

# AVI JAPANESE SPECIAL SITUATIONS

January 2024

## **A Specialist Focus on Japan Small-Cap Equities**

Asset Value Investors is an employee-owned boutique investment manager investing globally with a bottom-up engagement focused style since 1985

AVI

Asset Value Investors

## Our Philosophy & Edge

*AVI looks for three things...*

### Asset

Durable businesses that are growing in value



**Specialists** in asset analysis

### Value

Trading at discounted valuations



Experience of **exploiting undervaluation's**

### Investing

With an active approach to unlock and grow value



Constructive **engagement**

- **Unique** specialist focus on Japan small-cap companies since 2018
- **Extensive knowledge** of the Japan universe and engagement strategies
- Capitalising on **corporate governance reform** and renewed focus on shareholders

# Durable businesses that are growing in value

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## Value Growth

At the core of all AVI's investments are attractive businesses with durable earnings growth



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## Discount Rerating

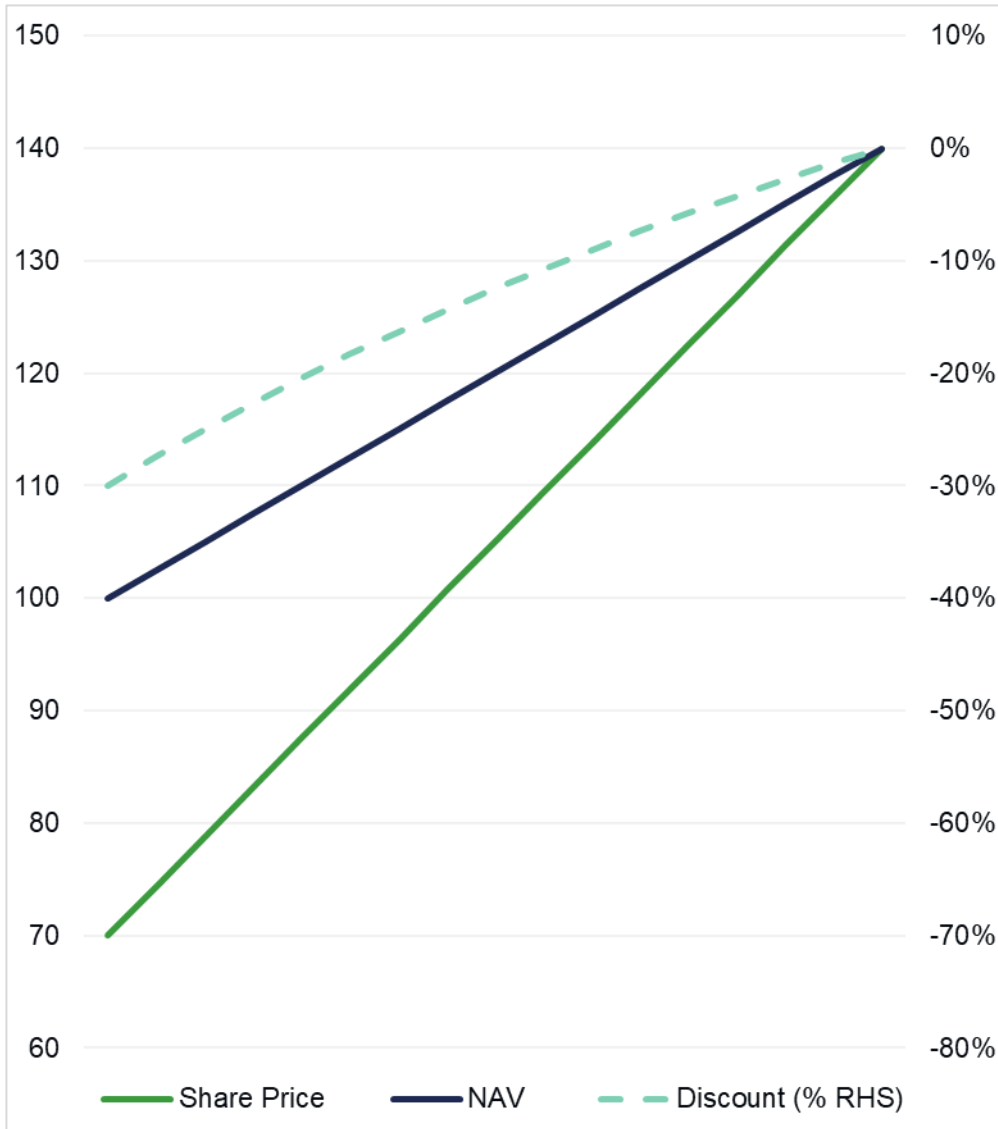
Occurs when the share price rises more than the fundamental value



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## Compounding Effect

When these two sources of returns occur simultaneously, an attractive compounding effect enhances investment returns.

