

ABERDEEN JAPAN EQUITY FUND, INC.  
Form N-CSR  
January 07, 2019

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**FORM N-CSR**

**CERTIFIED SHAREHOLDER REPORT OF REGISTERED  
MANAGEMENT INVESTMENT COMPANIES**

Investment Company Act file number:	811-06142
Exact name of registrant as specified in charter:	Aberdeen Japan Equity Fund, Inc.
Address of principal executive offices:	1735 Market Street, 32nd Floor Philadelphia, PA 19103
Name and address of agent for service:	Andrea Melia  Aberdeen Asset Management Inc.  1735 Market Street 32nd Floor  Philadelphia, PA 19103
Registrant's telephone number, including area code:	1-800-522-5465
Date of fiscal year end:	October 31
Date of reporting period:	October 31, 2018

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**Item 1. Reports to Stockholders.**

The Report to Shareholders is attached herewith.

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## Stockholder Letter (unaudited)

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Dear Stockholder,

We present this Annual Report, which covers the activities of Aberdeen Japan Equity Fund, Inc. (the Fund), for the fiscal year ended October 31, 2018. The Fund's investment objective is to outperform over the long term, on a total return basis (including appreciation and dividends), the Tokyo Stock Price Index (TOPIX).

### Total Investment Return

For the fiscal year ended October 31, 2018, the total return to stockholders of the Fund based on the net asset value (NAV) and market price of the Fund compared to the Fund's benchmark in US dollar terms is as follows:

	1 Year
NAV*	-11.7%
Market Price*	-15.2%
Tokyo Stock Price Index <sup>1</sup>	-4.1%

\*assuming the reinvestment of dividends and distributions

For more detailed information about Fund performance please see page 3 for the Report of the Investment Manager. The Fund's total return is based on the reported NAV on each financial reporting period end and may differ from what is reported on the Financial Highlights due to financial statement rounding or adjustments.

### NAV and Market Price

	NAV	Closing Market Price	Discount
10/31/2018	\$8.66	\$7.40	14.5%
10/31/2017	\$10.30	\$9.17	11.0%

Throughout the fiscal year ended October 31, 2018, the Fund's NAV was within a range of \$8.38 to \$11.02 and the Fund's market price was within a range \$7.17 to \$9.80. Throughout the fiscal year ended October 31, 2018, the Fund's shares traded within a range of a discount of 9.6% to 15.7%.

### Discount Management Program

Under the Fund's Discount Management Program, the Fund's Board of Directors has authorized management to make open market purchases, from time to time, in a maximum aggregate amount during each twelve month period ended October 31 of up to

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10% of the Fund's shares of stock outstanding as of October 31 of the prior year. Such purchases may be made opportunistically at certain discounts to net asset value per share when, in the reasonable judgment of management based on historical discount levels and current market

conditions, such repurchases may enhance stockholder value. During the fiscal year ended October 31, 2018, the Fund did not repurchase any shares.

### Unclaimed Share Accounts

Please be advised that abandoned or unclaimed property laws for certain states require financial organizations to transfer (escheat) unclaimed property (including Fund shares) to the state. Each state has its own definition of unclaimed property, and Fund shares could be considered unclaimed property due to account inactivity (e.g., no owner-generated activity for a certain period), returned mail (e.g., when mail sent to a shareholder is returned to the Fund's transfer agent as undeliverable), or a combination of both. If your Fund shares are categorized as unclaimed, your financial advisor or the Fund's transfer agent will follow the applicable state's statutory requirements to contact you, but if unsuccessful, laws may require that the shares be escheated to the appropriate state. If this happens, you will have to contact the state to recover your property, which may involve time and expense. For more information on unclaimed property and how to maintain an active account, please contact your financial adviser or the Fund's transfer agent.

