

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 suspect 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)

Unit Price:

€102.7

EV/EBIT:

8.0x

Net Cash % Market Cap:

34.1%

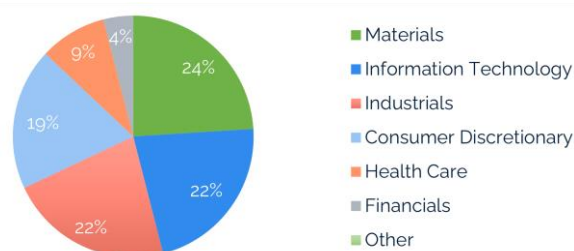
NFV % Market Cap:

53.2%

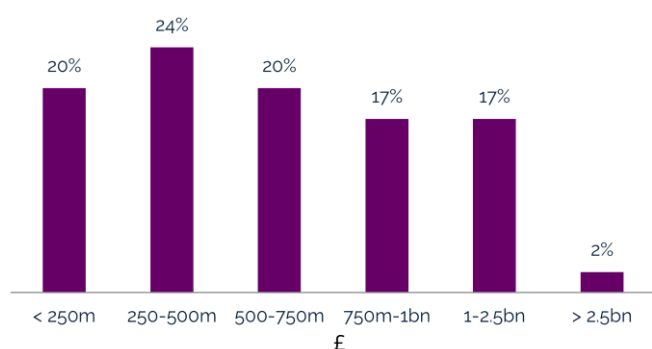
EUR €	Month	Year to Date	Since Inception
AJF NAV:	-0.3%	9.1%	5.8%
MSCI Japan Small Cap:	3.0%	6.1%	9.0%
JPY ¥	Month	Year to Date	Since Inception
AJF NAV:	-1.0%	21.4%	16.9%
MSCI Japan Small Cap:	2.3%	18.0%	20.5%

PORTFOLIO

Sector Breakdown (% of Portfolio)



Market Cap Breakdown (% of Portfolio)



Top Ten Equity Holdings % of NAV

Holding	%
TSI Holdings	10.1
Nihon Kohden	8.1
Konishi	7.7
DTS	7.2
Takuma	7.0
T Hasegawa	6.8
Jade Group	6.4
Wacom	6.3
Shin-Etsu Polymer	5.9
Digital Garage	5.8
TOTAL	71.3

MANAGER'S COMMENT

The fund's NAV decreased by a modest -1.0% 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 second largest contributor with Digital Garage (+8%) being the largest.

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 +12%.

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 by utilising cash.

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 8.0x, with net cash and investment securities covering 53% 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 5th 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.

Contributors / Detractors (in EUR)

Largest Contributors	1-month contribution bps	Percent of NAV
Digital Garage	81	5.8
Takuma	72	7.0
Bank of Kyoto	53	2.0

Largest Detractors	1-month contribution bps	Percent of NAV
Jade Group	-34	6.4
Shin-Etsu Polymer	-74	5.9
TSI Holdings	-150	10.1

Fund Facts

AVI Japan Fund

Launch Date: 8 September 2022

Net Assets: € 7,405,619

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.assetvalueinvestors.com/AJF

Ticker Code: AVIJAPY

Class		
A	EUR	IE000Y00WKT3
B	USD	IE000NOYN608
C	GBP	IE000TWDE6J8
D	JPY	IE000C0STZS6
E	EUR	IE000YSOI7A7
E	GBP	IE000HCG7Z92
E	JPY	IE0004D4HG49
E	USD	IE000EYJWQX3

Investment Manager – Joe Bauernfreund

AVI Ltd. +44 20 7659 4800 info@assetvalueinvestors.com

The share price can be found in [AJF - Asset Value Investors](#)

Further Information may be found on the following websites:

www.assetvalueinvestors.com/ajf

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.