Q4– December 2021

Investment Objective: To achieve capital growth through a focused portfolio of investments, particularly in companies whose share prices stand at a discount to estimated underlying net asset value.

	Net cash[1] as a percentage of market cap	NFV[2] as a percentage of market cap	EV/EBIT	FCF Yield	EV FCF Yield[3]	Dividend Yield
Q4 2021	40%	76%	5.1	5.4%	21.2%	1.8%
Q3 2021	39%	87%	4.9	4.8%	26.0%	1.9%
Q2 2021	38%	83%	5.0	4.6%	16.3%	2.0%
Q1 2021	43%	81%	4.8	4.9%	18.8%	2.0%

MANAGER'S COMMENT

Dear AJOT Shareholders,

Over the final quarter of 2021, AJOT's NAV returned +1.5%, despite a -3.4% weakening in the Yen, and our benchmark, the MSCI Japan Small Cap Index, falling -8.2%. That takes AJOT's 2021 NAV return to +10.0%, vs -1.4% for the MSCI Japan Small Cap Index and since inception (Oct-18) +26.9% vs +9.7%.

Performance this quarter was aided by a tender offer for Daibiru from its parent company at a 50% premium, but even aside from this, the portfolio performed well. There was a notable absence of significant detractors, and only three companies in the portfolio saw a share price return below our benchmark. The strong portfolio performance can, at least partially, be explained by buoyant earnings. Excluding investments that we initiated post earnings results, the companies in AJOT's portfolio saw an average YoY increase in operating profits of 18%; 12% higher than the same quarter pre-COVID.

Although the portfolio performed well, we continue to suffer from a deviation between share price and fundamental performance. While the headline EV/EBIT expanded from 4.8x to 5.3x, adjusting for portfolio trading the EV/EBIT valuation fell by 0.3x. Fujitec, T Hasegawa and NS Solutions accounted for almost the entirety of the valuation widening, as their share prices failed to keep up with strong earnings growth. In the case of Fujitec and T Hasegawa this was even more perplexing, as they both announced mid-term plans with ambitious three-year profit CAGR targets of 10% and 17% respectively.

Fujitec and T Hasegawa are just two examples of deeply undervalued companies in our portfolio that have failed to keep up with improving fundamentals. We expect that as our companies continue to prove their quality and growth outlook, the discounts between fundamental and share price value will narrow. At the same time, we will try to create the catalyst for discount narrowing, whether that be through public campaigns or identifying potential buyout opportunities. With a portfolio of quality companies, that have yet to rerate, 2022 looks to be an exciting year.

Daibiru – 5th buyout since AJOT launch

The tender offer for Daibiru at a 50% premium, added 174bps to returns making it the largest contributor over the quarter. Daibiru was a relatively new position for AJOT, entering the portfolio at the end of 2020 following a COVID-induced sell-off. It owns a collection of well-located office buildings in Tokyo and Osaka, and while masquerading as a property developer, its lack of sales activity made the Company more akin to a REIT (without the tax benefits). Poor corporate governance, an inefficient holding structure and the listed subsidiary relationship with Mitsui O.S.K. Line (MOL) meant Daibiru traded on a phenomenally wide (after-capital gains tax) discount of 50%. This was far wider than the single digit discounts of listed office REITs with similar portfolios.

Changing TSE listing rules, new leadership at both Daibiru & MOL and mention in MOL's rolling management plan that it will dispose of non-core business assets such as real estate, led us to believe that a privatisation event was a higher likelihood than assumed by the Market. Confident in Daibiru's undervaluation, quality and potential event, we built a near 1% stake in the Company and embarked on a private engagement campaign putting forward suggestions on how to address various issues, including corporate governance and the subsidiary listing structure.

While the quality of Daibiru's portfolio allowed us to be patient, it was pleasing that in just over a year of ownership MOL and Daibiru took the decision to collapse the subsidiary structure, with MOL offering a 50% premium to buy the 48% of the Company it didn't already own. The Y2,200 offer price, however, came at a 30% discount to Daibiru's published real estate value and followed a flawed negotiation process by Daibiru's board of directors. We launched a public campaign to raise awareness of how MOL was exploiting Daibiru, publishing our arguments on a dedicated website "www.assetvalueinvestors.com/stopexploitingdaibiru/".

[1] Net cash = Cash – Debt – Net Pension Liabilities + Value of Treasury Shares
[2] Net Financial Value (NFV) = Net cash + Investment Securities
[3] The effective free cash flow yield were non-core assets to be distributed

MANAGER'S COMMENT

With MOL owning 52% of Daibiru, and only needing 14% more shares to force a squeeze out, the prospects for successfully pressuring MOL to raise the price were slim. However, we felt a responsibility to challenge such an obviously flawed process and defend the rights of all minority shareholders. Our campaign gathered considerable attention, with several other shareholders voicing protest, both publicly and privately, and numerous articles published by the Japanese media sympathetic to our arguments.

