AJOT
AVI Japan Opportunity Trust

# Interim Report
30 June 2020

AVI

AVI Japan Opportunity Trust plc ("AJOT" or the "Company") invests in a focussed portfolio of quality small and mid cap listed companies in Japan that have a large portion of their market capitalisation in cash or realisable assets.

## Contents



For more information visit:
**www.ajot.co.uk**

@AVIJapan
avi-japan-opportunity-trust

# Financial Highlights

## Portfolio Statistics as at 30 June 2020*

**50.7%**
Net cash/Market Cap
(45.1% as at 31 December 2019)

**93.4%**
Net Financial Value/Market Cap
(81.0% as at 31 December 2019)

**6.2%**
FCF Yield
(5.8% as at 31 December 2019)

**23.8%**
EV/FCF Yield
(22.3% as at 31 December 2019)

**3.2x**
EV/EBIT
(3.8x as at 31 December 2019)

**-41.8%**
Portfolio Discount
(-36.1% as at 31 December 2019)

**2.4%**
Portfolio Yield
(2.0% as at 31 December 2019)

**6.9%**
ROE
(7.5% as at 31 December 2019)

**19.1%**
ROE ex non-core financial assets
(18.0% as at 31 December 2019)

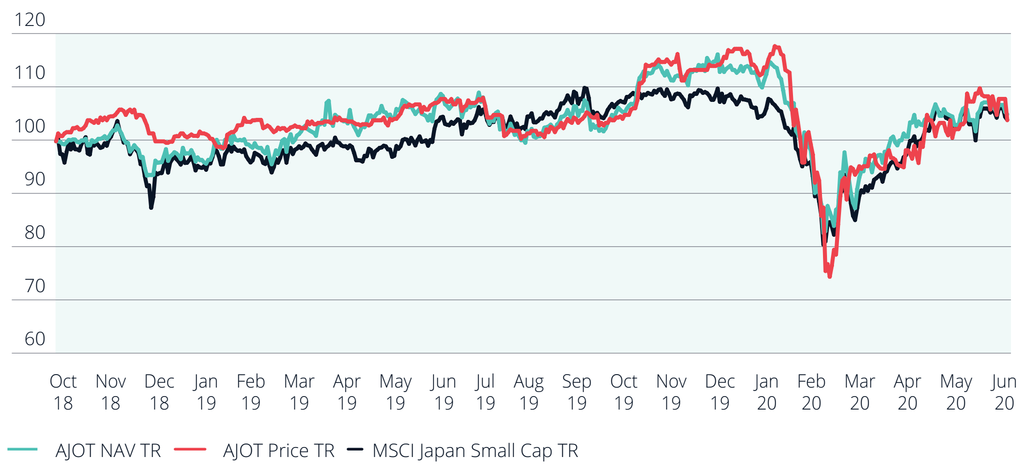
## Performance Summary

| | |
|---|---|
| Net asset value per share at 30 June 2020 | 101.95p |
| Share price at 30 June 2020 | 103.00p |
| **Premium as at 30 June 2020** | |
| (difference between share price and net asset value) | 1.03% |

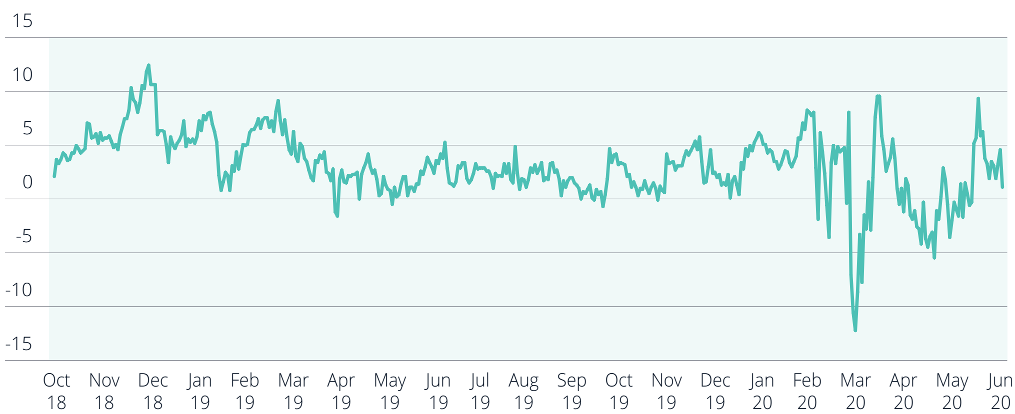
## Financial Highlights

| | NAV* | Share Price* | Benchmark† |
|---|---|---|---|
| Period from 1 January 2020 to 30 June 2020 | -8.0% | -9.0% | -3.5% |
| Period from inception to 30 June 2020 | +5.1% | +4.0% | +4.1% |

### Net Asset Value, Share Price* and Benchmark†




### Premium/Discount to Net Asset Value




* For all Alternative Performance Measures, please refer to the definitions in the Glossary on pages 17 and 18
† MSCI Japan Small Cap Total Return Index (£ adjusted total return)

# Chairman's Statement

## Introductory Comments

Welcome to the second interim report of AVI Japan Opportunity Trust plc, covering the period from 1 January 2020 to 30 June 2020.

The last six months have been some of the most challenging in modern times, with the spread of COVID-19 around the globe leading to governments mandating lockdowns, or stay-at-home rules, in order to curb the spread of the coronavirus. As will be explained in detail in the Investment Manager's Report, the effects of this pandemic have had a negative impact on the performance of your Company's portfolio over the period. However, notwithstanding the exceptional circumstances, the companies within the portfolio are high quality, cash generative businesses that are well positioned to come through the current crisis and thrive in the future and we remain highly confident that our governance reform strategy remains valid. We continue to engage pro-actively with company boards and invest in Japanese presence, as detailed in the Investment Manager's report on pages 6 to 8 below.

## Performance and Dividend

Your Company generated a net asset value ("NAV") per share total return of -8.0% over the six months to 30 June 2020, compared to a return of -3.5% from the MSCI Japan Small Cap Total Return Index (measured in GBP terms). Japanese small cap stocks have lagged the performance of overall Japanese equity markets, and investors' focus shifted to growth and tech stocks post COVID-19 lows, a fact that your Company's portfolio has felt acutely.

The Board has elected to propose an interim dividend of 0.65 pence per share. As stated in the Prospectus at the Initial Public Offering ("IPO"), the Company intends to distribute substantially all of the net revenue arising from the portfolio and is also expected to pay a final dividend. Dividends may vary substantially from year to year.

## Investment Strategy

The thesis behind AJOT is that corporate Japan is witnessing a major shift in its attitude to corporate governance, with Prime Minister Abe's "Three Arrows" programme providing the political impetus for real corporate change. The issues targeted include board independence, over-capitalised balance sheets, and returns on (and of) shareholder capital. With pressure from the government, regulators, and investors both foreign and domestic, Japanese companies feel increasingly compelled to improve corporate governance and streamline their balance sheets. By investing in high quality, cash flow-generative and compellingly valued stocks, our portfolio stands to profit not only from the growth of sound underlying businesses but also from this move towards improved governance.

With the outbreak of the virus and the subsequent economic shock, investors have been posing the obvious question: does this vindicate corporate Japan's penchant for hoarding cash in anticipation of a rainy day? While the crisis certainly makes a strong case for prudence in balance sheet management, we believe that there is still a large middle-ground between the ultra-lean balance sheets typically seen in the US, and the cash-replete ones in Japan. Many of your Company's holdings continue to announce buybacks and increased pay-out ratios, giving further confidence that the thesis is even more apt going forward.

The team at Asset Value Investors ("AVI") has continued its strategy of being an actively engaged shareholder over the interim period. Two public campaigns were launched to highlight inefficiencies at Teikoku Sen-i and Fujitec, where we submitted shareholder proposals at the former. While the measures did not pass, we note an increase in approval rates for our proposals over previous years, and a declining approval rate for the chairmen.

