Q4 – December 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
Q4 2022	38%	58%	6.7x	6.2%	11.7%	2.4%

MANAGER'S COMMENT

Dear AJF Shareholders,

The Fund's NAV decreased by -3.1% since launch at the start of September. Digital Garage saw its share price increase +32%, following engagement pressure from us and another shareholder, while a difficult consumer environment weighed on Wacom's share price.

Inflation continued to creep higher with core CPI in November coming in at 3.8%, the highest since the late 1980s. Pressure from inflation and relatedly, a low approval rating for Prime Minister Kishida, might have been the catalyst for the BoJ modifying its 10-year JGB yield target from 0% ±0.25% to 0% ±0.5%. Although only slight, it signalled a potential change in policy that might pave the way for further rate increases next year. The effect was a strengthening of the Yen against Sterling, which at one point over the quarter had weakened by -5.7% but ended up +1.5%.

While our engagement over the quarter was undertaken in private, it was good to see a spate of public actions from our fellow investors in both portfolio names and in companies we do not own. After building a near 20% stake, Cornwall Capital successfully convinced the management of Uniden (not owned by AJOT) to support their tender offer to privatise the company, in what we believe is the first successful friendly tender offer completed by a foreign engagement fund. Shareholders called EGMs at Fujisoft, Fujitec and Japan Securities Finance, while JAFCO offered a tender offer for 24% of its share count to thwart the approach of the Murakami fund.

Increased public engagement activity is helpful for our endeavours, as it reminds management at our portfolio companies of their responsibilities to shareholders and the risks of not listening to our suggestions. Support from regulators is also helpful, and it was encouraging that over the quarter the Tokyo Stock Exchange solicited views from market participants on how to raise the Price-Book (P/B) ratios of Japanese companies. The Ministry of Economy, Trade and Industry (METI), acting as an observer and who were expected to represent the position of companies, asked whether companies with P/B ratios below 1x should be excluded from the TOPIX.

2022 was a tough year for risk assets, and there were few safe havens. The BBG UK Govt All Bonds TR Index fell -25% (in GBP), the MSCI AC World Index fell -8% (in GBP) while the growth-orientated NASDAQ fell -24% (in GBP). Japanese equities fared well, with the TOPIX Index falling by a modest -3% in JPY and by only -5% in GBP. AJOT too proved a source of resilience, with a NAV decline of -4%. While difficult to predict what 2023 has in store, we continue to believe that valuations are important, and with the portfolio trading on only a 6.7x EV/EBIT we are optimistic about the return prospects.

Nihon Kohden (6849) – Global Medical Equipment Manufacturer with 100% Upside

We started building a position in Nihon Kohden (NK) at the end of September and, reflective of its relatively high liquidity, managed to take it to a 5.3% position by the end of the quarter. NK is a $2bn market cap medical equipment manufacturer famed for its quality and world-class award-winning products, including patient monitors, ventilators, and defibrillators. NK has generated a 5.4% 20-year sales CAGR, with sales declining in only 3 of the past 37 years and has grown its overseas business to just over a third of sales. We expect this growth to continue as NK benefits from structural growth from an ageing population, commensurately higher healthcare expenditure, and a shift to higher value-add digital solutions.

Trading on a forward EV/EBIT multiple of 10x vs peers' 15x, we do not believe NK's growth potential and Trading on a forward EV/EBIT multiple of 10x vs peers' 15x, we do not believe NK's growth potential and quality are being recognised by the market. This is in part a reflection of a bloated balance sheet with net cash and investment securities accounting for 26% of the market cap, suboptimal IR disclosure, and a misperception surrounding NK's overseas growth opportunity.

MANAGER'S COMMENT

Alongside addressing the undervaluation, we have identified several operational improvements which we believe would allow NK to achieve profit growth of +9% CAGR over the next 10 years. These range from enhancing digital solutions, exploring a post-hospital wearable device offering, implementing various measures we have identified to expand operating margins to 15% (from sub-10% currently), and increasing consumables and in-house manufactured products. NK's shareholder register should be supportive of improvements, with 44% of the company owned by foreigners and no presence of allegiant shareholders.

We have so far met with IR, the head of Accounting, the Head of Japan Operations, and the President (Grandson of the Founder). Our meetings have been fruitful and during one meeting, the President asked for feedback on how to rectify the share price undervaluation, agreeing with our analysis that the share price could be +100% higher. NK has all the attributes we look for; a high-quality growing business, undervalued, and cash-rich with an engagement angle to unlock the value.

