepped down from the Board at the conclusion of last year's Annual General Meeting ("AGM"). On behalf of the Board, I would like to thank him for his invaluable contribution to the Company. At the same time, Philip Kay took over as the Company's Senior Independent Director, and I wish him every success in that role.

In common with our practice in recent years, all Directors are subject to annual re-election and their biographical details are included in the Annual Report and Accounts to assist shareholders when considering their voting at this year's AGM.

## **SHARE REPURCHASES AND TREASURY SHARES**

Repurchases of ordinary shares either for cancellation or for holding in Treasury are made at the discretion of the Board and within guidelines set by it from time to time. Share repurchases are made in the light of prevailing market conditions, together with their impact on liquidity and gearing. Shares will only be repurchased when the Board believes that result will be an enhancement to the net asset value of the ordinary shares for the remaining shareholders. In order to assist in managing the discount, the Board has shareholder approval to hold in Treasury any ordinary shares repurchased by the Company, rather than cancelling them. Shares held in Treasury would only be re-issued at NAV per share or at a premium to NAV per share. This would ensure that the net effect of repurchasing and then re-issuing the ordinary shares would enhance NAV per share. The Board is seeking shareholder approval to renew this authority at the forthcoming AGM.

During the reporting year, 584,000 ordinary shares were repurchased for cancellation and 180,000 ordinary shares were repurchased for holding in Treasury. Since the year end and as at the date of this report, the Company has repurchased 300,000 ordinary shares into Treasury.

## **SUBSCRIPTION SHARES**

The final date for exercising the rights attached to the Company's subscription shares was 29 April 2016. Between 1 January 2016 and the final subscription date, a total of 13,327,917 subscription shares were exercised by shareholders. In accordance with the terms and conditions of the subscription shares issue, as set out in the Prospectus published by the Company dated 22 July 2014, a final subscription trustee (the "Trustee") was appointed in respect of the outstanding 9,199,422 subscription shares following the final exercise date. The Trustee subsequently exercised all of the outstanding subscription shares on the same terms and sold the resulting ordinary shares in the market. Shareholders, on whose behalf the Trustee exercised the rights and sold the shares, received the net proceeds, after deduction of the subscription price of 86.50 pence per share and the associated fees, costs and expenses. Any aggregate entitlements per holder below £5.00 were retained for the benefit of the Company.

## **ANNUAL GENERAL MEETING**

The AGM of the Company will be held at 4.00 pm on 6 June 2017 at Fidelity's offices at 25 Cannon Street, London EC2M 5TA (St Paul's or Mansion House tube stations). Full details of the meeting are given in the Annual Report and Accounts.

It is the most important meeting that the Board has with shareholders each year and we encourage all investors to attend. The Board looks forward to the opportunity to speak to shareholders of the Company. The Portfolio Manager will be making a presentation on the past year and the prospects for the coming year.

## **OUTLOOK**

Financial markets have advanced on the so-called 'Trump rally' and a strong US dollar/weak yen has played a key role in the rebound in Japanese stocks. While sentiment improved in the wake of the US presidential election, there were already signs that a pickup in global growth was translating into a cyclical recovery in Japan. Indeed, a rise in global bond yields, firmer commodity prices and the recent rotation into cyclical stocks suggests that reflationary trends are emerging. The likelihood of an improvement in corporate earnings is increasing, given a pickup in global growth and the weakening yen, and momentum is building for upward revisions to earnings forecasts in Japan.

While the inflation outlook has improved and the yield on ten-year government bonds has risen in line with long term interest rates in the US, the Bank of Japan ("BoJ") has continued to maintain its accommodative stance. Through its policy of quantitative and yield curve control the central bank has provided firm support for financial markets in Japan.

Looking ahead, there may be some degree of policy adjustment. The BoJ's capacity to purchase Japanese government bonds is nearing its limit and the increasingly tight labour market in Japan is contributing to a gradual pickup in inflation. As the end of Bank of Japan Governor Kuroda's term (April 2018) approaches, any policy adjustment may lead to increased volatility in the short term. Indeed, there is a good chance that rates in Japan could rise to some extent if interest rates continue to rise globally as growth and inflation pick up. But as the yield differential with the US in particular is likely to widen, the yen is expected to remain relatively weak, which tends to be supportive of the Japanese equity market.

Meanwhile, Japanese companies continue to make steady progress in corporate governance reforms under the auspices of Prime Minister Shinzo Abe's growth strategies (Abenomics). We see many companies increasing capital efficiency and making better use of their record cash holdings to increase investment for future growth and to improve shareholder returns. Indeed, share buybacks reached record levels in 2016.

The past 12 months proved to be a challenging period for Japanese stocks and we remain conscious of the potential for further exogenous shocks, particularly potential trade and geopolitical upheavals deriving from the new administration in the US. Nevertheless, the outlook for the Japanese market appears more positive in 2017, supported by improving macroeconomic and corporate fundamentals, favourable supply/demand conditions and higher shareholder returns.

**David Robins**

Chairman

21 March 2017

## Portfolio Manager's Review

**Nicholas Price has been the Company's Portfolio Manager since 1 September 2015. He is an experienced investor with over 22 years in the Japanese equity market.**

### MARKET REVIEW

Japanese stocks experienced a series of sharp corrections in the first half of the year, as market conditions became volatile amid concerns over a slowdown in China and a shift in US monetary policy. As risk aversion increased, overseas investors became aggressive net sellers of Japanese equities. The Bank of Japan ("BoJ") introduced negative interest rates, but earnings estimates were lowered as the yen strengthened on the view that the US Federal Reserve would make fewer rate cuts than previously anticipated. Prime Minister Shinzo Abe's decision to delay a scheduled increase in the consumption tax supported stocks. However, the UK referendum triggered a selloff in risk assets and led to increased demand for the safe-haven yen, which exacerbated the scale of the market correction in Japan.

Stock prices rebounded in the second half of the year, amid expectations of further fiscal and monetary stimulus following the victory of Prime Minister Abe's ruling coalition in the Upper House elections. Subsequent policy moves by the BoJ, including the introduction of a new monetary framework, also lifted shares. After Donald Trump won the US presidential election in November, long term US Treasury yields surged and the dollar strengthened across the board. This fuelled a rally in Japanese equities to a 12 month high.

Less volatile stocks outperformed in the first half of the year, as investors became increasingly risk averse amid the downturn in the market. In the second half of the year, however, Japanese equities experienced a sharp style reversal as large-cap value stocks (predominantly financials and laggard cyclicals) rebounded on a pickup in long term rates and expectations of global deflation.

### PERFORMANCE REVIEW

As noted in the Chairman's Statement, the Company's net asset value ("NAV") per share increased from 101.56p to 122.37p during the year under review but marginally underperformed the Reference Index.

As demonstrated by the attribution analysis table below, the appreciation of the yen against sterling, particularly during the first half of the year, produced a positive exchange rate effect, which contributed a significant 23.53% increase in the Company's NAV.

#### Analysis of change in NAV total return during the year (%)

<b>Impact of:</b>	
Reference Index (in yen terms)	-0.83
Reference Index income (in yen terms)	+1.89
Stock selection (relative to the Index)	+0.37
Gearing (yen)	- 0.03
Exchange rate	+23.53
Subscription Shares exercise	- 3.00
Share repurchases	+0.10
Charges	-1.54
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<b>NAV total return for the year to 31 December 2016</b>	<b>+20.49</b>
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Over the year, key holdings in companies with strong global franchises in the chemicals, pharmaceuticals and transportation equipment sectors were the principal drivers of the Company's absolute returns. The large active position in Nissan Chemical Industries made a material contribution to returns. Smaller holdings in automaker Yamaha Motor and confectionary company Kotobuki Spirits also added significant value. Meanwhile, the underweight stance in the banking sector, which was negatively impacted by the introduction of negative interest rates in Japan, also paid off.

Conversely, holdings in non-bank financials and services companies detracted most heavily from returns. As investors became increasingly risk averse amid the downturn in the market, financial stocks underperformed in the first half of 2016. At the same time, global cyclical stocks struggled against currency and macroeconomic headwinds. In the second half of the year, domestic and defensive growth names fell out of favour as the market rotated sharply in favour of larger value stocks.

