Q1– January 2022

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
Q1 2022	38%	59%	6.5	5.7%	14.4%	1.9%
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	4.6%	16.3%	2.0%

MANAGER'S COMMENT

Dear AJOT Shareholders,

Despite the turbulent environment, and abhorrent conflict in Ukraine, AJOT's NAV fell only -4.1%, primarily from a -2.4% weakening of the Yen, while the MSCI Japan Small Cap Index fell -4.5%. The first quarter of 2022 saw a sharp rotation out of growth stocks, as rising interest rates exposed stretched valuations, which was a relative boon for AJOT with only modest exposure to growth companies.

In what would ordinarily be a non-event, during the quarter we conducted a business trip to Tokyo! While Jason (based in Japan) has been conducting face-to-face meetings (where allowed) throughout the pandemic, this was the first visit for the London-based team in over two years. The trip was focused on existing holdings, and it was an opportunity to advance our engagement agendas. We have built strong relationships with the management of our portfolio companies, and we expect face-to-face meetings to allow these relationships to develop further.

The quarter saw our companies report strong earnings growth, with sales and operating profits growing +8% and +12% year-on-year, respectively. Although rising costs and continued supply chain disruptions will create a testing environment for the upcoming quarters, we are sanguine about the ability of our companies to weather the storm, and, if needs be, pass on higher input costs. Strong pricing power is an attribute of a high-quality business, and we have been actively increasing the portfolio quality over the last few years.

Although the EV/EBIT of AJOT's portfolio increased from 5.1x to 6.5x over the quarter, it still represents remarkable value with the companies in the MSCI Japan Small Cap Index trading on a median of 16.1x. Furthermore, we are continuously increasing the quality of the portfolio and as we learn how management responds to our engagement, tilting the Company away from companies where we have little hope of enacting change. The slightly higher valuation of the portfolio is more than offset by these improvements, and we are as excited about the future potential performance as ever.

Fujitec – bearing fruit from engagement success

Fujitec was the largest contributor over the quarter, adding 165bps to performance as its share price increased +27%. Fujitec has been a large weight in AJOT since launch and one where we have dedicated significant engagement resources. Over our holding period thus far, we have sent six letters and met with the company almost 30 times. In May 2020 we released a 73-slide public presentation highlighting Fujitec's underperformance and undervaluation.

Fujitec has reacted positively to our engagement by announcing several improvements, including abolishing its anti-takeover measure, appointing a majority independent board, cost-cutting initiatives, launching new products to expand sales and improving IR disclosure. However, Fujitec took a step backwards when in December it announced a confusing and unambitious mid-term plan. We sent a presentation and draft press release to the company in January, showcasing its flaws, putting forward solutions and, importantly, threatening to take our specific grievances public. To our delight, management responded to all eight of our recommendations and released a supplementary mid-term plan at the start of March.

The most important response was on capital allocation, a glaring issue that had not been addressed since our original campaign. Not only did management commit to a higher ROE target of 12% (from 10%), but they mapped out a clear capital allocation framework for the next three years, seeing up to 16% of Fujitec's market cap distributed via dividends and buybacks, taking measures to reduce working capital and utilising debt to fund growth CAPEX and potential M&A.

While there is room for further improvements, Fujitec's management has wholeheartedly listened to our, and other shareholders', feedback. We applaud Fujitec for that and the humility it took to re-publish its mid-term plan. It bodes well for our future engagement, and we have developed an even closer relationship.

[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

Following the launch of our public campaign in May 2020, Fujitec has returned +110% vs the MSCI Japan Small +26% and peers +10%. Fujitec's EV/EBIT valuation has rerated to 14x vs 7x when we first invested, and we expect the actions taken by management over the past years will lead to a long-term improvement in profitability and growth potential. We believe our success with Fujitec, while maintaining a strong relationship, showcases the power of engagement and is an endorsement of our approach. While the valuation discount to peers has become less compelling, we still believe there is further upside and will continue to engage with the company.

Portfolio trading activity

Trading activity was elevated over the quarter as we sold our stake in **Daibiru** following the 50% premium tender off from its parent company. That raised 7.5% of cash, which along with proceeds from exiting our investments in **Kato Sangyo** and **Keisei Electric**, allowed us to invest 14.0% of NAV into seven existing holdings, three relatively new positions and one new investment (undisclosed).