Perhaps of greatest interest to Shareholders was a significant victory recorded early in the year, when a portfolio company concurred with demands for change put forward by AVI, subsequent to which AVI withdrew proposed shareholder resolutions from the Annual General Meeting ("AGM"). The result is significant, insofar as it provides evidence that the strategy of engaging privately behind closed doors – and avoiding the more brash style of confrontational activism viewed as anathema in Japan – is a fruitful one.

## Share Premium and Issuance

As at 30 June 2020, your Company's shares traded at a premium of 1.0% to net asset value per share. Over the period, this premium ranged from 1.8% to 9.5%, reflecting the heightened volatility in equity markets. The shares traded briefly at a discount at several points over the six-month period, with the maximum discount being 12.4%.

The Board monitors this situation carefully and manages the premium by periodically issuing shares. During the period under review, the Board utilised the Company's authorised Block Listing Facility to issue 3,550,000 shares at an average price of 109p per share, representing an average premium of 3.4% to the prevailing NAV. This issuance has the beneficial effect of modestly increasing NAV per share for existing Shareholders.

On the 3rd of March 2020, the Company announced plans to issue 30 million shares under an Initial Placing, Offer for Subscription and Intermediaries Offer, as well as a further 85 million shares under a Placing Programme. Unfortunately, the COVID-19 pandemic forced us to postpone the long scheduled capital raising plans; nonetheless we remain confident about the prospects of the Company and intend to reinstate these plans later in the year.

During the period under review, AVI used part of its management fee to buy 175,000 shares in the secondary market. In addition, during the brief period when the shares were trading at a discount to NAV, employees of the Investment Manager and a member of the Board purchased 64,388 shares, further demonstrating support for the long-term prospects of the Company.

## Debt Structure and Gearing

As outlined in the Prospectus, the Board supports the use of gearing to enhance portfolio performance. In 2019, the Company entered into a one-year unsecured revolving credit facility with Scotiabank Europe plc for an aggregate value of ¥2.93 billion (equivalent to approximately £22 million). When the facility was

# Chairman's Statement
continued

due to expire in March 2020, to allow for the Company's actual and anticipated growth, it was renewed at a higher amount of ¥4.33 billion (£32 million), with a maturity of one year and interest payable at the rate of LIBOR plus 1.25% (interest rate prior to renewal was LIBOR plus 0.75%).

At the end of the period, ¥2.14 billion (£16 million) of the facility had been drawn, with gross gearing standing at 13% of NAV. Including cash, net gearing was circa 5%.

## Response to COVID-19

As the COVID-19 pandemic developed in the UK, your Investment Manager decided to implement its business continuity plan, which had been designed and tested in recent years. In line with government recommendations in March 2020, all employees began working from home. I am pleased to report that this transition has gone smoothly, with communication lines – including email, telephone and video conferencing – remaining robust and workflow being essentially uninterrupted. While face-to-face meetings have not been possible in recent months, the Investment Manager has made full use of video and telephone conferencing to conduct interviews, without a noticeable change in the quality of meetings.

I am also pleased to report that none of the services the Company receives from its third-party providers have been interrupted by the shift to working from home.

## Annual General Meeting

The Company's Annual General Meeting was held on 26 March 2020. All resolutions were passed by a large majority of those voting. The Board thanks Shareholders for their continuing support.

## Closing Remarks

I would like to welcome AVI's new Japan hires who are already contributing to the investment process. Notably Jason Bellamy, who is based in Tokyo and helping to build on relationships between AVI and its investment companies.

It has become my custom in the closing moments of my letter to thank AVI and all of our service providers, whose daily efforts contribute jointly to AJOT's success. I would also like to thank you, our Shareholders, for your continued support and the trust that you have placed in us. We will continue working to ensure that we deserve that trust. We continue to hope and believe that our relationship will be a long and rewarding one. If you have any queries, please do not hesitate to contact me personally (norman.crighton@ajot.co.uk) or alternatively speak to our broker N+1 Singer (contact details on page 22) to arrange a meeting.

**Norman Crighton**
Chairman

14 September 2020

# Investment Manager's Report

This report covers the first six months of 2020 – a remarkable period that has affected every one of us in ways few ever imagined. As a result of the world going into lockdown in response to the spread of COVID-19, people's lives and livelihoods have been severely impacted. During February and March 2020, markets went into freefall as investors struggled to get to grips with the virus. The MSCI All Country World Index tumbled 18% in the first 3 months of the year, whilst the broad TOPIX Index fell by 11%.

Your Company is invested in businesses that, over many years, have accumulated large amounts of surplus cash and liquid securities on their balance sheet. In aggregate, across the portfolio, almost 100% of the market capitalisation is covered by the value of these liquid assets (cash plus listed securities). Nevertheless, this did not act as a buffer during the first quarter market rout. AJOT's NAV declined by -19% over the first 3 months of the year before staging a recovery during the second quarter. Over the six-month period, therefore, your Company returned -8.0% compared to its benchmark, the MSCI Japan Small Cap Index which returned -3.5%, in Sterling.

There are two aspects to our investment strategy. The first is based on fundamental valuation analysis. The objective is to identify good-quality businesses that are trading at remarkably low valuations, largely because of inefficient, cash-laden balance sheets that suppress market valuations. Having identified these companies, the second objective is to behave as an active owner and to engage with management, encouraging the adoption of measures to improve shareholder returns.

Since launch of this Company, we have had notable successes with market participants realising the undervaluation of our quality companies by taking them private, while other companies have boosted shareholder returns by implementing policies such as share buybacks and dividend increases. Overall, our portfolio companies have continued to generate positive cash flow and boost their already bloated balance sheets, so that as at the end of June 2020, the valuation of the portfolio in terms of net financial value to market cap, or EV/EBIT, are at extremely low levels. The global pandemic, however, has led to questions being asked regarding the ability of companies to continue to grow their profits, and additionally whether Japanese companies will be as willing to return their substantial cash balances back to shareholders.

Whilst it is too soon to determine the full extent of the impact from COVID-19, the signs from our portfolio companies are thus far encouraging. Many businesses have reported resilient earnings this year, and while some have been impacted more severely, all the portfolio companies continue to generate free cash flow, and accumulate more cash on their balance sheets. Whilst payout levels are low by international standards, dividend yields in Japan are nevertheless attractive. Thus from an operational perspective, the fundamentals of portfolio companies remain positive; balance sheets are laden with cash that continues to accumulate to ever-higher levels; and from a corporate governance perspective, management teams have indicated a willingness to continue with share buybacks they have initiated in recent years.

During the past year, Japan announced reforms to regulations regarding foreign ownership - FEFTA. Questions have been raised regarding Japan's commitment to corporate governance reform which puts into question the second aspect of our investment strategy: shareholder engagement.

The headlines following a leak from the Ministry of Finance suggested that this marked the end of the recent improving trends in corporate governance and that Japan was reverting to its old ways. Encouragingly however, the final draft of the regulations confirmed that the intention behind them was not to scupper foreign activists, and that foreign regulated asset managers (such as AVI) would be able to continue their shareholder engagement activities in Japan undeterred.

As for the suggestion that Japanese companies' predilection for hoarding cash for a rainy day has been vindicated, and that this therefore spells the end of activism in Japan, we believe they are misguided. Most certainly, the Japanese corporate model of having strong balance sheets as opposed to the highly leveraged ones found elsewhere in the world, has been extremely helpful during the COVID-19 crisis of this year. And indeed, perhaps a re-evaluation of capital management is required. But there is a happy medium somewhere between the excessive leveraged buybacks often seen in the US and the ultra-conservatism of many Japanese companies, and this does not suggest the end of shareholder engagement. The process of shareholder engagement in Japan is evolving. It is becoming more focused on long-term measures to create shareholder value, rather than on the one-off measures such as the return of cash. Our engagement with Fujitec highlights this. Rather than simply focus on the excess cash on balance sheet (although this is an important issue), we published a wide-ranging analysis of various governance, operational and strategic shortcomings at the company. These will take time to resolve and will require a partnership between management and shareholders. Encouragingly, we are seeing more examples of this approach in Japan and this is likely to continue despite COVID-19, rather than cease.

