

## Performance Total Return<sup>1</sup>

This investment management report relates to performance figures to 31 October 2019.

Most companies are reporting Q2 results and, so far, they have broadly been in line with expectations. Encouragingly, it seems that fears of a prolonged slowdown in earnings have subsided and in October foreigners turned net buyers giving a boon to the Japanese market.

During October three companies in AJOT announced buybacks: Fukuda Denshi announced a 1% buyback, C Uyemura 2% and Sekisui Jushi 7%. None of these companies have announced buybacks since we launched AJOT and we saw commensurate share price reactions. Fukuda Denshi rose +2%, C Uyemura +19% over the following two days and Sekisui Jushi +7%. We have articulated our views on capital efficiency to all three companies and recently wrote extensive letters to Fukuda Denshi and C Uyemura in September and August. While it is impossible to attribute these buybacks solely to our engagement, we take comfort that senior management are agreeing with our arguments.

Since the launch of AJOT, the total number of companies that have conducted share buybacks stands at 11. After only a year and with a portfolio of just 28 companies we are pleased with this progress. We are seeing improved buybacks across all of Japan, with TOPIX-announced buybacks for Jan-October up +136% year-on-year. We think this is testament to the structural shift in attitudes underway in Corporate Japan.

Our headline dividend yield on the portfolio is 2.1%; however, once you include the value of buybacks, the distribution yield rises to 3.5%. With AJOT's portfolio companies paying out only 50% of profits in dividends and buybacks, there is plenty of room for this yield to be boosted through increasing the payout ratio. Furthermore, net cash and investment securities cover 82% of these companies' market caps, providing further scope for the yield to increase.

During the month the Japanese government published proposals to amend foreign ownership rules by lowering the level at which foreigners must seek regulatory approval to buy a stake in certain Japanese companies in a restricted sector from 10% to 1%. Concerns were raised that this was a stealth move by the Government to dampen foreign activism after two recent successful shareholder campaigns at Toshiba and Lixil. This proved unfounded after an announcement from the Ministry of Finance that foreign asset managers would be exempt from the 1% threshold so long as they do not serve as directors or propose selling key assets. As things stand, the new legislation should not affect our engagement activity in Japan, although we will keep a close eye on developments until the final wording is published.

### Post-Month End Important News

Post month-end there was some extremely positive news from our two Toshiba subsidiary investments – Toshiba Plant and Nuflare Technology. After Toshiba Corp confirmed it was considering making its 51% subsidiaries wholly-owned, the share prices of these two companies jumped 17% and 18% respectively. The consolidation of parent-child subsidiary arrangements has been a key theme of the portfolio and it is extremely encouraging to see this play out. Further details will emerge in coming days and we will update shareholders in next month's newsletter.

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.

## Statistics

Share Price (pence)	104.8
NAV (pence)	103.8
Premium / (Discount)	0.9%

% Return	Month	Since Inception*	2019 Calendar Yr
AJOT Share Price	1.2%	4.8%	4.8%
AJOT NAV	1.5%	5.9%	10.3%
MSCI Japan Small Cap	0.4%	7.6%	14.5%

Cumulative Return	1 mo	2 mo	3 mo	6 mo	1 yr
AJOT Share Price	1.2%	3.2%	-2.8%	0.7%	3.0%
AJOT NAV	1.5%	3.9%	-1.4%	1.8%	4.4%
MSCI Japan Small Cap	0.4%	2.8%	2.4%	8.5%	7.9%

## Fund Facts

Launch Date	23 October 2018
Net Assets	£102m
Investment Manager	Asset Value Investors Limited
AJOT Shares owned by the Manager***	1,052,000
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

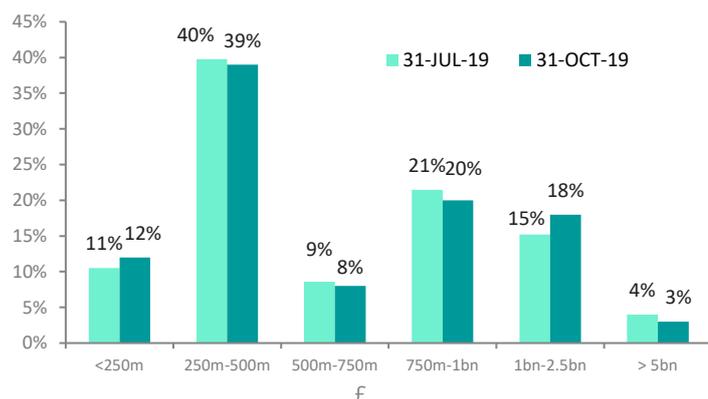
<sup>1</sup> All performance shown in GBP Total Return

\* 23 October 2018 Start Date

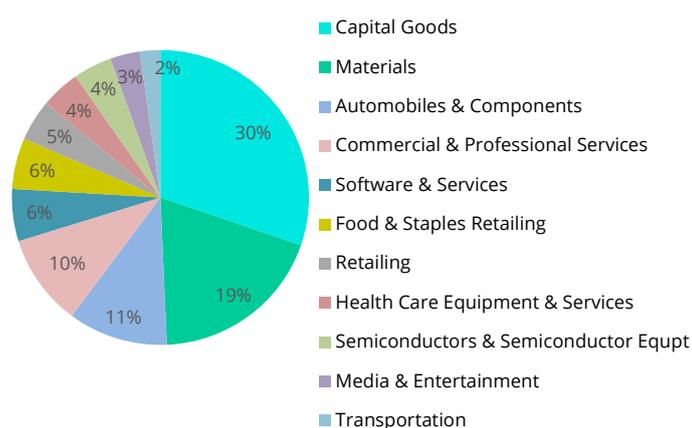
\*\* 25% of Management Fee to be reinvested in shares of AJOT

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

## Market Cap Breakdown (% of Portfolio)



## Sector Breakdown (% of Portfolio)



## Top Ten Equity Holdings % of NAV

Holding	31- JUL-19	Holding	31-OCT-19
SK Kaken	6.7	Toshiba Plant	6.6
Pasona Group	6.1	Teikoku Sen-I	6.6
Secom Joshinetsu	6	Kato Sangyo	6.1
Nuflare Technology	5.9	SK Kaken	5.9
Teikoku Sen-I	5.7	Fujitec	5.6
Toshiba Plant	5.4	C Uyemura	5.6
Kato Sangyo	5.3	Secom Joshinetsu	5.5
Fujitec Co	5	Pasona Group	5.5
Toyota Industries	4.8	Digital Garage	5.4
Konishi	4.8	Konishi	4.9
<b>TOTAL</b>	<b>55.7</b>	<b>TOTAL</b>	<b>57.7</b>
% Gearing	109.0	% Gearing	108.1
No. of Holdings	28	No. of Holdings	28

## Further Information

Investment Manager – Joe Bauernfreund, AVI Ltd.  
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The share price can be found under 'INVESTMENT COMPANIES' in The Financial Times.

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 Japan Opportunity 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.