AJOT

AVI Japan Opportunity Trust

Finding Compelling Opportunities in Japan

INTERIM REPORT 30 JUNE 2022

AVI

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Financial Highlights

AVI Japan Opportunity Trust plc

("AJOT" or "the Company") invests in a focussed portfolio of quality small and mid-cap listed companies in Japan that have a large portion of their market capitalisation in cash or realisable assets.

Portfolio Statistics as at 30 June 2022*

Measure	30 June 2022	Comparative
Net cash/Market Cap*	40.6%	(39.9% as at 31 December 2021)
Portfolio Discount*	-36.2%	(-41.2% as at 31 December 2021)
Net Financial Value/Market Cap*	58.8%	(75.9% as at 31 December 2021)
Portfolio Dividend Yield*	2.4%	(1.8% as at 31 December 2021)
FCF Yield*	5.7%	(5.4% as at 31 December 2021)
ROE*	11.5%	(10.9% as at 31 December 2021)
EV/FCF Yield*	13.4%	(21.2% as at 31 December 2021)
ROE ex non-core financial assets*	26.9%	(25.3% as at 31 December 2021)
EV/EBIT*	5.7x	(5.1x as at 31 December 2021)

* For all Alternative Performance Measures, please refer to the definitions in the Glossary on pages 21 and 22.

Financial Highlights continued

For the period ended 30 June 2022

Performance Summary

Net asset value per share at 30 June 2022	108.39p
Share price at 30 June 2022	105.50p

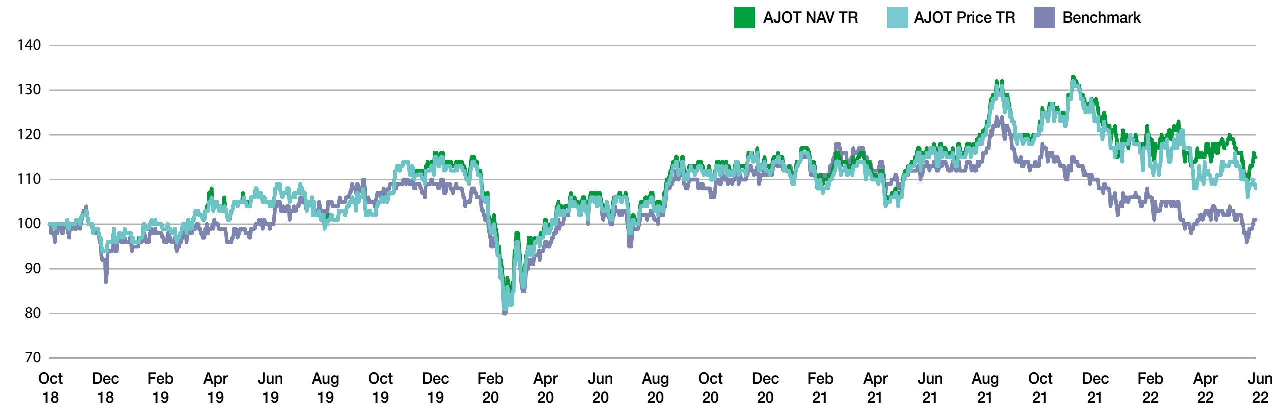
Discount as at 30 June 2022	
(difference between share price and net asset value)	2.67%

Financial Highlights

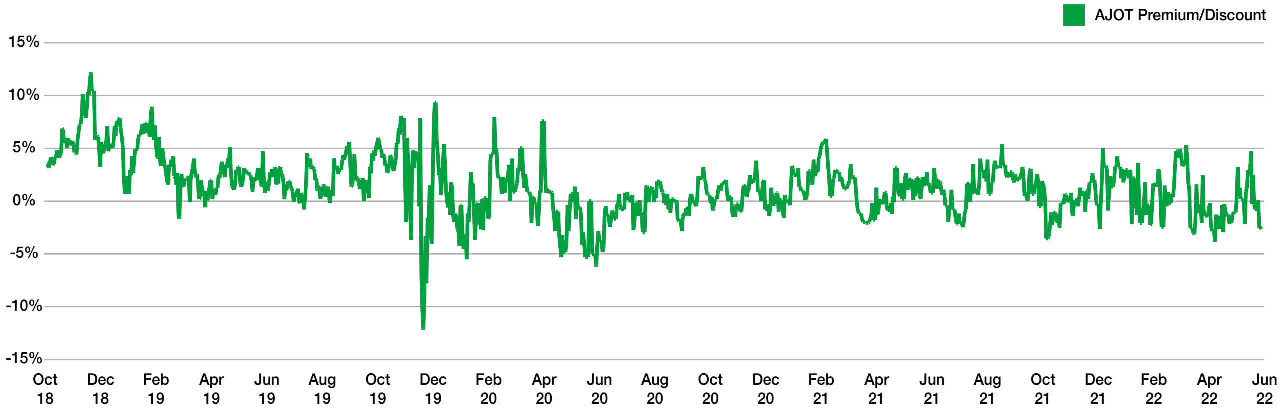
	NAV*	Share Price*	Benchmark†
Period from 1 January 2022 to 30 June 2022	-9.74%	-12.81%	-8.22%
Period from 23 October 2018 to 30 June 2022	14.53%	7.65%	0.72%

As at the close of business on 22 September 2022, the share price was 114.50 pence per Share and the NAV per Share of the Company was 115.66 pence.

Net Asset Value, Share Price* and Benchmark†(p)



Premium/Discount* to Net Asset Value



* For all Alternative Performance Measures, please refer to the definitions in the Glossary on pages 21 and 22

† MSCI Japan Small Cap Total Return Index (£ adjusted total return)

Chairman's Statement

"Approaching four years since launch, your Company has performed well in the face of lacklustre performance of small cap stocks and a notable sell off in the currency in Japan, as well as a turbulent global environment."

Norman Crighton, Chairman

Performance and Introductory Comments

Welcome to the third interim report of AVI Japan Opportunity Trust plc ("the Company", or "AJOT"), covering the period from 1 January 2022 to 30 June 2022. During a difficult six months in global markets, your Company performed significantly better than many would have expected, considering the economic and political turmoil around the world. With NAV down -9.7% over the period, performance was closer to the MSCI Japan Small Cap Index which returned -8.2%, including a -5.5% weakening in the Yen against the Pound. Over the same period, AJOT's peer group of UK-listed Japan smaller companies investment trusts fell an average of -25.2%.

Your Company's focus on investing in companies with solid fundamentals and attractive valuations has proved helpful in the face of a violent sell-off in growth stocks, as rising interest rates exposed stretched valuations. The portfolio started the period on an EV/EBIT multiple of 5.1x and it ended the period on a still attractive 5.7x.

Your manager AVI has continued public campaigns at four portfolio companies and sent letters or presentations in private to a further eight. With AVI's expanded Japan team, including Tokyo-based Jason Bellamy, whom the Board had the pleasure of talking to when he visited London recently, the level and intensity of engagement has stepped up notably. The team are building deep relationships with management, having arranged meetings in Japan with several Chairmen/CEOs of our portfolio companies. Of course, talk needs to be followed by action, but it is encouraging that three of the five largest contributors over the period were companies where AVI funds held over 10% of the shares and private discussions, without the need for public engagement, were sufficient to bring about the re-rating.

No country or company is immune to the risk of continued rising inflation and stagnant growth. However, inflation in Japan is running at a relatively subdued 2%. If GDP can recover to pre-COVID levels now that restrictions have been lifted and we see sustained wage growth, it might be the kickstart Japan needs to get out of its three-decade deflationary funk.

Predicting economic trends is difficult, but from an investment perspective, one can mitigate risks by investing in high-quality companies at attractive valuations. AJOT's portfolio has become higher in quality since its launch, a proactive strategy by AVI. The additions to the portfolio over the period of Shin-Etsu Polymer, LOCONDO, Konishi, DTS and T Hasegawa are a continuation of that effort.