Japan has had a more benign COVID-19 experience than most other countries. There has been much discussion about what has driven this, but the fact remains that Japan appears to be embarking on a strong recovery from the impact of lockdown. Its stock market remains cheap compared to international peers, and as your Company's portfolio highlights, there are pockets of genuinely anomalous valuations. With continued incremental evidence of change in capital management and corporate governance improvements, Japan should be an attractive destination for global investors. Nevertheless, foreigners continue to be net sellers and this continues to have a dampening effect on the broader market.

Our portfolio is made up of undoubtedly under-valued companies. These are businesses with growing earnings, super-strong balance sheets and, increasingly, have management teams that are focusing on improving shareholder returns. AVI's constructive, but firm, shareholder engagement allows for the greatest likelihood of the partnership between shareholder and management to be productive, creating long-term value for all stakeholders.

In the following section we describe the companies within the portfolio that had have had a significant impact on returns over the period.

# Investment Manager's Report
continued

## Fujitec

Following a 14% share price return, Fujitec was the largest contributor to returns over the six months, adding 2.4% to your Company's NAV. Its EV/EBIT multiple increased from 8.4x to 9.7x, while earnings grew 8%.

Founded in 1948, Fujitec manufactures, installs, and maintains elevators and escalators ("E&E"). We have held a position in Fujitec since the launch of AJOT and, collectively across all AVI funds, we now hold over 3% of the shares.

In early May 2020 we released a public presentation[1], addressing Fujitec's undervaluation and underperformance. We recommended to the board that they undergo a comprehensive strategic review, commit to divesting strategic holdings in other listed companies, set out a transparent capital policy and adopt a three-committee style board structure.

Our research for the presentation took around two months, and during that time we spoke to twelve experts within the field including ex-Fujitec employees, peers, customers, and suppliers.

The presentation was well received by other shareholders who have grown frustrated by years of undervaluation and weak management. Shareholders' frustration was evidenced when a well-known Hong Kong-based activist submitted shareholder proposals shortly after we released our presentation.

We sense there is sympathy from inside the company to our recommendations and that some believe change is needed. We recognise, however, that transforming the culture of a company from outside is exceptionally difficult. We are respectful of this process and while eager for change, have given Fujitec the chance to respond to our recommendations before we take any further public actions. Most importantly, our relationship with management has so far been cordial, we were invited to attend the AGM, have held numerous calls with management and have a meeting arranged with one of the independent directors.

Trading on only a 10x EV/EBIT, vs peers exceeding 20x, with substantial room for margin improvement, Fujitec ended the period as AJOT's largest position.

## Teikoku Sen-i

Teikoku Sen-i proved a resilient performer over the period, falling only -3% in yen, vs the MSCI Japan Small Cap that fell -10%. With a strong yen, it contributed 0.9% to GBP returns. While we suffered from a valuation headwind with Teikoku's EV/EBIT falling from 4.9x to 3.4x, we benefited from strong operating profit growth of 45%.

We launched our public campaign, Transforming Teikoku[2], in January 2020, submitting two shareholder proposals for an increased dividend equivalent to a 50% payout ratio and a buyback for 3% of outstanding shares.

Given the percentage of allegiant shareholders who have conflicted business relationships, it was not our expectation to win either proposal, but to draw attention to Teikoku's balance sheet mismanagement. Encouragingly, despite the presence of allegiant shareholders, our proposal was supported by 25% of shareholders, with strong backing from Japanese institutions. Nomura Asset Management, for example, commented that they agree with AVI's proposal, considering that it contributes to the improvement of shareholder value without impacting the financial soundness of the company.

The changing tide of both domestic and foreign institutions pressuring companies to reform is a helpful tailwind to our engagement activity for both Teikoku and our other investments. We are continuing to engage with Teikoku on improving the efficiency of its balance sheet and its valuation.

## Kato Sangyo

During a turbulent and uncertain period, investors flocked to stocks with defensive and stable characteristics. Kato Sangyo, with an unbroken track record of annual sales growth since 1997 (as far back as Capital IQ's data goes), therefore, performed well. It fell only -2.2%, and with a strong yen, contributed 0.9% to GBP returns.

Kato Sangyo is a wholesale distributor to supermarkets. It sources, sorts and transports food and drink across Japan, and has been boosting its overseas presence, most notably in Malaysia where it now has the largest market share.

As people shied away from eating out during lockdown, demand for food consumed at home increased, which was a boon for Kato Sangyo. Despite panic stockpiling and logistics disruption, Kato Sangyo managed to control costs and didn't experience delays in deliveries. For its domestic grocery distribution business (80% of profits), sales and profits for quarter ending March 2020 grew by +8% and +6% respectively.

Given the relatively strong share price performance, we trimmed our position in Kato Sangyo by 14% to add to more compelling opportunities. However, at the end of June 2020 Kato Sangyo was still a core top 10 holding.

## SK Kaken

SK Kaken was the largest detractor to returns falling -25% in yen and detracting -1.9%. SK Kaken's large detraction was mainly on account of its weighting within the portfolio, being on average our second largest position over the first six months of the year.

The share price of SK Kaken has suffered from continued selling pressure from a large foreign institution which experienced heavy redemptions. While profits fell -13% in the quarter to 31 March 2020, it was SK Kaken's valuation that weighed most heavily on the share price, falling from an EV/EBIT of 5.2x to 0.9x. Remarkably, for a company with a market cap of £750m, net cash accounts for 91% of the market cap.

While on the surface SK Kaken's paints business might seem cyclical and low quality, our analysis shows that this is not the case. 75% of sales derive from paint replacement rather than new construction, and its focus on the niche segment of architectural coatings allows it to command a 52% market share and earn an impressive 27% return on capital.

1 The presentation can be found on www.takingfujitectothenextlevel.com
2 The presentation can be found on www.transformingteikoku.com/

# Investment Manager's Report
continued

Headquartered in Osaka and listed on the JASDAQ with very low liquidity, SK Kaken flies under the radar of many investors. While there is not an immediate catalyst to rectify the valuation anomaly, we are comfortable owning the shares knowing that the underlying value will continue to appreciate each year. In the meantime, we will continue to privately engage with management and encourage the undertaking of measures to increase corporate value.

## Tokyo Radiator

Tokyo Radiator was the second largest detractor, despite being only an average 2.2% weight. It suffered a -45% fall in its share price, with net cash now covering a preposterous 130% of the market cap.

Tokyo Radiator's business has suffered on multiple fronts. Its overseas business struggled amidst the US-China trade war resulting in slowed China sales, while its Japan business saw a reduction in sales activity due to the impact of typhoons on industrial and construction machinery demand.

Last year Tokyo Radiator appointed a new President tasked with improving operations. He has focused on increasing R&D expenditure, expanding sales in China, outsourcing the production of some commoditised parts and modernising facilities.

From the outset we have recognised the difficulties in Tokyo Radiator's core business but this was more than compensated by both the valuation and event angle. For the majority of the time that we have owned Tokyo Radiator it has traded with more than 100% of its market cap covered by net cash, reaching a peak valuation in June 2019 of only 2.5x. Even for a business with cyclical tendencies, this is low.