### Portfolio Holdings Disclosure

The Fund's complete schedule of portfolio holdings for the second and fourth quarters of each fiscal year is included in the Fund's semi-annual and annual reports to stockholders. The Fund files its complete schedule of portfolio holdings with the Securities and Exchange Commission (the SEC) for the first and third quarters of each fiscal year on Form N-Q. The Fund's Forms N-Q are available on the SEC's website at <http://www.sec.gov> and may be reviewed and copied at the SEC's Public Reference Room in Washington, D.C. Information about the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330. The Fund's most recent Form N-Q is also available to stockholders on the Fund's website or upon request and without charge by calling Investor Relations toll-free at 1-800-522-5465.

### Proxy Voting

A description of the policies and procedures that the Fund uses to determine how to vote proxies relating to portfolio securities and information regarding how the Fund voted proxies relating to portfolio securities during the most recent twelve months ended June 30 is available by August 31 of the relevant year: (i) upon request and without charge by calling Investor Relations toll-free at 1-800-522-5465; and (ii) on the SEC's website at <http://www.sec.gov>.

1           The Tokyo Stock Price Index ( TOPIX ) is a free-float adjusted market capitalization-weighted index that is calculated based on all the domestic common stocks listed on the Tokyo Stock Exchange First Section. The TOPIX Index shows the measure of current market capitalization assuming that market capitalization as of the base date (January 4, 1968) is 100 points. Indices are unmanaged and have been provided for comparison purposes only. No fees or expenses are reflected. You cannot invest directly in an index.

Aberdeen Japan Equity Fund, Inc.   **1**



## Stockholder Letter (unaudited) (concluded)

## Brexit

The ongoing negotiations surrounding the UK's exit from the European Union ( EU ) ( Brexit ) have yet to provide clarity on what the outcome will be for the UK or Europe. The UK remains a member of the EU until the legally established departure date of March 29, 2019 and, until such date, all existing EU-derived laws and regulations continue to apply in the UK. Those laws may continue to apply for a transitional period, depending on whether a deal is struck and, if so, what that deal is. In any event, the UK's on-shoring of EU legislation currently envisages no policy changes to EU law. However, the EU has not yet provided any material cushion from the effects of Brexit for financial services as a matter of EU law. Whether or not a Fund invests in securities of issuers located in Europe (whether the EU, Eurozone or UK) or with significant exposure to European, EU, Eurozone or UK issuers or countries, the unavoidable uncertainties and events related to Brexit could negatively affect the value and liquidity of the Fund's investments, increase taxes and costs of business and cause volatility in currency exchange rates and interest rates. Brexit could adversely affect the performance of contracts in existence at the date of Brexit and European, UK or worldwide political, regulatory, economic or market conditions and could contribute to instability in political institutions, regulatory agencies and financial markets. Brexit could also lead to legal uncertainty and politically divergent national laws and regulations as a new relationship between the UK and EU is defined and the UK determines which EU laws to replace or replicate. Any of these effects of Brexit, and others that cannot be anticipated, could adversely affect the Fund's business, results of operations and financial condition. In addition, the risk that Standard Life Aberdeen plc, the parent of the companies that provide investment advisory and administration services to the Fund and which is headquartered in the UK, fails to adequately prepare for Brexit could have significant customer, reputation and capital impacts for Standard Life Aberdeen plc and its subsidiaries, including those providing services to the Fund;

however, we have detailed contingency planning in place to seek to manage the consequences of Brexit on the Fund and to avoid any disruption on the Fund and to the services we provide. Given the fluidity and complexity of the situation, however, we cannot assure that the Fund will not be adversely impacted despite our preparations.

## Investor Relations Information

As part of Aberdeen's commitment to stockholders, we invite you to visit the Fund on the web at [www.aberdeenjeq.com](http://www.aberdeenjeq.com). Here, you can view monthly fact sheets, quarterly commentary, distribution, and performance information, updated daily data courtesy of Morningstar®, portfolio charting and other Fund literature.

