

August 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

## DTS

DTS was the largest contributor over the month, with its share price reacting well to first-quarter results, as sales and EBIT grew +16% and +13% YoY respectively, adding 74bps to returns.

[Read more below](#)

## Exit Opportunity

At the launch of AJOT in October 2018, the Prospectus stated that the Directors may, at their discretion and depending on demand, offer a full or a partial exit opportunity to Shareholders in October 2022 and every two years thereafter.

[Read more below](#)

PERFORMANCE<sup>1</sup>

(Figures to 31 August 2022)

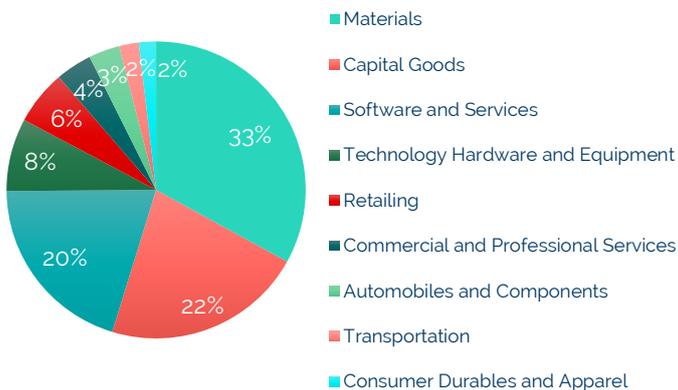
Share Price (pence)	115.5
NAV (pence)	118.9
Premium / (Discount)	-2.9%

	Month	2022 YTD	Since Inception*
AJOT Share Price	1.4%	-1.4%	22.0%
AJOT NAV	1.3%	-1.0%	25.6%
MSCI Japan Small Cap	2.6%	-1.3%	8.3%

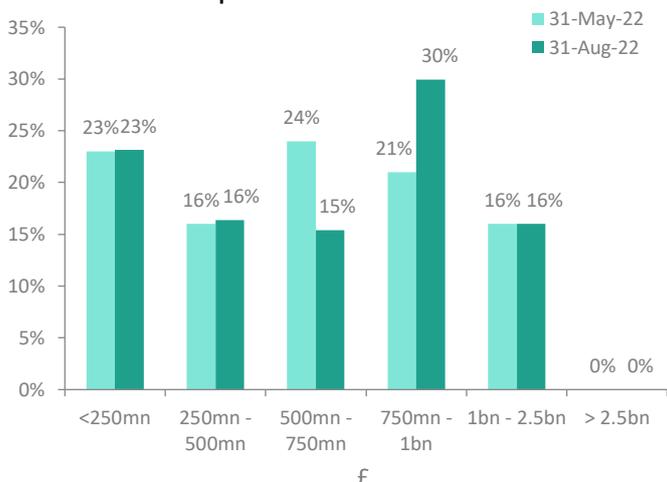
Cumulative Return	1 mo	3 mo	6 mo	1 yr	3 yr
AJOT Share Price	1.4%	5.5%	4.4%	4.1%	23.0%
AJOT NAV	1.3%	5.6%	4.6%	4.2%	23.2%
MSCI Japan Small Cap	2.6%	6.1%	1.7%	-6.5%	3.5%

## THE FUND

## Sector Breakdown (% of Portfolio)



## Market Cap Breakdown (% of Portfolio)



## Top Ten Equity Holdings % of NAV

Holding	31-May-22	Holding	31-Aug-22
DTS	9.2	DTS	10.3
Wacom	8.9	T Hasegawa	9.4
T Hasegawa	8.1	Wacom	8.1
Shin-Etsu Polymer	6.3	Shin-Etsu Polymer	7.2
NS Solutions	6.0	Konishi	5.8
C Uyemura	5.3	NS Solutions	5.7
Fujitec	5.0	Fujitec	5.2
NC Holdings	4.9	NC Holdings	5.1
Digital Garage	4.7	Locondo	4.8
Konishi	4.6	C Uyemura	4.5
<b>TOTAL</b>	<b>63.0</b>	<b>TOTAL</b>	<b>66.1</b>
% Gearing	100.1%	% Gearing	101.9%
No. of Holdings	26	No. of Holdings	26

## MANAGER'S COMMENT

Over the month, our companies finished reporting earnings. Weighted operating profits grew in aggregate by +2% year-on-year, lagging sales growth of +11%. Over two-thirds of the companies in the portfolio saw margins decline year-on-year which was expected given price increases lag cost pressures. However, we are seeing promising signs that our companies have been better able to pass on cost increases than in the past, as Japanese customers and consumers are accepting the inevitability of the first real inflation since the early 1990s. In fact, we've found that some companies have been surprised by their ability to increase prices. Shin-Etsu Polymer is a case in point, seeing sales and profits rise +20% and +55% YoY respectively during its first quarter.