## Principal Contributors

**Nissan Chemical Industries**, established as Japan's first manufacturer of chemical fertilisers, is today a leading producer of basic and advanced chemical products, as well as agrochemicals and veterinary pharmaceuticals. The company reported solid financial results at both the full-year (fiscal 2015) and interim (fiscal 2016) stage. Earnings increased on growth in agricultural chemicals, which saw strong shipments of external anti-parasite drugs for animals (dogs and more recently cats) and herbicides for wet-rice farming, as well as the improved performance of its chemicals business amid lower oil prices. The company also continued to actively buy back its shares and maintained a total payout ratio target of 70%.

**Yamaha Motor** develops and manufactures motorcycles and other motor-powered products globally. Motorbikes and outboard engines for recreational watercraft are the company's primary sources of profit growth. The stock suffered in the first half of the year given the currency headwinds that accompanied increased levels of macroeconomic uncertainty globally. However, this trend afforded the Portfolio Manager the opportunity to buy Yamaha Motor's shares at a more attractive price as he gained conviction in its earnings growth potential. The holding in the stock moved to overweight versus the index in March 2016, after which it started to recover as sentiment improved and the yen reversed course. Yamaha Motor's highly-profitable marine business in the US and motorcycle operations in emerging countries are expected to drive double-digit growth in earnings over the next one to two years.

**Kotobuki Spirits** is a relatively under-researched confectionary company that blends regional cultures and traditions into high-quality Japanese sweets and cakes that are distributed across the country for use as souvenirs. The firm generated brisk growth in earnings supported by its strong product development capability and price increases, as well as the expansion of its sales network to include Tokyo central station and international airports. The expansion of the souvenir market in Japan driven by the increase in foreign visitors is expected to support the company's growth over the mid-to-long term.

**Ono Pharmaceutical** follows a compound-oriented research and development strategy, which enables it to identify compounds that are effective against disease and develop first-in-class treatments. Shares in Ono Pharmaceutical advanced as global sales of Opdivo, an anti-cancer treatment jointly developed with Bristol-Myers Squibb, expanded and clinical testing for the extended indications of the drug progressed. As the stock approached fair value, the holding was actively reduced, before being closed in April 2016. Thereafter, the stock relinquished its gains as uncertainty surrounding drug repricing in Japan diminished confidence in the company's earnings outlook.

**Yonex** is a world leader in badminton, tennis and golf equipment. The company announced strong full-year results, supported by the growth of its badminton equipment business in Asia. Sales in China expanded rapidly, aided by the strength of its brand and its shift from the use of sales agents to direct sales by subsidiaries. Despite some concerns about a slowdown in consumer activity post the Olympics, Yonex continued to report strong earnings, driven by sales in China and the rest of Asia. The company is well positioned to benefit from growth in the Asian badminton market and rising demand for mid-range products as average income levels increase.

## Principal Detractors

**AEON Financial Service** is a credit card provider and its shares reacted negatively to the below-consensus results of its parent company AEON at the start of the year and the renewed strength of the yen, which raised concerns about the risk to its earnings generated overseas. The company's announcement of an unexpected capital increase in late August exacerbated the downturn in its shares. The financing will be used for future growth and the company remains well positioned to capture the growth of credit card usage in Japan and other parts of Asia. The scale of investment is likely to limit its ability to increase profits in the near term and the position was therefore reduced between September and November 2016. However, it remains a top 20 holding in the portfolio as the company's rate of profit growth is expected to reaccelerate from fiscal year 2018.

**Orix**, a diversified financial services company, reported solid results and increased its payout to shareholders. However, its relatively high foreign ownership ratio meant that it was susceptible to the sharp deterioration in risk sentiment and accompanying sell-off in global financial markets that occurred during the first half of the year. The negative contribution sustained in the April–June quarter, when the stock occupied a relatively large position in the portfolio, outweighed the subsequent recovery. Towards the end of the review period, the allocation to non-bank financials that tend to underperform in a rising interest rate environment was reduced and the position in Orix was sold in November 2016.

**Rohm**, a leading producer of custom integrated circuits and semiconductor devices, was favoured as a highly profitable beneficiary of automobile electrification. However, shares in the company fell sharply in early 2016 as signs of a slowdown in end-demand (particularly in the mobile and audio-visual areas) became more apparent. Higher fixed costs and a stronger yen also appeared to limit the scope for a recovery in earnings. The stock looked attractive at below book value, but potential upside appeared limited amid further declines in consensus forecasts. As a result, the position was sold in April 2016.

**Kose**, a leading cosmetics company, was added to the portfolio at the start of the year based on its strong fundamentals (market share gains in Japan and global evolution of domestic brands), long term growth prospects and improving shareholder returns. However, increased marketing costs, including sponsorships and global promotions, meant that profits fell short of expectations despite strong growth in sales. Concerns about slower inbound tourist demand also weighed on the stock. In light of an upturn in interest rates globally and the renewed weakness of the yen

towards the end of the year, the position in Kose was sold in order to fund the purchase of cyclical and financial stocks with more attractive upside.

**Kubota** is a leading producer of agricultural machinery. The market's negative reaction to the company's recent earnings results appeared excessive and seemed to be guided primarily by volatile currency movements. The position was reduced due to the effects of intensifying competition in the North American tractor market and periods of yen strength on the company's near term earnings. However, Kubota remains well positioned to benefit from the mechanisation of farms in emerging Asia over the long term, as well as housing and infrastructure investment in the US. Its share price is at the lower end of its historical valuation range and offers attractive upside potential.

**Principal five contributors to relative return**

	<b>Sector</b>	<b>Relative average weight (%)</b>	<b>Contribution to relative returns (%)</b>
Nissan Chemical Industries	Chemicals	+6.6	+2.9
Yamaha Motor	Transport Equipment	+3.6	+1.1
Kotobuki Spirits	Foods	+1.6	+0.9
Ono Pharmaceutical	Pharmaceuticals	-0.4	+0.8
Yonex	Other Products	+2.7	+0.7

**Principal five detractors from relative return**

	<b>Sector</b>	<b>Relative average weight (%)</b>	<b>Contribution to relative returns (%)</b>
AEON Financial Service	Other Financing Business	+5.8	-2.1
Orix	Other Financing Business	+3.3	-1.6
Rohm	Electrical Appliances	+0.4	-1.2
Kose	Chemicals	+2.4	-1.2
Kubota	Machinery	+3.8	-0.9

**PORTFOLIO REVIEW**

The Company continues to invest in attractive opportunities across the market-cap spectrum and maintains large positions in the Portfolio Manager's highest conviction ideas. The top ten concentration accounted for 44.2% of total net assets at the end of the year and active share remains high, indicating a minimal overlap with the Reference Index. Unlisted securities are identified as additional sources of performance, with the intention of unearthing opportunities in fast growing areas of the Japanese economy. Annualised turnover was 102%, a marked reduction from what was a transitional year in 2015 and closer in line with the Portfolio Manager's typical range.

The Company maintains a diversified portfolio with balanced exposure to companies that are benefiting from a pickup in the global economic cycle and more favourable currency rates, those with strong brands that are successfully expanding across Asia and domestic growth names offering niche products or services.

Positions in global cyclical stocks with cheap valuations and improving earnings momentum were purchased. Examples include industrial conglomerate Mitsubishi Electric and construction machinery maker Komatsu. Among smaller companies, a holding in Shima Seiki Manufacturing was added. This leading producer of computerised knitting machines is capturing strong demand from the apparel industry for seam-free knitwear and is finding new applications in areas such as sports shoes. Amid the upturn in interest rates globally, holdings in financials were also selectively purchased.

In the retail sector, the holding in Nitori was increased. This furniture and interior goods retailer stands out among its domestic peers in terms of both profitability and growth potential. It continues to enhance its growth platform by expanding sales of private brand products, opening urban stores and stepping up its online operations. Although still in the early stages, the company's expansion in China can lead to a valuation rerating.

Conversely, defensive growth stocks trading on above-market multiples were reduced or sold. Examples include household goods maker Kao and drug company Shionogi & Co. Positions in outperformers, such as SoftBank and Nissan Chemical Industries, were actively reduced in order to bring fresh investment ideas into the portfolio.

The following tables show the key stock positions versus the Russell Nomura Mid/Small Cap Index at the beginning and end of 2016.

