February 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 as the market reacted to its encouraging improvement in corporate governance

Read more below

Locondo

We provide an update on the online fashion platform with a strong underlying business but recent price weakness.

Read more below

PERFORMANCE[1]

(Figures to 28 February 2022)

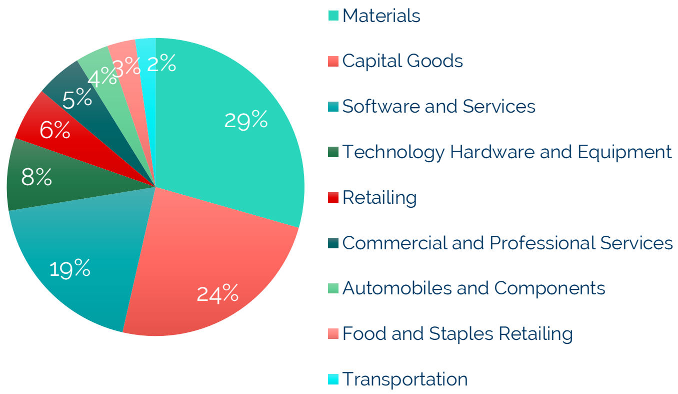
Share Price (pence)	114.5
NAV (pence)	114.4
Premium / (Discount)	0.1%

	Month	2022 YTD	Since Inception*
AJOT Share Price	2.1%	-5.4%	20.1%
AJOT NAV	2.2%	-5.5%	19.3%
MSCI Japan Small Cap	1.6%	-2.9%	6.5%

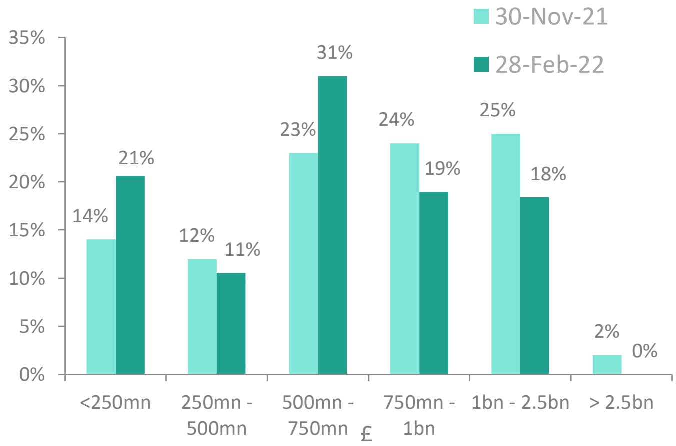
Cumulative Return	1 mo	3 mo	6 mo	1 yr	3 yr
AJOT Share Price	2.2%	-2.4%	-0.3%	10.6%	20.5%
AJOT NAV	2.1%	-2.3%	-0.4%	10.7%	21.2%
MSCI Japan Small Cap	1.6%	-3.5%	-8.1%	-1.8%	11.0%

THE FUND

Sector Breakdown (% of Portfolio)



Market Cap Breakdown (% of Portfolio)



Top Ten Equity Holdings % of NAV

Holding	30-Nov-21	Holding	28-FEB-22
Wacom	8.3	DTS	8.5
T Hasegawa	8.2	Wacom	8.2
Pasona Group	8.0	Fujitec	8.1
DTS	6.9	T Hasegawa	7.2
Digital Garage	6.5	NSSK Solutions	5.9
Fujitec	6.2	C Uyemura	5.9
C Uyemura	6.0	Shin-Etsu Polymer	5.9
Daibiru	5.3	Pasona	5.2
SK Kaken	4.5	Digital Garage	5.0
NS Solutions	4.4	SK Kaken	4.4
TOTAL	64.3	TOTAL	64.3
% Gearing	101.8	% Gearing	103.9
No. of Holdings	28	No. of Holdings	26

MANAGER'S COMMENT

AJOT's NAV increased by +2.1% over the month, benefitting from continued earnings growth and a more supportive environment for domestically focused small-cap companies. While there are no positive takeaways from the abhorrent conflict in Ukraine, from an economic standpoint the impact on Japan should be limited, mainly felt through higher commodity prices. To the extent that this leads to moderate inflation, it might prove helpful in meeting the Bank of Japan's so far elusive 2% inflation goal.

We are sanguine about the ability of the companies in AJOT to pass on higher input costs. Strong pricing power is an attribute of a high-quality business model, and we have been actively increasing the portfolio quality over the last few years. Although a small sample size, we recently had discussions with two portfolio companies, **Konishi** (3.9% of NAV) and **T Hasegawa** (7.2% of NAV). In both cases, their products are critical for their customers but account for a low portion of overall costs. Konishi announced a more than 50% price increase in December while T Hasegawa formulaically passes on higher raw material costs.

Regardless of the economic and political backdrop, we continue to engage with our portfolio companies. The possible returns from successful engagement and change in corporate control events are largely idiosyncratic, and we expect will continue to drive outperformance. Valuations remain compelling, and with COVID in the rear-view mirror and Japanese companies laden with more cash, the backdrop for our shareholder activism looks as promising as ever.