Japan has proven its value as a haven and appealing investment destination for portfolio diversity. Much credit should be given to the late former Prime Minister Shinzo Abe for his resolve in pushing through the corporate governance reforms upon which your Company's investment philosophy is built. His death just after the end of the period was deeply upsetting, but he leaves behind an important legacy.

Dividend

The Board has elected to propose an interim dividend of 0.75 pence per share. As stated in the Prospectus at the Initial Public Offering ("IPO"), the Company intends to distribute substantially all the net revenue arising from the portfolio and is expected to pay an annual dividend, but this may vary substantially from year to year.

Investment Strategy

AJOT listed in October 2018 to take advantage of the highly attractive opportunity to invest in under-valued, over-looked Japanese small-cap equities with strong underlying business fundamentals. We believed – and very much still do – that active engagement and corporate activity will allow for the unlocking of valuation anomalies unavailable in other global developed markets, with the potential for attractive absolute and relative returns.

Approaching four years since launch, your Company has performed well in the face of lacklustre performance of small cap stocks (MSCI Small Cap Japan has underperformed its larger MSCI Japan counterpart by almost 10%) and a notable sell off in the currency in Japan, as well as a turbulent global environment. The Board remains confident that AVI is well placed to continue executing on the strategy and that there are still plenty of mispriced investment opportunities.

Chairman's Statement continued

Share Premium and Issuances

As at 30 June 2022, your Company's shares traded at a discount of 2.7% to net asset value per share. Over the period under review, this ranged from a 3.9% discount to a 5.4% premium. The Board monitors the discount/premium situation carefully, ensuring investors are protected on the downside from a widening discount while also taking advantage of the premium to grow the Company.

During the period the Board issued 4,491,000 new shares, including 250,000 reissued shares from Treasury after they were purchased last June at a discount. The total outstanding shares in issue was 137,461,702 at the end of the period – a healthy 72% increase compared to the 80,000,000 shares at your Company's launch in October 2018. Also during the period, AVI purchased 100,000 shares as part of its ongoing commitment to invest one quarter of its management fee in AJOT shares.

Debt Structure and Gearing

At the end of the period, AJOT had £17.8 million worth of Yen debt, with gross gearing standing at 11.9% of NAV. Owing to recent sales and the time taken to build new positions, net debt stood at 0.3% of NAV.

Annual General Meeting

The Company's Annual General Meeting was held on 3 May 2022. All resolutions were passed by a large majority of those voting. The Board thanks Shareholders for their continuing support.

Closing Remarks

As described above, your Board continues to have full confidence in the investment thesis and in the ability of the Investment Manager to execute it. However, wanting to lead by example, your Company stands by its commitment in our original Prospectus to offer Shareholders the opportunity to exit at close to NAV on a regular basis. The rationale behind including this clause was to ensure that if the original investment thesis did not generate the expected returns, or if circumstances had changed to make Japan unattractive, then Shareholders would not be penalised for wishing to exit.

I am very pleased to note that since the IPO neither of the scenarios mentioned above have materialised, and the Board and the Investment Manager firmly believe that the opportunities are now more attractive than they were when the Company was launched in 2018. The Board appreciates the confidence expressed by you, our Shareholders; our joint placing agents Singer Capital Markets and Kepler Partners have in recent months contacted the largest institutional and private wealth shareholders, representing a significant majority of the shares in issue, to canvass opinions about a possible exit and all Shareholders who expressed an opinion stated that they would be supportive of the Company forgoing the administrative burden and expense of an Exit Opportunity at this time.

The next Exit Opportunity will be put to Shareholders in two years' time as per the Company's IPO Prospectus. The Board hopes that any Shareholders who wish to exit at any point will be able to sell their shares in the secondary market at close to NAV, negating the need for the Company to incur the expense of a more complicated mechanism. As stock markets stabilise after the uncertainties generated by COVID, the war in Ukraine and the inflationary pressures these have caused, we would look to continue to grow the Company by issuing shares at a premium to NAV to take advantage of the opportunities identified by the AVI teams in London and Tokyo.

The Board would like to thank Shareholders for their continued trust and support. If you have any queries, please do not hesitate to contact me personally (**norman.crighton@ajot.co.uk**) or alternatively speak to our broker Singer Capital Markets to arrange a meeting.

Norman Crighton

Chairman
27 September 2022

Investment Manager's Report

"The performance of our portfolio in the wider context of weak markets is encouraging and shows that fundamentals and valuations do matter."

Joe Bauernfreund

During the period from 1 January to 30 June 2022, your Company returned -9.7% in GBP. This compares with a return for the benchmark index, the MSCI Japan Small Cap Index, of -8.2%. Over the course of the past 6 months, the Yen depreciated by -5.6% against the Pound, which has been a headwind to sterling-based returns and accounted for most of the NAV decline.

In local currency terms, it was a relatively good period for the Japanese stock market, with the MSCI Japan Small Cap falling only -2.9% vs the MSCI Europe -13.8%, FTSE 250 -19.4% and the S&P 500 -20.1%.

With core inflation holding steady at 2% in both April and May 2022, the Bank of Japan ("BOJ") stuck with its expansionary monetary policy. In contrast with the direction of rising global rates, the BOJ is defending a 10-year Japanese Government Bond ("JGB") yield below 25bps and repurchased a record amount of JGBs in May 2022. It is this diverging policy that has been weighing on the Yen, which on an effective real exchange rate basis is at the cheapest since 1971. If a Big Mac in the UK costs £3.50, it only costs £2.32 in Japan.

Although Japan isn't suffering from the same surging inflation as other countries, rising raw material costs, amplified by the weak Yen, are weighing on corporate margins. While we remain sanguine about our companies' ability to pass on cost increases, this won't happen overnight.

In what would ordinarily be a non-event, during the period we conducted a business trip to Tokyo, and another after the period in September. While our colleague Jason Bellamy, who is based in Japan, has been conducting face-to-face meetings, this was the first visit for the London-based team in over two years. Now that Japan has eased its border controls, we expect to visit as frequently as we did pre-COVID, if not more.

Although the EV/EBIT of AJOT's portfolio increased from 5.1x to 5.7x over the period, the companies still offer remarkable value compared to the MSCI Japan Small Cap Index trading on a median of 16.1x. We have actively tilted the portfolio towards higher quality companies with more open shareholder registers, exiting positions in Kato Sangyo and KING, while adding to Teikoku Electric and LOCONDO. The slightly higher valuation of the portfolio is more than offset by these improvements and is not a reflection of lower upsides.

After the end of the period, it was with great sadness that the world learned that former Prime Minister Shinzo Abe passed away. His death was a shocking tragedy. While it has taken several years for companies/management to buy into corporate governance reforms, there is now clear evidence of a shift in attitudes amongst corporate Japan, and that is just one of the many important legacies of Shinzo Abe.

AVI Shareholder Engagement

The backdrop for shareholder engagement is improving with 55 companies receiving shareholder proposals at the 2022 AGM season (almost double last year's number). This represents just a fraction of the activity going on behind closed doors. Encouragingly, according to IR Japan, there are now 65 activists in Japan, up from less than 20 five years ago – as far as we are concerned, the more the merrier.

Public engagement

The four companies where we engaged publicly in the first half of the year, Fujitec, NS Solutions, SK Kaken and Tokyo Radiator, were continuations of prior public campaigns. We submitted shareholder proposals to NS Solutions, SK Kaken and Tokyo Radiator for the second year in a row, ranging from labour welfare issues to board independence. All three companies share a common trait: they are either controlled by a parent company or a family. This creates a conflict of interest with minority shareholders given that the majority shareholder controls the company without holding 100% of the shares. While we tried to work with management privately, our suggestions were ignored, and despite achieving strong support from minority shareholders for similar shareholder proposals last year, management refused to listen. The point of the shareholder proposals is to raise awareness surrounding key failings and to encourage other shareholders to bring similar arguments to the company.