**Top Ten Positions as at 31 December 2015**

	<b>Sector</b>	<b>Portfolio Exposure %</b>	<b>Index Weight %</b>	<b>Active Weight %</b>
Kubota	Machinery	6.6	-	6.6
AEON Financial Service	Other Financing Business	6.3	0.1	6.2
Nissan Chemical Industries	Chemicals	6.2	0.2	6.0
Kakaku.com	Services	4.8	0.2	4.6

Orix	Other Financing Business	4.0	–	4.0
SoftBank	Information & Communications	4.0	–	4.0
Rohm	Electrical Appliances	3.5	0.3	3.2
Zojirushi	Electrical Appliances	3.2	–	3.2
Makita	Machinery	3.1	0.4	2.7
Mazda Motor	Transport Equipment	3.0	0.7	2.3

#### Top Ten Positions as at 31 December 2016

	Sector	Portfolio Exposure %	Index Weight %	Active Weight %
Yamaha Motor	Transport Equipment	6.8	0.3	6.5
Nippon Shinyaku	Pharmaceuticals	5.4	0.1	5.3
Mitsubishi UFJ Financial	Banks	5.3	–	5.3
Nissan Chemical Industries	Chemicals	5.1	0.2	4.9
SoftBank	Information & Communications	4.7	–	4.7
Yonex	Other Products	3.6	–	3.6
Mitsubishi Electric	Electrical Appliances	3.5	–	3.5
Nitori Holdings	Retail Trade	3.4	0.5	2.9
M3	Services	3.3	0.2	3.1
Zojirushi	Electrical Appliances	3.1	–	3.1

#### OUTLOOK

While the outcome of the US presidential election resulted in a significant shift in market sentiment, there were already signs that major global economies are regaining momentum, and inflation expectations are picking up. The policy stance of Japanese authorities is supportive of a gradual cyclical recovery in the domestic economy and of financial markets in general. The BoJ maintains a highly accommodative stance (although with fewer options for further easing), and fresh fiscal stimulus is expected in the months ahead.

Against a backdrop of improving domestic and global growth, earnings are starting to recover in Japan and companies are making positive revisions to their forecasts. Not only exchange rates, but also cost-cutting efforts and lower oil prices, are contributing to the improvement in corporate earnings.

Prime Minister Abe's reform agenda remains a work in progress, but there have been positive developments in the areas of corporate governance, taxation, the role of women in the labour market and inbound tourism. Moreover, stable political leadership, combined with high levels of public support, are conducive to further structural changes ahead. Working style reforms aimed at bolstering productivity, improvements to child and nursing care, and the deregulation of integrated resorts, including casinos, are near term priorities.

The risks are that global macroeconomic and geopolitical factors may negatively impact the performance of Japanese stocks, specifically protectionist trade policies being adopted by the US, a debt induced slowdown in China or renewed tensions in the South China Sea. However, the market should find some support from a weaker yen, driven by a widening interest rate differential with the US, and continued increases in shareholder returns through dividends and buybacks. Given that Japanese equities continue to trade at a discount to other developed markets, supply/demand conditions should prove more favourable than in 2016.

#### Nicholas Price

Portfolio Manager  
21 March 2017

#### Strategic Report

#### PRINCIPAL RISKS AND UNCERTAINTIES

As required by provision C.2.1 of the 2014 UK Corporate Governance Code, the Board has a robust ongoing process for identifying, evaluating and managing the principal risks and uncertainties faced by the Company. The Board, with the assistance of the Manager, has developed a risk matrix which, as part of the risk management and internal controls process, identifies the key risks that the Company faces. The risks identified are placed on the Company's risk matrix and graded appropriately. This process, together with the policies and procedures for the mitigation of risks, is updated and reviewed regularly in the form of comprehensive reports considered by the Audit Committee. The Board determines the nature and extent of any risks it is willing to take in order to achieve its strategic objectives.

The Alternative Investment Fund Manager, FIL Investment Services (UK) Limited, also has responsibility for risk management for the Company. It works with the Board to identify and manage the principal risks and to ensure that the Board can continue to meet its UK corporate governance obligations.

The Board considers the following as the principal risks and uncertainties faced by the Company:

#### **Principal Risks**

#### **Description and Risk Mitigation**

##### **Market risk**

The Company's assets consist mainly of listed securities and the principal risks are therefore market related such as market downturn, interest rate movements and exchange rate movements. The Portfolio Manager's success or failure to protect and increase the Company's assets against this background is core to the Company's continued success.

Risks to which the Company is exposed and which form part of the market risk category are included in Note 16 to the Financial Statements together with summaries of the policies for managing these risks.

##### **Performance risk**

The achievement of the Company's performance objective relative to the market requires the application of risk such as strategy, asset allocation and stock selection of the portfolio and the risk associated with Japan and industry sectors within the parameters of the investment objective and strategy. The Portfolio Manager is responsible for actively monitoring the portfolio selected in accordance with the asset allocation parameters and seeks to ensure that individual stocks meet an acceptable risk/reward profile. The emphasis is on long term results as the Company risks volatility of performance in the shorter term.

##### **Discount control risk**

The Board cannot control the discount at which the Company's ordinary share price trades in relation to net asset value. However, it can have a modest influence in the market by maintaining the profile of the Company through a marketing campaign and, under certain circumstances, through repurchasing shares. The Company's share price, NAV and discount volatility are monitored daily by the Manager and considered by the Board regularly.

##### **Gearing risk**

The Company has the option to make use of loan facilities or to use CFDs to invest in equities. The principal risk is that the Portfolio Manager may fail to use gearing effectively resulting in a failure to perform in a rising market whilst in falling markets the effects would be detrimental. The impact of both would be detrimental. Other risks are that the cost of gearing may be too high or that the term of the gearing is inappropriate in relation to market conditions. The Company currently has no bank loans and gears through the use of long CFDs which provide greater flexibility and are significantly cheaper than bank loans. The Board regularly considers the level of gearing and gearing risk and sets limits within which the Portfolio Manager must operate.

##### **Currency risk**

Most of the Company's assets and income are denominated in yen. However, the functional currency of the Company in which it reports its results is UK sterling. Consequently, it is subject to currency risk on exchange rate movements between yen and UK sterling. It is the Company's policy not to hedge against currency risks. Further details can be found in Note 16 to the Financial Statements.

Other risks facing the Company include:

##### **Cybercrime Risk**

The risk posed by cybercrime is rated as significant and the Board receives regular updates from the Manager on cybercrime threats. The Manager's technology team continues with initiatives to strengthen the control environment in relation to emerging threats.

### **Tax and Regulatory Risks**

A breach of Section 1158 of the Corporation Tax Act 2010 could lead to a loss of investment trust status resulting in the Company being subject to tax on capital gains.

The Company may be impacted by changes in legislation, taxation or regulation. These are monitored at each Board meeting and managed through active lobbying by the Manager.

### **Operational Risks**

The Company relies on a number of third party service providers, principally the Manager, Registrar, Custodian and Depositary. It is dependent on the effective operation of the Manager's control systems and those of its service providers with regard to the security of the Company's assets, dealing procedures, accounting records and the maintenance of regulatory and legal requirements. They are all subject to a risk-based programme of internal audits by the Manager. In addition, service providers' own internal controls reports are received by the Board and any concerns investigated.

Although the likelihood of poor governance, compliance and operational administration by third party service providers is low, the financial consequences could be serious, including the associated reputational damage to the Company.

### **Other Risks**

A continuation vote takes place every three years. There is a risk that shareholders do not vote in favour of continuation of the Company during periods when performance is poor. The next continuation vote will take place at the AGM in 2019.

### **VIABILITY STATEMENT**

In accordance with provision C.2.2 of the 2014 UK Corporate Governance Code, the Directors have assessed the prospects of the Company over a longer period than the twelve month period required by the "Going Concern" basis. The Company is an investment trust with the objective of achieving long term capital growth. The Board considers that three years is an appropriate investment horizon to assess the viability of the Company, although the life of the Company is not intended to be limited to this or any other period. In accordance with the Company's Articles of Association, a continuation vote is held every three years. The next one will take place at the AGM in 2019.

