

January 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

Pasona's IPO catalysts

In January, Pasona announced its intention to IPO Circlace, a 43%-owned digital transformation ("DX") consulting firm, and received approval from the Tokyo Stock Exchange to IPO its wholly-owned subsidiary, Bewith.

[Read more below](#)

Fujitec engagement

We know other shareholders who privately agree with our views, and we hope our combined voices will be a powerful force for continued improvements.

[Read more below](#)
PERFORMANCE¹

(Figures to 31 January 2022)

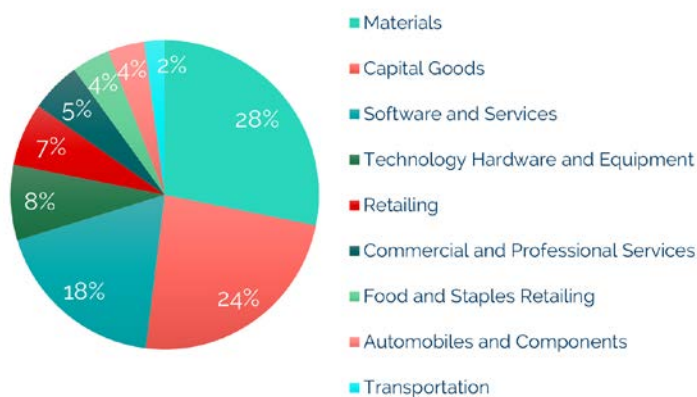
Share Price (pence)	115.5
NAV (pence)	112.0
Premium / (Discount)	3.1%

	Month	2021	Since Inception*
AJOT Share Price	-7.4%	12.3%	17.6%
AJOT NAV	-7.5%	12.4%	16.7%
MSCI Japan Small Cap	-4.4%	-1.4%	4.9%

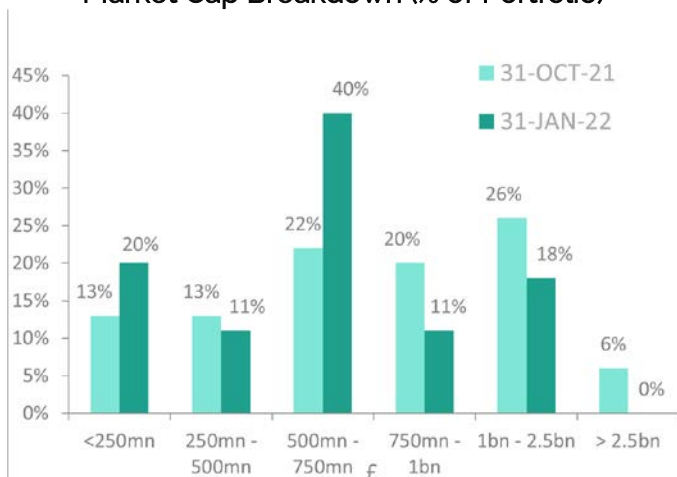
Cumulative Return	1 mo	3 mo	6 mo	1 yr	3 yr
AJOT Share Price	-7.5%	-2.5%	3.0%	6.8%	21.1%
AJOT NAV	-7.4%	-2.4%	2.8%	6.8%	21.8%
MSCI Japan Small Cap	-4.4%	-7.4%	-6.0%	-4.6%	9.3%

THE FUND

Sector Breakdown (% of Portfolio)



Market Cap Breakdown (% of Portfolio)



Top Ten Equity Holdings % of NAV

Holding	31-OCT-21	Holding	31-JAN-22
T Hasegawa	8.0	Wacom	8.0
Pasona Group	7.3	Fujitec	7.8
Digital Garage	6.8	DTS	7.8
DTS	6.6	T Hasegawa	7.8
Fujitec	6.6	C Uyemura	6.8
Wacom	5.8	NS Solutions	5.5
Daibiru	5.6	Pasona	5.4
C Uyemura	5.6	Digital Garage	5.2
NS Solutions	4.8	SK Kaken	4.5
SK Kaken	4.5	Locondo	4.4
TOTAL	61.6	TOTAL	63.2
% Gearing	105.1	% Gearing	102.7
No. of Holdings	27	No. of Holdings	26

MANAGER'S COMMENT

In a volatile month for markets, AJOT's NAV fell by -7.3%. In such environments, we are used to seeing share price changes driven not by fundamentals but more by sentiment. We remain encouraged by our companies' operational performance, valuations that remain cheap and the continued success with our engagement.

Pasona was the largest detractor. Its -24% share price performance was driven by a -30% fall in Benefit One's share price, aided by a slight 1% narrowing of the discount from 73% to 72%. Over the month, Pasona reported respectable earnings, seeing profits of its unlisted businesses grow +84% YoY and increasing by almost twofold versus the same quarter pre-COVID. Pasona has benefited from increased demand for outsourced services and a more fluid labour market. Although Pasona's unlisted businesses are still underachieving their full potential, their performance has markedly improved over the past two years. While we had hoped this would have raised the market's awareness of Pasona's value, Pasona's discount has remained stubbornly wide, averaging 76% over the past year.

In January, Pasona announced its intention to IPO Circlace, a 43%-owned DX consulting firm, and received approval from the Tokyo Stock Exchange to IPO its wholly-owned subsidiary, Bewith. Financial information on Circlace is scant, but Bewith could account for 25% of Pasona's market cap at the indicative IPO price. We think both announcements contributed to the slight narrowing of Pasona's discount over the month, and expect it could narrow further as and when the IPOs progress.

The second-largest detractor was **Digital Garage**, whose share price fell -18%. Although perceived as a growth stock, Digital Garage's valuation was not stretched at the start of the month with an implied 11.7x EV/EBIT multiple on its core payment business (stripping out the stake in VC assets and Kakaku.com) versus GMO Payment Gateway's 61.3x. The weak share price has left Digital Garage's payment business trading on an implied 9.9x EV/EBIT multiple, which we think is cheap for a business that we expect to achieve annual profit growth in the region of 20%.

Fujitec was the only notable contributor, with a +7% share price increase adding 54bps to performance. We attribute the strength to a rebound in what has been a lacklustre period for the share price and in response to Fujitec's mid-term plan released in December. From an operational perspective, Fujitec is implementing several of our suggestions. Models are being standardised, manufacturing outsourced, and lower-priced products launched to grow into new market segments. This culminated in management targeting three-year profit growth of +58%, putting Fujitec on a three-year forward EV/EBIT multiple of 6.7x.

However, the plan lacked details and did not outline an improvement in capital efficiency, targeting an unambitious ROE of 10.7%. We continue to engage with management to rectify the undervaluation and address our outstanding issues. Encouragingly, we are not alone and at the time of writing, two other shareholders have written public letters in 2022 criticising Fujitec's mid-term plan. We know other shareholders who privately agree with our views, and we hope our combined voices will be a powerful force for continued improvements.

FUND FACTS

Fund Facts

Launch Date	23 October 2018
Net Assets	£151.6m
Investment Manager	Asset Value Investors Limited
AJOT Shares owned by the Manager***	2,053,763
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.