

July 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

## Takuma

CLSA summed up Takuma's potential in an excellent note, which we suspect bolstered the shares over the month, entitled "Recurring Dream".

[Read more below](#)

## TSI Holdings

It was the lack of upward guidance revision which we think disappointed the market, but that aside, operating performance was in line with our expectations.

[Read more below](#)

## Purchases

We built a new position in an undisclosed medical diagnostics company and added to our relatively new position in Fuji Soft.

[Read more below](#)

## THE FUND

(Figures to 31 July 2023)

Share Price (pence)

118.0

NAV

118.4

Prem./Disc.

-0.4%

EV/EBIT

7.5

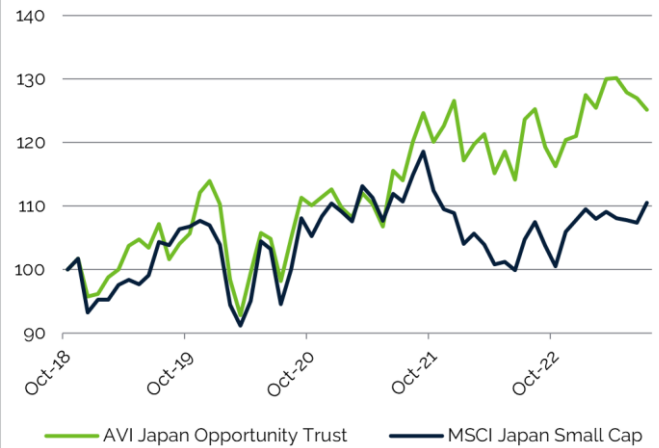
Net Cash/Market Cap

35.1%

NFV/Market Cap

56.0%

## NAV Total Return Since Inception (£)

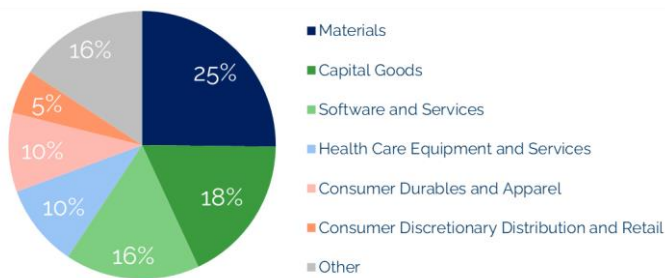


GBP	Month	YTD	1Y	3Y	SI*
AJOT Share Price	-0.7%	4.1%	2.2%	28.6%	22.9%
AJOT NAV	-0.4%	4.6%	2.4%	28.9%	26.9%
MSCI Jap Small Cap	2.8%	2.5%	5.4%	16.8%	11.4%

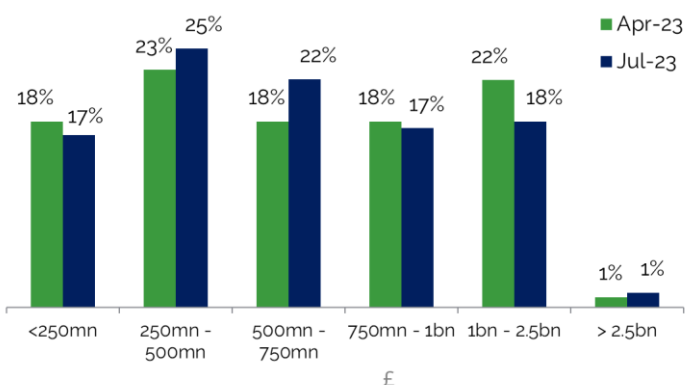
## PORTFOLIO

(Holdings to 31 July 2023)