The economic backdrop, however, has little bearing on our engagement activity. Regardless of business conditions, companies should be striving to maximise shareholder value, optimise balance sheets and strengthen corporate governance. We have been busy preparing for our upcoming trip to Tokyo in September, where the focus will be on engagement, meeting with the Presidents or Chairmen of six of our top ten portfolio companies.

**DTS** was the largest contributor over the month, with its share price reacting well to first-quarter results, as sales and EBIT grew +16% and +13% YoY respectively, adding 74bps to returns. Orders received also leapt +25% YoY boding well for continued earnings growth. DTS has been a successful investment, with our thesis premised on increasing demand for IT investment and an underappreciation by the market of DTS' growth prospects. We acquired a 10% stake in the Company across AVI's funds, and have been engaging privately on various topics. Bar a few minor points, all our suggestions were accepted and included in a comprehensive mid-term plan announced in May. Since the announcement, DTS' share price has appreciated by +17% vs +7% for MSCI Japan Small Cap, and year to date is up +45% vs +2% for MSCI Japan Small Cap. DTS' valuation, albeit less compelling than when we initiated the position, is still attractive with the shares trading on an EV/EBIT multiple of 10x vs peers on 14x. We believe that as the company executes on its plan to double EBITDA by 2030 and return up to 28% of its market cap to shareholders, there is still further upside.

**SK Kaken**, the leading architectural paints manufacturer in Japan, contributed 43bps to returns with its share price rising +11%. SK Kaken has been a laggard this year with its share price falling -2%, as cost pressures and a lack of progress on shareholder returns weighed on the share price. Our engagement with SK Kaken has been frustrating, and despite submitting shareholder proposals for two years in a row and achieving a majority of minority support, the 90-year-old Founder Chairman, has stubbornly resisted any reform. It is a shame that such a wonderful company is being held back, however, were something to change there is considerable upside. SK Kaken trades on a -0.9x EV/EBIT multiple with net cash covering 105% of the market cap. Were it to trade on a 10.0x multiple (its peers trade even higher), the share price would be 98% higher. While the prospects for a change to the status quo are low, as SK Kaken continues to grow its corporate value year on year, and considering the quantum of the upside, we can afford to be patient.

**Tokyo Radiator**, the listed subsidiary of Marelli, saw its share price fall -11% detracting 17bps from returns. Operating performance has been lacklustre with the Company reporting an operating loss for the fourth quarter in a row. Our investment in Tokyo Radiator was predicated on the possibility of a corporate takeover, and since March, when it was rumoured that Marelli would be looking to dispose its 40% stake, that has been the market's focus. Since then, news on the sale has been scant, as negotiations between Marelli and its creditors to restructure its substantial debts, have suffered from a series of delays. Although Tokyo Radiator's operating outlook is not especially rosy, net cash covers 99% of the market cap, and it could make an appealing bolt-on acquisition for a trade buyer. In the meantime, as the largest minority shareholder, we are continuing to engage with management on a variety of topics.

## MANAGER'S COMMENT

The largest detractor, taking 68bps from performance, with a share price decline of -14%, was **NC Holdings**. The decline was not fundamentally driven, with the Company reporting respectable first-quarter earnings. We took advantage of the weakness and added to our position, and at the time of writing, own a 19% stake in the business.

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At the launch of AJOT in October 2018, the Prospectus stated that the Directors may, at their discretion and depending on demand, offer a full or a partial exit opportunity to Shareholders in October 2022 and every two years thereafter.

In the July Factsheet it was noted that given the share price was trading at, or close to, NAV the Board hoped that any Shareholders wishing to exit would be able to sell their shares in the secondary market, without AJOT and exiting Shareholders incurring the expense of a more complicated mechanism. Since then, the share price has continued to trade at close to NAV. The Company and its joint placing agents have consulted with the largest institutional and private wealth shareholders, representing a significant majority of the shares in issue, who expressed an opinion stating that they would be supportive of the Company forgoing the administrative burden and expense of an Exit Opportunity. The next Exit Opportunity will be put to Shareholders in two years' time.

It is pleasing to see support from shareholders, and we plan to continue building on AJOT's success over the coming years. With a fertile investment universe, expanded team and more receptive environment for shareholder engagement we are optimistic that the next four years can be as fruitful as the last four.

Fund Facts	
Launch Date	23 October 2018
Net Assets	£163.4m
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

<sup>1</sup> All performance shown in GBP Total Return  
<sup>\*</sup> 23 October 2018 Start Date  
<sup>\*\*</sup> 25% of Management Fee to be reinvested in shares of AJOT  
<sup>\*\*\*</sup> 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](http://www.ajot.co.uk)  
[www.assetvalueinvestors.com](http://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.