

October 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

Trading

Over the month, our net gearing increased from -0.1% to 5.4% as we built positions in two new companies which ended the month with weights of 3.6% and 5.2%.

[Read more below](#)

Konishi

Japan's leading adhesive and civil engineering company, Konishi, was the largest contributor to returns with a +12% share price return adding 36bps to performance.

[Read more below](#)

PERFORMANCE¹

(Figures to 31 October 2022)

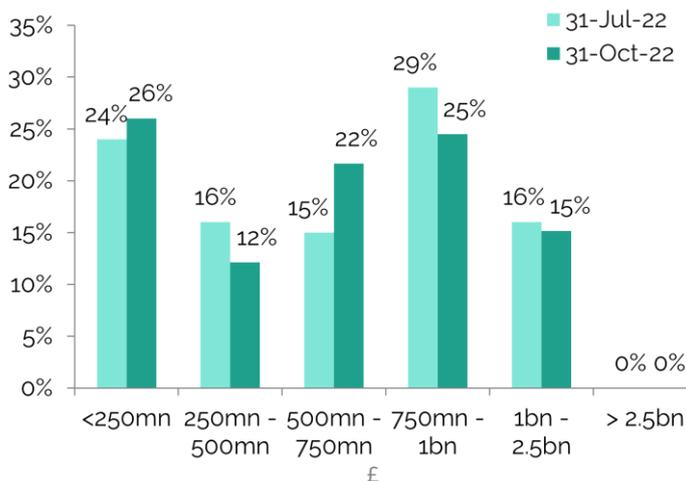
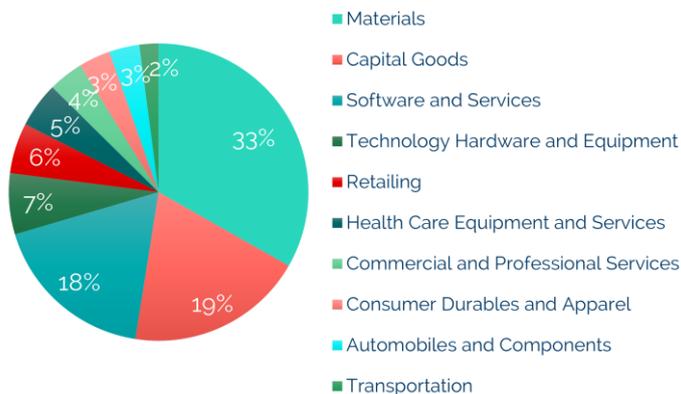
Share Price (pence)	106.8
NAV (pence)	109.6
Premium / (Discount)	-2.6%

	Month	2022 YTD	Since Inception*
AJOT Share Price	-1.4%	-10.6%	9.5%
AJOT NAV	-2.5%	-8.1%	16.6%
MSCI Japan Small Cap	-3.1%	-7.7%	1.3%

Cumulative Return	1 mo	3 mo	6 mo	1 yr	3 yr
AJOT Share Price	-1.4%	-7.1%	-0.7%	-9.5%	6.6%
AJOT NAV	-2.5%	-5.9%	0.9%	-3.2%	10.1%
MSCI Japan Small Cap	-3.1%	-4.1%	-0.3%	-10.6%	-5.9%

THE FUND

Sector Breakdown (% of Portfolio)



Top Ten Equity Holdings % of NAV

Holding	31-Jul-22	Holding	31-Oct-22
DTS	9.7	DTS	9.5
T Hasegawa	9.5	T Hasegawa	9.3
Wacom	7.8	Konishi	7.1
Shin-Etsu Polymer	7.4	Wacom	7.0
NS Solutions	5.9	Shin-Etsu Polymer	6.9
NC Holdings	5.4	NC Holdings	6.1
Konishi	5.4	Fujitec	5.6
Fujitec	5.2	NS Solutions	5.3
Locondo	4.5	Nihon Kohden	5.2
Digital Garage	4.5	C Uyemura	4.8
TOTAL	65.3	TOTAL	66.8
% Gearing	0.5	% Gearing	5.4
No. of Holdings	27	No. of Holdings	25

MANAGER'S COMMENT

A rather glum NAV return of -2.5% for the month masked what was a respectable return in Japanese Yen of +3.2%. Japan's core CPI reached 3.0% in September, the highest since 1991 after adjusting for consumption tax rises. The Bank of Japan's unwillingness to adapt its yield control policy in the face of inflation and rising global rates continues to weigh on the Yen. While our investment decisions are not predicated on the direction or timing of a Yen recovery, we don't believe the status quo is sustainable and should the BoJ change its policy, a strengthening Yen would be a huge boon to returns.