Fujitec (6406) – Shareholder Calls an EGM to Replace Outside Directors

In November, activist investor Oasis Management called an Extraordinary General Meeting (EGM) at Fujitec. Since we established a position in 2018, we have engaged with Fujitec on an assortment of topics ranging from operational improvements to enhancing corporate governance, launching a public website in May 2021. Fujitec has taken excellent steps in improving its corporate value, and we have achieved a +88% return over the life of our investment. However, we are in full support of Oasis' campaign to revitalise Fujitec's Board, who, since Oasis raised accusations of inappropriate transactions from the founding Uchiyama family earlier this year, have acted with disregard for shareholders.

Oasis' EGM notice seeks to replace all six incumbent independent directors, while retaining three executives who currently reside on the Board. The objective is to bring new elevator industry experience, reform the governance structure and, ultimately, unlock trapped value. We expect that, given the disgruntled shareholder base, there is a healthy chance that within the next three months Fujitec will have a significantly different board, and one that will finally rid the Company of Uchiyama's overbearing shadow and focus the Company on creating shareholder value.

Teikoku Electric – Engagement Success

We sent a 51-slide presentation to management at the end of May with a particular focus on exiting a loss-making non-core business and addressing the inefficient balance sheet. Since commencing our dialogue, management's openness to considering a sale of their non-core business has improved and they have taken aggressive steps towards improving balance sheet efficiency. After committing to paying out 100% of earnings earlier in the year, during the quarter Teikoku Electric announced a buyback of 4.3% of its shares and a 110% increase in the dividend. The buyback comes shortly after another 4.2% buyback, meaning in just under a year and a half Teikoku Electric will have bought back 8.5% of its shares while paying a 4.9% dividend yield. Naturally, the share price reacted favourably and coupled with a +52% upgrade to full-year profit guidance, increased by +25% over the quarter adding 39bps to performance.

Q4 2022 Contributors and Detractors

Digital Garage (DG) saw a meteoric +32% increase in its share price over the quarter adding 180bps to returns. This was driven exclusively by discount narrowing from 36% to 13%, with DG's NAV falling over the period, as the share price of its 20% stake in listed Kakaku.com, accounting for 45% of its market cap at the start of the period, fell -14%.

DG is a holding company whose key assets are its stake in Kakaku.com and DG Fin Tech, one of Japan's largest payment settlement businesses. We have been engaging with DG intensively since February 2021 when we sent a detailed presentation outlining several issues that we believed were contributing to DG's undervaluation. We called for a review of the confusing holding company structure and greater focus on the payments business. Management responded favourably to our suggestions outlining a clearer strategy, improving shareholder communications, and concentrating on the payments business through a new initiative called "DG FinTech Shift".

What management had so far been reluctant to address was DG's overexposure to a non-core stake in Kakaku.com. Over the quarter management finally starting to act, selling a modest 3% of their holding and deploying the proceeds into a 3.4% share buyback. Proving Kakaku.com was not a sacred cow buoyed the share price. Then in December the share price took a further jump after an activist investor launched a public campaign calling on DG to sell its stake in Kakaku.com and restructure into two entities, in keeping with the suggestions we made in private.

While DG's discount has narrowed, in a scenario where DG splits into two entities, a more likely event with two shareholders engaging on the same topic, we believe the upside could be over +50%.

MANAGER'S COMMENT

The largest detractor over both the quarter and year was **Wacom**, who saw its share price decline -18% and -35% respectively. Being a large weight, the decline had a meaningful impact detracting 274bps from performance. Wacom is the global leader of digital pen solutions, and our investment was premised on the increased adoption of digital drawing and writing. Wacom manufactures its own branded tablets and sells its technology to other electronic device manufacturers, for example the S22 Ultra smartphone which launched at the start of 2022 had an embedded Wacom pen.

While we continue to believe that digital writing solutions will see strong growth over the long-term, inflationary cost pressures and diminished consumer spending power have weighed on short-term profits. Encouragingly, Wacom's B2B business has been resilient with a growing customer base and higher adoption of digital pens, but the consumer business has suffered from a demand-led slowdown. In October Wacom released a profit warning revising down its full-year sales and profit guidance by -11% and -56% respectively.

