

Q3 – September  
2024

**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.

	Net cash <sup>1</sup> as a percentage of market cap	NFV <sup>2</sup> as a percentage of market cap	EV/EBIT	FCF Yield	Dividend Yield
<b>Q3 2024</b>	31%	48%	8.1x	6.3%	2.3%
<b>Q2 2024</b>	31%	49%	7.7x	4.9%	2.4%
<b>Q1 2024</b>	35%	48%	8.7x	5.1%	2.2%
<b>Q4 2023</b>	38%	49%	8.7x	4.6%	2.3%

## THE FUND

(Figures to 30 September 2024)

		Month	3 Month	YTD	1Y	3Y	SI*
<b>GBP</b>	<b>AJOT NAV</b>	<b>-0.8%</b>	<b>3.9%</b>	<b>11.9%</b>	<b>26.3%</b>	<b>25.8%</b>	<b>57.3%</b>
	<i>vs. MSCI Jap Small Cap</i>	0.5%	5.7%	5.5%	8.5%	2.5%	22.6%
<b>JPY</b>	<b>AJOT NAV</b>	<b>-0.5%</b>	<b>-2.0%</b>	<b>19.5%</b>	<b>33.0%</b>	<b>60.4%</b>	<b>107.5%</b>
	<i>vs. MSCI Jap Small Cap</i>	0.8%	-0.3%	12.6%	14.3%	30.8%	61.7%

## MANAGER'S COMMENT

Dear AJOT Shareholders,

AJOT's NAV increased by +3.9% (in GBP) over the quarter and declined -2.0% in local currency terms (in JPY). The two largest drivers of performance were JADE GROUP (+27%), which in July disclosed promising post-merger integration of MagaSeek with its operating income in May up +63% on an annualised level relative to FY23, and Beenos (+11%). Meanwhile, Nihon Kohden (-8%) and TSI Holdings (-9%) were the most notable detractors.

It was a volatile period for Japanese equities following the Bank of Japan's decision to increase its benchmark interest rate by +15bps in late July to +0.25%, which spurred the Yen higher and led to the unwinding of carry trades. During the period, the MSCI Japan Small Cap Index returned +5.7% (in GBP) and -0.3% (in JPY), while the MSCI Japan Index returned -0.4% (in GBP) and -6.0% (in JPY). In a reversal of what has long been a headwind to sterling-based returns, the Yen appreciated by +5.9% relative to the British Pound (GBP), and +12.2% relative to the US Dollar (USD). In light of the shifting macroeconomic environment in Japan, we believe there is potential for foreign investors' focus to shift toward smaller companies that are protected from further strengthening of the Yen, unlike large-cap exporters. Around 80% of AJOT portfolio company revenues come from the domestic market.

In late September, it was reported that Shigeru Ishiba would be the new Prime Minister and leader of the Liberal Democratic Party (LDP), winning 53% of the runoff vote. While the market had to an extent already factored this in, the initial market reaction to the result saw a strengthening of the Yen and a -3.5% weakening of the TOPIX. Encouragingly, since the election, Ishiba has stated his willingness to employ fiscal stimulus and desire for increased investment relative to savings. We believe the Ishiba administration will operate in a manner largely consistent with former PM Kishida, and we do not believe this leadership change will setback the ongoing commitment in Japan to corporate governance reform or our engagement plans with any portfolio companies.

Over the quarter, we initiated positions in four companies, bringing our tally to 12 new names added in 2024 to date. This demonstrates our ability to continue to identify promising opportunities in the fruitful, yet underappreciated small-cap market. The four new positions added during the quarter contributed a combined +109bps to AJOT's NAV. The lack of research coverage of small-caps and their relative underperformance to large-caps continues to present us with abundant opportunities. We remain committed to selectively adding the most promising companies to our concentrated portfolio of 24 holdings.