We believe the crystallisation of Tokyo Radiator's undervaluation will be the eventual buy-in by 40% shareholder Marelli (previously Calsonic Kansei), which is owned by KKR. Given the pressure on companies to collapse parent-child relationships, we believe it is untenable for Tokyo Radiator to continue in its current form. Even a bid at a modest 4x EV/EBIT to the current depressed earnings would result in over 60% upside.

## Pasona

Pasona detracted 1.1% from returns over the period. Its weakness was caused by the widening discount to its stake in Benefit One. Benefit One's share price fell by only -4% over the period, compared to Pasona's -26%, with Pasona's discount widening from 67% to 74%.

Pasona is the founding entity behind Benefit One, a benefits and health outsourcing company. While Pasona does have its own business lines, its 50% stake in Benefit One accounts for over 90% of its value. Benefit One has been hugely successful, achieving a profit Compound Annual Growth Rate of 20% over the past five years as more Japanese companies outsource HR functions.

Remarkably, Pasona's stake in Benefit One accounts for 361% of its market cap. To put this in context, Pasona's share price could double, and it would still trade on a 50% discount. And if the structure were to eventually be collapsed, we could wait 10 years, and still achieve a compound annual 15% share price return, even without further appreciation in Benefit One's share price.

There has been pressure from an activist for Pasona to streamline the holding structure and improve the profitability of Pasona's core business. Subsequently, the controlling shareholder publicly commented that the improvement of profit would be a big focus for him. Aside from a natural narrowing of Pasona's extraordinarily wide discount, we believe that the trapped value will be crystallised when either Pasona proves to the market that its standalone business is viable or there are signs that the holding structure might change. However, given the growth outlook for Benefit One's business, and the immense upside from discount narrowing, we can afford to be patient.

## Outlook

Your Company suffered a precipitous decline in the first half of the interim period; in the latter half, the NAV recovered strongly as global equity markets bounced back from the lows. While this is encouraging to see, it is worth noting that the landscape remains difficult to map. Equity markets continue to climb a wall of worry, seemingly in defiance of resurgent viral outbursts across the developed world. It is, perhaps, fair to say that the only certainty at this juncture is uncertainty.

However, in terms of our management ability, all AVI employees are healthy, our remote working systems are functioning well and, while working virtually, we are operating close to normality. Despite the disruption we continue to invest in our Japan focused team. In the first quarter of this year we welcomed Yukiko Nicholas and Jason Bellamy. Yukiko is a native Japanese speaker and while she started her career in Tokyo, she is based in the London office. She assists in translation work, organising meetings and communicating with Japanese companies. Jason is also a native Japanese speaker but based in Tokyo. He represents AVI as a senior consultant supporting our engagement activity and advancing our relationships with our portfolio companies. He has many years' experience working in the Japanese financial services industry and has allowed us to continue to have face-to-face dialogue with our companies despite global travel restrictions.

For the Strategy, we draw confidence from several factors. Japan as a nation handled the pandemic relatively well, with a death rate of less than 1 per 100,000 population – levels significantly below what has been observed in other developed economies. This has allowed the country to avoid harsh lockdown restrictions, with a rapid resumption of economic activity as it emerged from the crisis. At the portfolio level, it is worth repeating that the portfolio is invested in high-quality, profitable, cash-generative businesses with overcapitalised balance sheets and remarkably cheap valuations. While the current environment is difficult to navigate, we remain confident that as the crisis passes, these companies will emerge from the crisis intact and poised to thrive in the future.

**Joe Bauernfreund**
Asset Value Investors

14 September 2020

# Investment Portfolio
## At 30 June 2020

| Company | Stock Exchange Identifier | % of Investee company | Cost £'000* | Market value £'000 | % of AJOT net assets | NFV/Market capitalisation[1] | EV/EBIT[1] |
|---|---|---|---|---|---|---|---|
| Fujitec | TSE: 6406 | 0.8 | 7,476 | 11,152 | 9.3% | 40% | 9.7 |
| Teikoku Sen-i | TSE: 3302 | 1.8 | 7,817 | 8,415 | 7.0% | 67% | 3.4 |
| SK Kaken | JASDAQ: 4628 | 0.9 | 9,444 | 7,901 | 6.6% | 91% | 0.9 |
| Secom Joshinetsu | TSE: 4342 | 2.1 | 6,544 | 7,068 | 5.9% | 90% | 1.0 |
| Konishi | TSE: 4956 | 1.5 | 6,780 | 6,707 | 5.6% | 45% | 4.7 |
| Pasona | TSE: 2168 | 1.7 | 7,337 | 6,422 | 5.4% | 356% | <0 |
| Softbank Group | TSE: 9984 | - | 5,534 | 5,996 | 5.0% | 163% | <0 |
| Kato Sangyo | TSE: 9869 | 0.6 | 5,417 | 5,894 | 4.9% | 80% | 2.2 |
| C Uyemura | TSE: 4966 | 1.2 | 5,895 | 5,837 | 4.9% | 65% | 3.8 |
| Digital Garage | TSE: 4819 | 0.5 | 5,006 | 5,587 | 4.7% | 81% | 5.4 |
| **Top ten investments** | | | **67,250** | **70,979** | **59.3%** | | |
| Daiwa Industries | TSE: 6459 | 1.6 | 6,731 | 5,387 | 4.5% | 124% | <0 |
| Toagosei | TSE: 4045 | 0.5 | 5,753 | 5,344 | 4.5% | 69% | 3.2 |
| Sekisui Jushi | TSE: 4212 | 0.7 | 4,875 | 5,321 | 4.4% | 74% | 2.8 |
| DTS | TSE: 9682 | 0.5 | 4,513 | 4,537 | 3.8% | 47% | 5.5 |
| Kanaden | TSE: 8081 | 1.5 | 3,830 | 4,179 | 3.5% | 84% | 1.7 |
| NS Solutions | TSE: 2327 | 0.2 | 3,776 | 4,021 | 3.4% | 41% | 5.8 |
| Fukuda Denshi | JASDAQ: 6960 | 0.4 | 3,606 | 3,889 | 3.2% | 72% | 3.0 |
| King | TSE: 8118 | 3.8 | 3,561 | 3,493 | 2.9% | 114% | <0 |
| Aichi | TSE: 6345 | 0.7 | 2,789 | 3,212 | 2.7% | 59% | 4.5 |
| A-One Seimitsu | JASDAQ: 6156 | 5.2 | 3,046 | 3,038 | 2.5% | 102% | <0 |
| **Top twenty investments** | | | **109,730** | **113,400** | **94.7%** | | |
| Alps Logistics | TSE: 9055 | 1.4 | 2,989 | 2,930 | 2.4% | 40% | 4.4 |
| Tokyo Radiator | TSE: 7235 | 4.2 | 3,885 | 2,515 | 2.1% | 142% | <0 |
| Soft99 | TSE: 4464 | 1.7 | 2,638 | 2,429 | 2.0% | 117% | <0 |
| Tokyo Broadcasting System | TSE: 9401 | 0.1 | 2,216 | 2,132 | 1.8% | 121% | <0 |
| Kanematsu Electronics | TSE: 8096 | 0.2 | 1,236 | 1,235 | 1.0% | 38% | 6.3 |
| Tachi-S | TSE: 7239 | 0.3 | 1,180 | 697 | 0.6% | 104% | <0 |
| **Total investments** | | | **123,874** | **125,338** | **104.6%** | | |
| Other net assets and liabilities | | | | (5,559) | (4.6%)[2] | | |
| Net assets | | | | 119,779 | 100.0% | | |

* Refer to Glossary on page 17.

[1] Estimates provided by AVI. Refer to Glossary on page 17.

[2] Gearing. Please refer to Glossary on page 17.

# Principal Risks and Uncertainties

The principal risks and uncertainties associated with the Company's business include, but are not limited to, risks relating to the investment objective, gearing, reliance on the Investment Manager and other service providers, cyber security, portfolio liquidity and foreign exchange. Information on these risks and how they are managed is set out on pages 21 and 22 of the 2019 Annual Report.