Over the month, our net gearing increased from -0.1% to 5.4% as we built positions in two new companies which ended the month with weights of 3.6% and 5.2%. We have been raising cash from investments whose share prices have been pushing new highs, but we are comfortable with the higher gearing, which has room for a further modest increase. At the end of the month, the EV/EBIT of the portfolio was 5.8x while NFV as % of the market cap was 60%.

Japan's leading adhesive and civil engineering company, **Konishi**, was the largest contributor to returns with a +12% share price return adding 36bps to performance. With rising raw material costs weighing on profits, we attribute the share price increase to Konishi receiving cash equivalent to 9% of its market cap from a previously announced sale of land in Tokyo. Cash and investment securities now account for 67% of Konishi's market cap.

We have been invested in Konishi since AJOT's launch and have added to the holding on share price weakness. We think the operating business is fantastic, with excellent management, a #1 market share in construction adhesives, and a growing civil engineering and electronic adhesives business. Despite its quality, Konishi trades on only a 3.3x EV/EBIT multiple. With a 5.5% stake across AVI funds, we have been engaging closely with management, putting forward a variety of suggestions to address the undervaluation. Although management has been slow to implement improvements, they are receptive to ideas on increasing the share price, and with shareholder proposals proposed by another shareholder at the last AGM, the pressure is only increasing. Konishi's peers trade on an EV/EBIT of 14.3x which, if achieved, would result in 100% upside. This severe mispricing justifies Konishi's place in the portfolio as our third largest holding.

Having been one of the largest detractors earlier in the year, **C Uyemura** was the second largest contributor over the month with a share price increase of +12% adding 27bps to returns. C Uyemura manufactures highly specialised plating chemicals used in a wide variety of semiconductor products, including chips used in electric vehicle production which the Company expects to grow at a CAGR of 20-25%. They have so far been resilient to cost pressures, successfully passing on higher metal prices to customers and maintaining a near 20% operating margin. The market seems to underappreciate the quality of C Uyemura's business, with its shares trading on an FCF yield of 8% and an EV/EBIT multiple of just 5.0x.

Our investment in **NS Solutions**, a leading IT service company, was the second largest detractor, with a -2% share price decline taking 41bps from performance. Towards the end of the month, NS Solutions reported results which were broadly in line with expectations, with a +3% increase in orders and +13% operating profit growth. Encouragingly, the Company began selling its stake in Recruit Holdings, something we have consistently suggested to management. Trading on an EV/EBIT multiple of 5.9x, one of the lowest in the industry, we are happy holders benefitting from the structural growth in IT services.

MANAGER'S COMMENT

Wacom was the largest detractor, with a share price decline of -9% reducing returns by 110bps. Wacom is the world's leading digital writing tablet manufacturer, with an estimated 60% market share, and boasting Disney and Samsung as customers. While Wacom's B2B business has been resilient with a growing customer base and higher adoption of digital pens, the consumer business has suffered from a demand-led slowdown. Combined with higher component costs, the consumer business is forecast to see full-year profits decline -92% which translates to an estimated fall in total profits of -54%. Understandably, the share price has fallen and is now down -28% year-to-date. However, our conviction in Wacom's technology and long-term growth potential is unchanged, and the market's myopic focus presents an opportunity to take advantage of the share price dislocation. Using normalised earnings, Wacom trades on an EV/EBIT multiple of only 6.2x, a remarkably low valuation considering Wacom's technology and structural growth tailwinds from the increased adoption of digital writing solutions. As a top three shareholder, we are working closely with management to address the recent underperformance and ensure efforts are being made to maximise shareholder value. Our estimated potential upside to the current share price is in the order of +100%.

Fund Facts

Launch Date	23 October 2018
Net Assets	£150.3m
Investment Manager	Asset Value Investors Limited
AJOT Shares owned by the Manager***	2,431,735
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.