Since the launch of our Fujitec public campaign in May 2020, we have conducted our dialogue privately, making excellent progress on several issues. At the end of June 2022, however, we released a public statement questioning whether Fujitec's current independent directors were acting in the best interests of shareholders. Fujitec's response to legitimate concerns raised by Oasis Management, a Hong Kong based activist, in May 2022 regarding related-party transactions between Fujitec and former President Mr Uchiyama fell a long way short of what we expect from a listed company. Oasis called for

Investment Manager's Report continued

shareholders to vote against his reappointment at the AGM. Disappointingly, in what we think was an effort to conceal his low approval rating, the motion to reappoint him as President was withdrawn one hour before the AGM. Then, shortly after the AGM, without the approval of shareholders, he was reappointed as Chairman.

We are astounded by the clear disregard for shareholder rights and Fujitec's blatant effort to circumnavigate the AGM voting process. We are not alone - two other shareholders holding almost 16% of the shares released a public statement following the AGM debacle and we know from private conversations that many other shareholders share the same view. As we stated in our public statement, we are proactively evaluating our next steps to protect shareholder value. What form that might take is still being decided, but we won't sit by passively while shareholder rights are being ignored. We believe there is upside to Fujitec's current share price and the steps we take will be aimed at realising that upside.

Private engagement

We engage with all our portfolio companies on a variety of topics, from seemingly trivial issues like the colour format of investor presentations to research and development budgets. Our influence and likelihood of keeping our engagement private increase with larger stakes. The weighted average ownership that AJOT has, along with other AVI funds, in its portfolio companies increased from 3.9% to 4.8% over the period, with stakes greater than 5% in seven companies. We sent private letters or presentations to eight companies and met with our 27 portfolio companies 82 times.

The most notable success was DTS, which we discuss in more detail later in the management commentary. Owning 10%, we are the largest shareholder and have worked closely with the Board and management team behind the scenes on formulating their mid-term 2025 and long-term 2030 vision plan. This culminated in the announcement of four new independent directors, a commitment to significantly reducing its excess cash balance via shareholder returns and an aggressive plan to double EBITDA by 2030. Needless to say, we are delighted with DTS' response to our suggestions, and it is testament to the power of private shareholder engagement.

The other companies in focus for our private engagement over the period included relatively new additions Shin-Etsu Polymer and Teikoku Electric, and long-term holdings Konishi and Toagosei.

Portfolio Trading Activity

Annualised turnover for the first half of the year was a reasonably modest 29%. We sold our stake in Daibiru following the 50% premium tender off from its parent company (which came at the end of 2021), as well as exiting positions in Kato Sangyo, KING, Keisei Electric and Kanaden.

Purchases

Over the period we continued adding to our relatively new position in Shin-Etsu Polymer, which accounted for over 25% of our purchases, as we increased its position size from 1.5% to 6.8% of NAV. Shin-Etsu Polymer has been on our watchlist since we launched AJOT. It is a listed subsidiary of Shin-Etsu Chemical, and our base case is that Shin-Etsu Chemical buys out 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 structure.

We continued to build positions in Teikoku Electric and LOCONDO, whilst adding to NC Holdings and Konishi on share price weakness.

We started building positions in three new companies, which all ended the period with weights below 1.2%.

Sales

On share price strength, and concerns over its cyclicity, we sold a quarter of our position in C Uyemura. As a key chemical supplier for a variety of high-end electronics, we are, however, optimistic about C Uyemura's long-term outlook. Since selling, the share price has fallen -23%, and with a modest 3.8% weight we have no intention of reducing the position further.

We sold our stake in Daibiru at a modest 0.1% premium to the tender price before the tender offer from Daibiru's parent company, Mitsui O.S.K. Lines ("MOL"), was completed. Daibiru was a relatively new position for AJOT, entering the portfolio at the end of 2020 following a COVID-induced sell-off. 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. While the price came at a 30% discount to Daibiru's published real estate value, it was an excellent investment for AJOT generating a total return of +74% vs MSCI Japan Small Cap Index's return over the same period of +7%.

While Kato Sangyo's underlying business performed as expected (economically resilient), a strong presence of allegiant shareholders on the register frustrated our engagement efforts and we felt our engagement resources were better spent on opportunities where we have a higher probability of success. We exited the position generating a +16% total return, underperforming the MSCI Japan Small Cap Index which on a trade-weighted basis returned +35%.

While our engagement with KING was more successful than with Kato Sangyo, having encouraged the company to launch an e-commerce strategy and renovate its real estate portfolio, in a similar vein further progress was being stalled by a large

Investment Manager's Report continued

percentage of allegiant shareholders on the register. The investment returned +4.1% vs +14.6% for the MSCI Japan Small Cap Index, as KING suffered from the closure of its stores during the COVID-induced lockdowns, although it fared better than peers, which over the same period fell by an average -45.1%.

We initiated a position in Keisei Electric to gain exposure to the reopening of Japan following the lifting of social restrictions. The outbreak of the Omicron variant delayed this thesis and the outlook for increased travel worsened. The investment generated a modest -8.6% loss vs -1.2% from the MSCI Japan Small Index over the same period.

Finally, we exited the small remaining position in Kanaden, entering into a company buyback after having sold most of our position at the end of 2020. Our investment generated a total return of -3.2% vs the MSCI Japan Small Index +11.7%.

Contributors/Detractors

DTS

DTS, the IT system developer, was the largest contributor to returns with a +21% share price increase adding 109bps to performance. This compared favourably to DTS' peers with an average share price fall of -3.5%.

We first invested in DTS in January 2020, premised on the appealing backdrop for increased IT development demand and the company's positive response to our initial suggestions on how to increase the share price. Combined with other AVI funds we built a 10% position, becoming the largest shareholder. Over the life of the investment, on a trade-weighted basis, we have generated a +35.6% total return vs the MSCI Japan Small Cap Index +10.6%.

Over the period DTS' share price responded positively to a new mid-term plan that included a raft of shareholder-friendly announcements. Beyond higher shareholder returns which could see up to 33% of the market cap returned to shareholders in the next three years, DTS announced a strategy to double EBITDA by 2030, increase ROE to 16% and focus on high-value-added IT services. We have been working closely with management and the Board behind the scenes on the mid-term plan, holding multiple meetings, including face-to-face discussions in Japan.

DTS' response to our engagement has been exemplary – they allowed us frequent dialogue with senior board members and aside from a few minor points, actioned all our suggestions. The positive share price performance, and significant outperformance vs the market, is we believe, a testament to our efforts and clearly demonstrates the real value of AVI's constructive activism – something that we hope will not have gone unnoticed by our other investee companies as well as other investors in the Japanese markets.

On an EV/EBIT of 7.4x vs peers on 14.2x there remains considerable upside, and as the largest shareholder, we will continue engaging with management to achieve a higher share price.

Fujitec

Fujitec, the elevator and escalator company, was the second-largest contributor over the quarter, adding 106 bps to performance as its share price increased +21%. The share price rise was driven by an increase in Fujitec's EV/EBIT multiple from 8.6x to 13.0x.

It was a busy period for our engagement work with Fujitec. Last December, Fujitec announced a confusing mid-term plan which we felt was strategically misguided. We responded by sending a presentation to the company, showcasing the plan's flaws, putting forward solutions and, importantly, threatening to take our 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 2022.

Then in May 2022, Oasis, a Hong Kong based activist investor, launched a campaign calling for shareholders to vote against the reappointment of President Takakazu Uchiyama, son of Fujitec's founder. Oasis highlighted several related-party transactions dating back to 1989, and as recently as 2021, alleging that Mr Uchiyama has enriched himself at the expense of shareholders. Fujitec's response was troubling. Instead of admitting wrongdoing and strengthening corporate governance, Fujitec embarked on a campaign of denial and obscuration. Fujitec omitted important details, the law firm appointed to investigate the transactions was not independent and the Board, amazingly and despite being 50% independent, unequivocally found that not one of the related-party transactions posed a problem for corporate governance.