We took the decision to exit our investment in Kato Sangyo which has been in the portfolio since launch. It generated a +16% total return and +7% IRR (in JPY), underperforming the MSCI Japan Small Cap which on a trade-weighted basis returned +35% and +14% respectively. While Kato Sangyo's underlying business has performed as expected (economically resilient) our engagement efforts have been frustrated. Trading on a 0.5x EV/EBIT multiple with 95% of its market cap covered by net cash and investment securities, Kato Sangyo is clearly undervalued, but that is not unique in our universe, and our engagement resources are better spent on opportunities where we have a higher probability of success.

In May 2021, we initiated a position in Keisei Electric to gain exposure to the reopening of Japan following the lifting of social restrictions. Unfortunately, the outbreak of the Omicron variant delayed this thesis and the outlook for increased travel worsened. We felt the capital was better allocated to other investments, especially given our aim to increase portfolio concentration.

We continued adding to our relatively new position in **Shin-Etsu Polymer**, which accounted for almost 1/3 of our purchases this quarter, as we increased its position size to 5.8% of NAV. Shin-Etsu Polymer has been on our radar since we launched AJOT. It is a listed subsidiary of Shin-Etsu Chemical, and our base case is that Shin-Etsu Chemical buys out the minorities of Shin-Etsu Polymer. The companies' business operations are intertwined, and the management of both companies have made indications that they are open to addressing the parent/child listing issue. With the privatisation of Daibiru and **Secom Joshinetsu** last year, Shin-Etsu Polymer makes a welcome addition to our listed subsidiary theme, which across five companies accounted for 17% of NAV at the end of the quarter. We estimate Shin-Etsu Polymer is worth over 100% more than its current share price.

Q1 2022 Contributors and Detractors

As previously discussed, Fujitec was the largest contributor to returns, with a +27% increase in the share price adding 165bps returns over the quarter.

The second-largest contributor was **NC Holdings**, whose +21% share price increase added 57bps to performance. NC Holdings 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 14% of the voting rights and a similarly minded US fund owning almost 20%. There are no allegiant shareholders blindly supporting management, 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.

Pasona was the largest detractor over the quarter, reducing returns by 179bps. Its -25% share price performance was aided by a 6% narrowing of the discount from 73% to 68% but suffered from a -48% fall in Benefit One's share price. Over the quarter, Pasona reported respectable earnings, seeing profits of its unlisted businesses grow +84% YoY and increase 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 75% over the past year.

In January, Pasona announced its intention to IPO Circlace, a 43%-owned DX consulting firm, and at the start of March, IPO'd its wholly-owned subsidiary, Bewith, a business process outsourcing company. Bewith accounts for 12% of Pasona's market cap, and including the value of shares sold by Pasona into the IPO, 18%. It is encouraging to see Pasona taking proactive steps to realise the value in its portfolio and allow its underlying businesses to flourish on their own. We expect as the transparency on Pasona's businesses improves and it continues to grow earnings, we will see a further narrowing of the discount.

Teikoku sen-i was the second-largest detractor, reducing returns by 93bps as its share price fell -26%. Although it reported better than expected quarterly results (full-year profits for the year ending Dec surpassed guidance by 36%), lacklustre guidance for profits to fall -12% next year disappointed. Still, the share price reaction seemed quite severe, particularly given the pressure to restart nuclear reactors which would be a huge boon for Teikoku Sen-i's disaster prevention business. We reduced our position in Teikoku Sen-i by -10% over the quarter (before the share price fell) and over the past two years have sold over 1/3 of our position. Given the appealing business fundamentals and weak share price, we are in no hurry to continue our selling, but management have made little effort to listen to our views and at the right price, we will likely reinvest the capital elsewhere.

