Q3 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.

	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
Q3 2022	39%	60%	5.7	5.5%	11.4%	2.4%
Q2 2022	41%	59%	5.7	5.7%	13.4%	2.4%
Q1 2022	38%	59%	6.5	5.7%	14.4%	1.9%
Q4 2021	40%	76%	5.1	5.4%	21.2%	1.8%

MANAGER'S COMMENT

Dear AJOT Shareholders,

AJOT's NAV increased +4.5% over the quarter, aided partially by a weakening of the Pound against the Yen which added +2.4% to returns. During the quarter, for the first time in almost three years, the British members of the investment team visited Japan. The trip focused on existing holdings where we met the presidents/chairmen of six of our top ten positions and three companies granted us access to their factory, logistics warehouse and R&D centre respectively. Meetings were cordial and constructive in what was for many companies their first time meeting us face-to-face.

During the trip, we also held several meetings with private equity firms who reaffirmed their strong interest in taking listed companies private. It was encouraging that they knew many of the companies in our portfolio, and in a few cases had already contacted management.

Fortunately, for our trip next month, the arduous visa process has been lifted, as has the cap on the number of daily inbound travellers. For the first time since the COVID pandemic, Japan's borders will be open to visitors. In 2019 32m people visited Japan, which fell to just 0.2m in 2021, having a large impact on Japan's trade balance. With the Yen being the weakest against the US Dollar since 1998, and a relative lack of price inflation (consumer inflation rose just 3% in August), Japan makes for a highly compelling tourist destination, which could be a boon for the economy in the coming year.

For decades Japan seemed like a country for investors to avoid with stagnant growth and an ageing population. However, compared to the rest of the world now dealing with high debt, excessive inflation and sharply rising interest rates, Japan's problems seem less severe, and its relatively stable economy might prove attractive for overseas investors looking to diversify their exposure.

The macroeconomic environment and investor flows are out of our control, and we continue to focus on finding mispriced, high-quality companies while working with management to rectify the under-valuations. We took advantage of the market turmoil to start building positions in two new companies and look forward to explaining more once they have reached full-sized positions.

NC Holdings – A unique opportunity

We started investing in NC Holdings (NCHD) in June 2021 following an acrimonious public dispute between NCHD and its then largest shareholder TCS. NCHD holds a collection of businesses including solar panel consulting, conveyor belts and - the most attractive - car parking systems. Collectively they trade on an EV/EBIT multiple of just 5.4x with net cash and securities covering 49% of the market cap. After TCS failed to replace NCHD's board, NCHD repurchased their shares (c.32% of outstanding) at Y900, a hugely accretive acquisition with the shares now trading at Y1,980.

With growing confidence in the quality of NCHD's business, the presence of a US-based investor on the shareholder register and compelling valuation, we have been slowly increasing our position. Over the quarter we purchased 15% more of the company and year-to-date have almost doubled our ownership. At the end of the quarter, we owned 19% of the Company. We note the US investor has also been increasing their ownership and now holds 23% of NCHD's shares.

Our engagement agenda has covered a wide variety of topics, from reviewing NCHD's conglomerate structure to improving corporate governance, and has more recently focused on proposing a 100% total return pay-out ratio and cancelling the almost 9% of shares held in treasury. NCHD does not disclose a policy on shareholder returns and, excluding the repurchase of shares from TCS, has only paid out about 20% of its net income over the past three years. A 100% dividend pay-out ratio on next year's earnings would amount to a respectable 4.5% dividend yield and cancelling the 9% of shares held in treasury would be a simple and effective means of allowing investors to treat those shares as no longer outstanding and removes any risk of a reissuance.

Over the quarter we had a fruitful meeting in Tokyo with the President and other board members, and plan to continue our engagement efforts ahead of next year's AGM. We believe if management act on all our suggestions, then the share price would be able to reach our target price of Y2,700 – Y3,000, or 36% - 52% higher.

[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

Portfolio trading activity

Trading activity was slightly elevated over the quarter as we exited three positions and started building positions in two new names.

We exited a small holding, **Advanced Media,** after the share price ran away before we could build a position. Two months after our initial purchase, we sold our last share +30% higher than we purchased our first. The two other exits were relatively small positions in **Daiwa Industries** and **Sekisui Jushi** which we sold into their off-market share buybacks. In the case of Daiwa Industries, our engagement efforts were frustrated by the founding family who, despite our efforts, refused to listen to our suggestions. We had better success at Sekisui Jushi, convincing management to increase the dividend, conduct share buybacks, establish an ESG committee and disclose a mid-term plan. But this failed to reinvigorate the share price and lacking a further catalyst we felt it better to concentrate on other holdings.

Two positions were initiated over the quarter in the apparel and medical equipment sectors, with net cash and investments covering 144% and 30% of their market caps respectively. As we are still buying, they will remain nameless for now, but we are excited by their addition to the portfolio.

We added on share price weakness to **NC Holdings**, **Wacom** and **Konishi**, while trimming two other positions on strength.