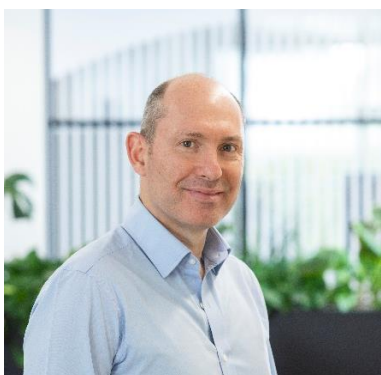


# AVI – 40 Years of Specialist Focus



Well-Resourced

Employee-Owned



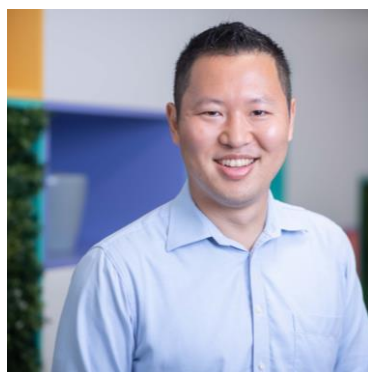
**Joe Bauernfreund**  
CEO/CIO – Joined AVI in 2002

Joe took over as PM for AVI's flagship global fund, AGT, in September 2015. He launched AVI Japan Opportunity in 2018. Which has achieved annualised returns of 13.0% vs 7.2% for the MSCI Japan Small Cap.

Daniel has nine years of experience in Japanese equities. His pragmatic and engaging approach has proved successful in Japan.



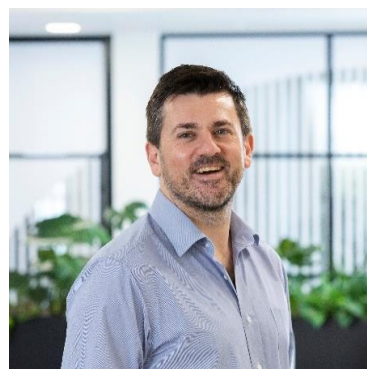
**Daniel Lee**  
Japanese Equities Specialist  
– Joined AVI in 2015



**Kaz Sakai**  
Japanese Equities Specialist  
– Joined AVI in 2021

Kaz has nine years of experience in analysing Japanese companies. His consulting background is a valuable addition to engagement in Japan.

Tom has over 20 years of experience in the closed-end fund sector. His engagement with the Boards is backed with in depth expertise.



**Tom Treanor**  
Closed-end Funds Specialist  
– Joined AVI in 2011

# Why Does our Opportunity Set Exist?

- **Board Independence:** The lack of independence has been a persistent drag
- **Cross Shareholdings:** Corporate Japan has been widely criticised for protecting underperforming managements
- **Activism in Japan:** Pressure from shareholders continues to intensify with support from regulators

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## Under-researched Companies

Foreign investors underweight Japan and sparse sell-side analyst coverage of Japan's 4,000 companies

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## Cash Structurally Discounted