Even in the absence of a higher offer price, we hope the publicity can be helpful for our engagement at other portfolio companies. Daibiru has been an excellent investment for AJOT, generating a total return of +74%, and an IRR of +84%.

Portfolio Activity

We have been consciously increasing the concentration of the portfolio, and the top ten now accounts for 66% of NAV, compared to 58% at the start of the year. We expect this to continue, albeit at a more modest pace.

The annualised portfolio turnover during the quarter was 31%, slightly below average. The largest sale was the **Bank of Kyoto**. We first invested in the Bank of Kyoto following positive rhetoric from the FSA and government surrounding the need to reform regional banks, along with public shareholder criticism on capital efficiency. While the Bank of Kyoto remains extremely undervalued, we felt there were better uses for our capital and we couldn't justify its position in an increasingly concentrated portfolio.

We started building a new position in **LOCONDO** and added to a relatively recent position in **Wacom**, the global number one graphics tablet company. LOCONDO's share price has fallen by -41% over the last year and we saw this as an opportune time to build a stake in a fast-growing, capital light, fashion ecommerce business. Despite the attractive business model LOCONDO trades on 8.5x trailing EV/EBIT with net cash covering 20% of the market cap. At the start of January, we publicly declared a 5.3% stake in the Company and hope to build a good relationship with management as the 2nd largest shareholder.

Q4 2021 Contributors and Detractors

As previously discussed, **Daibiru** was the largest contributor adding 174bps to returns, as it benefitted from a 50% premium tender offer from its parent company Mitsui OSK Lines.

Following closely behind was **C Uyemura** adding 169bps, with a price increase of +32%. C Uyemura has been a beneficiary of increased electronic demand, most notably from its exposure to semiconductors. It supplies plating chemicals needed for electrical conductivity in chips and circuit boards, with the main end products being smartphones and automobiles. Given both the granularity and sensitivity of electronic circuits C Uyemura's products are hard to replicate, which is why it has been able to achieve operating margins of more than 20% in its chemicals segment. Over the quarter C Uyemura reported H1 YoY profit growth of +64% and revised up its full year guidance by +43% to a record high, forecasting full year growth of +26%. C Uyemura trades on a 3.9x EV/EBIT and over 6% free-cash-flow yield (12% if it paid out all its cash). Despite releasing its first mid-term plan and committing to share buybacks, C Uyemura's valuation hasn't rerated, and the share price strength has been driven almost entirely by earnings growth. Considering the lowly valuation, strong earnings growth, and improved shareholder returns, we don't mind that C Uyemura has become a 7.0% weight and top five position.

NS Solutions was the largest detractor, with a -10% share price return taking 55bp from performance. Although its quarterly results were lacklustre, they were far from disastrous, with sales and profits growing 5% and 10% YoY, and would be higher than pre-COVID were it not for an especially difficult comparison period. Despite NS Solutions being a leader in digital IT solutions and well placed to benefit from increasing IT expenditure in Japan, its valuation has languished, hampered by an overcapitalised balance sheet and unambitious management team. Given its weak share price and growing profits, NS Solutions' EV/EBIT multiple fell from 8.6x to 7.0x over the quarter, making it one of the cheapest IT systems integrators in Japan. Last June we submitted shareholder proposals to NS Solution's AGM seeking a higher dividend, a share buyback and stock compensation. Since then, we have been engaging with both NS Solutions and its parent company, Nippon Steel, and intend to continue doing so ahead of next year's AGM. NS Solutions' valuation is remarkable for a company of its size (£2bn) and with strong growth prospects, we are happy to add to our position and increase its weight from the current 5%.

The second largest detractor was **Toagosei**, reducing returns by 50bp. The -11% share price fall was hard to pinpoint on anything fundamental. Already trading on a lowly 4.1x EV/EBIT at the start of the quarter, its valuation fell to 2.9x, with cash and listed investment securities now accounting for 66% of the market cap. Although Toagosei's strong results has been pre-guided, it reported YoY profit growth of +61%, +21% higher than the same level pre-COVID. Full year profits are expected to be at a record high (+46% YoY) and considering the strong oil price (Toagosei passes on price increases and therefore, has a positive profit correlation to commodity input prices) we expect that to continue.