When the AGM came around in June 2022, the motion to reappoint Mr Uchiyama as President was withdrawn just one hour before the AGM, in what we believe was an effort to conceal his support ratio. Then shortly after the AGM, Mr Uchiyama was reappointed as Chairman without the approval of shareholders. Fujitec's disregard for shareholder rights and Fujitec's blatant effort to circumnavigate the AGM voting process is astounding. We released a public statement to that effect, questioning whether Fujitec's outside directors were representing shareholder's best interests.

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 eight letters and met with the company 31 times. Our engagement will continue unabated, and although we haven't decided what form it

Investment Manager's Report continued

might take, we won't sit by passively while shareholder rights are ignored. While Fujitec's valuation discount to peers has narrowed, we still believe there is upside to the current share price, and we will take steps aimed at realising that upside.

NC Holdings

NC Holdings added 51bps to returns with a +21% share price increase. NC Holdings owns a disparate collection of businesses across conveyor belts, multistorey car parks and renewable energy. It is a relatively new position in the portfolio, having first invested in June 2021. We added to the position over the period, increasing its weight from 2.7% to 5.3%.

We have an interesting dynamic at NC Holdings, with AVI funds owning 17% of the voting rights and a similarly minded US fund owning almost 22%. There are no allegiant shareholders blindly supporting management, thus allowing for a healthy relationship where the Board needs to listen to shareholder views.

Over the period management cancelled treasury shares equal to 27% of outstanding, sold its minority stake in listed Meiji Machine and elected two new independent directors to the Board, including a female for the first time. Amongst other suggestions, a key focus for our engagement has been reorganising the business segments, to move away from the conglomerate structure, and focusing on creating value in the multistorey car park segment.

We believe the value of NC Holdings is in the region of ¥3,000/share, +51% upside to the closing price at the end of the period. Given our large ownership, we plan to continue engaging with the company and have the capacity to add to the position further on share price weakness.

Pasona

Pasona was the largest detractor over the period, reducing returns by 299 bps, as its share price fell -43%. Pasona is a staffing company providing dispatch workers and outsourced processing services throughout Japan. The company has a 51% stake in listed company Benefit One, a corporate benefits platform, worth 201% of its market cap. Benefit One is a market leader and has achieved significant growth, compounding EBIT over the past five years at +17%. It has 11.3m captive members on its platform, about 19% of the 60m employed workers in Japan, providing stable cashflows and an opportunity to sell additional services. However, over the period its share price fell -63% as it was caught up in the violent growth sell-off. Although we previously had concerns over Benefit One's valuation, and accordingly reduced our position in Pasona at the end of last year, the magnitude of the share price fall is astounding, and Benefit One no longer seems overvalued.

Pasona itself has been benefitting from increased demand for outsourced services and a more fluid labour market. Over the last six months, Pasona reported respectable earnings, with profits of its unlisted businesses almost doubling year on year. On a trailing 12 months basis, operating profits are the highest in Pasona's history.

While we had hoped the improved performance of Pasona's unlisted businesses would continue to raise the market's awareness of Pasona's value, the discount has remained stubbornly wide, averaging 68% over the first half of the year. Pasona is making a greater effort this year to help realise the value in its business portfolio, having carried out IPOs of Circlace, a 43% owned digital experience consulting firm and Bewith, a business process outsourcing company. It is encouraging to see Pasona's newfound proactivity, and we expect that as the transparency of Pasona's businesses improves and the company continues to grow earnings, we will see a narrowing of the discount.

Digital Garage

Driven by a decline in the share price of listed price comparison website Kakaku.com (-27%) coupled with a widening of the discount from 31% to 37%, Digital Garage was the second largest detractor, reducing returns by 170 bps.

Digital Garage is a holding company whose key assets are a listed 21% stake in Kakaku.com and one of Japan's largest payment settlement businesses. We estimate that these two assets, along with small stakes in venture start-ups and a digital marketing business, are worth 59% more than the current share price.

We attribute the undervaluation partially to the holding structure, with an unjustifiably large stake in Kakaku.com, but also to an incoherent strategy that has been poorly communicated to investors. We sent two presentations to management last year, 72 pages and 23 pages long, which led to a new strategic direction entitled "DG FINTECH SHIFT", which was a great step in the right direction. However, the company's messaging remains unclear, with recent IR materials littered with slides presenting the company's old strategy. We sent the Board a letter this year, detailing our concerns and our intention to vote against the President. We hope to continue working with management to ensure Digital Garage can achieve its full potential and remain optimistic about unlocking the undervaluation.

Investment Manager's Report continued

Teikoku Sen-I

Teikoku Sen-I, the leading manufacturer and distributor of disaster prevention equipment in Japan, from fire hoses to airport firefighting trucks, detracted 111 bps from performance as its share price fell -29%. Given Japan's unstable geographic positioning, investing in disaster prevention infrastructure is a key focus area for the Government, which becomes top of the agenda with each new disaster. We believe that Teikoku Sen-I is well placed to continue benefitting from this trend and has a fantastic track record of diversifying into new business lines.

However, although Teikoku Sen-I reported better than expected quarterly results (full-year profits for the year ending December 2021 surpassed guidance by 36%), lacklustre guidance for profits to fall -12% next year disappointed. Still, the share price reaction seems overly harsh, particularly given the increased 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 period (before the share price fell) and over the past two years by -33%. 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.

Outlook

The performance of our portfolio in the wider context of weak markets is encouraging and shows that fundamentals and valuations do matter. In local currency terms it's quite a positive picture, with some portfolio companies trading around all-time high share prices (but, importantly, not valuations). The valuation of the portfolio is an attractive 5.7x EV/EBIT with net cash and listed securities covering 59% of the market cap. Combined with growing earnings and active engagement to increase valuations, we are excited about the prospect of continued outperformance.

Joe Bauernfreund
Asset Value Investors
27 September 2022

Investment Portfolio

At 30 June 2022

Company	Stock Exchange Identifier	% of investee company	Cost £'000*	Market value £'000	% of AJOT net assets	NFV/Market capitalisation[1]	EV/EBIT[1]
DTS	TSE: 9682	1.5	12,271	13,731	9.2%	43%	7.4
T Hasegawa	TSE: 4958	1.9	12,117	13,685	9.2%	28%	9.7
Wacom	TSE: 6727	1.4	11,679	11,934	8.0%	19%	8.2
Shin-Etsu Polymer	TSE: 7970	1.7	10,055	10,202	6.8%	53%	4.6
Fujitec	TSE: 6406	0.6	5,309	8,776	5.9%	34%	13.0
NS Solutions	TSE: 2327	0.4	8,649	8,642	5.8%	42%	6.4
NC Holdings	TSE: 6236	13.9	6,185	7,844	5.3%	51%	7.5
Konishi	TSE: 4956	2.0	8,966	7,731	5.2%	75%	2.1
LOCONDO	TSE: 3558	8.5	8,213	6,806	4.6%	29%	10.0
Digital Garage	TSE: 4819	0.6	7,427	6,770	4.5%	61%	6.2
Top ten investments			**90,871**	**96,121**	**64.5%**		
Pasona	TSE: 2168	1.2	5,112	5,718	3.8%	191%	<0.0
C Uyemura	TSE: 4966	0.9	4,557	5,646	3.8%	52%	3.8
SK Kaken	TSE: 4628	0.9	9,444	5,550	3.7%	111%	<0.0
Teikoku Electric MFG	TSE: 6333	2.4	4,453	4,740	3.2%	51%	6.0
A-One Seimitsu	TSE: 6156	8.0	4,571	4,723	3.2%	79%	5.8
Toagosei	TSE: 4045	0.5	5,753	4,138	2.8%	63%	2.8
Teikoku Sen-i	TSE: 3302	1.3	5,580	3,505	2.3%	80%	1.6
Alps Logistics	TSE: 9055	1.4	2,989	3,475	2.3%	46%	4.2
Daiwa Industries	TSE: 6459	0.9	4,027	3,223	2.2%	97%	0.3
Aichi	TSE: 6345	0.8	2,789	2,990	2.0%	68%	3.0
Top twenty investments			**140,146**	**139,829**	**93.8%**		
Soft99	TSE: 4464	1.9	2,811	2,847	1.9%	101%	<0.0
Tokyo Radiator MFG	TSE: 7235	4.9	4,250	2,825	1.9%	95%	<0.0
Papyless	TSE: 3641	2.6	2,287	1,807	1.2%	112%	<0.0
Sekisui Jushi	TSE: 4212	0.3	1,910	1,313	0.9%	91%	0.6
Advanced Media	TSE: 3773	1.1	730	867	0.6%	86%	2.0
Toyo Construction	TSE: 1890	–	10	10	0.0%	27%	6.1
Total investments			**152,144**	**149,498**	**100.3%**		