Whilst the ongoing COVID-19 pandemic has impacted the business in a number of areas as detailed in the Chairman's Statement and the Investment Manager's Report, in the view of the Board the majority of these principal risks and uncertainties were unchanged over the last six months and are as applicable to the remaining six months of the financial year as they were to the six months under review.

# Directors' Responsibility Statement

The Directors confirm that to the best of their knowledge:

- the condensed set of financial statements has been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting as adopted by the EU; and
- this Interim Report includes a fair review of the information required by:
  a) DTR 4.2.7R of the Disclosure Guidance and Transparency Rules, being an indication of important events that have occurred during the period under review and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and
  b) DTR 4.2.8R of the Disclosure Guidance and Transparency Rules, being related party transactions that have taken place during the period ended 30 June 2020 and that have materially affected the financial position or performance of the Company during that period and any material changes in the related party transactions described in the last Annual Report.

This Interim Report was approved by the Board of Directors and the above responsibility statement was signed on its behalf by:

**Norman Crighton**
Chairman
14 September 2020

# Statement of Comprehensive Income

## For the period ended 30 June 2020 (unaudited)

| | | For the 6 month period to 30 June 2020 | | | For the 6 month period to 30 June 2019 | | | For the period from 27 July 2018 to 31 December 2019 | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Notes | Revenue £'000 | Capital £'000 | Total £'000 | Revenue £'000 | Capital £'000 | Total £'000 | Revenue £'000 | Capital £'000 | Total £'000 |
| **Income** | | | | | | | | | | |
| Investment income | 2 | 1,747 | - | **1,747** | 1,285 | - | **1,285** | 2,345 | - | **2,345** |
| (Losses)/gains on investments held at fair value | | - | (9,487) | **(9,487)** | - | 6,770 | **6,770** | - | 14,905 | **14,905** |
| Exchange losses on currency balances | | - | (278) | **(278)** | - | (120) | **(120)** | - | (791) | **(791)** |
| | | 1,747 | (9,765) | **(8,018)** | 1,285 | 6,650 | **7,935** | 2,345 | 14,114 | **16,459** |
| **Expenses** | | | | | | | | | | |
| Investment management fee | | (60) | (542) | **(602)** | (38) | (346) | **(384)** | (106) | (954) | **(1,060)** |
| Other expenses (including irrecoverable VAT) | | (308) | - | **(308)** | (369) | - | **(369)** | (738) | - | **(738)** |
| **Profit/(loss) before finance costs and tax** | | 1,379 | (10,307) | **(8,928)** | 878 | 6,304 | **7,182** | 1,501 | 13,160 | **14,661** |
| Finance costs | | (10) | (92) | **(102)** | (3) | (31) | **(34)** | (9) | (77) | **(86)** |
| Exchange (losses)/ gains on unsecured loan revaluation | 3 | - | (1,108) | **(1,108)** | - | (593) | **(593)** | - | 62 | **62** |
| **Profit/(loss) before taxation** | | 1,369 | (11,507) | **(10,138)** | 875 | 5,680 | **6,555** | 1,492 | 13,145 | **14,637** |
| Taxation | | (173) | - | **(173)** | (124) | - | **(124)** | (230) | - | **(230)** |
| **Profit/(loss) for the period** | | **1,196** | **(11,507)** | **(10,311)** | **751** | **5,680** | **6,431** | **1,262** | **13,145** | **14,407** |
| **Earnings per Ordinary Share** | 5 | **1.04p** | **(10.00p)** | **(8.96p)** | **0.90p** | **6.80p** | **7.70p** | **1.40p** | **14.63p** | **16.03p** |

The total column of this statement is the Income Statement of the Company prepared in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the European Union. The supplementary revenue and capital columns are presented in accordance with the Statement of Recommended Practice issued by the Association of Investment Companies ("AIC SORP").

All revenue and capital items in the above statement derive from continuing operations. No operations were acquired or discontinued during the period.

There is no other comprehensive income, and therefore the loss for the period after tax is also the total comprehensive income.

The accompanying notes are an integral part of these financial statements.

# Statement of Changes in Equity

## For the period ended 30 June 2020 (unaudited)

| | Ordinary Share capital £'000 | Share premium £'000 | Special reserve* £'000 | Capital reserve* £'000 | Revenue reserve** £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| **For the six months to 30 June 2020** | | | | | | |
| Balance as at 31 December 2019 | 1,139 | 34,476 | 77,588 | 13,145 | 1,262 | **127,610** |
| Issue of Ordinary Shares | 36 | 3,835 | - | - | - | **3,871** |
| Expenses of share issue | - | (69) | - | - | - | **(69)** |
| Expenses in relation to proposed share issue | - | - | (288) | - | - | **(288)** |
| Total comprehensive income for the period | - | - | - | (11,507) | 1,196 | **(10,311)** |
| Ordinary dividends paid | - | - | - | - | (1,034) | **(1,034)** |
| **Balance as at 30 June 2020** | **1,175** | **38,242** | **77,300** | **1,638** | **1,424** | **119,779** |

| | Ordinary Share capital £'000 | Share premium £'000 | Special reserve* £'000 | Capital reserve* £'000 | Revenue reserve** £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| **For the six months to 30 June 2019** | | | | | | |
| Balance as at 31 December 2018 | 800 | 77,588 | - | (3,036) | (87) | **75,265** |
| Issue of Ordinary Shares | 129 | 12,871 | - | - | - | **13,000** |
| Expenses of share issue | - | (259) | - | - | - | **(259)** |
| Cancellation of share premium account | - | (77,588) | 77,588 | - | - | **-** |
| Total comprehensive income for the period | - | - | - | 5,680 | 751 | **6,431** |
| **Balance as at 30 June 2019** | **929** | **12,612** | **77,588** | **2,644** | **664** | **94,437** |

| | Ordinary Share capital £'000 | Share premium £'000 | Special reserve* £'000 | Capital reserve* £'000 | Revenue reserve** £'000 | Total £'000 |
|---|---|---|---|---|---|---|
| **For the period 27 July 2018 to 31 December 2019** | | | | | | |
| Issue of Ordinary Shares | 1,139 | 114,412 | - | - | - | **115,551** |
| Expenses of share issue | - | (2,322) | - | - | - | **(2,322)** |
| Cancellation of share premium account | - | (77,588) | 77,588 | - | - | **-** |
| Expenses in relation to cancellation of share premium account | - | (26) | - | - | - | **(26)** |
| Total comprehensive income for the period | - | - | - | 13,145 | 1,262 | **14,407** |
| **Balance as at 31 December 2019** | **1,139** | **34,476** | **77,588** | **13,145** | **1,262** | **127,610** |

* Following Court approval and the subsequent registration of the Court order with the Registrar of Companies, the cancellation of the Company's share premium account became effective and an amount of £77,588,000 was transferred from the share premium account to the special reserve which is a distributable reserve.

Within the balance of the capital reserve, £1,638,000 (30 June 2019: £304,000; 31 December 2019: £5,934,000) relates to realised gains/(losses) which under the Articles of Association is distributable by way of dividends. The remaining £nil (30 June 2019: £2,340,000; 31 December 2019: £7,211,000) relates to unrealised gains on investments and is non-distributable.