Discounts on cash up to 50% as investors ignore balance sheets

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## Regulatory Tailwinds

Corporate Governance Code introduced in 2015 and continued regulatory reform

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## Corporate Reform

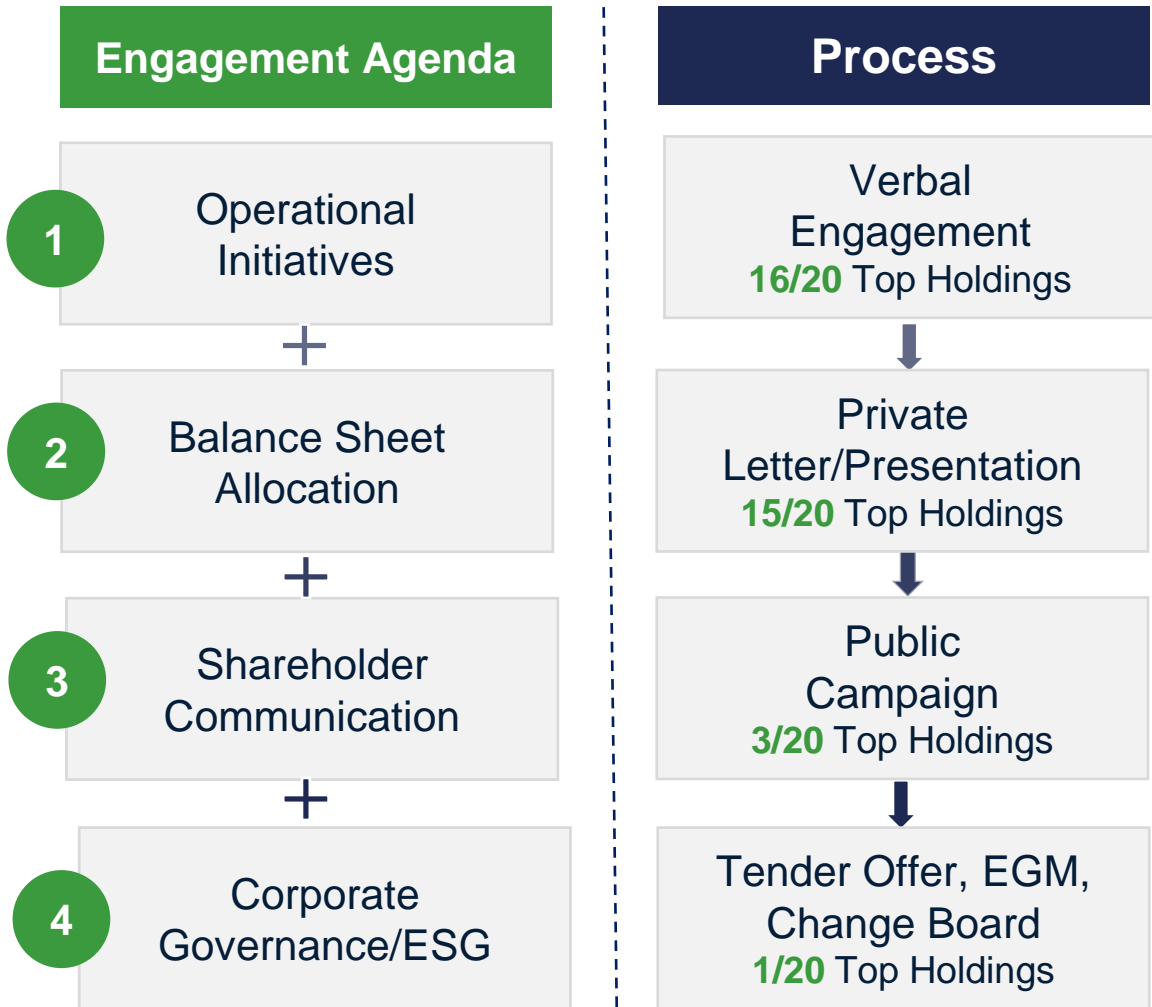
Companies recognising the need to change and greater focus on shareholder value

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## Shareholder Engagement

Operational improvement & capital allocation presented with Japanese nationals on the team