Other net assets and liabilities	(502)	(0.3%)[2]
Net assets	148,996	100.0%

* Please refer to Glossary on page 21.

[1] Estimates provided by AVI. Refer to Glossary on pages 21 and 22.

[2] Net gearing. Please refer to Glossary on page 22.

Principal Risks and Uncertainties

The principal risks and uncertainties associated with the Company's business are broadly unchanged from those set out in the 2021 Annual Report and include, but are not limited to, risks relating to the investment objective, gearing, reliance on the Investment Manager and other service providers, cyber security, portfolio liquidity and foreign exchange. Information on these risks and how they are managed is set out on pages 30 and 31 of the 2021 Annual Report.

The Board regularly performs a high-level review of the principal risks to ensure that the risk assessment is correct and relevant, adjusting mitigating factors and procedures as appropriate.

Directors' Responsibility Statement

The Directors confirm that to the best of their knowledge:

- the condensed set of financial statements has been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting; and gives a true and fair view of assets, liabilities, financial position and profit and loss of the Company; and
- this Interim Report includes a fair review of the information required by:
  a) DTR 4.2.7R of the Disclosure Guidance and Transparency Rules, being an indication of important events that have occurred during the period under review and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and
  b) DTR 4.2.8R of the Disclosure Guidance and Transparency Rules, being related party transactions that have taken place during the period ended 30 June 2022 and that have materially affected the financial position or performance of the Company during that period and any material changes in the related party transactions described in the last Annual Report.

This Interim Report was approved by the Board of Directors and the above responsibility statement was signed on its behalf by:

Norman Crighton
Chairman
27 September 2022

Statement of Comprehensive Income

For the period ended 30 June 2022 (unaudited)

		For the 6 month period to 30 June 2022			For the 6 month period to 30 June 2021			For the year ended 31 December 2021		
	Notes	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
Income										
Investment income	2	2,337	–	**2,337**	1,929	–	**1,929**	3,190	–	**3,190**
(Losses)/gains on investments held at fair value		–	(16,725)	**(16,725)**	–	1,986	**1,986**	–	15,646	**15,646**
Exchange losses on currency balances		–	(940)	**(940)**	–	(585)	**(585)**	–	(612)	**(612)**
		2,337	(17,665)	**(15,328)**	1,929	1,401	**3,330**	3,190	15,034	**18,224**
Expenses										
Investment management fee		(78)	(704)	**(782)**	(69)	(617)	**(686)**	(145)	(1,302)	**(1,447)**
Other expenses (including irrecoverable VAT)		(407)	–	**(407)**	(350)	–	**(350)**	(668)	–	**(668)**
Profit/(loss) before finance costs and tax		1,852	(18,369)	**(16,517)**	1,510	784	**2,294**	2,377	13,732	**16,109**
Finance costs		(12)	(110)	**(122)**	(11)	(98)	**(109)**	(21)	(187)	**(208)**
Exchange gains on revolving credit facility	3	–	1,027	**1,027**	–	1,635	**1,635**	–	1,956	**1,956**
Profit/(loss) before taxation		1,840	(17,452)	**(15,612)**	1,499	2,321	**3,820**	2,356	15,501	**17,857**
Taxation		(241)	–	**(241)**	(199)	–	**(199)**	(326)	–	**(326)**
Profit/(loss) for the period		**1,599**	**(17,452)**	**(15,853)**	**1,300**	**2,321**	**3,621**	**2,030**	**15,501**	**17,531**
Earnings per Ordinary Share – basic and diluted	5	**1.17p**	**(12.78p)**	**(11.61p)**	**1.01p**	**1.81p**	**2.82p**	**1.55p**	**11.89p**	**13.44p**

The total column of this statement is the Income Statement of the Company prepared in accordance with UK adopted international accounting standards in conformity with the requirements of the Companies Act 2006. The supplementary revenue and capital columns are presented in accordance with the Statement of Recommended Practice issued by the Association of Investment Companies ("AIC SORP").

All revenue and capital items in the above statement derive from continuing operations. No operations were acquired or discontinued during the period.

There is no other comprehensive income, and therefore the profit for the period after tax is also the total comprehensive income.

The accompanying notes are an integral part of these financial statements.

Statement of Changes in Equity

For the period ended 30 June 2022 (unaudited)

	Ordinary Share capital £'000	Share premium £'000	Special reserve* £'000	Capital reserve* £'000	Revenue reserve** £'000	Total £'000
For the six months to 30 June 2022						
Balance as at 31 December 2021	**1,332**	**55,374**	**77,324**	**25,230**	**1,461**	**160,721**
Issue of Ordinary Shares	**43**	**4,880**	**–**	**–**	**–**	**4,923**
Expenses of share issue	**–**	**(99)**	**–**	**–**	**–**	**(99)**
Ordinary Shares issued from Treasury	**–**	**–**	**264**	**–**	**–**	**264**
Total comprehensive (loss)/income for the period	**–**	**–**	**–**	**(17,452)**	**1,599**	**(15,853)**
Ordinary dividends paid	**–**	**–**	**–**	**–**	**(960)**	**(960)**
Balance as at 30 June 2022	**1,375**	**60,155**	**77,588**	**7,778**	**2,100**	**148,996**

	Ordinary Share capital £'000	Share premium £'000	Special reserve* £'000	Capital reserve* £'000	Revenue reserve** £'000	Total £'000
For the six months to 30 June 2021						
Balance as at 31 December 2020	1,175	38,242	77,588	9,729	1,216	**127,950**
Issue of Ordinary Shares	151	17,115	–	–	–	**17,266**
Expenses of share issue	–	(674)	–	–	–	**(674)**
Ordinary Shares bought back and held in Treasury	–	–	(264)	–	–	**(264)**
Total comprehensive income for the period	–	–	–	2,321	1,300	**3,621**
Ordinary dividends paid	–	–	–	–	(860)	**(860)**
Balance as at 30 June 2021	**1,326**	**54,683**	**77,324**	**12,050**	**1,656**	**147,039**

	Ordinary Share capital £'000	Share premium £'000	Special reserve* £'000	Capital reserve* £'000	Revenue reserve** £'000	Total £'000
For the year to 31 December 2021						
Balance as at 31 December 2020	1,175	38,242	77,588	9,729	1,216	**127,950**
Issue of Ordinary Shares	157	17,818	–	–	–	**17,975**
Expenses of share issue	–	(686)	–	–	–	**(686)**
Ordinary Shares bought back and held in Treasury	–	–	(264)	–	–	**(264)**
Total comprehensive income for the year	–	–	–	15,501	2,030	**17,531**
Ordinary dividends paid	–	–	–	–	(1,785)	**(1,785)**
Balance as at 31 December 2021	**1,332**	**55,374**	**77,324**	**25,230**	**1,461**	**160,721**

*The total distributable reserves are £87,466,000 (30 June 2021: £86,083,000; 31 December 2021: £82,941,000). Within the balance of the capital reserve, £7,778,000 (30 June 2021: £7,103,000; 31 December 2021: £4,156,000) relates to realised gains/(losses) which under the Articles of Association is distributable by way of dividend. The remaining £nil (30 June 2021: £4,947,000; 31 December 2021: £21,074,000) relates to unrealised gains on investments and is non-distributable.