The Board has taken account of the Company's current position, the principal risks that it faces and their potential impact on its future development and prospects and the Company's investment objective and strategy. The Company's working capital is strong because the portfolio mainly comprises readily realisable securities which can be sold to meet funding requirements if necessary and the ongoing processes for monitoring operating costs and income are modest in comparison to the Company's total assets. Furthermore, Japanese equities have a long term future and the Manager has a strong track record for delivering positive returns over the long term in this sector. The Directors, therefore, confirm that they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the three year period of assessment.

### **GOING CONCERN**

The Directors have considered the Company's investment objective, risk management policies, liquidity risk, credit risk, capital management policies and procedures, the nature of its portfolio (being mainly securities which are readily realisable) and its expenditure and cash flow projections and have concluded that the Company has adequate resources to continue to adopt the going concern basis for at least 12 months from the date of this Annual report. The prospects of the Company over a period longer than 12 months can be found in the Viability Statement.

### **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

The Directors are responsible for preparing the Annual Report and Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial period. Under that law they have elected to prepare the Financial Statements in accordance with UK Generally Accepted Accounting Practice, including FRS 102: The Financial Reporting Standard applicable in the UK and Republic of Ireland. The Financial Statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss for the period.

In preparing these Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;

- make judgements and 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.

The Directors are responsible for ensuring that adequate accounting records are kept which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the Financial Statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

The Directors have delegated responsibility for the maintenance and integrity of the corporate and financial information included on the Company's pages of the Manager's website at **[www.fidelityinvestmenttrusts.com](http://www.fidelityinvestmenttrusts.com)** to the Manager. Visitors to the website need to be aware that legislation in the UK governing the preparation and dissemination of the Financial Statements may differ from legislation in their own jurisdictions.

The Directors confirm that to the best of our knowledge:

- The Financial Statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit of the Company; and
- The Annual 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 it faces.

The Directors consider that the Annual Report and Financial Statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

Approved by the Board on 21 March 2017 and signed on its behalf by:

**David Robins**  
Chairman

## Income Statement

for the year ended 31 December 2016

	Notes	Year ended 31 December 2016			Year ended 31 December 2015		
		revenue £'000	capital £'000	total £'000	revenue £'000	capital £'000	total £'000
Gains on investments held at fair value through profit or loss	9	–	30,593	30,593	–	21,132	21,132
Gains on derivative instruments	10	–	675	675	–	2,717	2,717
Income	3	2,471	–	2,471	1,728	–	1,728
Investment management fee	4	(1,597)	–	(1,597)	(1,130)	–	(1,130)
Other expenses	5	(489)	–	(489)	(508)	–	(508)
Foreign exchange gains/(losses)		–	247	247	(22)	(762)	(784)
		=====	=====	=====	=====	=====	=====
<b>Net return on ordinary activities before finance costs and taxation</b>		<b>385</b>	<b>31,515</b>	<b>31,900</b>	68	23,087	23,155
Finance costs	6	(91)	–	(91)	(88)	–	(88)
		=====	=====	=====	=====	=====	=====
<b>Net return/(loss) on ordinary activities before taxation</b>		<b>294</b>	<b>31,515</b>	<b>31,809</b>	(20)	23,087	23,067
		=====	=====	=====	=====	=====	=====
Taxation on return/(loss) on ordinary activities	7	(202)	–	(202)	(140)	–	(140)
		=====	=====	=====	=====	=====	=====
<b>Net return/(loss) on ordinary activities after taxation for the year</b>		<b>92</b>	<b>31,515</b>	<b>31,607</b>	(160)	23,087	22,927
		=====	=====	=====	=====	=====	=====
<b>Return/(loss) per ordinary share - undiluted and diluted</b>	8	<b>0.07p</b>	<b>24.56p</b>	<b>24.63p</b>	(0.14p)	20.24p	20.10p
		=====	=====	=====	=====	=====	=====

The Notes form an integral part of these Financial Statements.

The Company does not have any other comprehensive income. Accordingly the net return/(loss) on ordinary activities after taxation for the year is also the total comprehensive income for the year and no separate Statement of Comprehensive Income has been presented.

The total column of this statement represents the Income Statement of the Company. The revenue and capital columns are supplementary and presented for information purposes as recommended by the Statement of Recommended Practice issued by the Association of Investment Companies.

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

## Statement of Changes in Equity

for the year ended 31 December 2016

	Notes	share capital £'000	share premium account £'000	capital redemption reserve £'000	other reserve £'000	capital reserve £'000	revenue reserve £'000	total equity £'000
<b>Total shareholders' funds at 31 December 2015</b>		<b>28,555</b>	<b>6,874</b>	<b>2,621</b>	<b>57,568</b>	<b>34,853</b>	<b>(14,471)</b>	<b>116,000</b>
Issue of ordinary shares on the exercise of rights attached to subscription shares	13,14	5,632	13,848	–	–	–	–	19,480
Ordinary shares repurchased for cancellation	13,14	(146)	–	146	(498)	–	–	(498)
Ordinary shares repurchased and held in Treasury	14	–	–	–	(184)	–	–	(184)
Net return on ordinary activities after taxation for the year		–	–	–	–	31,515	92	31,607
<b>Total shareholders' funds at 31 December 2016</b>		<b>34,041</b>	<b>20,722</b>	<b>2,767</b>	<b>56,886</b>	<b>66,368</b>	<b>(14,379)</b>	<b>166,405</b>
<b>Total shareholders' funds at 31 December 2014</b>		<b>28,501</b>	<b>6,741</b>	<b>2,621</b>	<b>57,568</b>	<b>11,766</b>	<b>(14,311)</b>	<b>92,886</b>
Issue of ordinary shares on the exercise of rights attached to subscription shares	13	54	133	–	–	–	–	187
Net return/(loss) on ordinary activities after taxation for the year		–	–	–	–	23,087	(160)	22,927
<b>Total shareholders' funds at 31 December 2015</b>		<b>28,555</b>	<b>6,874</b>	<b>2,621</b>	<b>57,568</b>	<b>34,853</b>	<b>(14,471)</b>	<b>116,000</b>

The Notes form an integral part of these Financial Statements.

## Balance Sheet

as at 31 December 2016

Company number 2885584

	Notes	2016 £'000	2015 £'000
<b>Fixed assets</b>			
Investments held at fair value through profit or loss	9	161,777	115,532
<b>Current assets</b>			
Derivative instruments	10	4,619	1,056
Debtors	11	534	1,063
Cash at bank		620	220
		5,773	2,339
<b>Creditors</b>			
Derivative instruments	10	(424)	(1,117)
Other creditors	12	(721)	(754)
		(1,145)	(1,871)
<b>Net current assets</b>		<b>4,628</b>	<b>468</b>

<b>Net assets</b>		<b>166,405</b>	116,000
		=====	=====
<b>Capital and reserves</b>			
Share capital	13	<b>34,041</b>	28,555
Share premium account	14	<b>20,722</b>	6,874
Capital redemption reserve	14	<b>2,767</b>	2,621
Other reserve	14	<b>56,886</b>	57,568
Capital reserve	14	<b>66,368</b>	34,853
Revenue reserve	14	<b>(14,379)</b>	(14,471)
		=====	=====
<b>Total equity shareholders' funds</b>		<b>166,405</b>	116,000
		=====	=====
<b>Net asset value per ordinary share</b>			
Undiluted	15	<b>122.37p</b>	101.56p
		=====	=====
Diluted	15	<b>122.37p</b>	99.08p
		=====	=====

The Financial Statements were approved by the Board of Directors on 21 March 2017 and were signed on its behalf by:

**David Robins**  
Chairman

The Notes form an integral part of these Financial Statements.

## Notes to the Financial Statements

### 1. Principal Activity

Fidelity Japanese Values PLC is an Investment Company incorporated in England and Wales with a premium listing on the London Stock Exchange. The Company's registration number is 2885584, and its registered office is Beech Gate, Millfield Lane, Lower Kingswood, Tadworth, Surrey, KT20 6RP. The Company has been approved by HM Revenue & Customs as an Investment Trust under Section 1158 of the Corporation Tax Act 2010 and intends to conduct its affairs so as to continue to be approved.

