

July 2022

Investment Objective: To achieve capital growth through investing in a focused portfolio of over-capitalised small-cap Japanese equities. Asset Value Investors will leverage its three decades of experience investing in asset-backed companies to engage with company management and help to unlock value in this under-researched area of the market.

HEADLINES

Shin-Etsu Polymer

Over the quarter ending June 2022, Shin-Etsu Polymer grew sales and EBIT by +20% and +55% YoY respectively, beating analysts' expectations by +5% and +13%.

[Read more below](#)

Trading

We started building a position in a new company which has investment securities and net cash accounting for 173% of its market cap.

[Read more below](#)

PERFORMANCE¹

(Figures to 31 July 2022)

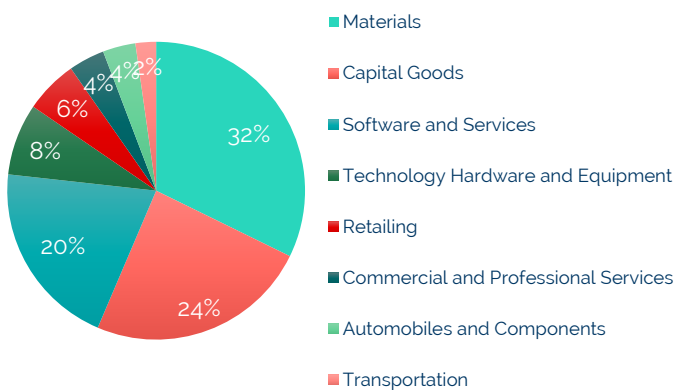
Share Price (pence)	112.0
NAV (pence)	117.4
Premium / (Discount)	-4.6%

	Month	2022 YTD	Since Inception*
AJOT Share Price	8.1%	-2.7%	20.3%
AJOT NAV	8.3%	-2.3%	24.0%
MSCI Japan Small Cap	4.9%	-3.7%	5.6%

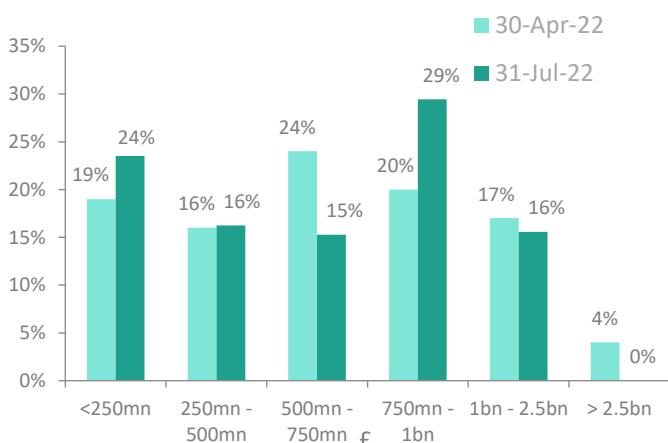
Cumulative Return	1 mo	3 mo	6 mo	1 yr	3 yr
AJOT Share Price	8.1%	3.5%	0.7%	1.2%	7.0%
AJOT NAV	8.3%	7.3%	5.5%	8.4%	15.4%
MSCI Japan Small Cap	4.9%	4.0%	0.7%	-5.3%	0.5%

THE FUND

Sector Breakdown (% of Portfolio)



Market Cap Breakdown (% of Portfolio)



Top Ten Equity Holdings % of NAV

Holding	30-Apr-22	Holding	31-Jul-22
Wacom	8.8	DTS	9.7
DTS	8.7	T Hasegawa	9.5
T Hasegawa	8.5	Wacom	7.8
NS Solutions	6.3	Shin-Etsu Polymer	7.4
C Uyemura	6.0	NS Solutions	5.9
Fujitec	5.5	NC Holdings	5.4
Shin-Etsu Polymer	5.5	Konishi	5.4
Digital Garage	5.4	Fujitec	5.2
Konishi	4.5	Locondo	4.5
NC Holdings	4.3	Digital Garage	4.5
TOTAL	63.5	TOTAL	65.3
% Gearing	1.8%	% Gearing	0.5%
No. of Holdings	25	No. of Holdings	27

MANAGER'S COMMENT

AJOT's NAV increased by +8.3% over the month, aided slightly by a +1.7% strengthening in the Japanese Yen. The strong performance was broad-based across the portfolio, with only one company, Fujitec, detracting from returns.

The ruling LDP coalition solidified its position by comfortably winning a majority in the upper house elections, a vote that was overshadowed by the shocking and tragic assassination of former Prime Minister Shinzo Abe at the start of the month. Inflation in June ticked slightly higher to a still manageable 2.4% (headline CPI) with no change to the BoJ's expansionary monetary policy. Encouragingly, the Government reaffirmed their support for continued corporate governance improvements with the Ministry of Economy, Trade and Industry (METI) revising its Corporate Governance Guidelines, highlighting that Japanese companies generally lack skills in corporate finance and strategy formulation, recommending companies appoint more external board members with capital markets experience.

Trading activity was limited over the month, with trades made in only three positions. We exited a small position we had started building at the end of May after its share price ran away from us, added modestly to our holding in Konishi which has been a relative laggard and started building a position in a new company which has investment securities and net cash accounting for 173% of its market cap.

On the back of the strong performance, the EV/EBIT of the portfolio increased from 5.7x to 6.6x, a still remarkably low level with net cash and investment securities on average covering 57% of our companies' market caps. With the market volatility, we have a fertile universe in which to find new ideas and expect to deploy our gearing more aggressively toward the end of the year. With compelling opportunities and management teams more willing to listen and enact our ideas, we remain excited about the portfolio's ability to continue outperforming.