**Revenue reserve is fully distributable by way of dividend.

The accompanying notes are an integral part of these financial statements.

Balance Sheet

As at 30 June 2022 (unaudited)

	Notes	At 30 June 2022 £'000	At 30 June 2021 £'000	At 31 December 2021 £'000
Non-current assets				
Investments held at fair value through profit or loss		**149,498**	153,527	171,249
		149,498	153,527	171,249
Current assets				
Other receivables		**508**	385	404
Cash and cash equivalents		**17,420**	13,787	8,165
		17,928	14,172	8,569
Total assets		**167,426**	167,699	179,818
Current liabilities				
Revolving credit facility	3	**(17,760)**	(19,108)	(18,787)
Other payables		**(670)**	(1,552)	(310)
		(18,430)	(20,660)	(19,097)
Total net assets		**148,996**	147,039	160,721
Equity attributable to equity Shareholders				
Ordinary Share capital	7	**1,375**	1,326	1,332
Share premium		**60,155**	54,683	55,374
Special reserve		**77,588**	77,324	77,324
Capital reserve		**7,778**	12,050	25,230
Revenue reserve		**2,100**	1,656	1,461
Total equity		**148,996**	147,039	160,721
Net asset value per Ordinary Share – basic and diluted (pence)	6	**108.39p**	111.08p	120.87p
Number of shares in issue excluding treasury shares	7	**137,461,702**	132,370,702	132,970,702

The accompanying notes are an integral part of these financial statements.

Statement of Cash Flows

For the period ended 30 June 2022 (unaudited)

	Six months to 30 June 2022 £'000	Six months to 30 June 2021 £'000	Year to 31 December 2021 £'000
Reconciliation of (loss)/profit before taxation to net cash inflow from operating activities			
(Loss)/profit before taxation	**(15,612)**	3,820	17,857
Losses/(gains) on investments held at fair value through profit or loss	**16,725**	(1,986)	(15,646)
(Increase)/decrease in other receivables	**(240)**	(84)	316
Exchange gains on revolving credit facility	**(1,027)**	(1,635)	(1,956)
Exchange losses on currency balances	**857**	657	694
Interest paid	**100**	98	187
Increase in other payables	**59**	38	7
Taxation paid	**(241)**	(199)	(326)
Net cash inflow from operating activities	**621**	709	1,133
Investing activities			
Purchases of investments	**(28,689)**	(36,078)	(62,903)
Sales of investments	**34,152**	22,611	44,036
Net cash inflow/(outflow) from investing activities	**5,463**	(13,467)	(18,867)
Financing activities			
Dividends paid	**(960)**	(860)	(1,785)
Issue of shares	**5,187**	16,880	17,975
Cost of share issues	**(99)**	–	(686)
Payments for Ordinary Shares bought back for Treasury	**–**	(264)	(264)
Issue/(repayment) of revolving credit facility net of costs	**–**	5,512	5,512
Interest paid	**(100)**	(98)	(187)
Cash inflow from financing activities	**4,028**	21,170	20,565
Increase in cash and cash equivalents	**10,112**	8,412	2,831
Reconciliation of net cash flow movement:			
Cash and cash equivalents at beginning of period	**8,165**	6,028	6,028
Exchange rate movements	**(857)**	(653)	(694)
Increase in cash and cash equivalents	**10,112**	8,412	2,831
Cash and cash equivalents at end of period	**17,420**	13,787	8,165

Notes to the Financial Statements

For the period ended 30 June 2022 (unaudited)

1 Accounting Policies

The condensed financial statements of the Company have been prepared in accordance with International Accounting Standards (IAS) 34 – "Interim Financial Reporting".

In the current period, the Company has applied amendments to IFRS. These include annual improvements to IFRS, changes in standards, legislative and regulatory amendments, changes in disclosure and presentation requirements. The adoption of these has not had any material impact on these financial statements and the accounting policies used by the Company in these half-year financial statements are consistent with the most recent Annual Report for the year ended 31 December 2021.

Basis of Preparation

In order to better reflect the activities of an investment trust company and in accordance with guidance issued by The AIC, supplementary information which analyses the Statement of Comprehensive Income between items of revenue and a capital nature has been prepared alongside the Statement of Comprehensive Income.

The financial statements are presented in the Company's functional currency, Pounds Sterling, rounded to the nearest thousand except where otherwise indicated.

Comparative Information

The financial information contained in this Interim Report does not constitute statutory accounts as defined in the Companies Act 2006. The financial information for the six month period ended 30 June 2022, and the six month period ended 30 June 2021, have not been audited or reviewed by the Company's Auditor. The comparative figures for the financial period ended 31 December 2021 are not the Company's statutory accounts for that financial period. Those accounts have been reported on by the Company's Auditor and delivered to the Registrar of Companies. The report of the Auditor was (i) unqualified, (ii) did not include a reference to any matters to which the Auditor drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

Going Concern

The financial statements have been prepared on a going concern basis and on the basis that approval as an investment trust company will continue to be met.

The Directors have made an assessment of the Company's ability to continue as a going concern and are satisfied that the Company has adequate resources to continue in operational existence for a period of at least 12 months from the date when these financial statements were approved.

In making the assessment, the Directors of the Company have considered the likely impacts of international and economic uncertainties on the Company's operations and the investment portfolio. These include, but are not limited to, the impact of COVID-19, the war in Ukraine, supply shortages, political instability in the UK and inflationary pressures.

The Directors noted the Company holds a portfolio of liquid investments whose value is a multiple of liabilities. The Directors are of the view that the Company can meet its obligations as they fall due. The cash available and revolving credit facility enables the Company to meet any funding requirements and finance future additional investments. The Company is a closed-end fund, where assets are not required to be liquidated to meet day-to-day redemptions.

The Board has reviewed stress testing and scenario analysis prepared by the Investment Manager to assist them in assessing the impact of changes in market value and income with associated cash flows. In making this assessment, the Investment Manager has considered plausible downside scenarios. These tests included the possible further effects of the continuation of the COVID-19 pandemic but, as an arithmetic exercise, apply equally to any other set of circumstances in which asset value and income are significantly impaired. It was concluded that in a plausible downside scenario, the Company could continue to meet its liabilities. Whilst the economic future is uncertain, and the Directors believe that it is possible the Company could experience further reductions in income and/or market value, the opinion of the Directors is that this should not be to a level which would threaten the Company's ability to continue as a going concern.

The Directors, Investment Manager and other service providers have put in place contingency plans to minimise disruption. Furthermore, the Directors are not aware of any material uncertainties that may cast significant doubt on the Company's ability to continue as a going concern, having taken into account the liquidity of the Company's investment portfolio and the Company's financial position in respect of its cash flows, borrowing facilities and investment commitments (of which there are none of significance). Therefore, the financial statements have been prepared on the going concern basis.

Notes to the Financial Statements continued

2 Income

	Six months to 30 June 2022 £'000	Six months to 30 June 2021 £'000	Year to 31 December 2021 £'000
Income from investments			
Overseas dividends	**2,405**	1,987	3,265
Bank and deposit interest	**(18)**	(13)	(30)
Exchange losses on receipt of income*	**(50)**	(45)	(45)
Total income	**2,337**	1,929	3,190

* Exchange movements arise from ex-dividend date to payment date.