Quarterly Contributors / Detractors

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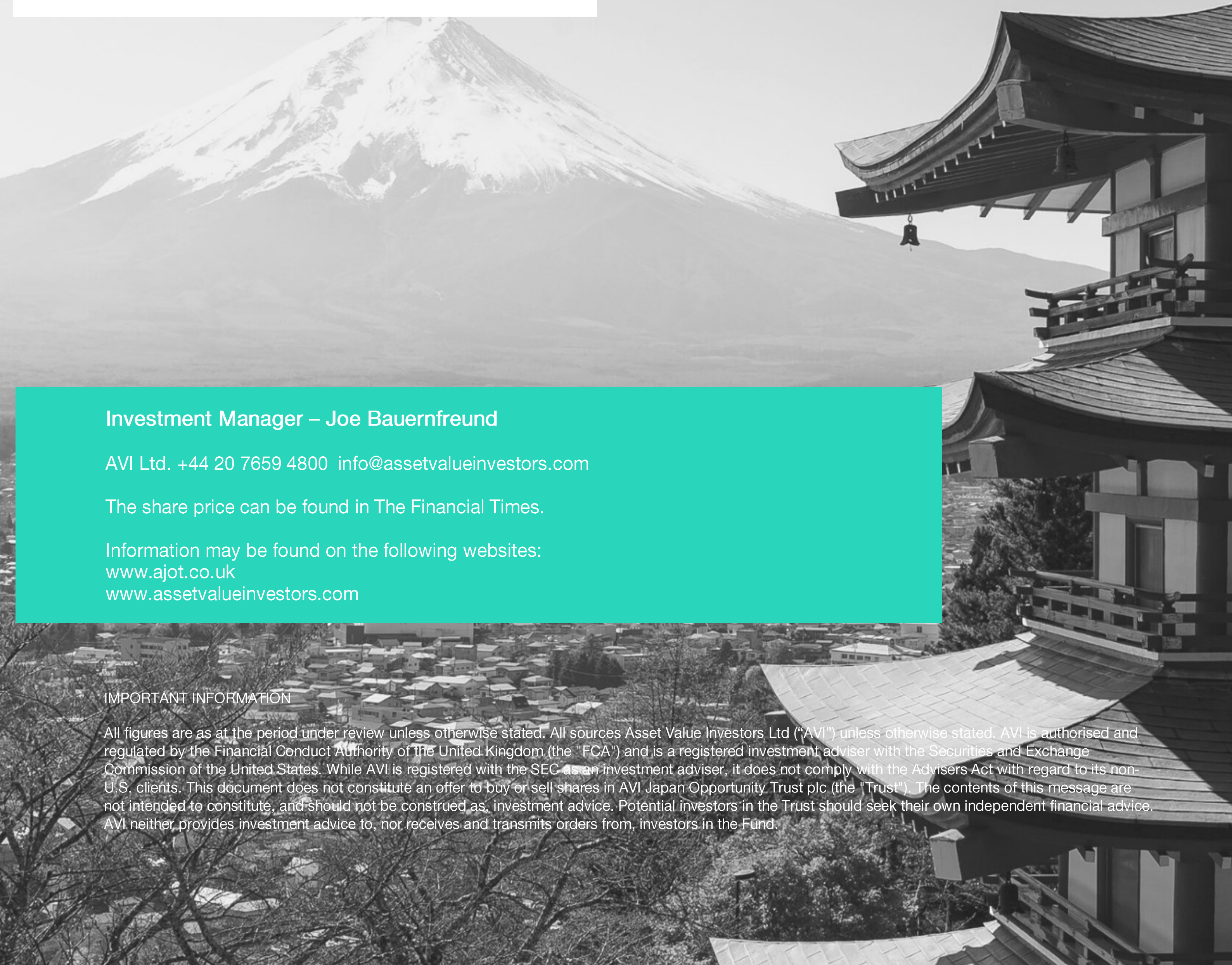
In this volatile environment, we are not making any radical changes to the portfolio. We remain slightly geared (102%) and will continue adding to a select number of highly attractive opportunities where we are involved in meaningful engagement. Valuations remain low and we are developing deeper relationships with our companies, which we are confident will lead to significant outperformance.

Quarterly Contributors / Detractors

Largest Contributors	Quarterly Contribution bps	Percent of NAV
Fujitec	165	9.0
NC Holdings	57	4.2
DTS	37	7.9

Largest Detractors	Quarterly Contribution bps	Percent of NAV
Pasona Group	-179	4.9
Teikoku Sen-I	-93	2.4
Locondo	-72	4.3



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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
www.assetvalueinvestors.com