<sup>1</sup> Net cash = Cash – Debt – Net Pension Liabilities + Value of Treasury Shares

<sup>2</sup> Net Financial Value (NFV) = Net cash + Investment Securities

\* 23 October 2018 Start Date

## MANAGER'S COMMENT

During the period, our engagement activity with portfolio companies included sending eight private letters or presentations and holding more than thirty meetings, some of which were in-person during visits to Japan in August and September. Much of our engagement focused on improvements around capital allocation, operational efficiency and shareholder communication. We also engaged extensively on governance issues, focussing on board independence, tenure and diversity, as well as environmental and social issues.

At the end of September, the portfolio's EV/EBIT was 8.1x, with NFV accounting for 48% of the market cap. These metrics illustrate the relatively cheap valuations AJOT's portfolio companies trade at, with discounts attributed to their over-capitalised balance sheets and poor corporate governance. We continue to focus the portfolio on high quality companies with resilient earnings that have room for improvement through our engagement.

**Jade Group (3558) – Improved IR on MagaSeek post-merger integration**

Over the period, JADE GROUP ("JADE"), the apparel E-commerce distributor, was the largest contributor, adding +171bps to performance as its share price rose +26.8%.

JADE's share price was strong on the back of a press release in July, which highlighted the successful post-merger integration of MagaSeek in a demonstration of improved IR communications, an area in which much of our recent engagement had focused. Over the course of our three-year investment, JADE have made promising strides in this area. Since the press release in July, the share price is up +8%, evidencing the benefits of disclosing comprehensive information to the market. On the back of share price weakness, we strategically added to our position at the end of Q2, allowing us to fully benefit from the press release that followed.

Trading on a lowly 7.5x forward EV/EBIT multiple, JADE's 5.4% position in AJOT (eighth largest holding) is reflective of our conviction that, as JADE continues to cement itself as the #2 player in Japan's Y2.4trn fashion e-commerce market, we estimate there remains around +100% upside to the current share price. To date, our investment has generated a +55% ROI for a +25% IRR.

**Beenos (3328) – Buoyant share price**

Beenos, an operator of E-commerce platforms allowing overseas consumers to purchase Japanese products, was the second largest contributor, adding +138bps to performance as its share price rose +10.9%. Beenos' share price bounced back +31%, having fallen -16% to its lowest point on August 5<sup>th</sup> amidst the period of volatility.

A significant portion of Beenos' profits is derived from its Global E-commerce platform. This is primarily centred around a service called 'Buyee', which enables non-Japanese living abroad to purchase items from popular e-commerce sites in Japan, such as Yahoo! Japan, Mercari and Rakuten. Buyee's gross merchandise value has experienced robust growth at an annual rate of +31%.

Beenos continues to accumulate net cash and securities, which now cover 58% of its market cap compared to 11% in 2019 over a period in which its market cap has increased +120%. Beenos has also grown earnings at an annual rate of +27% over the past five years, highlighting the quality of the business and its ability to attract users.

We added Beenos to the portfolio in January this year, and is now the fourth largest holding, accounting for 7.5% of AJOT's NAV, such is our conviction. The investment has so far generated an ROI of +49%. Trading at an EV/EBIT multiple of 4.4x, we anticipate an additional +115% upside to the current share price.

**Nihon Kohden (6849) – Quarterly earnings disappointment**

Nihon Kohden was the largest detractor during the quarter, reducing performance by -46bps as its share price fell -7.8%.

At the start of August, Nihon Kohden announced disappointing quarterly results, with sales down -5% YoY and headline EBIT turning negative. This was largely due to a decline in the operating margin of in-house IT systems, as well as an inventory write-down of a discontinued model.

While Nihon Kohden maintained full-year guidance, the company revised down its H1 EBIT guidance from Y7bn to Y3bn. The justification for maintaining full-year guidance was expected sales concentration in the latter half of the financial year, and early savings from its cost optimisation project.

Our conviction in Nihon Kohden remains, with the company accounting for 7.6% of AJOT's NAV as the third largest holding, and we foresee a further +150% upside to the current share price. Despite the recent easing of the share price, we have so far generated a +34% ROI for an IRR of +19%.

## MANAGER'S COMMENT

**TSI Holdings (3608) – Top holding underappreciated**

TSI Holdings, the apparel ecommerce operator and the largest position in AJOT, which accounts for 9.4% of NAV, was narrowly the second largest detractor over the period as it reduced performance by -43bps.