3 Revolving Credit Facility

	Six months to 30 June 2022		Six months to 30 June 2021		Year to 31 December 2021	
	¥'000	£'000	¥'000	£'000	¥'000	£'000
Opening balance	**2,930,000**	**18,787**	2,150,000	15,231	2,150,000	15,231
Proceeds from amounts drawn	**–**	**–**	780,000	5,512	780,000	5,512
Exchange rate movement	**–**	**(1,027)**	–	(1,635)	–	(1,956)
Closing balance	**2,930,000**	**17,760**	2,930,000	19,108	2,930,000	18,787
Maximum facility available	**2,930,000**	**17,760**	4,330,000	28,239	4,330,000	27,764

Effective 2 February 2022, the Company extended the Revolving Credit Facility ("the facility") for a further two years to 2 February 2024 with the ¥1.4 billion option removed to leave a facility size of ¥2.93 billion. Interest is charged at the Tokyo Overnight Average Rate ("TONAR") plus 1.15% (prior to 2 February 2022 interest was charged at LIBOR plus 0.95%).

When less than 50% of the facility is utilised, commitment fees of 0.375% are charged on undrawn balances. If over 50% is drawn down, 0.325% is payable on the undrawn amount. As at the date of this report, the Company has drawn down the ¥2.93 billion facility in full and no commitment fee is payable.

Under the terms of the facility the net assets shall not be less than £75 million and the adjusted total net assets to borrowing ratio shall not be less than 4.5:1.

The facility is shown at amortised cost and revalued for exchange rate movements. Any gain or loss arising from changes in exchange rates is included in the capital reserves. Interest costs are charged to capital and revenue in accordance with the Company's accounting policies.

4 Dividends per Ordinary Share

A final dividend of 0.70 pence per Ordinary Share for the period ended 31 December 2021 was paid on 26 May 2022 to Ordinary Shareholders on the register at the close of business on 29 April 2022 (ex-dividend date 28 April 2022).

An interim dividend of 0.75 pence per Ordinary Share for the period ended 30 June 2022 has been declared and will be paid on 11 November 2022 to Ordinary Shareholders on the register at the close of business on 14 October 2022 (ex-dividend date is 13 October 2022).

Notes to the Financial Statements continued

5 Earnings per Ordinary Share

	Six months to 30 June 2022			Six months to 30 June 2021			Year to 31 December 2021		
	Revenue	Capital	Total	Revenue	Capital	Total	Revenue	Capital	Total
Net profit/(loss) (£'000)	**1,599**	**(17,452)**	**(15,853)**	1,300	2,321	3,621	2,030	15,501	17,531
Weighted average number of Ordinary Shares			**136,544,967**			128,205,505			130,418,782
Earnings per Ordinary Share (pence)	**1.17**	**(12.78)**	**(11.61)**	1.01	1.81	2.82	1.55	11.89	13.44

There are no dilutive instruments issued by the Company.

6 Net Asset Value per Ordinary Share

The net asset value per Ordinary Share is based on net assets of £148,996,000 (30 June 2021: £147,039,000; 31 December 2021: £160,721,000) and on 137,461,702 Ordinary Shares (30 June 2021: 132,370,702; 31 December 2021: 132,970,702), being the number of Ordinary Shares in issue excluding treasury shares.

7 Share Capital

	At 30 June 2022 Ordinary Shares of 1p each	
	Number of shares	Nominal value £'000
Allotted, called-up and fully paid		
Balance at beginning of period	**133,220,702**	**1,332**
Issue of Ordinary Shares	**4,241,000**	**43**
Balance at end of period	**137,461,702**	**1,375**
Treasury shares		
Balance at beginning of period	**250,000**	
Issue of Ordinary Shares from Treasury	**(250,000)**	
Balance at end of period	**–**	
Total Ordinary Share Capital excluding treasury shares	**137,461,702**	

During the period to 30 June 2022, 4,491,000 Ordinary Shares (30 June 2021: 15,130,960; 31 December 2021: 15,730,960) were issued for a net consideration of £5,187,000 (30 June 2021: £16,592,000; 31 December 2021: £17,289,000), including 250,000 Ordinary Shares (30 June 2021: nil; 31 December 2021: nil) issued from Treasury (30 June 2021: £nil; 31 December 2021: £nil).

Notes to the Financial Statements continued

8 Values of Financial Assets and Financial Liabilities

Valuation of financial instruments

The Company measures fair values using the following hierarchy that reflects the significance of the inputs used in making the measurements.

The fair value is the amount at which the asset could be sold or the liability transferred in an orderly transaction between market participants, at the measurement date, other than a forced or liquidation sale.

Categorisation within the hierarchy has been determined on the basis of the lowest level input that is significant to the fair value measurement of the relevant assets as follows:

- Level 1 – valued using quoted prices, unadjusted in active markets for identical assets or liabilities.
- Level 2 – valued by reference to valuation techniques using observable inputs for the asset or liability other than quoted prices included in Level 1.
- Level 3 – valued by reference to valuation techniques using inputs that are not based on observable market data for the asset or liability.

Financial assets

The table below sets out fair value measurements of financial instruments as at the period end, by the level in the fair value hierarchy into which the fair value measurement is categorised.

Financial assets at fair value through profit or loss at 30 June 2022	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equity Investments	**149,498**	**–**	**–**	**149,498**
	149,498	**–**	**–**	**149,498**

Financial assets at fair value through profit or loss at 30 June 2021	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equity Investments	153,527	–	–	153,527
	153,527	–	–	153,527

Financial assets at fair value through profit or loss at 31 December 2021	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equity Investments	171,249	–	–	171,249
	171,249	–	–	171,249

There have been no transfers during the period between Levels 1, 2 and 3.

9 Related Parties and Transactions with the Investment Manager

Investment management fees for the period amounted to £782,000 (six months to 30 June 2021: £686,000; year to 31 December 2021: £1,447,000).

At the period end, £127,000 (30 June 2021: £116,000; 31 December 2021: £133,000) remained outstanding in respect of management fees.

The management fee of 1% per annum is calculated on the lesser of the Company's net asset value or Market Capitalisation at each quarter end. The Investment Manager will invest 25% of the management fee it receives in shares of the Company and will hold these for a minimum of two years. As at 30 June 2022, AVI held 1,075,000 shares of the Company and at the date of this report, this had increased to 1,175,000 shares.

Fees paid to Directors for the period ended 30 June 2022 amounted to £69,000 (six months to 30 June 2021: £64,000; year to 31 December 2021: £130,000).

Finda Oy and City of London Investment Management Company Limited ("City of London"), significant Shareholders of the Company, are deemed to be related parties of the Company for the purposes of the Listing Rules by virtue of their holdings in the Company's issued share capital. During the period under review no material transactions took place between the Company and Finda Oy nor City of London. As at 30 June 2022 the Company had not been notified of any change to Finda Oy's holding of 30,000,000 Ordinary Shares reported in the period to 31 December 2021, which represented 21.8% of the total voting rights as at 30 June 2022 (six months to 30 June 2021: 22.6%; year to 31 December 2021: 22.8%). As at 30 June 2022 the Company had not been notified of any change to City of London's holding of 23,000,685 Ordinary Shares reported in the period to 31 December 2021, which represented 16.7% of the total voting rights as at 30 June 2022 (six months to 30 June 2021: 17.3%; year to 31 December 2021: 17.7%).

AIFMD Disclosures

The Company's AIFM is Asset Value Investors Limited.

The AIFMD requires certain information to be made available to investors in AIFs before they invest and requires that material changes to this information be disclosed in the annual report of each AIF. Those disclosures that are required to be made pre-investment are included within an AIFMD Investor Disclosure Document. This, together with other necessary disclosures required under AIFMD, can be found on the Company's website www.ajot.co.uk. All authorised AIFMs are required to comply with the AIFMD Remuneration Code. The AIFM's remuneration disclosures can be found on the Company's website www.ajot.co.uk.

Glossary

Alternative Performance Measure ("APM")

An APM is a numerical measure of the Company's current, historical or future financial performance, financial position or cash flows, other than a financial measure defined or specified in the applicable financial framework.