** Revenue reserve is fully distributable by way of dividends.

# Balance Sheet
## As at 30 June 2020 (unaudited)

| | Notes | At 30 June 2020 £'000 | At 30 June 2019 £'000 | At 31 December 2019 £'000 |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Investments held at fair value through profit or loss | | **125,338** | 101,641 | 125,531 |
| | | **125,338** | 101,641 | 125,531 |
| **Current assets** | | | | |
| Other receivables | | **315** | 178 | 296 |
| Cash and cash equivalents | | **10,573** | 3,922 | 17,995 |
| | | **10,888** | 4,100 | 18,291 |
| **Total assets** | | **136,226** | 105,741 | 143,822 |
| **Current liabilities** | | | | |
| Revolving credit facility | 3 | **(16,129)** | (10,685) | (15,965) |
| Other payables | | **(318)** | (619) | (247) |
| | | **(16,447)** | (11,304) | (16,212) |
| **Total assets less current liabilities** | | **119,779** | 94,437 | 127,610 |
| **Net assets** | | **119,779** | 94,437 | 127,610 |
| **Equity attributable to equity Shareholders** | | | | |
| Ordinary Share capital | 7 | **1,175** | 929 | 1,139 |
| Share premium | | **38,242** | 12,612 | 34,476 |
| Special reserve | | **77,300** | 77,588 | 77,588 |
| Capital reserve | | **1,638** | 2,644 | 13,145 |
| Revenue reserve | | **1,424** | 664 | 1,262 |
| **Total equity** | | **119,779** | 94,437 | 127,610 |
| | | **-** | - | - |
| **Net asset value per Ordinary Share – basic** | 6 | **101.95p** | 101.70p | 112.00p |
| **Number of shares in issue** | 7 | **117,489,742** | 92,854,742 | 113,939,742 |

The accompanying notes are an integral part of these financial statements.

# Statement of Cash Flows

## For the period ended 30 June 2020 (unaudited)

| | 30 June 2020 £'000 | 30 June 2019 £'000 | 31 December 2019 £'000 |
|---|---|---|---|
| **Reconciliation of (loss)/profit before taxation to net cash inflow/(outflow) from operating activities** | | | |
| (Loss)/profit before taxation | **(10,138)** | 6,555 | 14,637 |
| Gains/(losses) on investments held at fair value through profit or loss | **9,487** | (6,770) | (14,905) |
| Increase in other receivables | **(17)** | (142) | (296) |
| Exchange losses/(gains) on revolving credit facility | **1,108** | 593 | (62) |
| Increase in other payables | **71** | 542 | 247 |
| Taxation paid | **(173)** | (124) | (230) |
| **Net cash inflow/(outflow) from operating activities** | **338** | 654 | (609) |
| **Investing activities** | | | |
| Purchases of investments | **(31,091)** | (44,698) | (143,350) |
| Sales of investments | **21,795** | 11,878 | 32,724 |
| **Net cash outflow from investing activities** | **(9,296)** | (32,820) | (110,626) |
| **Financing activities** | | | |
| Dividends paid | **(1,034)** | - | - |
| Issue of shares net of costs | **3,802** | 12,741 | 113,229 |
| (Repayment)/issue of revolving credit facility net of costs | **(944)** | 10,092 | 16,027 |
| Costs associated with proposed share issue | **(288)** | - | - |
| Share premium cancellation costs | **-** | - | (26) |
| **Net cash inflow from financing activities** | **1,536** | 22,833 | 129,230 |
| **(Decrease)/increase in cash and cash equivalents** | **(7,422)** | (9,333) | 17,995 |
| **Reconciliation of net cash flow movement:** | | | |
| Cash and cash equivalents at beginning of period | **17,995** | 13,255 | - |
| (Decrease)/increase in cash and cash equivalents | **(7,422)** | (9,333) | 17,995 |
| **Cash and cash equivalents at end of period** | **10,573** | 3,922 | 17,995 |

# Notes to the Financial Statements
## For the period ended 30 June 2020 (unaudited)

### 1. Accounting Policies

AVI Japan Opportunity Trust plc is a company incorporated on 27 July 2018 and registered in England and Wales. The principal activity of the Company is that of an investment trust company within the meaning of Sections 1158/1159 of the Corporation Tax Act 2010.

The Company was listed on the Official List of the Financial Conduct Authority and commenced trading on the London Stock Exchange on 23 October 2018.

The condensed financial statements of the Company have been prepared in accordance with International Accounting Standards (IAS) 34 – "Interim Financial Reporting" as adopted by the EU.

In the current period, the Company has applied amendments to IFRS. These include annual improvements to IFRS, changes in standards, legislative and regulatory amendments, changes in disclosure and presentation requirements. The adoption of these has not had any material impact on these financial statements and the accounting policies used by the Company followed in these interim financial statements are consistent with the most recent Annual Report for the period ended 31 December 2019.

#### Basis of Preparation

In order to better reflect the activities of an investment trust company and in accordance with guidance issued by the AIC, supplementary information which analyses the Statement of Comprehensive Income between items of a revenue and capital nature has been prepared alongside the Statement of Comprehensive Income.

The functional currency of the Company is Pounds Sterling because this is the primary economic currency in which the Company operates. The financial statements are also presented in Pounds Sterling rounded to the nearest thousand, except where otherwise indicated.

#### Comparative Information

The financial information contained in this Interim Report does not constitute statutory accounts as defined in the Companies Act 2006. The financial information for the six month period ended 30 June 2020, and the six month period ended 30 June 2019, have not been audited or reviewed by the Company's Auditor. The comparative figures for the financial period ended 31 December 2019 have been extracted from the latest published audited financial statements and do not constitute statutory accounts for that period. Those financial statements have been reported on by the Company's Auditor and delivered to the Registrar of Companies. The report of the Auditor was (i) unqualified, (ii) did not include a reference to any matters to which the Auditor drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

#### Going Concern

The financial statements have been prepared on a going concern basis and on the basis that approval as an investment trust company will continue to be met.

The Directors have made an assessment of the Company's ability to continue as a going concern and are satisfied that the Company has adequate resources to continue in operational existence for the foreseeable future (being a period of at least 12 months from the date on which these financial statements are approved). In making this assessment, the Directors have considered in particular the likely economic effects and the effects on the Company's operations of the current COVID-19 pandemic. The longer-term economic effects of the pandemic are very difficult to predict but in considering preparing the accounts on a going concern basis, the Directors noted that as at 30 June 2020, the Company holds a portfolio of liquid investments whose value is a multiple of liabilities. The Directors believe that it is possible that the Company could experience further reductions in its income and / or the market value of its investments but they consider it unlikely that the investments would fall in value to a level which would threaten the Company's ability to continue as a going concern. The Directors have been reassured that both the Investment Manager and other key service providers have implemented contingency plans which have worked effectively and have led to minimal disruption. There is no evidence that the level of disruption will increase for the foreseeable future. Furthermore, the Directors are not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern, having taken into account the liquidity of the Company's investment portfolio and the Company's financial position in respect of its cash flows, debt and investment commitments.

# Notes to the Financial Statements

For the period ended 30 June 2020 (unaudited) – Continued

## 2. Income

| | 30 June 2020 £'000 | 30 June 2019 £'000 | 31 December 2019 £'000 |
|---|---|---|---|
| **Income from investments** | | | |
| Overseas dividends | 1,730 | 1,241 | 2,304 |
| Bank and deposit interest | (9) | 10 | 39 |
| Exchange gains on receipt of income* | 26 | 34 | 2 |
| **Total income** | **1,747** | **1,285** | **2,345** |

*Exchange movements arise from ex-dividend date to payment date.