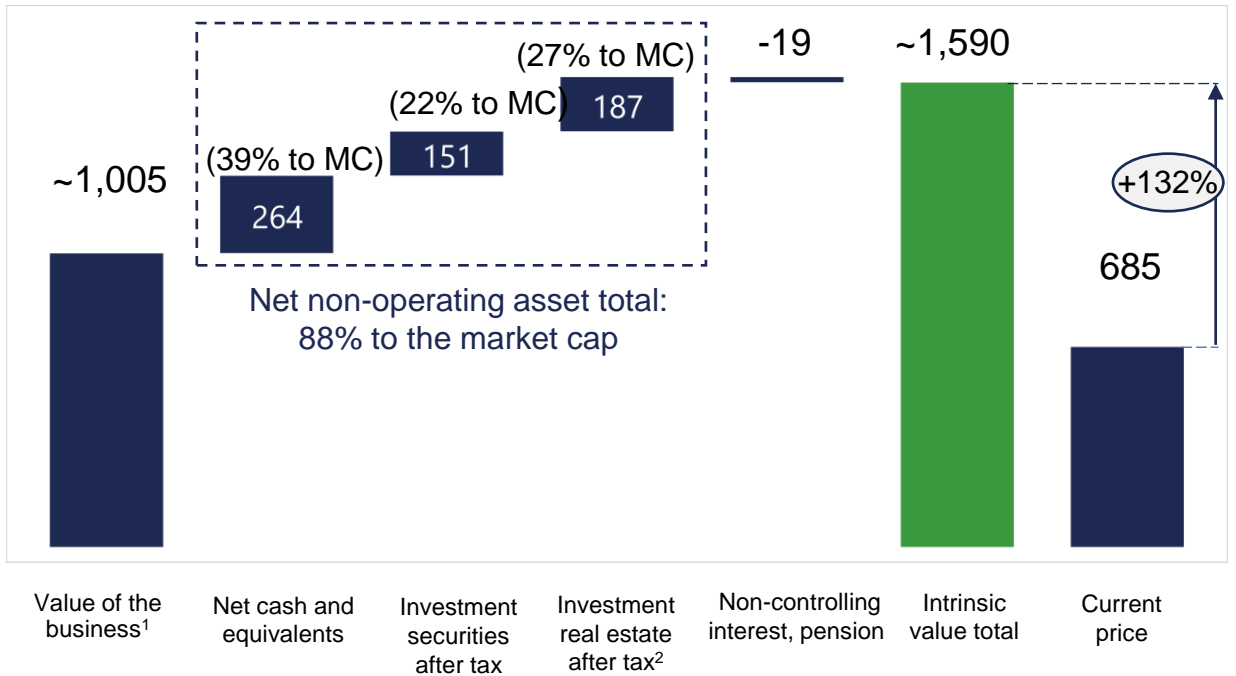
# AVI's Approach to Engagement



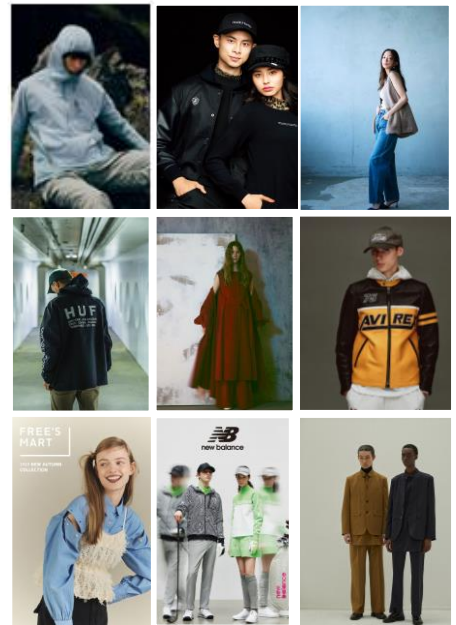
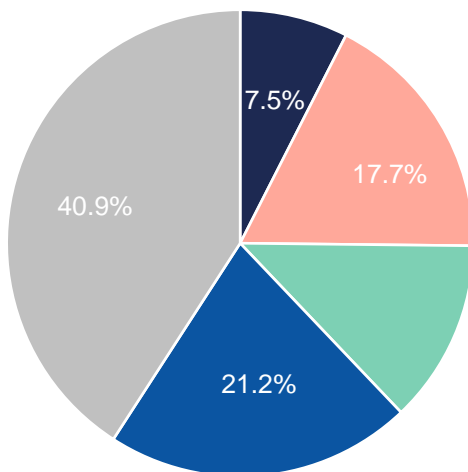
Source: AVI, as at 31/01/2024

- Meaningful engagement with the board and management team of portfolio companies
- Identify constructive solutions to solve undervaluation
- Suggestions include capital allocation, strategic overhauls and operational improvements
- AVI's 12 strong investment team which includes a dedicated ESG analyst allows for in depth engagement with portfolio companies

# Bringing the Process to Life: TSI Holdings Example



## Diversified Clothing Brand Portfolio



### Engagement Type

- 14 meetings with management
- 2 private presentations

### Agenda

1. Operational improvement
2. Capital allocation
3. Corporate governance, ESG
4. Shareholder communication

# Long-Term Track Record

## Annual discrete performance %

Total Return £	2019	2020	2021	2022	2023
<b>AJOT NAV</b>	<b>14.0%</b>	<b>-1.0%</b>	<b>-1.0%</b>	<b>-4.0%</b>	<b>16.0%</b>
<b>MSCI Japan Sm Cap</b>	<b>8.0%</b>	<b>3.0%</b>	<b>-1.0%</b>	<b>-1.0%</b>	<b>7.0%</b>

## Periodic performance %

Total Return £	1 Year	3 Year	5 Year
AJOT NAV	15.8%	18.7%	40.5%
MSCI Japan Sm Cap	6.9%	4.4%	30.1%

Source: Morningstar. Figures to 31 December 2023

All figures are from AVI Japan Opportunity Trust and represent the strategy for illustrative purposes only.

Fund Structure: Irish UCITS Daily Dealing  
Fund Currency: JPY  
Share Class Currencies: USD, GBP, EUR, CHF  
Annual Management Charge: 1.0%



### Important Information and risk factors

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