Enroll in Aberdeen's email services today and be among the first to receive the latest closed-end fund news, announcements, videos and information. In addition, you can receive electronic versions of important Fund documents including annual reports, semi-annual reports, prospectuses and proxy statements. Sign up today at [cef.aberdeen-asset.us/en/cefinvestorcenter/contact-us/email](http://cef.aberdeen-asset.us/en/cefinvestorcenter/contact-us/email).

## Contact Us:

- Visit: [cef.aberdeen-asset.us](http://cef.aberdeen-asset.us);
- Watch: [www.aberdeen-asset.us/aam.nsf/usclosed/aberdeentv](http://www.aberdeen-asset.us/aam.nsf/usclosed/aberdeentv);

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- Email: [Investor.relations@aberdeenstandard.com](mailto:Investor.relations@aberdeenstandard.com); or
- Call: 1-800-522-5465 (toll-free in the U.S.).

Yours sincerely,

**Alan Goodson**  
President



## Report of the Investment Manager (unaudited)

## Market/economic review

In the year under review, Japanese equities performed well earlier in the period, buoyed by the longest economic growth streak in 28 years. However, in recent months, as US President Trump's "America First" rhetoric has grown more strident and fears have risen of a global slowdown, equity markets in Japan and elsewhere have faced increasing volatility. In Japan, economic growth has stalled, with third quarter GDP falling 2.5% on an annualised basis as capital investment in a number of key sectors has been put on hold. The uncertainty surrounding the Chinese economy's slowdown and the impact of an increase in trade disputes has hurt Japanese corporates, many of which have had a growing presence in the mainland in recent years.

## Fund performance

Aberdeen Japan Equity Fund returned -11.67% on a net asset value basis for the year ended October 31, 2018, and underperformed the -4.13% return of its benchmark, the Tokyo Stock Price Index (TOPIX). In broad terms, the portfolio has been focused on high quality, manufacturing companies with an international bias, often technology related. The share prices of these companies have suffered a recent set back although these are the very same companies that have performed well in the past on the back of their successful expansion plans.

Our focus on high quality companies narrowed the field to a range of businesses commanding market-leading positions that are also able to compete globally. In the industrials sector, where Japan excels, this has led us to a combination of companies with products that are integral to global supply chains, which indirectly have substantial exposure to China. Similarly in technology, we are invested in companies that benefit from increasing use of chips in a variety of applications, but which are, again, reliant on a globalized supply chain. The stock market valuations of these companies have suffered in the current climate and were the chief cause of the Fund's relative underperformance versus the benchmark index this fiscal year. In many cases, the underlying businesses remain robust and the medium term prospects are sound, although, in the throes of a trade war, these businesses are not without risk especially while investor sentiment remains negative. Elsewhere, the Fund's holdings in the healthcare sector, where we favor companies with innovation or that manufacture niche medical devices, have fared well. These companies are well positioned to benefit from the long-term trend of ageing populations, both domestically and overseas.

At the stock level, industrial producer Nabtesco's shares fell due to a decline in orders and a softer outlook for the robotics industry. The company also posted relatively lackluster corporate results that contrasted with robust results in 2017. However, we maintain our positive view about Nabtesco's prospects, particularly as it holds a

60% global share for precision-reduction gears used in the manufacture of industrial robots. The Fund's holding in Renesas Electronics Corp., a supplier of semiconductors used in automobiles, industrial equipment and broad-based applications, performed poorly due to worries of higher inventories. While inventory adjustments may continue in the short term, we believe that the company's medium-term prospects appear sound, given its wide technological moat<sup>1</sup> and market-leading technology, backed by favorable longer-term trends. We believe that Renesas Electronics Corp.'s recent acquisition of U.S.-based Integrated Device Technology is not only a good fit, but also extends the company's product suite. The position in Suruga Bank was also a notable detractor from the Fund's performance. The company's shares declined sharply amid reports about its approval of loans based on falsified applications and accompanying regulatory attention and we sold the Fund's position in May 2018.