It was pleasing to see **DTS'** strong share price, increasing +12.6% over the month and adding 98bps to performance. DTS announced a doubling of its share buyback program taking the total shareholder payout ratio to 65%, cancelled 3% of its treasury shares and reported YoY profit growth of +11%.

Trading on an EV/EBIT of 6.9x with net cash covering 41% of the market cap, and with a promising growth outlook, DTS is severely undervalued. We attribute this to poor shareholder communication, a slow shift to digital transformation services, and excess cash. Through our regular meetings with DTS' Chairman, President, Independent Directors and executive officers, we have been putting forward suggestions on how to address the situation. We have been encouraged by DTS' response, with management willing to listen to our views and already implementing a number of our suggestions. In DTS' 2021 integrated report there were some encouraging comments from the independent directors that suggest the Board supports continued improvement - "I think IR activity should be further enhanced" and "The issue of how to divert the cash that has been accumulated…is something to be considered going forward". We think we are at the start of a transformation in the way DTS is perceived by the investor community and see significant further upside in the share price.

The second-largest contributor was **NC Holding**, whose +23.9% share price increase added 74bps to performance. NC Holding owns a disparate collection of businesses across conveyor belts, multistorey car parks and renewable energy. Amongst other suggestions, reorganising the businesses segments is a topic that we have been engaging with management on, seeing the most value in the multistorey car park segment. We have an interesting dynamic at NC Holdings, with AVI funds owning 13% of the voting rights and a similarly minded US fund owning almost 20%. There are no allegiant shareholders blindly supporting management, thus allowing for a healthy relationship where the Board are compelled to listen to shareholder views. We hope to see this dynamic bearing fruit later in the year, and we have been modestly adding to the position.

Having been a top 5 contributor in 2021 **T Hasegawa's** share price has had a poor start to the year. Its share price has fallen -11%, with a -4% decline in February. As a 7.8% position, T Hasegawa's weakness resulted in it being the second-largest detractor reducing returns by 30bps, despite reporting profit growth of +60% YoY and +31% vs. two years prior. The strong profit growth was driven by margin expansion in Japan and continued growth in China driven by strong sales of instant noodle flavours. The one kink was a small operating loss in the US business which we are keeping an eye on, but think it is attributable to a high amortisation charge from the acquisition of a US business last year, which had an outsized effect in a seasonally weak quarter. T Hasegawa also announced the sale of investment securities as part of its long-term commitment to reduce cross-shareholdings and increase shareholder returns. T Hasegawa trades on 8.0x EV/EBITA, which is remarkable considering its growth trajectory and the quality of the underlying business model.

MANAGER'S COMMENT

LOCONDO was the largest detractor over the month taking 71bps from performance as its share price fell -14.4%, bringing the total fall in 2022 to -25.7%. We started building our position in November and the share price weakness has allowed us to add to our position, now owning just under 10% of the Company. LOCONDO operates an online fashion platform, facilitating purchases between almost 4,000 brands and 1.1m shoppers. Importantly it does not own the brands. Operating the platform, providing delivery logistics, warehouse solutions and marketing is a far more profitable and stable business than owning the brands. We are familiar with this business model having invested in LOCONDO's European peer, Zalando, in our global fund.

The opportunity to invest in LOCONDO came after a remarkable -67% fall in the share price from its peak in September 2020 to the end of 2021. Investors became overly excited that social restrictions would accelerate the shift to online shopping, and while LOCONDO initially reported strong growth, its large exposure to footwear was a headwind as users spent more time at home in their socks. Both the amount spent per basket and the number of orders per customer fell. Despite the headwind, LOCONDO's logistics business, where brands outsource the packaging and delivery of orders from their own sites to LOCONDO, has seen volume growth of 33% year-to-date.

LOCONDO has an ambitious plan to achieve operating profits of Y10bn by 2030, almost equal to LOCONDO's current market cap. We don't think that is overly likely but estimate that achieving a more reasonable target of Y3.3bn, would see the shares worth +147% more than the current share price. Either way, the market is implying a 0% growth rate in the current share price which we think is overly pessimistic. With social restrictions hopefully being lifted in March for good, we are optimistic that 2022 will be a year of strong growth.

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In this volatile environment, we are not making any radical changes to the portfolio. We remain slightly geared (104%) and will add to a select number of highly attractive opportunities where we are involved in meaningful engagement. Valuations remain remarkably low and it seems an increasing number of investors are diverting their attention towards Japan as it exhibits attractive characteristics relative to other markets.

On 2nd February, AJOT agreed a new 2-year JPY 2.93bn revolving credit facility with the Bank of Nova Scotia which effectively extends the existing facility. AJOT intends to continue using its gearing on a structural basis and at the end of the month, the gearing stood at 3.9%.

FUND FACTS

Fund Facts	
Launch Date	23 October 2018
Net Assets	£156.9m
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