### 2. Accounting Policies

The Company has prepared its Financial Statements in accordance with UK Generally Accepted Accounting Practice ("UK GAAP"), issued by the Financial Reporting Council ("FRC") and these Financial Statements have been prepared in accordance with FRS 102: The Financial Reporting Standard applicable in the UK and Republic of Ireland. The Company has early adopted the amendments to FRS 102: Fair value hierarchy disclosures, issued by the FRC in March 2016 and applicable for accounting periods beginning on or after 1 January 2017. The Financial Statements have also been prepared in accordance with the Statement of Recommended Practice: Financial Statements of Investment Trust Companies and Venture Capital Trusts ("SORP") issued by the Association of Investment Companies ("AIC"), in November 2014. The Company is exempt from presenting a Cash Flow Statement as a Statement of Changes in Equity is presented and substantially all of the Company's investments are highly liquid and are carried at market value.

**a) Basis of accounting** – The Financial Statements have been prepared on a going concern basis and under the historical cost convention, except for the measurement at fair value of investments and derivative instruments.

**b) Segmental reporting** – The Company is engaged in a single segment business and, therefore, no segmental reporting is provided.

**c) Presentation of the Income Statement** – In order to reflect better the activities of an investment company and in accordance with guidance issued by the AIC, supplementary information which analyses the Income Statement between items of a revenue and capital nature has been prepared alongside the Income Statement. The net revenue return after taxation for the year is the measure the Directors believe appropriate in assessing the Company's compliance with certain requirements set out in Section 1159 of the Corporation Tax Act 2010.

**d) Income** – Income from equity investments is accounted for on the date on which the right to receive the payment is established, normally the ex-dividend date. Overseas dividends are accounted for gross of any tax deducted at source. Amounts are credited to the revenue column of the Income Statement. Where the Company has elected to receive its dividends in the form of additional shares rather than cash, the amount of the cash dividend foregone is recognised in the revenue column of the Income Statement. Any excess in the value of the shares received over the amount of the cash dividend is recognised in the capital column of the Income Statement. Special dividends are treated as a revenue receipt or a capital receipt depending on the facts and circumstances of each particular case. Derivative instrument income received from dividends on long contracts for difference (“CFDs”) is accounted for on the date on which the right to receive the income is established, normally the ex-dividend date. Amounts are credited to the revenue column of the Income Statement.

**e) Management fees and other expenses** – Management fees and other expenses are accounted for on an accruals basis and are charged in full to the revenue column of the Income Statement.

**f) Functional currency and foreign exchange** – The Directors, having regard to the Company’s share capital and the predominant currency in which its investors operate, have determined its functional currency to be UK sterling. Transactions denominated in foreign currencies are reported in UK sterling at the rate of exchange ruling at the date of the transaction. Assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the Balance Sheet date. Foreign exchange gains and losses arising on translation are recognised in the Income Statement as a revenue or a capital item depending on the nature of the underlying item to which they relate.

**g) Finance costs** – Finance costs represent interest paid on long CFDs and are accounted for on an accruals basis using the effective interest method. They are charged in full to the revenue column of the Income Statement.

**h) Taxation** – The taxation charge represents the sum of current taxation and deferred taxation.

Current taxation is taxation suffered at source on overseas income less amounts recoverable under taxation treaties. Taxation is charged or credited to the revenue column of the Income Statement, except where it relates to items of a capital nature, in which case it is charged or credited to the capital column of the Income Statement.

Deferred taxation is the taxation expected to be payable or recoverable on timing differences between taxable profit and the accounting profit and is based on tax rates that have been enacted or substantively enacted when the taxation is expected to be payable or recoverable. It is accounted for using the balance sheet liability method. Deferred taxation liabilities are recognised for all taxable timing differences and deferred taxation assets are recognised to the extent that it is probable that taxable profits will be available against which deductible timing differences can be utilised.

**i) Investments** – The Company’s business is investing in financial instruments with a view to profiting from their total return in the form of income and capital growth. This portfolio of investments is managed and its performance evaluated on a fair value basis, in accordance with a documented investment strategy, and information about the portfolio is provided on that basis to the Company’s Board of Directors. Investments are measured at fair value with changes in fair value recognised in profit or loss, in accordance with the provisions of both Section 11 and Section 12 of FRS 102. The fair value of investments is initially taken to be their cost and is subsequently measured as follows:

- Listed investments are valued at bid prices, or last market prices, depending on the convention of the exchange on which they are listed, or otherwise, at fair value based on published price quotations; and
- Unlisted investments are investments which are not quoted, or are not frequently traded, and are stated at the Directors best estimate of fair value. The Manager’s Fair Value Committee, which is independent of the Portfolio Manager’s team, provides a recommendation of fair values to the Directors based on recognised valuation techniques that take account of the cost of the investment and recent arm’s length transactions in the same or similar investments.

In accordance with the AIC SORP, the Company includes transaction costs, incidental to the purchase or sale of investments, within gains on investments in the capital column of the Income Statement and has disclosed these costs in note 9.

**j) Derivative instruments** – Some of the Company’s portfolio exposure to Japanese equities is achieved by investment in long CFDs. Long CFDs are classified as other financial instruments and are initially accounted and measured at fair value on the date the derivative contract is entered into and subsequently measured at fair value. Long CFDs are valued at the difference between the price of the shares underlying the contract when the contract was opened and their closing price (calculated in accordance with policy 2(i) above) at the valuation date.

**k) Cash at bank** – Cash at bank is subject to an insignificant risk of change in value.

**l) Capital reserve** – The following are accounted for in the capital reserve:

- Gains and losses on the disposal of investments and derivative instruments;

- Changes in the fair value of investments and derivative instruments held at the year end;
- Foreign exchange gains and losses of a capital nature; and
- Dividends receivable which are capital in nature.

As a result of technical guidance issued by the Institute of Chartered Accountants in England and Wales (TECH 02/10): Guidance on the determination of realised profits and losses in the context of distributions under the Companies Act 2006, changes in the fair value of investments which are readily convertible to cash, without accepting adverse terms at the Balance Sheet date, can be treated as realised. Capital reserves realised and unrealised are shown in aggregate as capital reserve in the Statement of Changes in Equity and the Balance Sheet. At the Balance Sheet date, with the exception of unlisted investments with a fair value of £958,000 (2015: nil), the portfolio of the Company consisted of investments listed on a recognised stock exchange and derivative instruments contracted with counterparties having an adequate credit rating, and the portfolio was considered to be readily convertible to cash.

### 3 Income

	Year ended 31.12.16 £'000	Year ended 31.12.15 £'000
<b>Investment income</b>		
Overseas dividends	2,022	1,404
<b>Derivative income</b>		
Dividends on long CFDs	449	324
	-----	-----
<b>Total income</b>	<b>2,471</b>	<b>1,728</b>
	=====	=====

### 4 Investment Management Fees

	Year ended 31.12.16 £'000	Year ended 31.12.15 £'000
Investment management fees	1,597	1,130
	-----	-----

FIL Investment Services (UK) Limited is the Company's Alternative Investment Fund Manager and has delegated portfolio management to FIL Investments International ("FIL"), the Investment Manager. Both companies are Fidelity group companies. FIL charges portfolio management services fees at an annual rate of 0.85% of the value of assets under management. Fees are payable quarterly in arrears and are calculated on the last business day of March, June, September and December. Further details of the terms of the Management Agreement are given in the Directors' Report in the Report and Accounts.