Our holding in cosmetics company Shiseido continued to benefit from its successful restructuring and solid demand for its high-end cosmetics among Asian consumers. The position in Asahi Intecc Co. Ltd. also contributed positively as the medical device maker posted good results over the reporting period boosted by its rival's production issues. Asahi subsequently unveiled a five-year plan aimed at pursuing rapid market-share gains in existing markets, while adopting a direct-sales model in the U.S. and parts of Asia and Europe. In our opinion, the company has a robust and innovative two-year product pipeline and will develop new catheters for gastro-intestinal and robotic uses through its in-house research and development, as well as via co-development. The Fund's

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position in pharmaceutical firm Shionogi Inc. performed well as its flu drug, Xofluza, received U.S. regulatory approval two months ahead of expectations. The company also reported positive phase 3 trial<sup>2</sup> results for its once-a-month HIV treatment.

### **Fund activity**

We initiated a holding in drugstore operator Welcia Holdings, a subsidiary of retail group Aeon. Welcia has continually posted above-industry average growth rates for both customer spending and traffic through its tailored stores, the use of promotions, and a dedicated focus on in-store pharmacies, a structural trend stemming from Japan's ageing society. The company also has a solid track record in mergers and acquisitions and subsequently, in improving the profitability of acquired stores. With the drugstore segment still comparatively more fragmented than other retail formats in Japan, we think that more dominant players, such as Welcia, are able to target opportunistic acquisitions. We believe that this should continue to complement its organic growth. Other new additions to the Fund over the reporting period include Yamaha Corp. and Coca-Cola Bottlers Japan Holdings Inc. Yamaha Corp. has narrowed its business focus to only musical instruments, where it has a solid global market share, and audio equipment, given its competitive edge in sound-synthesis





## Report of the Investment Manager (unaudited) (concluded)

technology, after years of difficult restructuring. We anticipate that Yamaha Corp. should be in a good position to benefit from healthy market growth in developed and emerging markets, even as it continues to restructure its production facilities. Additionally, the company has been gradually unwinding its cross-shareholdings<sup>3</sup> and returning the proceeds to shareholders. Coca-Cola Bottlers Japan Holdings Inc. was formed from the merger between the country's two largest bottlers in 2017. The company has introduced international best practices to its operations, including the streamlining of its logistics footprint to increase profitability, while also prioritizing shareholder returns.

We exited the Fund's positions in sporting-goods retailer ASICS Corp., as its operating environment became increasingly challenging, and in pharmaceutical firm Astellas Pharma due to the threat of looming expiring patents or competition for core drugs, and a lack of promising treatments in the pipeline. We sold the Fund's shares in property development and management company Mitsubishi Estate Co. Ltd. We also exited the position in construction company Sekisui House after revelations of a fraudulent land purchase and a subsequent boardroom coup. Both of these issues raised our concerns about the company's internal controls and damaged our confidence in management.

## **Outlook**

In the near term, we expect continued volatility to be a feature as external concerns continue to weigh on investor sentiment. However, we believe that the long term investment themes in Japan remain intact and that the Fund is well positioned to benefit from these. We continue to focus our in depth, fundamental research efforts on identifying companies which are world class leaders in their field, many of which are to be found in Japan.

## ***Aberdeen Standard Investments (Asia) Limited***

***(formerly Aberdeen Asset Management Asia Limited)***

## **Risk Considerations**

Past performance is not an indication of future results.

International investing entails special risk considerations, including currency fluctuations, lower liquidity, economic and political risks, and differences in accounting methods. Concentrating investments in the Japan region subjects the Fund to more volatility and greater risk of loss than geographically diverse funds.

Equity stocks of small and mid-cap companies carry greater risk, and more volatility than equity stocks of larger, more established companies.