As noted in our Q2 newsletter, TSI announced a new mid-term plan in April, which for the first time, disclosed a quantified shareholder return policy, aiming for a 4% dividend on equity target by FY27/3, coupled with an ambitious cost improvement plan to elevate operating margins to 6% (from the current 1%). The plan was initially met with excitement; however, the share price quickly fell back again. Despite the -9.2% share price fall over the quarter, since the announcement of the MTP in April the share price has appreciated by +6.3% overall.

As TSI's largest shareholder, holding 10% of the vote across AVI funds, we were pleased to see that the Company had actioned many of our suggestions. TSI has received substantial engagement from us this year, and we commend management for their proactive approach in listening to shareholders. However, we remain frustrated by the lack of concrete answers to several of our recommendations and we are continuing our intense engagement.

Despite already achieving an +80% return to date, we estimate a further +105% upside from the current share price. TSI is just one example of the enormous upside potential of our investments. We still do not believe the market fully comprehends the scale of TSI's transformational program and its commitment to improving capital efficiency. Full credit from investors for the MTP and cost reform will only happen once TSI demonstrates improvements over the coming quarters, with the next announcement to come in mid-October.

**Portfolio Trading Activity**

The quarter was again a very active trading period, albeit slightly less so than Q2. The annualised turnover of the portfolio in 2024 is 70%, which compares to AJOT's historical average annual turnover of 35%. During the quarter we initiated new positions in four companies (Atsugi, SharingTechnology, Helios Techno and Rohto Pharmaceutical) and increased the weighting of two top ten names added to the portfolio earlier in the year. These four positions now account for a combined 8.7% of AJOT's NAV at period end.

We also added significantly to Kurabo industries, making it a top five position at 6.9% of NAV, reflecting the potential for a further +50% upside to the current share price on top of the +19% ROI generated thus far.

We also added to several other positions, including Beenos, Araya Industrial, Aoyama Zaisan Networks and Broadmedia.

In terms of sales, the largest during the period was NC Holdings as we exited our position following the private equity firm buyout at a +47% premium to the undisturbed share price. The second largest sale was in Shin-Etsu Polymer, as we trimmed our position, having already generated a return of +52% over the nearly three-year holding period.

Net gearing at the end of the quarter stood at 2.4%. Given the abundance of opportunities, we expect gearing will increase modestly toward our upper limit over the coming months.

**Exit Opportunity**

*As described in AJOT's prospectus, every two years from 2022 onwards, Shareholders who wish to exit will be given an opportunity to do so at close to NAV. The rationale behind including this clause was to ensure that if the original investment thesis did not generate the expected returns, or if circumstances had changed to make Japan unattractive, then Shareholders would not be penalised for wishing to exit. The Board and the Investment Manager are pleased that the original aims of the Company have been exceeded since the IPO.*

*In 2022, AJOT consulted with the significant majority of its Shareholders, who were supportive of the Company foregoing the administrative burden and expense of an exit opportunity at that time. AJOT continues to generate better than market returns and there is still an abundance of compelling opportunities available to it.*

*Given the share price is trading close to NAV, we hope that any Shareholders who wish to exit will be able to sell their shares in the secondary market, without AJOT needing to incur the expense of a more complicated mechanism. Nonetheless, AJOT's broker Singer Capital Markets will be consulting Shareholders over the coming weeks to assess demand for a possible exit (if any) and, as detailed in the Prospectus, if required a strategy will be developed based on the demand, underlying liquidity of our investments and the other factors mentioned. The results of the consultation will be reported in October 2024.*

## MANAGER'S COMMENT

**Investment Manager – Joe Bauernfreund**

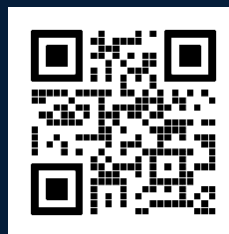
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The share price can be found in [The Financial Times](#).  
ISIN: GB00BD6H5D36 Trading as: [AJOT:LN](#)

*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.