### 5 Other Expenses

	Year ended 31.12.16 £'000	Year ended 31.12.15 £'000
AIC fees	9	7
Administration and secretarial fees payable to the Investment Manager	46	45
Custody fees	14	12
Depository fees	17	14
Directors' expenses	31	41
Directors' fees <sup>1</sup>	121	142
Legal and professional fees	48	48
Marketing expenses	88	77

Printing and publication expenses	51	51
Registrars' fees	29	33
Sundry other expenses	11	14
Fees payable to the Company's Independent Auditor for the audit of the annual financial statements	24	24
	-----	-----
	489	508
	=====	=====

1 Details of the breakdown of Directors' fees are provided in the Directors' Remuneration Report in the Annual Report and Accounts

## 6 Finance Costs

	Year ended 31.12.16 £'000	Year ended 31.12.15 £'000
Interest paid on long CFDs	91	88
	=====	=====

## 7 Taxation on Return on Ordinary Activities

	Year ended 31.12.16 £'000	Year ended 31.12.15 £'000
<b>a) Analysis of taxation charge for the year</b>		
Overseas taxation suffered (Note 7b)	202	140
	=====	=====

### b) Factors affecting the taxation charge for the year

The taxation charge for the year is lower than the standard rate of UK corporation tax for an investment trust company of 20% (2015: 20.25%). A reconciliation of tax at the standard rate of UK corporation tax to the taxation charge for the year is shown below:

	Year ended 31.12.16 £'000	Year ended 31.12.15 £'000
Net return on ordinary activities before taxation	31,809	23,067
	=====	=====
Net return on ordinary activities before taxation multiplied by the standard rate of UK corporation tax of 20% (2015: 20.25%)	6,362	4,671
Effects of:		
Gains on investments not taxable <sup>1</sup>	(6,303)	(4,675)
Income not taxable	(404)	(285)
Excess management expenses not utilised	345	289
Overseas taxation	202	140
	-----	-----
Taxation charge for the year (Note 7a)	202	140
	=====	=====

1 The Company is exempt from UK taxation on capital gains as it meets the HM Revenue & Customs criteria for an investment company set out in Section 1159 of the Corporation Tax Act 2010

### c) Deferred taxation

A deferred tax asset of £3,665,000 (2015: £3,601,000), in respect of excess expenses of £21,560,000 (2015: £20,005,000), has not been recognised as it is unlikely that there will be sufficient future taxable profits to utilise these expenses.

### 8 Return/(loss) per Ordinary Share – undiluted and diluted

	Year ended 31 December 2016			Year ended 31 December 2015		
	revenue	capital	total	revenue	capital	total
	£'000	£'000	£'000	£'000	£'000	£'000
Return/(loss) per ordinary share	<b>0.07p</b>	<b>24.56p</b>	<b>24.63p</b>	(0.14p)	20.24p	20.10p
	=====	=====	=====	=====	=====	=====

The returns/(loss) per ordinary share are based on, respectively; the net revenue return on ordinary activities after taxation for the year of £92,000 (2015: loss of £160,000), the net capital return on ordinary activities after taxation for the year of £31,515,000 (2015: £23,087,000) and the net total return on ordinary activities after taxation for the year of £31,607,000 (2015: £22,927,000), and on 128,319,344 ordinary shares (2015: 114,076,562), being the weighted average number of ordinary shares held outside Treasury in issue during the year. There is no dilution in either year as the average ordinary share price in both years was below the exercise price of the subscription shares in issue.

### 9 Investments

	2016	2015
	£'000	£'000
<b>Investments held at fair value through profit or loss</b>		
Listed overseas investments	<b>160,819</b>	115,532
Unlisted overseas investments	<b>958</b>	–
	-----	-----
<b>Total investments</b>	<b>161,777</b>	115,532
	=====	=====
Opening book cost	<b>100,256</b>	75,964
Opening investment holding gains	<b>15,276</b>	6,522
	-----	-----
<b>Opening fair value</b>	<b>115,532</b>	82,486
<b>Movements in the year</b>		
Purchases at cost	<b>120,492</b>	165,380
Sales – proceeds	<b>(104,840)</b>	(153,466)
Gains on sales of investments	<b>12,857</b>	12,378
Movement in investment holding gains	<b>17,736</b>	8,754
	-----	-----
<b>Closing fair value</b>	<b>161,777</b>	115,532
	=====	=====
Closing book cost	<b>128,765</b>	100,256
Closing investment holding gains	<b>33,012</b>	15,276
	-----	-----
<b>Closing fair value</b>	<b>161,777</b>	115,532
	=====	=====

	Year ended 31.12.16 £'000	Year ended 31.12.15 £'000
<b>Gains on investments held at fair value through profit or loss</b>		
Gains on sales of investments	12,857	12,378
Movement in investment holding gains	17,736	8,754
	-----	-----
	<b>30,593</b>	21,132
	=====	=====
<b>Costs of investment transactions</b>		
Transaction costs incurred in the acquisition and disposal of investments, which are included in the gains on sales of investments above, were as follows:		
Purchase transaction costs	108	97
Sales transaction costs	84	93
	-----	-----
	<b>192</b>	190
	=====	=====

The portfolio turnover rate for the year ended 31 December 2016 was 78.1% (2015: 128.7%).

## 10 Derivative Instruments

	2016 portfolio exposure	2015 portfolio exposure
	fair value £'000	fair value £'000
Long CFDs – assets	4,619	1,056
Long CFDs – liabilities	(424)	(1,117)
	-----	-----
	<b>4,195</b>	(61)
	-----	-----
	<b>45,123</b>	19,720
	=====	=====

The portfolio exposure shows the amount exposed to market price movements in the shares underlying the long CFDs.

## Gains on derivative instruments

	Year ended 31.12.16 £'000	Year ended 31.12.15 £'000
(Losses)/gains on long CFD positions closed	(3,581)	9,935
Movement in investment holding gains/(losses) on long CFDs	4,256	(7,218)
	-----	-----
	<b>675</b>	2,717
	=====	=====

## 11 Debtors

2016 £'000	2015 £'000
---------------	---------------

Securities sold for future settlement	65	752
Accrued income	405	243
Other debtors and prepayments	64	68
	-----	-----
	<b>534</b>	1,063
	=====	=====

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

## 12 Other Creditors

	<b>2016</b>	2015
	<b>£'000</b>	£'000
Securities purchased for future settlement	97	255
Other creditors and accruals	624	499
	-----	-----
	<b>721</b>	754
	=====	=====

## 13 Share Capital

	2016		2015
	number of		number of
	shares	£'000	shares
			£'000
<b>Ordinary shares of 25 pence each</b> – issued, allotted and fully paid			
<b>Held outside Treasury</b>			
<b>Beginning of the year</b>	114,218,356	28,555	114,002,375
Issue of ordinary shares on the exercise of rights attached to subscription shares	22,527,339	5,632	215,981
Ordinary shares repurchased for cancellation	(584,000)	(146)	–
Ordinary shares repurchased and held in Treasury	(180,000)	(45)	–
	-----	-----	-----
<b>End of the year</b>	<b>135,981,695</b>	<b>33,996</b>	114,218,356
	=====	=====	=====
<b>Held in Treasury</b>			
<b>Beginning of the year</b>	–	–	–
Ordinary shares repurchased and held in Treasury	180,000	45	–
	-----	-----	-----
<b>End of the year</b>	<b>180,000</b>	<b>45</b>	–
	=====	=====	=====
<b>Subscription shares of 0.001 pence each</b> – issued, allotted and fully paid			
<b>Beginning of the year</b>	22,527,339	–	22,743,320
Cancellation of subscription shares on the exercise of rights	(22,527,339)	–	(215,981)
	-----	-----	-----
<b>End of the year</b>	<b>–</b>	<b>–</b>	22,527,339
	=====	=====	=====
<b>Total share capital</b>		<b>34,041</b>	28,555

A bonus issue of subscription shares to ordinary shareholders on the basis of one subscription share for every five ordinary shares held took place on 27 August 2014. Each subscription share gave the holder the right, but not the obligation, on the last business day of each month to subscribe for one ordinary share upon payment of the subscription price of 86.50 pence. The final date to exercise those rights was 29 April 2016. After 29 April 2016, the Company appointed a trustee who exercised all the remaining rights attached to the subscription shares that had not been exercised by shareholders. The resulting ordinary shares issued were sold in the market and the profits of that sale, being the net proceeds less the 86.50 pence per share cost of exercising the rights and after deduction of expenses and fees, were paid to the holders of those outstanding subscription shares. Subscription shares carried no rights to vote, to receive a dividend or to participate in the winding up of the Company.

During the year the Company issued 22,527,339 ordinary shares (year ended 31 December 2015: 215,981) on the exercise of rights attached to subscription shares. The subscription share price of 86.50 pence per ordinary share issued, represented a premium of 61.50 pence per share over the 25 pence nominal value of each share. The total premium received in the year on the issue of ordinary shares of £13,848,000 (year ended 31 December 2015: £133,000) was credited to the share premium account.

During the year the Company repurchased and cancelled 584,000 ordinary shares (year ended 31 December 2015: nil). The £146,000 nominal value of those cancelled shares was credited to the capital redemption reserve and the £498,000 cost of repurchase was charged to the other reserve (Note 14).

