

August 2020

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

Markets continued their rebound

While growth orientated stocks have led the rebound, August saw a slight reversal with the MSCI Japan Small Cap Value index outperforming its Growth counterpart by +2.4%.

[Read more below](#)

Fujitec dialogue continues

We continue to hold private dialogue with Fujitec and have been encouraged by their improved communications with shareholders.

[Read more below](#)

PERFORMANCE¹

(Figures to 31 August 2020)

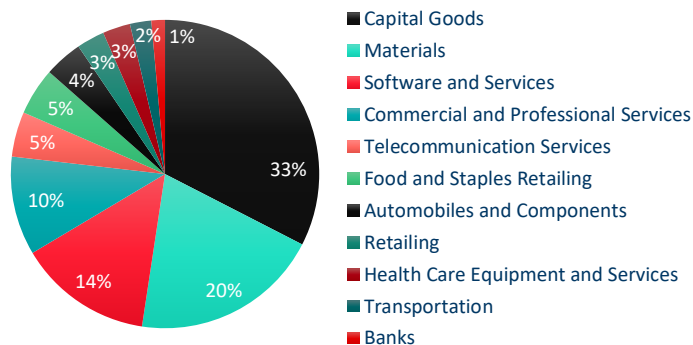
Share Price (pence)	103.0
NAV (pence)	102.1
Premium / (Discount)	0.9%

	Month	Since Inception*	2020 Calendar Yr
AJOT Share Price	-1.0%	4.0%	-9.0%
AJOT NAV	6.8%	5.2%	-7.9%
MSCI Japan Small Cap	5.8%	0.9%	-6.5%

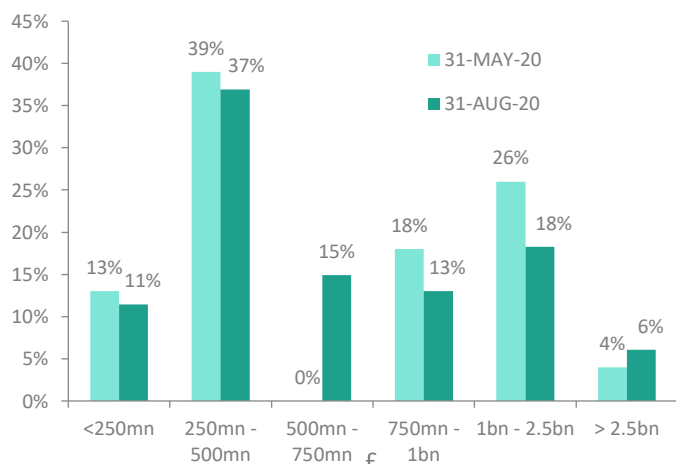
Cumulative Return	1 mo	2 mo	3 mo	6 mo	1 yr
AJOT Share Price	-1.0%	0.0%	0.5%	8.3%	2.5%
AJOT NAV	6.8%	0.1%	-0.8%	6.6%	3.2%
MSCI Japan Small Cap	5.8%	-3.1%	-4.2%	5.9%	-3.7%

THE FUND

Sector Breakdown (% of Portfolio)



Market Cap Breakdown (% of Portfolio)



Top Ten Equity Holdings % of NAV

Holding	31-MAY-20	Holding	31-AUG-20
Fujitec	7.7	Fujitec	8.9
SK Kaken	7.5	Teikoku Sen-I	7.8
Teikoku Sen-I	7.4	SK Kaken	6.7
Secom Joshinetsu	6.0	Pasona Group	5.9
Pasona Group	5.8	Secom Joshinetsu	5.5
Konishi	5.7	C Uyemura	5.3
Kato Sangyo	5.3	Konishi	5.2
Digital Garage	5.3	Softbank Group	5.2
Daiwa Industries	5.0	DTS	4.9
C Uyemura	5.0	Kato Sangyo	4.8
TOTAL	60.7	TOTAL	60.2
% Gearing	106.7	% Gearing	108.1
No. of Holdings	26	No. of Holdings	28

MANAGER'S COMMENT

Markets continued their rebound as social restrictions eased. While growth orientated stocks have led the rebound, August saw a slight reversal with the MSCI Japan Small Cap Value index outperforming its Growth counterpart by +2.4%.

The market had expected Mr Abe to step down as Prime Minister, but the timing of his announcement came somewhat of a surprise, hastened by health concerns. His replacement will be chosen by the current Government's party members. We strongly believe that the corporate governance reforms that have developed during PM Abe's tenure will endure beyond his premiership and will continue to evolve.

We speak to many senior managers and directors in Japan and it is abundantly clear that they have started to see the merits of these reforms. They have no intention of reversing the direction of travel and going back to the bad old ways of yesteryear. Companies will continue to have a greater focus on shareholder returns and capital efficiency, and investors such as AVI will continue to actively engage with management to help promote corporate value creation. Importantly, domestic institutional investors have found their voice in the last couple of years. They are increasingly seeking the same improvements that are typically associated with foreign activists. This adds an extremely powerful voice to the engagement movement, and we are confident this will continue.

PM Abe's programme of reforms was radical when it was first established at the start of his premiership. Today it is seen as integral to the success of the Japanese economy. The pace of change in Japan may not always be to our liking, but the direction of travel is clear and will be hard to reverse. AJOT's portfolio of companies have weathered the coronavirus storm relatively well. They have continued to generate cash flow and we are actively working behind the scenes to encourage these companies to do more for shareholder returns.

While foreigners have been net sellers of Japanese equities every month in 2020 until July, August marked a change in direction and we think, at least at the margin, that the news of Berkshire Hathaway's investment in Japan's five largest trading companies will help encourage further foreign inflows.

We continue to hold private dialogue with Fujitec and have been encouraged by their improved communications with shareholders and their announcement that they will combine their escalator and elevator business in China to improve efficiencies. We think that our public campaign has sparked investors' interest in Fujitec, and over the month it was our largest contributor adding +140bps to performance. Since the publication of our presentation addressing Fujitec's undervaluation and underperformance, its shares have outperformed the TOPIX by +25%.

Digital Garage reported lacklustre earnings over the month caused by a slowdown in real estate advertising and lower than anticipated growth in ecommerce financial payment sales, which was disappointing considering that we had hoped it would be a beneficiary of increased adoption of digital services. It was the weakest performer, detracting -49bps from performance. However, Digital Garage are optimistic about their outlook and are aiming for a 20% compound growth rate in earnings over the next 5 years.

Softbank has been a strong performer since March. Whilst it was a small detractor this month, we are encouraged by developments at the company. At the end of the month it was announced that SoftBank Group was reducing its stake in telecom company SoftBank Corp, hoping to raise approximately \$13bn. This takes the total amount of capital raised from asset disposals above the original target, to approximately \$53bn. With the company having 13% more shares to buyback, and trading at a 58% discount, we do not foresee the discount remaining this wide in 12 months' time.

Despite market strength, AJOT's portfolio valuation – which is at the same level it was in February 2019 when we became fully invested – remains compelling. We continue to engage with companies behind closed doors and in addition to Fujitec, are currently undertaking two major engagement campaigns. We are excited by the opportunities in Japan and the progress that is being made on the corporate governance front.

FUND FACTS

Fund Facts	
Launch Date	23 October 2018
Net Assets	£120.0m
Investment Manager	Asset Value Investors Limited
AJOT Shares owned by the Manager***	1,408,313
Shareholder	Link Asset Services
Management	1.0% of lower of market cap or NAV
Website	www.ajot.co.uk
Ticker Code	AJOT.LN
ISIN	GB00BD6H5D36

¹ 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

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

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.