Q3 2022 Contributors and Detractors

DTS, the IT systems developer, was the largest contributor over the quarter (165bps), with its share price reacting well (+16%) to sales and EBIT growth of +16% and +13% YoY respectively. Orders received leapt +25% YoY, marking a record high for Q1 orders and boding well for continued earnings growth. DTS has been a successful investment, with our thesis premised on the increasing demand for IT investment and an underappreciation by the market for DTS' growth prospects. We acquired a 10% stake in the Company across AVI's funds and have been engaging privately on various topics. Bar a few minor points, all our suggestions were accepted and included in a comprehensive mid-term plan announced in May. Since the announcement, DTS' share price has appreciated by +22% vs +2% for MSCI Japan Small Cap, and year to date is up +40% vs -1% for MSCI Japan Small Cap. DTS' valuation, albeit less compelling than when we initiated the position, is still attractive with the shares trading on an EV/EBIT multiple of 9x vs peers on 14x. We believe that as the company executes on its plan to double EBITDA by 2030 and return up to 30% of its market cap to shareholders, there is still further upside.

Our £800m market cap flavour and fragrance company, **T Hasegawa**, was the second largest contributor adding 110bps to returns with a +10% share price increase. Its EV/EBITA valuation improved modestly from 9.7x to 11.1x, while it reported respectable profit growth of +4% YoY in the face of severe cost pressures. During our visit to Tokyo, we had the privilege of touring their R&D facility hosted by T Hasegawa's President and head of R&D. It was fascinating to learn more about the flavour development process, which involves the reverse engineering of aromas through machine analysis, tweaked by expert flavourists. T Hasegawa has developed decades of recipes which they can modify to their client's requirements. We had the opportunity to sample a delicious chardonnay wine, made not with grapes but rather a combination of alcohol and T Hasegawa's bespoke flavouring. While the quality of T Hasegawa's business model is starting to gain recognition by the market, there still exists a large disparity between its valuation and the global peers who trade on 20x EV/EBITA. While the Company is taking actions to address this, such as improved IR disclosure, we continue to benefit from the company's earnings growth.

Wacom, the world's leading digital pen developer, fell out of favour over the quarter with its share price falling -15% and detracting 122bps from performance. Although a beneficiary of the strong USD and reporting robust performance following the launch of the Samsung S22 Ultra with an embedded Wacom pen, weak profits in the consumer business driven by product mix and deteriorating consumer sentiment spooked the market. Wacom's EV/EBIT fell from an already low 8.2x to 7.2x, representing remarkable value for a company whose technology is ingrained in many leading manufacturers' digital writing solutions e.g. Samsung, HP, and Lenovo. That's not to mention new growth opportunities in education and industrial applications, as well as the launching of products with recurring subscriptions. We have been engaging closely with management on ways to share the Wacom story with investors which resulted in the publication of an integrated report. While more can be done, we appreciate the efforts management have made to improve Wacom's performance and look forward to working with them as Wacom continues its growth journey.

Digital Garage continued to be a laggard, as its share price fell -5% over the quarter, taking this year's return to -29%. The decline over the quarter came from discount widening, as its 20% stake in listed Kakaku.com saw its share price increase +11%, while GMO Payment's share price, a proxy for Digital Garage's payment business, increased by +5%. Digital Garage is a holding company whose key assets are a listed 20% stake in Kakaku.com and DG Fin Tech, one of Japan's largest payment settlement businesses. We estimate that these two assets, along with stakes in venture start-ups, are worth 77% more than the current share price. We attribute the undervaluation partially to the holding structure but also to an incoherent strategy poorly communicated to investors. We sent two lengthy presentations to management last year which led to a new strategic direction entitled "DG FINTECH SHIFT". After we sent a letter detailing why we voted against President Hayashi at the June 2022 AGM, Digital Garage further improved disclosure in its first quarter results presentation. While these actions are encouraging, Digital Garage has failed to address the elephant in the room – the Y105bn stake in Kakaku.com that accounts for 64% of Digital Garage's market cap. We have argued that either Digital Garage needs to generate sufficient synergies to produce an ROIC above its cost of capital or should reduce the stake and return it to Digital Garage shareholders. We know we aren't the only shareholder requesting this and we suspect that the Company will come under further pressure unless the share price performance improves. Clearly, the upside is significant, and we are evaluating possible next steps ahead of the AGM.

Quarterly Contributors / Detractors

At the launch of AJOT in October 2018, the Prospectus stated that the Directors may, at their discretion and depending on demand, offer a full or a partial exit opportunity to Shareholders in October 2022 and every two years thereafter.

In the July Factsheet it was noted that given the share price was trading at, or close to, NAV the Board hoped that any shareholders wishing to exit would be able to sell their shares in the secondary market, without AJOT and exiting shareholders incurring the expense of a more complicated mechanism. Since then, the share price has continued to trade at close to NAV. The Company and its joint placing agents have consulted with the largest institutional and private wealth shareholders, representing a significant majority of the shares in issue, who expressed an opinion stating that they would be supportive of the Company forgoing the administrative burden and expense of an Exit Opportunity. The next Exit Opportunity will be put to shareholders in two years' time.

It is pleasing to see support from shareholders, and we plan to continue building on AJOT's success over the coming years. With a fertile investment universe, a portfolio trading on a 5.7x EV/EBIT multiple, an expanded team and a more receptive environment for shareholder engagement we are optimistic that the next four years will be just as fruitful for AJOT as the first four.

Quarterly Contributors / Detractors

Largest Contributors	Quarterly Contribution bps	Percent of NAV
DTS	165	9.7
T Hasegawa	110	9.9
C Uyemura	79	4.4

Largest Detractors	Quarterly Contribution bps	Percent of NAV
Wacom	-122	7.9
Digital Garage	-16	4.2
Tokyo Radiator	-13	1.7

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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