In addition, the Company repurchased a further 180,000 ordinary shares (year ended 31 December 2015: nil) for holding in Treasury rather than cancelling them. The £45,000 nominal value of these shares is shown in the table above. The £184,000 cost of repurchase, at an average cost of 101.02 pence per share, was charged to the other reserve (Note 14). Shares held in Treasury carry no rights to vote, to receive a dividend or to participate in the winding up of the Company.

#### 14 Share Premium Account and Reserves

					2016
	Share premium account £'000	Capital redemption reserve £'000	Other reserve £'000	Capital reserve £'000	Revenue reserve £'000
<b>Beginning of the year</b>	<b>6,874</b>	<b>2,621</b>	<b>57,568</b>	<b>34,853</b>	<b>(14,471)</b>
Premium received from the issue of ordinary shares in the exercise of rights attached to subscription shares	<b>13,848</b>	-	-	-	-
Transfer from share capital to the nominal value of ordinary shares repurchased for cancellation	-	<b>146</b>	-	-	-
Cost of ordinary shares repurchased for cancellation	-	-	<b>(498)</b>	-	-
Cost of ordinary shares repurchased and held in Treasury	-	-	<b>(184)</b>	-	-
Net return on ordinary activities after taxation for the year	-	-	-	<b>31,515</b>	<b>92</b>
<b>End of the year</b>	<b>20,722</b>	<b>2,767</b>	<b>56,886</b>	<b>66,368</b>	<b>(14,379)</b>

#### 15 Reserves

The share premium account represents the amount by which the proceeds from the issue of ordinary shares, on the exercise of rights attached to subscription shares, exceeds the nominal value of those ordinary shares. The reserve cannot be used to fund share repurchases and it is not distributable by way of dividend.

The capital redemption reserve maintains the equity share capital of the Company and represents the nominal value of shares repurchased and cancelled. The reserve cannot be used to fund share repurchases and it is not distributable by way of dividend.

The other reserve was created in 1999 when the share premium account at that time was cancelled. The reserve can be used to fund share repurchases.

The capital reserve reflects realised gains and losses on investments and derivatives sold, unrealised increases and decreases in the fair value of investments and derivatives held and other income and costs recognised in the capital column of the Income Statement. At the Balance Sheet date the capital reserve included £37,207,000 (2015: £15,215,000) relating to the revaluation of investments and derivative instruments. The reserve can be used to fund share repurchases and it is distributable by way of dividend.

The revenue reserve represents the retained revenue losses recognised in the revenue column of the Income Statement. The reserve could be distributed by way of dividend if it were not in deficit.

## 16 Net Asset Value per Ordinary Share

The diluted net asset value per ordinary share is based on net assets of £166,405,000 (2015: £116,000,000) and on 135,981,695 (2015: 114,218,356) ordinary shares, being the number of ordinary shares in issue that are held outside Treasury at the year end. It is the Company's policy that shares held in Treasury will only be reissued at a premium to net asset value per share and, therefore, shares held in Treasury have no dilutive effect.

There is no dilution at 31 December 2016 as all the subscription share rights were exercised during the year and there are no longer any subscription shares in issue. The diluted net asset value per ordinary share at 31 December 2015 is calculated on the basis of what the financial position would have been if all the rights attaching to the 22,527,339 subscription shares in issue had been exercised on that date. This basis of calculation is in accordance with guidelines laid down by the AIC.

## 17 Financial Instruments

### Management of risk

The general risk analysis undertaken by the Board and its overall policy approach to risk management are set out in the Strategic Report of the Annual Report and Accounts. This note refers to the identification, measurement and management of risks potentially affecting the value of financial instruments.

The Company's financial instruments comprise:

- Equity shares held in accordance with the Company's investment objective and policies;
- Derivative instruments which comprise long CFDs; and
- Cash, liquid resources and short term debtors and creditors that arise from its operations.

The risks identified arising from the Company's financial instruments are market price risk (which comprises interest rate risk, foreign currency risk and other price risk), liquidity risk, counterparty risk, credit risk and derivative instrument risk. The Board reviews and agrees policies for managing each of these risks, which are summarised below. These policies are consistent with those followed last year.

### Market price risk

#### Interest rate risk

The Company finances its operations through share capital and reserves. In addition, the Company has a geared exposure to Japanese equities through the use of long CFDs which incur funding costs and provide collateral in yen. The Company is exposed to a financial risk arising as a result of increases in yen interest rates associated with the funding of the long CFDs.

#### Interest rate risk exposure

The values of the Company's financial instruments that are exposed to movements in interest rates are shown below:

	2016	2015
	£'000	£'000
<b>Exposure to financial instruments that bear interest</b>		
Long CFDs – portfolio exposure less fair value	40,928	19,781
<b>Less: exposure to financial instruments that earn interest</b>		
Cash at bank	(620)	(220)

## Net exposure to financial instruments that bear interest

-----	-----
<b>40,308</b>	19,561
=====	=====

## Foreign currency risk

The Company's net return on ordinary activities after taxation for the year and its net assets may be affected by foreign exchange movements because the Company has income and assets which are denominated in yen, whereas, the Company's functional currency is UK sterling. The Company may also be subject to short term exposure from exchange rate movements, for example, between the date when an investment is purchased or sold and the date when settlement of the transaction occurs. The Company does not hedge the UK sterling value of investments or other net assets priced in yen by the use of derivative instruments.

Three significant areas have been identified where foreign currency risk may impact the Company:

- Movements in exchange rates affecting the value of investments and long CFDs;
- Movements in exchange rates affecting short term timing differences; and
- Movements in exchange rates affecting income received.

## Currency exposure of financial assets

The currency exposure profile of the Company's financial assets is shown below:

					2016
	investments held at fair value through profit or loss £'000	portfolio exposure to long CFDs £'000	debtors £'000	cash £'000	total £'000
Financial assets held in yen	161,777	45,123	470	617	207,987
	=====	=====	=====	=====	=====
					2015
	investments held at fair value through profit or loss £'000	portfolio exposure to long CFDs £'000	debtors £'000	cash £'000	total £'000
Financial assets held in yen	115,532	19,720	995	218	136,465
	=====	=====	=====	=====	=====

## Currency exposure of financial liabilities

The currency exposure profile of the Company's financial liabilities is shown below:

		2016
	other creditors £'000	total £'000

Financial liabilities held in yen	111	111
	=====	=====
		2015
	other	total
	creditors	£'000
Financial liabilities held in yen	£'000	£'000
	255	255
	=====	=====

### Other price risk

Other price risk arises mainly from uncertainty about future prices of financial instruments used in the Company's business. It represents the potential loss the Company may suffer through holding market positions in the face of price movements. The Board meets at least quarterly to consider the asset allocation of the portfolio and the risk associated with particular industry sectors within the parameters of the investment objective. The Portfolio Manager is responsible for actively managing and monitoring the existing portfolio, selected in accordance with the overall asset allocation parameters described above, and seeks to ensure that individual stocks also meet an acceptable risk/reward profile.

### Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulties in meeting obligations associated with financial liabilities. The Company's assets mainly comprise readily realisable securities and derivative instruments which can be sold easily to meet funding commitments if necessary. Short term flexibility is achieved by the use of a bank overdraft, if required.

### Liquidity risk exposure

At 31 December 2016 the undiscounted gross cash outflows of the financial liabilities were all repayable within one year and consisted of derivative instrument liabilities of £424,000 (2015: £1,117,000) and other creditors and accruals of £721,000 (2015: £754,000).

### Counterparty risk

The long CFDs in which the Company invests are not traded on an exchange but instead are traded between counterparties based on contractual relationships, under the terms outlined in the International Swaps Dealers Association's ("ISDA") market standard derivative legal documentation. As a result the Company is subject to the risk that a counterparty may not perform its obligations under the related contract. The Manager will seek to minimize such risk by only entering into transactions with counterparties which it believes have an adequate credit rating at the time of the transaction. The Manager ensures that formal legal agreements covering the terms of the contract are entered into in advance. It adopts a counterparty risk framework which measures, monitors and manages counterparty risk, by the use of internal and external credit agency ratings and evaluates derivative instrument credit risk exposure.

For the long CFDs, collateral is used to reduce the risk of both parties to the contract. Collateral is managed on a daily basis for all relevant transactions. At 31 December 2016, £5,349,000 (2015: £92,000) was held by brokers, in government bonds in a segregated collateral account on behalf of the Company, to reduce the credit risk exposure of the Company.

