

April 2023

Investment Objective: To achieve capital growth through investing in a focused portfolio of over-capitalised small cap Japanese equities. Asset Value Investors will leverage its three decades of experience investing in asset-backed companies to engage with company management and help to unlock value in this under-researched area of the market

HEADLINES

LOCONDO

LOCONDO with its +62% share price return and 314bps contribution was the standout performer.

[Read more below](#)

Shareholder Proposals

We expect that our shareholder proposals to two companies' June AGMs will be made public in the coming months.

[Read more below](#)

Shin-Etsu Polymer

Shin-Etsu Polymer's share price weakened -11% which followed the release of results towards the end of the month.

[Read more below](#)

THE FUND

(Figures to 30 April 2023)

Unit Price:

€103.8

EV/EBIT:

8.7x

Net Cash % Market Cap:

32.4%

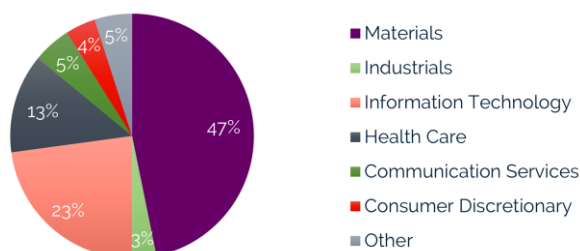
NFV % Market Cap:

51.1%

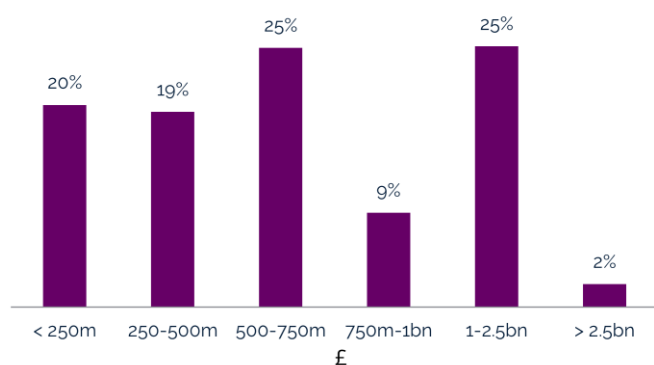
EUR €	Month	Year to Date	Since Inception
AJF NAV:	1.1%	10.3%	6.9%
MSCI Japan Small Cap:	-0.9%	1.3%	4.1%
JPY ¥	Month	Year to Date	Since Inception
AJF NAV:	5.1%	17.8%	13.3%
MSCI Japan Small Cap:	3.0%	8.1%	10.4%

PORTFOLIO

Sector Breakdown (% of Portfolio)



Market Cap Breakdown (% of Portfolio)



Top Ten Equity Holdings % of NAV

Holding	%
TSI Holdings	8.8
Wacom	8.8
Nihon Kohden	8.5
Locondo	7.7
Konishi	7.0
T Hasegawa	7.0
DTS Corp	6.7
Shin-Etsu Polymer	6.6
Digital Garage	6.6
Fujitec	5.0
TOTAL	72.7

MANAGER'S COMMENT

The fund's NAV increased +1.1% over the month. LOCONDO, with its +62% share price return and 314bps contribution, was the standout performer while Fujitec and Digital Garage added 36bps each. Shin-Etsu Polymer and NC Holdings were detractors, reducing returns by 111bps and 81bps respectively. Yet again Yen weakness weighed on Sterling returns acting as a -5.1% headwind over the month.

We marginally reduced our holding in Fujitec, although remain supportive of the new board's aim to strengthen corporate governance and grow shareholder value. We are building positions in two new undisclosed companies, both cash rich and deeply undervalued while we exited a small position in Papyless.

At the end of the month, the weighted average EV/EBIT valuation multiple on the portfolio was 8.7x with net cash and investment securities covering 51% of the market cap (both broadly unchanged from last month). As we approach the June AGM season, we have been busy engaging with Companies and, while most of our engagement will stay private, we expect that our shareholder proposals to two companies will be made public.

LOCONDO (3558) – strong performance

LOCONDO's +62% performance over the month came after it reported full-year results and published a highly informative shareholder letter. Beginning the month as a 6.0% position, it added 314bps to performance.

Full-year profits came in above forecasts (Y991m vs. Y900m), but it was the Company's +33% and +76% sales and profit growth forecast for next year that excited investors. LOCONDO has been heavily investing in its logistics capacity with fixed costs weighing on profits. Last year it won the right to manage the Reebok brand in Japan in a JV with Itochu. Having already made the warehouse capacity investments, Reebok's incremental sales flowed straight to profits. Next year's profit guidance is in-line with LOCONDO's mid-term plan, and management estimated that - with further accretive acquisitions - they can grow profits by 34% the year after next.

Alongside results, LOCONDO announced a 3.6% share buyback and that it will be changing its name to Jade Group. CEO Yusuke Tanaka's insightful [14 page shareholder letter](#), detailed the history of LOCONDO, what they have learned, and the strategy for future growth. He made a compelling argument for why LOCONDO should trade not at its current ¥20bn market cap, but with a market cap of ¥30bn-50bn. While it will take perfect execution of the plan to meet the higher end of the range, we don't think it is entirely unrealistic. Across AVI funds, we are LOCONDO's largest shareholder, owning 10% of the shares, and are optimistic about the Company's growth prospects, which we don't think are being fairly recognised by investors in its 11x EV/EBIT multiple.

Shin-Etsu Polymer (7970) – parent/subsidiary opportunity

Shin-Etsu Polymer's share price weakened -11% following the release of results towards the end of the month. As one of our largest positions it reduced returns by 111bps. The company's full-year results undershot consensus by -8% driven by higher electricity and logistics costs. Next year's guidance also underwhelmed with +3% and +2% sales and profit growth respectively. Despite the recent share price weakness, Shin-Etsu Polymer has been one of the strongest performers year to date with a share price gain of +19%. Management plans to disclose a mid-term plan for the first time later in May (something we had suggested to them), a positive step towards improving shareholder communication. Trading on a 4.6x EV/EBIT multiple with the possibility of being privatised by its parent company Shin-Etsu Chemical, we are optimistic about the upside potential.

STATISTICS

Contributors / Detractors (in EUR)

Largest Contributors	1-month contribution bps	Percent of NAV
Locondo	314	7.7
Fujitec	36	5.0
Digital Garage	36	6.6

Largest Detractors	1-month contribution bps	Percent of NAV
Shin-Etsu Polymer	-111	6.6
NC Holdings	-81	4.8
Wacom	-39	8.8

Fund Facts

AVI Japan Fund

Launch Date: 8 September 2022

Net Assets: €4,144,777

Investment Manager: Asset Value Investors Limited

AJF Minimum Investment: €100,000 or currency equivalent

Fund Structure: Irish Qualifying Investor Alternative Investment Fund

Management Fee: 1.0%

Website: www.AJF-fund.com

Ticker Code: AVIJAPY

Class

A	EUR	IE000Y00WKT3
B	USD	IE000NOYN6O8
C	GBP	IE000TWDE6J8
D	JPY	IE000CoSTZS6
E	EUR	IE000YSO17A7
E	GBP	IE000HCG7Z92
E	JPY	IE0004D4HG49
E	USD	IE000EYJWQX3

Investment Manager – Joe Bauernfreund

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The share price can be found in www.AJF-fund.com

Further Information may be found on the following websites:

www.AJF-fund.com

www.assetvalueinvestors.com



IMPORTANT INFORMATION

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