## 3. Revolving Credit Facility

| | Six months to 30 June 2020 | | Six months to 30 June 2019 | | Period to 31 December 2019 | |
|---|---|---|---|---|---|---|
| | ¥'000 | £'000 | ¥'000 | £'000 | ¥'000 | £'000 |
| Opening balance | 2,297,500 | 15,965 | - | - | - | - |
| Proceeds from amounts drawn | - | - | 1,465,000 | 10,092 | 2,297,500 | 16,027 |
| Repayment of amounts drawn | (147,500) | (944) | - | - | - | - |
| Exchange rate movement | - | 1,108 | - | 593 | - | (62) |
| **Closing balance** | **2,150,000** | **16,129** | **1,465,000** | **10,685** | **2,297,500** | **15,965** |
| Maximum facility available | 4,330,000 | 32,483 | 1,465,000 | 10,685 | 2,930,000 | 20,361 |

On 1 April 2020 the Company amended the Revolving Credit Facility (the 'facility'), extending the facility to 2 April 2021, and increasing the maximum available facility to ¥4,330,000,000. Currently the committed facility is ¥2,930,000,000. Where amounts of the committed facility remain undrawn, a commitment fee will be charged; 0.425% if more than 50% of the total facility is non-utilised and if less than 50%, a commitment fee of 0.375% is charged. Based on current utilisation the commitment fee is 0.375%. Interest is charged at LIBOR plus 1.25% upon drawn amounts. Other than these amendments the terms of the facility agreement entered into on 5 April 2019 remain in effect, which are typical for a facility of this nature, including net asset value and asset coverage covenants.

## 4. Dividends per Ordinary Share

During the period the Company paid a final dividend for the period ended 31 December 2019 of 0.90p per share.

An interim dividend of 0.65p per Ordinary Share for the period ended 30 June 2020 has been declared and will be paid on 26 October 2020 to Ordinary Shareholders on the register at the close of business on 2 October 2020 (ex-dividend date is 1 October 2020).

## 5. Earnings per Ordinary Share

| | Six months to 30 June 2020 | | | Six months to 30 June 2019 | | | Period to 31 December 2019 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Revenue | Capital | Total | Revenue | Capital | Total | Revenue | Capital | Total |
| Net profit/(loss) (£'000) | 1,196 | (11,507) | (10,311) | 751 | 5,680 | 6,431 | 1,262 | 13,145 | 14,407 |
| Weighted average number of Ordinary Shares | | | 115,014,742 | | | 83,480,013 | | | 89,867,183 |
| **Earnings per Ordinary Share** | **1.04p** | **(10.00p)** | **(8.96p)** | **0.90p** | **6.80p** | **7.70p** | **1.40p** | **14.63p** | **16.03p** |

There are no dilutive instruments issued by the Company.

# Notes to the Financial Statements

For the period ended 30 June 2020 (unaudited) – Continued

## 6. Net Asset Value per Ordinary Share

The net asset value per Ordinary Share is based on net assets of £119,779,000 (30 June 2019: £94,437,000; 31 December 2019: £127,610,000) and on 117,489,742 (30 June 2019: 92,854,742; 31 December 2019: 113,939,742) Ordinary Shares, being the number of Ordinary Shares in issue.

## 7. Share Capital

| | At 30 June 2020 Ordinary Shares of 1p each | | At 30 June 2019 Ordinary Shares of 1p each | | At 31 December 2019 Ordinary Shares of 1p each | |
|---|---|---|---|---|---|---|
| | Number of shares | Nominal value £'000 | Number of shares | Nominal value £'000 | Number of shares | Nominal value £'000 |
| **Allotted, called-up and fully paid** | **117,489,742** | **1,175** | **92,854,742** | **929** | **113,939,742** | **1,139** |

During the period to 30 June 2020, 3,550,000 Ordinary Shares were issued for a net consideration of £3,802,000.

## 8. Values of Financial Assets and Financial Liabilities

### Valuation of financial instruments

The Company measures fair values using the following hierarchy that reflects the significance of the inputs used in making the measurements.

The fair value is the amount at which the asset could be sold or the liability transferred in an orderly transaction between market participants, at the measurement date, other than a forced or liquidation sale.

Categorisation within the hierarchy has been determined on the basis of the lowest level input that is significant to the fair value measurement of the relevant assets as follows:

- Level 1 – valued using quoted prices, unadjusted in active markets for identical assets or liabilities.
- Level 2 – valued by reference to valuation techniques using observable inputs for the asset or liability other than quoted prices included in Level 1.
- Level 3 – valued by reference to valuation techniques using inputs that are not based on observable market data for the asset or liability.

### Financial assets

The table below sets out fair value measurements of financial instruments as at the period end, by the level in the fair value hierarchy into which the fair value measurement is categorised.

| Financial assets at fair value through profit or loss at 30 June 2020 | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 | Total £'000 |
|---|---|---|---|---|
| Equity Investments | 125,338 | - | - | 125,338 |
| | **125,338** | **-** | **-** | **125,338** |

| Financial assets at fair value through profit or loss at 30 June 2019 | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 | Total £'000 |
|---|---|---|---|---|
| Equity Investments | 101,641 | - | - | 101,641 |
| | **101,641** | **-** | **-** | **101,641** |

| Financial assets at fair value through profit or loss at 31 December 2019 | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 | Total £'000 |
|---|---|---|---|---|
| Equity Investments | 125,531 | - | - | 125,531 |
| | **125,531** | **-** | **-** | **125,531** |

There have been no transfers during the period between Levels 1, 2 and 3.

# Notes to the Financial Statements

For the period ended 30 June 2020 (unaudited) – Continued

### 9. Related Parties and Transactions with the Investment Manager

Investment management fees for the period amounted to £602,000 (six months to 30 June 2019: £384,000; period to 31 December 2019: £1,060,000).

At the period end, £94,000 (30 June 2019: £65,000; 31 December 2019: £33,000) remained outstanding in respect of management fees.

The management fee of 1% per annum is calculated on the lesser of the Company's net asset value or Market Capitalisation at each quarter end. The Investment Manager will invest 25% of the management fee it receives in shares of the Company and will hold these for a minimum of two years. As at 30 June 2020, AVI held 450,000 shares of the Company.

Fees paid to Directors for the period ended 30 June 2020 amounted to £64,000 (six months to 30 June 2019: £54,000; period to 31 December 2019: £132,000).

### 10. Post Balance Sheet Events

Since 30 June 2020, markets and operations have continued to be disrupted by the effects of the COVID-19 pandemic. However, since the half-year end, the NAV per share has increased by 3.54% to 10 September 2020 and contingency plans at the Investment Manager and key service providers have proven effective in mitigating its effects on management of the portfolio and on all supporting operations. On 10 September the total unsecured revolving credit facility drawn down was ¥2,150,000,000 (£15,740,000).

# Glossary

### Alternative Performance Measure ("APM")

An APM is a numerical measure of the Company's current, historical or future financial performance, financial position or cash flows, other than a financial measure defined or specified in the applicable financial framework.

The definitions below are utilised for the measures of the Company, the investment portfolio and underlying individual investments held by the Company. Certain of the metrics are to look through the investments held, excluding certain non-core activities, so the performance of the actual core of the investment may be evaluated. Where a company in the investment portfolio holds a number of listed investments these are excluded in order to determine the actual core value metrics.

### Comparator Benchmark

The Company's Comparator Benchmark is the MSCI Japan Small Cap Index, expressed in Sterling terms. The benchmark is an index which measures the performance of the Japan equity market. The weighting of index constituents is based on their market capitalisation. Dividends paid by index constituents are assumed to be reinvested in the relevant securities at the prevailing market price. The Investment Manager's investment decisions are not influenced by whether a particular company's shares are, or are not, included in the benchmark. The benchmark is used only as a yard stick to compare investment performance.

### Cost

The book cost of each investment is the total acquisition value, including transaction costs, less the value of any disposals or capitalised distributions allocated on a weighted average cost basis.

### Discount/Premium

If the share price is lower than the NAV per share it is said to be trading at a discount. The size of the discount is calculated by subtracting the share price from the NAV per share and is usually expressed as a percentage of the NAV per share. If the share price is higher than the NAV per share, this situation is called a premium.

The discount and performance are calculated in accordance with guidelines issued by the AIC. The discount is calculated using the net asset values per share inclusive of accrued income with debt at market value.

