

August 2021

**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

## Good month for performance

AJOT's NAV return of 5.5% was aided modestly by a 0.9% strengthening of the Yen.

[Read more below](#)

## Japanese Prime Minister will not run for re-election

We think the political change could offer a positive catalyst for the market.

[Read more below](#)
PERFORMANCE<sup>1</sup>

(Figures to 31 August 2021)

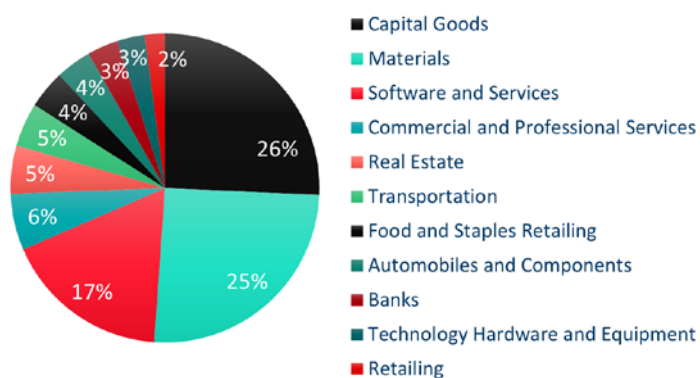
Share Price (pence)	115.0
NAV (pence)	115.6
Premium / (Discount)	-0.5%

	Month	Since Inception*	2021 YTD
AJOT Share Price	2.7%	15.0%	4.0%
AJOT NAV	5.5%	20.6%	6.8%
MSCI Japan Small Cap	3.9%	15.9%	4.1%

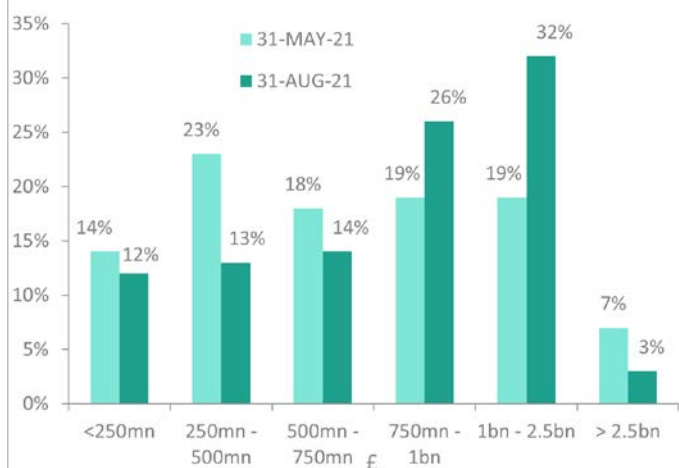
Cumulative Return	1 mo	2 mo	3 mo	6 mo	1 yr
AJOT Share Price	2.7%	2.7%	9.5%	9.6%	13.0%
AJOT NAV	5.5%	4.0%	12.6%	11.2%	14.6%
MSCI Japan Small Cap	3.9%	2.7%	6.7%	6.8%	14.9%

## THE FUND

## Sector Breakdown (% of Portfolio)



## Market Cap Breakdown (% of Portfolio)



## Top Ten Equity Holdings % of NAV

Holding	31-MAY-21	Holding	31-AUG-21
DTS	7.5	T Hasegawa	8.2
Fujitec	7.4	Fujitec	7.7
Digital Garage	6.5	DTS	6.9
Secom Joshinetsu	5.9	Digital Garage	6.7
C Uyemura	5.8	Pasona Group	6.3
SK Kaken	5.3	C Uyemura	5.6
T Hasegawa	5.2	Daibiru	5.3
Pasona Group	4.9	SK Kaken	5.2
Kato Sango	4.5	NS Solutions	4.8
NS Solutions	4.3	Konishi	4.3
<b>TOTAL</b>	<b>57.3</b>	<b>TOTAL</b>	<b>61.0</b>
% Gearing	109.6	% Gearing	106.2
No. of Holdings	29	No. of Holdings	27



## MANAGER'S COMMENT

It was a good month for performance, with a NAV return of 5.5%, aided modestly by a 0.9% strengthening of the Yen. Over the month our companies finished reporting results for the quarter ending June 2021. On a trailing twelve-month basis, profits are now +6% above where they were pre-COVID, while those of the MSCI Japan Small Cap index are -4% lower. Profits for the last quarter alone grew +53% YoY, albeit with an easy comparison – solidifying the strong recovery.