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Potential Share Issuance

We continue to see an attractive investment environment and have identified six high conviction opportunities, comprising three new and three existing companies where AJOT could increase its position. To capitalise on these opportunities, we are exploring the most appropriate way of funding them, including a potential equity raise under the Company's existing authorities. Alongside this option we are considering the possibility of increasing gearing, and/or recycling of some of the existing portfolio. The six identified opportunities could account for up to 35% of AJOT's NAV, as the new capital is being sought to build large stakes to accelerate events and realise potential upside.

Quarterly Contributors / Detractors

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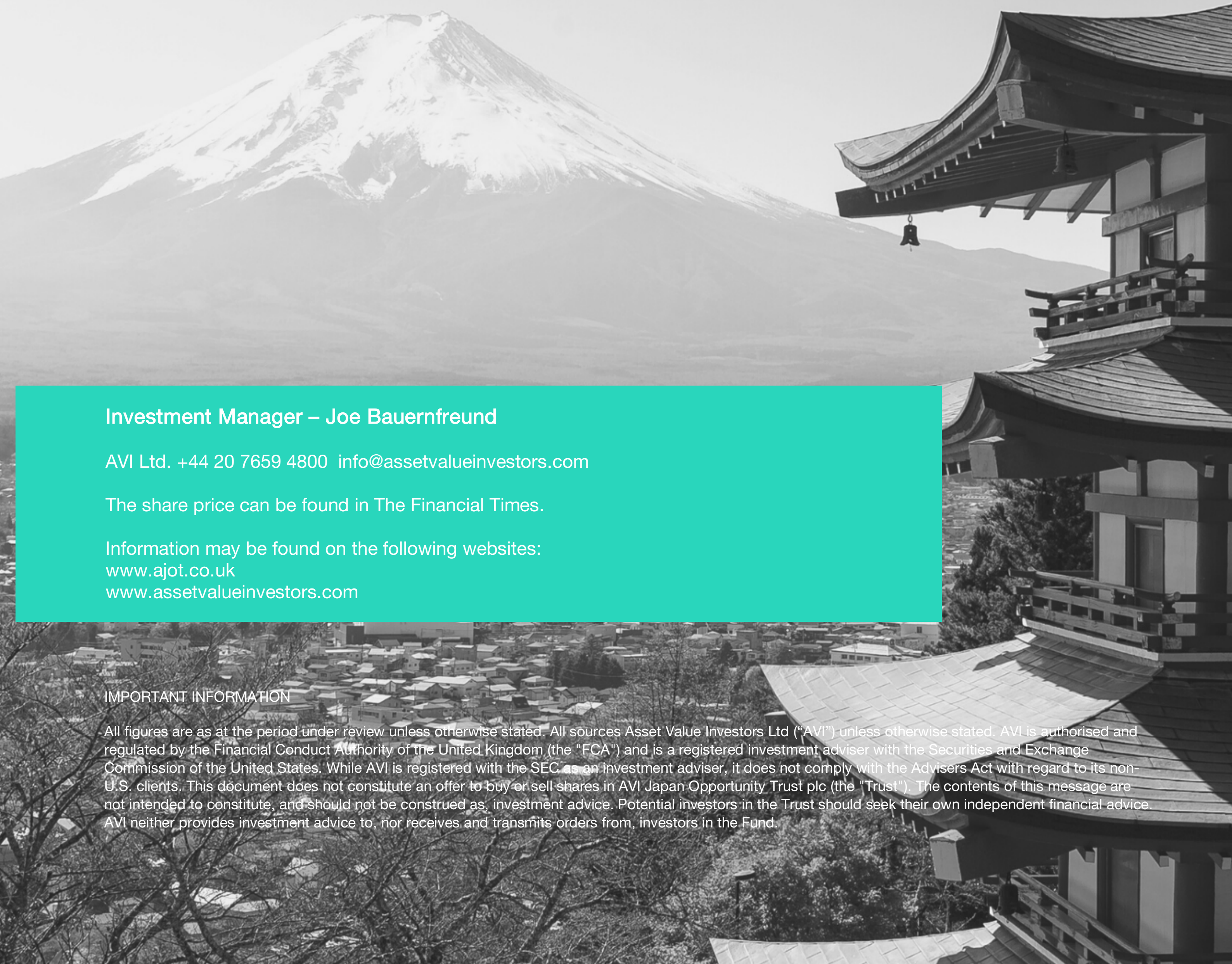
Largest Contributors	Quarterly Contribution bps	Percent of NAV
Daibiru	174	7.5
C Uyemura	172	7.0
Wacom	144	8.3

Largest Detractors	Quarterly Contribution bps	Percent of NAV
Digital Garage	-53	6.0
NS Solutions	-52	5.0
Toagosei	-50	3.2



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The share price can be found in The Financial Times.

Information may be found on the following websites:
www.ajot.co.uk
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