### Earnings Before Interest and Taxes ("EBIT")

EBIT is equivalent to profit before finance costs and tax set out in the statement of comprehensive income.

### Enterprise Value ("EV")

Enterprise Value reflects the economic value of the business by taking the market capitalisation less cash, investment securities and the value of treasury shares plus debt and net pension liabilities.

### Enterprise Value ("EV")/Earnings Before Interest and Taxes ("EBIT")

A multiple based valuation metric that takes account of the excess capital on a company's balance sheet. For example, if a company held 80% of its market capitalisation in NFV (defined under Net Financial Value / Market Capitalisation), had a market capitalisation of 100 and EBIT of 10, the EV/EBIT would be 2x, (100-80)/10.

### Enterprise Value ("EV") Free Cash Flow Yield ("EV FCF Yield")

A similar calculation to free cash flow yield except the free cash flow excludes interest and dividend income and is divided by enterprise value. This gives a representation for how overcapitalised and undervalued a company is. If a company were to pay out of all of its NFV (defined under Net Financial Value/Market Capitalisation) and the share price remained the same, the EV FCF Yield would become the FCF yield. For example, take a company with a market capitalisation of 100 that had NFV of 80 and FCF of 8. The FCF yield would be 8%, 8/100, but if the company paid out all of its NFV the FCF yield would become 40%, 8/(100-80). This gives an indication of how cheaply the market values the underlying business once excess capital is stripped out.

### FEFTA

The Japanese Government's Foreign Exchange and Foreign Trade Act.

### Free Cash Flow ("FCF") Yield

Free cash flow is the amount of cash profits that a business generates, adjusted for the minimum level of capital expenditure required to maintain the company in a steady state. It measures how much a business could pay out to equity investors without impairing the core business. When free cash flow is divided by the market value, we obtain the free cash flow yield.

### Gearing

Gearing refers to the ratio of the Company's debt to its equity capital. The Company may borrow money to invest in additional investments for its portfolio. If the Company's assets grow, the Shareholders' assets grow proportionately more because the debt remains the same. But if the value of the Company's assets falls, the situation is reversed. Gearing can therefore enhance performance in rising markets but can adversely impact performance in falling markets.

The gearing of 13.5% represents borrowings of £16,129,000 expressed as a percentage of Shareholders' funds of £119,779,000. The gearing of 4.6% represents borrowings net of cash of £5,559,000 expressed as a percentage of Shareholders' funds of £119,779,000.

### Net Asset Value ("NAV")

The NAV is Shareholders' funds expressed as an amount per individual share. Shareholders' funds are the total value of all of the Company's assets, at their current market value, having deducted all liabilities and prior charges at their par value, or at their asset value as appropriate. The total NAV per share is calculated by dividing the NAV by the number of Ordinary Shares in issue.

### Net Cash/Market Capitalisation

Net cash consists of cash and the value of treasury shares less debt and net pension liabilities. It is a measure of the excess cash on a company's balance sheet and, by implication, how much value the market attributes to the core operating business. For example, the implied valuation of the core operating business of a company trading with a net cash/market capitalisation of 100% is zero.

### Net Financial Value ("NFV")/Market Capitalisation

Net Financial Value consists of cash, investment securities (less capital gains tax) and the value of treasury shares less debt and net pension liabilities. A measure of the excess cash on a company's balance sheet and, by implication, how much value the market attributes to the core operating business. For example, the implied

# Glossary
Continued

valuation of the core operating business of a company trading with a NFV/market capitalisation of 100% is zero.

### Portfolio Discount

A proprietary estimate of how far below fair value a given company is trading. For example, if a company with a market capitalisation of 100 had 80 NFV and a calculated fair value of the operating business of 90, we would attribute it a discount of -41%, 100/(90+80) -1. This indicates the amount of potential upside. The company trading on a -41% discount has a potential upside of +69%, 1/(1-0.41).

### Return on Equity ("ROE")

A measure of performance calculated by dividing net income by shareholder equity.

### ROE ex non-core financial assets

Non-core financial assets consists of cash and investment securities (less capital gains tax) less debt and net pension liabilities. The ROE is calculated as if non-core financial assets were paid out to shareholders. Companies with high balance sheet allocations to non-core, low yielding financial assets have depressed ROEs. The exclusion of non-core financial assets gives a fairer representation of the true ROE of the underlying business.

### Total Return – NAV and Share Price Returns

The combined effect of any dividends paid, together with the rise or fall in the share price or NAV. Total return statistics enable the investor to make performance comparisons between investment trusts with different dividend policies. Any dividends received by a Shareholder are assumed to have been reinvested in either additional shares in the Company or in the assets of the Company at the prevailing NAV, in either case at the time that the shares begin to trade ex-dividend.

# Shareholder Information

## Investing in the Company

The Company's Ordinary Shares are traded on the London Stock Exchange and can be bought directly on the London Stock Exchange or through the platforms listed on www.ajot.co.uk/how-to-invest/platforms/.

## Share Prices

The share price is published daily in The Financial Times, as well as on the Company's website: www.ajot.co.uk.

## Dividends

Shareholders who wish to have dividends paid directly into a bank account rather than by cheque to their registered address can complete a mandate form for the purpose. Mandate forms may be obtained from Link Asset Services, using the contact details given below or via www.signalshares.com. The Company operates the BACS system for the payment of dividends. Where dividends are paid directly into Shareholders' bank accounts, dividend tax vouchers are sent to Shareholders' registered addresses.

## Registrar Customer Support Centre

Link Asset Services' Customer Support Centre is available to answer any queries you have in relation to your shareholding:

- By phone: from the UK, call 0371 664 0300, from oversees call +44 (0) 371 664 0300 (calls are charged at the standard geographic rate and will vary by provider; calls from outside the UK will be charged at the applicable international rate. Lines are open between 09:00-17:30, Monday to Friday excluding public holidays in England and Wales);
- By email: shareholderenquiries@linkgroup.co.uk;
- By post: The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU.

## Change of Address

Communications with Shareholders are mailed to the last address held on the share register. Any change or amendment should be notified to Link Asset Services using the contact details given above, under the signature of the registered holder.

## Daily Net Asset Value

The daily net asset value of the Company's shares can be obtained from the London Stock Exchange or via the website: www.ajot.co.uk

# Company Information

### Directors
Norman Crighton *(Chairman)*
Ekaterina (Katya) Thomson
Yoshi Nishio
Margaret Stephens

### Administrator
Link Alternative Fund Administrators Limited
Beaufort House
51 New North Road
Exeter
Devon
EX4 4EP

### Auditor
BDO UK LLP
150 Aldersgate Street
London
EC1A 4AB

### Corporate Broker
N+1 Singer
1 Bartholomew Lane
London
EC2N 2AX

### Custodian
J.P. Morgan Chase Bank
National Association
London Branch
25 Bank Street
Canary Wharf
London
E14 5JP

### Depositary
J.P. Morgan Europe Limited
25 Bank Street
Canary Wharf
London
E14 5JP

### Investment Manager and AIFM
Asset Value Investors Limited
25 Bury Street
London
SW1Y 6AL

### Registered office
Beaufort House
51 New North Road
Exeter
Devon
EX4 4EP

### Registrar and Transfer Office
Link Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

Registrar's Shareholder Helpline
Tel. 0371 664 0300
*Calls are charged at the standard geographic rate and will vary by provider; calls from outside the UK will be charged at the applicable international rate. Lines are open between 09:00-17:30, Monday to Friday, excluding public holidays in England and Wales.*

### Secretary
Link Company Matters Limited
Beaufort House
51 New North Road
Exeter
Devon
EX4 4EP

### Solicitor
Stephenson Harwood LLP
1 Finsbury Circus
London
EC2M 7SH

AVI Japan Opportunity Trust

www.ajot.co.uk