**Pasona** was the most significant contributor over the month, adding 117bps to performance with an increase in share price of +20%. The main driver was a +23% share price return from its 50% stake in Benefit One, which accounts for 320% of Pasona's market cap. Investors are heavily focused on Pasona's stake in Benefit One, but we think they are overlooking the improved profitability of Pasona's core businesses – which reported their highest ever operating profits. Pasona trades on a 77% discount to our estimated fair value. As an illustration of the scale of the undervaluation, we'd stand to gain +22% if the discount narrowed just 5% and, although unlikely, +335% were the discount to be eliminated. Needless to say, the upside is stacked in our favour.

Long-time contributor **Fujitec** was the 2<sup>nd</sup> largest contributor with a share price return of +12% adding 90bps. It reported knock-out earnings, with year on year operating profit growth of +163% with profits now +94% vs the same quarter pre-COVID. Fujitec's efforts to narrow its margin gap to peers are starting to bear fruit. Gross profit margins over the past twelve months came in at the highest in Fujitec's history, just shy of 25% and comfortably above the 21% long-term average. Over two years, Fujitec's share price has increased by +130%, yet still trades on only a 12x EV/EBIT multiple compared to global peers on 25x. We believe there is more upside to come.

Detractors were helpfully small with **Soft99** and **DTS** detracting only 15bps each. Soft99's +58% YoY profit growth was not enough to lift the share price after a strong run with a +21% return 2021 YTD vs 6.8% for the MSCI Japan Small Cap Index. Soft99 has responded remarkably well to COVID, expanding its product lines to include anti-fog glass spray, sponges used in PCR tests and anti-viral surface spray. We admire the quality of management, led by the youthful CEO, Tanaka-san. While they could do more on the capital efficiency front, its 0.7x EV/EBIT multiple means the company is astoundingly undervalued.

DTS, our third largest position, reported somewhat lacklustre results, having yet to return to pre-COVID levels of profitability. We are not overly concerned by this short-term weakness and are confident that DTS will benefit handsomely from the long-term structural growth of IT investment in Japan. Being an 8.9% shareholder (the largest), we frequently engage with the company on how to increase the share price. DTS have improved disclosure, introduced a share-based compensation scheme, and undertaken a more aggressive buyback. Over the last month we have held four meetings with DTS, including separate meetings with the President and an outside board member. We think we've gained management buy-in to our ideas on how to fix the undervaluation. It's now a matter of time while they execute. Given our expectations for strong earnings growth, we can afford to be patient.

Despite improved share price performance, the portfolio ended the month on the same 5x EV/EBIT multiple that it has traded at for the past four months, still representing exceptional value for a collection of high-quality businesses.

At the time of writing, the Japanese prime minister, Mr Suga, announced that he will not run for re-election in October. While too early to comment on who the successor might be and their likely policies, the corporate governance reform agenda remains heavily entrenched and we expect progress on that to continue. Over the past year Japan has lagged other stock markets, primarily due to the lack of progress on vaccines and continued social restrictions. We think the political change could offer a positive catalyst for the market and wouldn't be surprised to see an uptick in foreign capital flows, taking advantage of attractive valuations which are well supported by the strong earnings environment.



## FUND FACTS

## Fund Facts

Launch Date	23 October 2018
Net Assets	£152.9m
Investment Manager	Asset Value Investors Limited
AJOT Shares owned by the Manager***	1,852,669
Shareholder Services	Link Asset Services
Management Fee**	1.0% of lower of market cap or NAV
Website	<a href="http://www.ajot.co.uk">www.ajot.co.uk</a>
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.

+44 20 7659 4800 [info@ajot.co.uk](mailto:info@ajot.co.uk)

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.