### Credit risk

Financial instruments may be adversely affected if any of the institutions with which money is deposited suffer insolvency or other financial difficulties. All transactions are carried out with brokers that have been approved by the Manager and are settled on a delivery versus payment basis. Limits are set on the amount that may be due from any one broker and are kept under review by the Manager. Exposure to credit risk arises on the Balance Sheet value of unsettled security transactions and long CFD contracts and cash at bank.

### Derivative instruments risk

The risks and risk management processes which result from the use of long CFDs are included within the risk categories disclosed above. Long CFDs are used by the Manager to gain unfunded long exposure to equity markets, sectors or single stocks. "Unfunded" exposure is exposure gained without an initial outflow of capital. The risk and performance contribution of long CFDs held in the Company's portfolio is overseen by the Manager's experienced, specialist derivative instruments team that uses portfolio risk assessment and construction tools to manage risk and investment performance.

## RISK SENSITIVITY ANALYSIS

### Interest rate risk sensitivity analysis

Based on the financial instruments held and interest rates at 31 December 2016, an increase of 0.25% in interest rates throughout the year, with all other variables held constant, would have decreased the return on ordinary activities after taxation for the year and decreased the net assets of the Company by £101,000 (2015: £49,000). A decrease of 0.25% in interest rates

throughout the year would have had an equal but opposite effect.

#### Foreign currency risk sensitivity analysis

Based on the financial instruments held and currency exchange rates at 31 December 2016, a 10% strengthening of the UK sterling exchange rate against the yen, with all other variables held constant, would have decreased the Company's net return on ordinary activities after taxation for the year and decreased the Company's net assets by £15,177,000 (2015: £10,584,000). A 10% weakening of the UK sterling exchange rate against the yen would have increased the Company's net return on ordinary activities after taxation for the year and increased the Company's net assets by £18,549,000 (2015: £12,936,000).

#### Other price risk – exposure to investments risk sensitivity analysis

Based on the investments held and share prices at 31 December 2016, an increase of 10% in share prices, with all other variables held constant, would have increased the Company's net return on ordinary activities after taxation for the year and increased the net assets of the Company by £16,178,000 (2015: £11,553,000). A decrease of 10% in share prices would have had an equal and opposite effect.

#### Other price risk – exposure to derivative instruments risk sensitivity analysis

Based on the long CFDs held and share prices at 31 December 2016, an increase of 10% in the share prices underlying the long CFDs, with all other variables held constant, would have increased the Company's net return on ordinary activities after taxation for the year and increased the net assets of the Company by £4,512,000 (2015: £1,972,000). A decrease of 10% in share prices would have had an equal and opposite effect.

#### Fair Value Hierarchy

The Company is required to disclose the fair value hierarchy that classifies its financial instruments measured at fair value at one of three levels, according to the relative reliability of the inputs used to estimate the fair values.

#### Classification

##### Level 1

##### Level 2

##### Level 3

#### Input

Valued using quoted prices in active markets for identical assets

Valued by reference to valuation techniques using observable inputs other than quoted prices included within level 1

Valued by reference to valuation techniques using inputs that are not based on observable market data

Categorisation within the hierarchy has been determined on the basis of the lowest level input that is significant to the fair value measurement of the relevant asset. The valuation techniques used by the Company are explained in Note 2 (i) and (j). The table below sets out the Company's fair value hierarchy:

	Level 1 £'000	Level 2 £'000	Level 3 £'000	2016 Total £'000
<b>Financial assets at fair value through profit or loss</b>				
Investments	160,819	–	958	161,777
Derivative instruments – long CFDs	–	4,619	–	4,619
	-----	-----	-----	-----
	160,819	4,619	958	166,396
	=====	=====	=====	=====
<b>Financial liabilities at fair value through profit or loss</b>				
Derivative instruments - long CFDs	–	(424)	–	(424)
	-----	-----	-----	-----
	–	(424)	–	(424)
	=====	=====	=====	=====
	Level 1 £'000	Level 2 £'000	Level 3 £'000	2015 Total £'000
<b>Financial assets at fair value through profit or loss</b>				
Investments	115,532	–	–	115,532
Derivative instruments – long CFDs	–	1,056	–	1,056
	-----	-----	-----	-----
	115,532	1,056	–	116,588

<b>Financial liabilities at fair value through profit or loss</b>	=====	=====	=====	=====
Derivative instruments – long CFDs	-----	-----	-----	-----
	–	(1,117)	–	(1,117)
	=====	=====	=====	=====

The table below sets out the movements in level 3 financial instruments during the year:

	<b>Year ended 31.12.16 level 3 £'000</b>	Year ended 31.12.15 level 3 £'000
<b>Beginning of the year</b>	–	–
Unlisted investment purchased	<b>958</b>	–
<b>End of the year</b>	<b>958</b>	–
	=====	=====

The Directors' best estimate of the fair value of the unlisted investment is its cost which approximates to its fair value.

### 18 Capital Resources

The Company does not have any externally imposed capital requirements. The financial resources of the Company comprise its share capital and reserves, as disclosed on the Balance Sheet, and its gearing which is achieved through the use of long CFDs. Financial resources are managed in accordance with the Company's investment policy and in pursuit of its investment objective, both of which are detailed in the Strategic Report in the Annual Report and Accounts. The principal risks and their management are disclosed in the Strategic Report in the Report and Accounts and in Note 16.

### 19 Transactions with the Manager and Related Parties

FIL Investment Services (UK) Limited is the Company's Alternative Investment Fund Manager and has delegated portfolio management and the role of company secretary to FIL Investments International ("FIL"), the Investment Manager. Both companies are Fidelity group companies. Details of the fee arrangements are given in the Directors' Report in the Annual Report and Accounts and in Note 4. During the year fees for portfolio management services of £1,597,000 (2015: £1,130,000) and fees for non-portfolio management services of £46,000 (2015: £45,000) were payable to FIL. Non-portfolio management fees include company secretarial, fund accounting, taxation, promotional and corporate advisory services. At the Balance Sheet date, fees for portfolio management services of £441,000 (2015: £289,000) and fees for non-portfolio management services of £12,000 (2015: £11,000) were accrued and included in other creditors. FIL also provides the Company with marketing services. The total amount payable for these services during the year was £88,000 (2015: £77,000) and at the Balance Sheet date £32,000 (2015: £69,000) was accrued and included in other creditors.

Disclosures of the Directors' interests in the ordinary shares of the Company and Directors' fees and taxable benefits relating to reasonable travel expenses payable to the Directors are given in the Directors' Remuneration Report in the Annual Report and Accounts. The Directors received compensation of £132,000 (2015: £155,000). In addition to the fees and taxable benefits disclosed in the Directors'

Remuneration Report, this amount includes £10,000 (2015: £13,000) of employers' National Insurance Contributions paid by the Company.

Neither the contents of the Company's website nor the contents of any website accessible from hyperlinks on the Company's website (or any other website) is incorporated into, or forms part of, this announcement.

The Annual Financial Report Announcement is not the Company's statutory accounts. The above results for the year ended 31 December 2016 are an abridged version of the Company's full Annual Report and financial statements, which have been approved and audited with an unqualified report. The 2015 and 2016 statutory accounts received unqualified reports from the Company's auditors and did not include any reference to matters to which the auditor drew attention by way of emphasis without qualifying the reports, and did not contain a statement under s.498 of the Companies Act 2006. The financial information for 2015 is derived from the statutory accounts for 2015 which have been delivered to the Registrar of Companies. The 2016 financial statements will be filed with the Registrar of Companies in due course.

The Annual Report will be posted to shareholders in April 2017 and additional copies will be available from the registered office of the Company and on the Company's website, [www.fidelityinvestmenttrusts.com](http://www.fidelityinvestmenttrusts.com)

The Annual General Meeting will be held on 6 June 2017 at Fidelity's offices at 25 Cannon Street, London EC2M 5TA

ENDS

A copy of the Annual Report will shortly be submitted to the National Storage Mechanism and will be available for inspection at [www.morningstar.co.uk/uk/NSM](http://www.morningstar.co.uk/uk/NSM)

The Annual Report will also be available on the Company's website at [www.fidelityinvestmenttrusts.com](http://www.fidelityinvestmenttrusts.com) where up to date information on the Company, including daily NAV and share prices, factsheets and other information can also be found.