## Sector Breakdown (% of Portfolio)



## Market Cap Breakdown (% of Portfolio)



## Top Ten Equity Holdings % of NAV

Holding	30-Apr-23	Holding	31-Jul-23
Nihon Kohden	8.6	TSI Holdings	10.3
DTS	8.3	Nihon Kohden	8.8
TSI Holdings	8.1	DTS	8.1
Konishi	7.3	Takuma	8.1
Wacom	6.8	Konishi	7.8
Shin-Etsu Polymer	6.7	Shin-Etsu Polymer	6.7
LOCONDO	6.3	T Hasegawa	6.2
T Hasegawa	6.2	NC Holdings	5.9
Digital Garage	5.7	Jade Group*	5.7
NC Holdings	5.2	Wacom	5.6
<b>TOTAL</b>	<b>69.2</b>	<b>TOTAL</b>	<b>73.2</b>
% Gearing	1.3	% Gearing	7.8
No. of Holdings	27	No. of Holdings	25

\*Formerly LOCONDO

## MANAGER'S COMMENT

AJOT's NAV decreased by a modest -0.4% over the month. Detracting from performance was our largest position TSI Holdings (-8%), whose share price sold off after a period of share price strength (still up +65% YTD). Shin-Etsu Polymer (-7%) also detracted on the back of lacklustre results. On the flip side, our new position in Takuma (+5%) was the largest contributor followed by Digital Garage (+8%).

Earlier this year we built a small basket of three Japanese regional banks. Such companies have been textbook value traps over the last decade-plus, remaining optically incredibly cheap – but for a reason. Cash and securities that dwarf their market caps, but with management teams unwilling to improve capital efficiency; and margins constrained in the zero-interest rate world of Yield Curve Control.

We felt the prospects of this potentially changing had been underpriced by the market – with increasing activist pressure (as evidenced by recent proposals at the Bank of Kyoto AGM) and a seemingly inevitable requirement for changes to Japanese monetary policy in light of evidence of sustained inflation.

At the end of July, the Bank of Japan (BOJ) did indeed adjust its policy stance, widening the rate at which it will purchase government bonds to 1.0% from 0.5% previously. Whilst the Bank was keen to stress the extent to which this isn't an abandonment of YCC – in bank speak they are technically moving from a "rigid" 0.5% limit to a "reference" limit – it is a sign of the changing inflationary and monetary policy environment in Japan. Our average ROI on the three banks so far is +17%.

We built a new position in an undisclosed medical diagnostics company and added to our relatively new position in Fuji Soft. Sales were modest, and our purchases were funded through net gearing, which increased from 3.0% to 7.8%, a level with which we are comfortable.

Following new draft M&A guidelines from the Ministry of Trade and Industry (METI), on which we provided our opinion, Nidec announced an unsolicited takeover bid for Takisawa Machine Tool (neither of which are in AVI funds). Nidec's President made an interesting comment that *"there were media outlets who viewed the takeover offer favourably. It may have failed 15 years ago, but times are changing"*. We doubt this will lead to a sea change in unsolicited takeover approaches, but they are becoming easier.

At the end of the month, the weighted average EV/EBIT valuation multiple on the portfolio was 7.5x, with net cash and investment securities covering 56% of the market cap. We are continuing to find plenty of opportunities in our universe and have several exciting engagement opportunities bubbling under the surface.

**Takuma (6013) – new idea contributing to returns**

Takuma, which entered the portfolio in April, saw its share price increase +5% over the month, adding 45bps to performance. Takuma builds waste treatment plants for municipalities in Japan, and with a labour shortage there is increasing demand for companies to operate these plants after construction. Our strong conviction lies in Takuma's shifting business model, towards recurring maintenance and operation contracts, which we don't think is reflected in Takuma's 3.9x EV/EBIT multiple at present. Given relatively high liquidity, we were quickly able to build a sizeable investment in Takuma with an 8.1% weight making it the 4<sup>th</sup> largest position in the portfolio.

CLSA summed up Takuma's potential in an excellent note, which we suspect bolstered the shares over the month. Entitled "Recurring Dream", the author highlighted that Takuma has built 120 waste-treatment facilities in Japan, 60% of which already have operating contracts, leaving further room for expansion over the coming years. We've built a 2% stake in the Company and plan to engage with management on ways to address the undervaluation.

**TSI Holdings (3608) – revisionary share price weakness**

TSI Holdings reported quarterly results over the period, which caused the share price to fall -17% in response and ended the month -8% lower. We find it hard to attribute the fall entirely to the results, but considering the shares were up +98% for the year prior, expectations had got a little ahead of themselves.