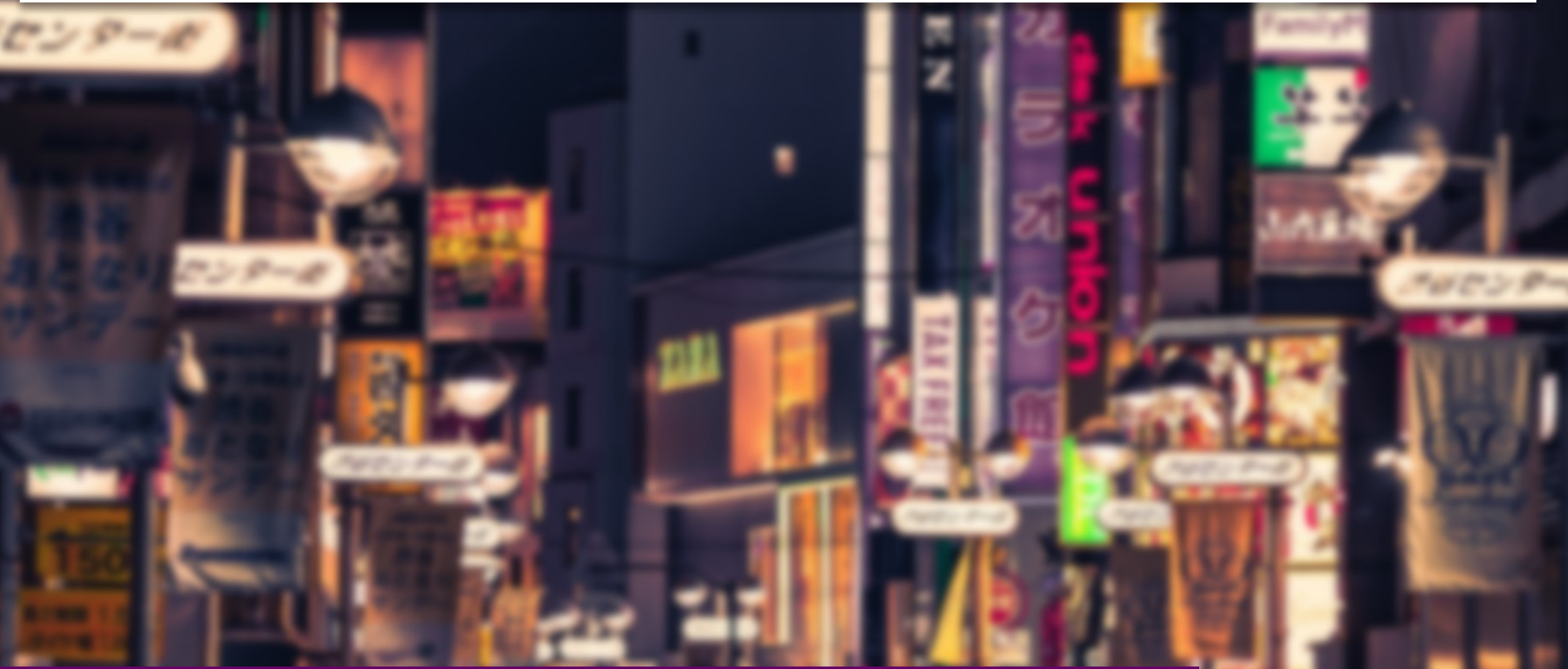
We have been a little disappointed in Wacom's investor communications surrounding the profit decline, with comments shortly before the profit warning now appearing naively optimistic and poor planning to control gross margins and SG&A expenses. We sent a letter during November outlining seven actions we think management can take to aid the situation. We recognise that the consumer environment is out of management's control, but there are several self-help measures that we would like to see implemented.

Our conviction in Wacom's technology and long-term growth potential is unchanged, and the market's myopic focus presents an opportunity to take advantage of the share price dislocation. Using normalised earnings, Wacom trades on an EV/EBIT multiple of only 5.5x, a remarkably low valuation considering Wacom's technology and structural growth tailwinds from the increased adoption of digital writing solutions. As a top three shareholder, we are working closely with management to address the underperformance and ensure efforts are being made to maximise shareholder value. With a return to normalised profits, our estimated potential upside to the current share price is in the order of +100%.

Quarterly Contributors / Detractors

Largest Contributors	Quarterly Contribution bps	Percent of NAV
Digital Garage	180	6.4%
NC Holdings	58	4.5%
Alps Logistics	29	3.4%

Largest Detractors	Quarterly Contribution bps	Percent of NAV
Wacom	-274	8.6%
Shin-Etsu Polymer	-134	6.4%
LOCONDO	-80	6.0%



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

Information may be found on the following websites:
www.AJF-fund.com
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