DTS was the largest contributor over the month and now comfortably the largest over the year. Its +11.8% share price return during July, which added 123bps to performance, came ahead of strong results released on the last day of the month. Sales and EBIT grew +16% and +13% YoY respectively, while orders received grew +25%. Trading on a 3.4% dividend yield coupled with a share buyback program to repurchase 4.1% shares this year and strong earnings growth, DTS' 9.2x EV/EBIT multiple vs. peers which trade on over 12x seems unjustified. We're still excited about the potential upside and continue to engage with management as the largest shareholder.

The first company reporting results for the quarter ending June 2022 was **Shin-Etsu Polymer**, whose +16.2% share price return over the month made it the second-largest contributor and added 122bps to performance. Shin-Etsu Polymer is the listed subsidiary of Shin-Etsu Chemical. Beyond the prospect of a buyout by Shin-Etsu Chemical, our interest in Shin-Etsu Polymer stems from its low valuation (5.7x EV/EBIT) and its growing wafer carrier cases business. Over the quarter ending June 2022, Shin-Etsu Polymer grew sales and EBIT by +20% and +55% YoY respectively, beating analysts' expectations by +5% and +13%. Growth was driven by successful price increases and strong volume growth in the wafer carrier cases business. Our investment in Shin-Etsu Polymer is a good example of where we are positioned for an event, but not reliant on it, and can generate attractive returns from earnings growth and valuation rerating in the meantime

The only detractor over the month was **Fujitec**, whose -5.1% share price return reduced performance by 22bps. Over the month Fujitec's peer, Kone, reported bleak results. Sales for Asia fell -25%, the largest YoY fall of any quarter since 2009, and management painted a less than rosy picture for the remainder of the year. With China accounting for c.20% of Fujitec's operating profit after minorities, the negative read across weighed on the share price.

In the near term however, we expect the market to focus less on earnings and more on whether former President and Fujitec's founder's son, Mr Uchiyama can be ousted from the Company. Fujitec's largest shareholder, Oasis, has led a high-profile public campaign to oust him after highlighting decades of abusive related-party transactions. On what we think was an effort to conceal a low approval rating, one hour before the June 2022 AGM Fujitec withdrew the motion to nominate Mr Uchiyama as President, before reappointing him as Chairman after the AGM. We publicly spoke out against that decision and have been engaging with the Company in private.

MANAGER'S COMMENT

If Mr Uchiyama is successfully removed, the chances of Fujitec being taken private increase quite substantially. We estimate a privatisation event could occur at least +40% higher than the current share price, which explains why Fujitec's share price has held up relatively well in 2022, increasing by +15%, while peers (Kone, Schindler and Otis) have fallen on average by -12%. Fujitec is a top-ten holding but we have refrained from adding to our position as we don't think the share price fully reflects the risk of a prolonged slowdown in Chinese construction. Still, with Fujitec accounting for 5.2% of AJOT's NAV, we are well positioned for a privatisation event should it occur and, in the meantime, will look to continue to work with management to maximise corporate value as a listed company.

As laid out in AJOT's prospectus, four years after launch shareholders who wish to exit will be given an opportunity to do so at close to NAV. The rationale behind including this clause was to ensure that if the original investment thesis did not generate the expected returns, or if circumstances had changed to make Japan unattractive, then Shareholders would not be penalised for wishing to exit. AJOT has generated better than market returns and there is still an abundance of compelling opportunities. Given the share price is trading at or close to NAV, we hope that any Shareholders who wish to exit will be able to sell their shares in the secondary market, without AJOT needing to incur the expense of a more complicated mechanism. Nonetheless, AJOT's joint placing agents Singer Capital Markets and Kepler Partners will be consulting Shareholders over the coming months to canvass opinions about a possible exit and as detailed in the Prospectus, a strategy will be developed based on the demand, underlying liquidity of our investments and the other factors mentioned. The results of the consultation will be reported in October 2022.

Fund Facts

Launch Date	23 October 2018
Net Assets	£156.9m
Investment Manager	Asset Value Investors Limited
AJOT Shares owned by the Manager***	2,310,096
Shareholder Services	Link Asset Services
Management Fee**	1.0% of lower of market cap or NAV
Website	www.ajot.co.uk
Ticker Code	AJOT.LN
ISIN	GB00BD6H5D36

¹ All performance shown in GBP Total Return
^{*} 23 October 2018 Start Date

^{**} 25% of Management Fee to be reinvested in shares of AJOT

^{***} Shares owned by AVI Ltd & AVI employees

Investment Manager – Joe Bauernfreund, AVI Ltd.

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The share price can be found under 'INVESTMENT COMPANIES' in The Financial Times.

Information may be found on the following websites:

www.ajot.co.uk

www.assetvalueinvestors.com

IMPORTANT INFORMATION

All figures are as at the period under review unless otherwise stated. All sources Asset Value Investors Ltd ("AVI") unless otherwise stated. AVI is authorised and regulated by the Financial Conduct Authority of the United Kingdom (the "FCA") and is a registered investment adviser with the Securities and Exchange Commission of the United States. While AVI is registered with the SEC as an investment adviser, it does not comply with the Advisers Act with regard to its non-U.S. clients. This document does not constitute an offer to buy or sell shares in AVI Japan Opportunity Trust plc (the "Trust"). The contents of this message are not intended to constitute, and should not be construed as, investment advice. Potential investors in the Trust should seek their own independent financial advice. AVI neither provides investment advice to, nor receives and transmits orders from, investors in the Fund.