1 Cross-shareholding refers to two or more publicly traded corporations owning stock in each other.

4 Aberdeen Japan Equity Fund, Inc.

## Total Investment Return (unaudited)

The following table summarizes the average annual Fund total investment return compared to the TOPIX, the Fund's benchmark, for the 1-year, 3-year, 5-year and 10-year periods as of October 31, 2018.

	1 Year	3 Years	5 Years	10 Years
Net Asset Value (NAV)	-11.7%	4.4%	6.2%	7.0%
Market Price	-15.2%	4.1%	5.0%	5.9%
TOPIX Index	-4.1%	6.4%	5.8%	7.4%

*Returns represent past performance. Total investment return at NAV is based on changes in the NAV of Fund shares and assumes reinvestment of dividends and distributions, if any, at market prices pursuant to the dividend reinvestment program sponsored by the Fund's transfer agent. All return data includes fees charged to the Fund, which are listed in the Fund's Statement of Operations under Expenses. The Fund's total investment return is based on the reported NAV on each financial reporting period end. Total investment return at market value is based on changes in the market price at which the Fund's shares traded on the NYSE during the period and assumes reinvestment of dividends and distributions, if any, at market prices pursuant to the Fund's dividend reinvestment program. Because the Fund's shares trade in the stock market based on investor demand, the Fund may trade at a price higher or lower than its NAV. Therefore, returns are calculated based on both market price and NAV.*

**Past performance is no guarantee of future results.** *The performance information provided does not reflect the deduction of taxes that a stockholder would pay on distributions received from the Fund. The current performance of the Fund may be lower or higher than the figures shown. The Fund's yield, return, market price and NAV will fluctuate. Performance information current to the most recent month-end is available at [www.aberdeenjeq.com](http://www.aberdeenjeq.com) or by calling 800-522-5465.*

*The net operating expense ratio based on the fiscal year ended October 31, 2018 was 0.81%.*





## Top Ten Equity Holdings (unaudited)

The following were the Fund's top ten equity holdings as of October 31, 2018:

<b>Name of Security</b>	<b>As a Percentage of Net Assets</b>
Shin-Etsu Chemical Co. Ltd.	5.0%
Keyence Corp.	4.3%
Shionogi & Co. Ltd.	3.9%
Sysmex Corp.	3.9%
Daikin Industries Ltd.	3.5%
Seven & i Holdings Co. Ltd.	3.4%
Pigeon Corp.	3.4%
Chugai Pharmaceutical Co. Ltd.	3.2%
KDDI Corp.	3.0%
Shiseido Co. Ltd.	3.0%

## Portfolio Composition (unaudited)

The following table summarizes the sector composition of the Fund's portfolio, in Standard & Poor's Global Industry Classification Standard (GICS), expressed as a percentage of net assets. The GICS structure consists of 11 sectors, 24 industry groups, 69 industries and 158 sub-industries. As of October 31, 2018, the Fund did not have more than 25% of its assets invested in any single industry or industry group. The sectors, as classified by GICS Sectors, are comprised of several industries. As of October 31, 2018, the Fund held 98.7% of its net assets in equities, 0.0% in a short-term investment and 1.3% in other assets in excess of liabilities.

<b>Sectors</b>	<b>As a Percentage of Net Assets</b>
Consumer Staples	19.6%
Industrials	18.5%
Consumer Discretionary	16.0%
Health Care	15.0%
Information Technology	10.2%
Materials	8.7%
Communication Services	4.8%
Financials	4.5%
Real Estate	1.4%
Short-Term Investment	%
Other Assets in Excess of Liabilities	1.3%
	100%



Amounts listed as      are 0% or round to 0%.

6      Aberdeen Japan Equity Fund, Inc.

## Portfolio of Investments

As of October 31, 2018

	Shares or Principal Amount	Value
<b>LONG-TERM INVESTMENTS 98.7%(a)</b>		
<b>COMMON STOCKS 98.7%</b>		
<b>JAPAN 98.7%</b>		
<b>Communication Services 4.8%</b>		