

INVESTOR UPDATE

February 2019

AJOT

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Dear AJOT Shareholders,

With AJOT now 98% invested, and after an active results season, we wanted to take the opportunity to update you on developments.

Over the past weeks, our portfolio companies have been announcing quarterly results. Sales and profit growth have generally been in line with the broader market, and for the four companies with December year ends, full-year profits beat guidance by an average of 3%.

The most notable development, however, was on the corporate governance front with six companies announcing efforts to improve balance sheet efficiency and introduce policies in line with the principles of the Corporate Governance Code; four announced buybacks (one for the first time); one announced only its 2nd dividend hike since 1998 (a two-fold increase); and one took the shareholder-friendly decision to cancel its anti-takeover measures.

While these actions would be standard fare in other developed markets, in Japan, they are not. Years of shareholder neglect, with low payout ratios and poor capital allocation, have led the market to apply a discount to excess capital on the balance sheet.

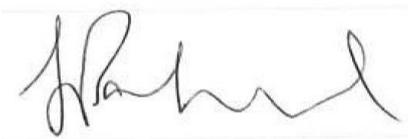
Fortunately, this results in a situation where both expectations and valuations are low. Thus when companies announce actions in the interests of shareholders, share prices often react significantly. The six portfolio companies mentioned above have seen their share prices appreciate by an average of +6.0% vs the MSCI Japan Small Cap return of +1.5% over the same period. One company which announced a 3% buyback, in addition to a 2% buyback last year, has seen its share price appreciate by almost 20%.

The pace of reform has been pleasing and the reaction to our letters welcomed. We have written 14 letters to nine different companies since the launch of AJOT, and have written eight letters in all to the six companies mentioned above. While it is impossible to say whether management would have announced changes independent of our involvement, we do believe the management of our investee companies are generally receptive to the recommendations outlined in our letters.

We will keep suggesting ways in which to improve governance and enhance balance sheet efficiency, encouraging those who have taken positive actions to continue doing so and doggedly engaging further with those who have not. We will meet with 21 of our portfolio companies next week in Tokyo, Osaka and Nagoya, reinforcing our message verbally.

The tangible evidence we have seen in such a short period is encouraging and confirms our original thesis. Furthermore, with the companies in our portfolio having 78% of their market cap covered by net cash and investment securities, and trading on just 3.8x EV/EBIT, we believe there is scope for material upside. We look forward to updating you on further developments in our Q1 2019 quarterly letter.

Kind Regards,



Joe Bauernfreund

For performance and portfolio statistics please see monthly factsheet found at www.ajot.co.uk