It was the lack of upward guidance revision which we suspect disappointed the market, but that aside, operating performance was in line with our expectations. Same store sales growth for June came in at +8.7% with a +15% increase in operating profit for Q1. Over the month TSI bought back 427,200 shares, equivalent to 0.5% of shares outstanding at a 6% annualised run rate, continuing to utilise its overcapitalised balance sheet of net cash, securities and real estate that accounts for 107% of the market cap. We estimate that TSI's fair value is c.Y1,700 per share, some +137% higher than where the share price closed at month end, which is why TSI ended the month as the largest position in the portfolio.

## STATISTICS

## Contributors / Detractors (in GBP)

Largest Contributors	Monthly Contribution bps	% Weight
Takuma	45	8.1
Digital Garage	42	5.5
Bank of Kyoto	22	1.5
Hachijuni Bank	21	1.4
Wacom	19	5.6

Largest Detractors	Monthly Contribution bps	% Weight
Nihon Kohden	-16	8.8
Jade Group	-18	5.7
NC Holdings	-21	5.9
Shin-Etsu Polymer	-48	6.7
TSI Holdings	-86	10.3

## Fund Facts

Launch Date	23 October 2018
Net Assets	£166.8m
Investment Manager	Asset Value Investors Limited
AJOT Shares owned by the Manager***	2,641,016
Shareholder Services	Link Asset Services
Management Fee**	1.0% of lower of market cap or NAV
Website	www.ajot.co.uk
Ticker Code	AJOT.LN
ISIN	GB00BD6H5D36

	1m	1y	3y	SI
Share Price TR	-0.7%	2.2%	28.6%	22.9%
Net Asset Value TR	-0.4%	2.4%	28.9%	26.9%
MSCI Jap Small Cap	2.8%	5.4%	16.8%	11.4%

Calendar Year Net Returns	YTD	2022	2021	2020
Price	4.1%	-4.5%	12.4%	-0.7%
Net Asset Value	4.6%	-4.3%	12.3%	-1.2%
MSCI Jap Small Cap	2.5%	-1.0%	-1.4%	3.2%

## Capital Structure

Ordinary Shares	140,836,702
Shares held in Treasury	0
TONAR + 1.15% Revolving Credit facility	¥2,930,000

Gross Assets/Gearing	
Gross Assets	182.8m
Debt at fair value (gross)	16.0m
Gearing (net)	7.8%

All performance shown in GBP Total Return

\* 23 October 2018 Start Date

\*\* 25% of Management Fee to be reinvested in shares of AJOT

\*\*\* Shares owned by AVI Ltd & AVI employees

## Investment Manager – Joe Bauernfreund

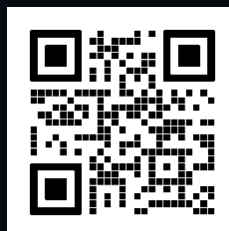
AVI Ltd. +44 20 7659 4800 info@ajot.co.uk

The share price can be found in [The Financial Times](#).  
ISIN: GB00BD6H5D36 Trading as: [AJOT:LN](#)

Information may be found on the following websites:

[www.ajot.co.uk](http://www.ajot.co.uk)

[www.assetvalueinvestors.com](http://www.assetvalueinvestors.com)



## IMPORTANT INFORMATION

All figures are as at the period under review unless otherwise stated. All sources Asset Value Investors Ltd ("AVI") unless otherwise stated. AVI is authorised and regulated by the Financial Conduct Authority of the United Kingdom (the "FCA") and is a registered investment adviser with the Securities and Exchange Commission of the United States. While AVI is registered with the SEC as an investment adviser, it does not comply with the Advisers Act with regard to its non-U.S. clients. This document does not constitute an offer to buy or sell shares in AVI Global Trust plc (the "Trust"). The contents of this message are not intended to constitute, and should not be construed as, investment advice. Potential investors in the Trust should seek their own independent financial advice. AVI neither provides investment advice to, nor receives and transmits orders from, investors in the Fund.