The definitions below are utilised for the measures of the Company, the investment portfolio and underlying individual investments held by the Company. Certain of the metrics are to look through the investments held, excluding certain non-core activities, so the performance of the actual core of the investment may be evaluated. Where a company in the investment portfolio holds a number of listed investments these are excluded in order to determine the actual core value metrics.

Comparator Benchmark

The Company's Comparator Benchmark is the MSCI Japan Small Cap Index, expressed in Sterling terms. The benchmark is an index which measures the performance of the Japan equity market. The weighting of index constituents is based on their market capitalisation.

Dividends paid by index constituents are assumed to be reinvested in the relevant securities at the prevailing market price. The Investment Manager's investment decisions are not influenced by whether a particular company's shares are, or are not, included in the benchmark. The benchmark is used only as a yard stick to compare investment performance.

Cost

The book cost of each investment is the total acquisition value, including transaction costs, less the value of any disposals or capitalised distributions allocated on a weighted average cost basis.

Discount/Premium

If the share price is lower than the NAV per share it is said to be trading at a discount. The size of the discount is calculated by subtracting the share price from the NAV per share and is usually expressed as a percentage of the NAV per share. If the share price is higher than the NAV per share, this situation is called a premium.

The discount and performance are calculated in accordance with guidelines issued by the AIC. The discount is calculated using the net asset values per share inclusive of accrued income with debt at market value.

Earnings Before Interest and Taxes ("EBIT")

EBIT is equivalent to profit before finance costs and tax set out in the statement of comprehensive income.

Enterprise Value ("EV")

Enterprise Value reflects the economic value of the business by taking the market capitalisation less cash, investment securities and the value of treasury shares plus debt and net pension liabilities.

Enterprise Value ("EV")/Earnings Before Interest and Taxes ("EBIT")

A multiple based valuation metric that takes account of the excess capital on a company's balance sheet. For example, if a company held 80% of its market capitalisation in NFV (defined under Net Financial Value / Market Capitalisation), had a market capitalisation of 100 and EBIT of 10, the EV/EBIT would be 2x, (100-80)/10.

Enterprise Value ("EV") Free Cash Flow Yield ("EV FCF Yield")

A similar calculation to free cash flow yield except the free cash flow excludes interest and dividend income and is divided by enterprise value. This gives a representation for how overcapitalised and undervalued a company is. If a company were to pay out all of its NFV (defined under Net Financial Value/Market Capitalisation) and the share price remained the same, the EV FCF Yield would become the FCF yield. For example, take a company with a market capitalisation of 100 that had NFV of 80 and FCF of 8. The FCF yield would be 8%, 8/100, but if the company paid out all of its NFV the FCF yield would become 40%, 8/(100-80). This gives an indication of how cheaply the market values the underlying business once excess capital is stripped out.

Free Cash Flow ("FCF") Yield

Free cash flow is the amount of cash profits that a business generates, adjusted for the minimum level of capital expenditure required to maintain the company in a steady state. It measures how much a business could pay out to equity investors without impairing the core business. When free cash flow is divided by the market value, we obtain the free cash flow yield.

Glossary continued

Gearing

Gearing refers to the ratio of the Company's debt to its equity capital. The Company may borrow money to invest in additional investments for its portfolio. If the Company's assets grow, the Shareholders' assets grow proportionately more because the debt remains the same. But if the value of the Company's assets falls, the situation is reversed. Gearing can therefore enhance performance in rising markets but can adversely impact performance in falling markets.

The gearing of 11.9% represents borrowings of £17,760,000 expressed as a percentage of Shareholders' funds of £148,996,000.

The net gearing of 0.3% represents borrowings net of cash and current assets of £502,000 expressed as a percentage of Shareholders' funds of £148,996,000.

Net Asset Value ("NAV")

The NAV is Shareholders' funds expressed as an amount per individual share. Shareholders' funds are the total value of all of the Company's assets, at their current market value, having deducted all liabilities and prior charges at their par value, or at their asset value as appropriate. The total NAV per share is calculated by dividing the NAV by the number of Ordinary Shares in issue.

Net Cash/Market Capitalisation

Net cash consists of cash and the value of treasury shares less debt and net pension liabilities. It is a measure of the excess cash on a company's balance sheet and, by implication, how much value the market attributes to the core operating business. For example, the implied valuation of the core operating business of a company trading with a net cash/market capitalisation of 100% is zero.

Net Financial Value ("NFV")/Market Capitalisation

Net Financial Value consists of cash, investment securities (less capital gains tax) and the value of treasury shares less debt and net pension liabilities. A measure of the excess cash on a company's balance sheet and, by implication, how much value the market attributes to the core operating business. For example, the implied valuation of the core operating business of a company trading with a NFV/market capitalisation of 100% is zero.

Ongoing Charges Ratio

As recommended by The AIC in its guidance, ongoing charges are the Company's annualised expenses of £1,564,000 (excluding finance costs and certain non-recurring items) expressed as a percentage of the average monthly net assets of £153,515,000 of the Company during the period.

Portfolio Discount

A proprietary estimate of how far below fair value a given company is trading. For example, if a company with a market capitalisation of 100 had 80 NFV and a calculated fair value of the operating business of 90, we would attribute it a discount of -41%, 100/(90+80) -1. This indicates the amount of potential upside. The company trading on a -41% discount has a potential upside of +69%, 1/(1-0.41).

Portfolio Yield

The weighted-average dividend yield of each underlying company in AJOT's portfolio.

Return on Equity ("ROE")

A measure of performance calculated by dividing net income by shareholder equity.

ROE ex non-core financial assets

Non-core financial assets consists of cash and investment securities (less capital gains tax) less debt and net pension liabilities. The ROE is calculated as if non-core financial assets were paid out to shareholders. Companies with high balance sheet allocations to non-core, low yielding financial assets have depressed ROEs. The exclusion of non-core financial assets gives a fairer representation of the true ROE of the underlying business.

Total Return – NAV and Share Price Returns

The combined effect of any dividends paid, together with the rise or fall in the share price or NAV. Total return statistics enable the investor to make performance comparisons between investment trusts with different dividend policies. Any dividends received by a Shareholder are assumed to have been reinvested in either additional shares in the Company or in the assets of the Company at the prevailing NAV, in either case at the time that the shares begin to trade ex-dividend.

Shareholder Information

Investing in the Company

The Company's Ordinary Shares are traded on the London Stock Exchange and can be bought directly on the London Stock Exchange or through the platforms listed on www.ajot.co.uk/how-to-invest/platforms/.

Share Prices

The share price is published daily in The Financial Times, as well as on the Company's website: www.ajot.co.uk.

Dividends

Shareholders who wish to have dividends paid directly into a bank account rather than by cheque to their registered address can complete a mandate form for the purpose. Mandate forms may be obtained from Link Group, using the contact details given below or via www.signalshares.com. The Company operates the BACS system for the payment of dividends. Where dividends are paid directly into Shareholders' bank accounts, dividend tax vouchers are sent to Shareholders' registered addresses.

Registrar Customer Support Centre

Link Group Customer Support Centre is available to answer any queries you have in relation to your shareholding:

- By phone: from the UK, call 0371 664 0300, from overseas call +44 (0) 371 664 0300 (calls are charged at the standard geographic rate and will vary by provider; calls from outside the UK will be charged at the applicable international rate. Lines are open between 09:00-17:30, Monday to Friday excluding public holidays in England and Wales);
- By email: shareholderenquiries@linkgroup.co.uk;
- By post: Link Group, 10th Floor, Central Square, 29 Wellington Street, Leeds, LS1 4DL.

Change of Address

Communications with Shareholders are mailed to the last address held on the share register. Any change or amendment should be notified to Link Group using the contact details given above, under the signature of the registered holder.

Daily Net Asset Value

The daily net asset value of the Company's shares can be obtained from the London Stock Exchange or via the website: www.ajot.co.uk.

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