

November 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

## Companies report quarterly earnings

By the end of this month all the companies in our portfolio reported quarterly earnings, giving us greater insight into the pace of the recovery.

[Read more below](#)

## Fujitec's new strategic plan

The key positive to emerge from the plan was the intention to discontinue the anti-takeover measure.

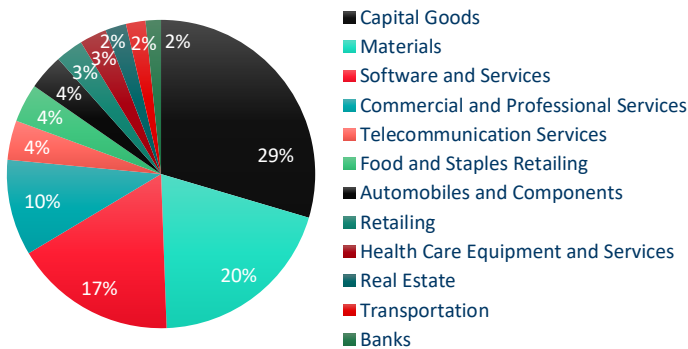
[Read more below](#)

PERFORMANCE<sup>1</sup>  
(Figures to 30 November 2020)

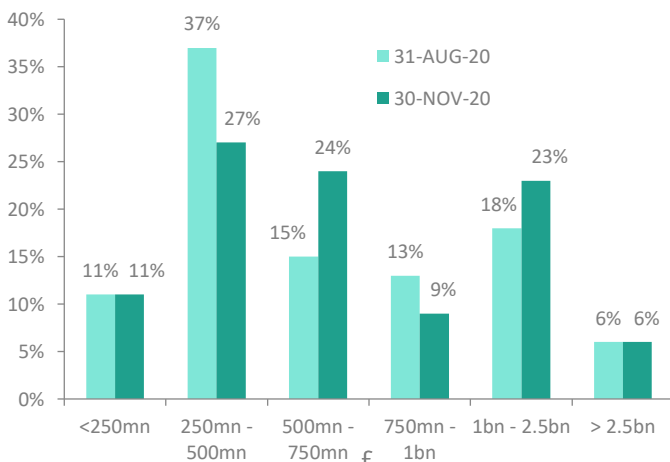
Share Price (pence)	108.5				
NAV (pence)	107.8				
Premium / (Discount)	0.7%				
	Month	Since Inception*	2020 Calendar Yr		
AJOT Share Price	2.1%	10.2%	-3.5%		
AJOT NAV	1.3%	11.8%	-2.2%		
MSCI Japan Small Cap	2.9%	9.3%	1.3%		
Cumulative Return	1 mo	2 mo	3 mo	6 mo	1 yr
AJOT Share Price	2.1%	1.1%	6.0%	6.5%	-4.2%
AJOT NAV	1.3%	0.2%	6.2%	5.4%	-0.6%
MSCI Japan Small Cap	2.9%	0.3%	8.3%	3.8%	0.6%

## THE FUND

## Sector Breakdown (% of Portfolio)



## Market Cap Breakdown (% of Portfolio)



## Top Ten Equity Holdings % of NAV

Holding	31-AUG-20	Holding	30-NOV-20
Fujitec	8.9	Fujitec	7.9
Teikoku Sen-I	7.8	DTS	6.4
SK Kaken	6.7	SK Kaken	6.3
Pasona Group	5.9	Teikoku Sen-I	6.1
Secom Joshinetsu	5.5	Pasona Group	5.9
C Uyemura	5.3	Digital Garage	5.5
Konishi	5.2	Secom Joshinetsu	5.5
Softbank Group	5.2	Konishi	5.3
DTS	4.9	C Uyemura	5.0
Kato Sangyo	4.8	Toagosei	4.8
<b>TOTAL</b>	<b>60.2</b>	<b>TOTAL</b>	<b>58.7</b>
% Gearing	108.1	% Gearing	108.8
No. of Holdings	28	No. of Holdings	28

## MANAGER'S COMMENT

**By November all the companies in our portfolio had reported quarterly earnings**, giving us greater insight into the pace of the recovery. As we commented last month, our companies reported a V shaped bounce in earnings. Although profits for the quarter were down -22% year-on-year, they bounced by +42% compared to the last quarter; based on management's conservative guidance, profits should be up another +29% by next quarter. Remarkably, this has not been reflected in the share prices of our companies.

Take for example Secom Joshinetsu, Kato Sangyo, and C Uyemura. Their shares have fallen by -15%, -5% and -4% respectively, yet all grew profits for the six month period from the end of March to the end of September (amidst the worst of the economic fallout from COVID), by +1%, +9% and +12%. The MSCI Japan Small cap on the other hand, has risen by +1% on profits that are down -18%. The dichotomy is not isolated to those three companies, and broadly across our portfolio we have seen frustrating divergences between fundamentals and share prices. We expect that as earnings continue to recover this dislocation will reverse.

Over the month Fujitec was the leading detractor from performance. Being the largest position in the portfolio (8.7% of NAV) its -6.0% share price return had an outsized impact on portfolio returns. Fujitec announced results at the start of the month. The lacklustre performance, while not unexpected, was due to a timing issue with its overseas subsidiaries whose results are consolidated in Fujitec's accounts with a three-month lag. We expect profits for the second half of the year to be strong.

Although announced after the end of the month, it would be remiss not to mention **Fujitec's new strategic plan**, a response - we believe - to the public presentation that we released in May. The key positive to emerge from the plan was the intention to discontinue the anti-takeover measure (poison pill) that protects Fujitec from hostile takeover approaches, and which is a fundamental reason why Fujitec suffers a valuation discount. Whilst we would have liked to see an explicit capital policy, we were pleased to see that the company will install a compensation & nomination committee - a clear sign of improving attitudes towards stronger corporate governance. On the operational front, management confirmed that they would take efforts to streamline their manufacturing processes and focus on the after service business. These were in line with many of the key points that we outlined in our presentation. As this news is digested, we expect Fujitec's share price to continue its upward trajectory towards a valuation more in line with its peers.

**Pasona was the strongest performer over November**, up +13%, driven by a +30% share price increase in Benefit One, which accounts for 71% of Pasona's net asset value. In this respect, although strong, Pasona's share price was disappointing, with its discount widening from 77% to 80% which offers an enormous upside potential.

Six months ago, investors were fearing that Japanese management teams were vindicated for holding cash, and some journalists even went so far to say that activism was dead. While COVID has delayed the momentum of corporate reform, it has not derailed it. Our engagement is continuing - all behind closed doors for now - but we are by and large, not seeing any push back due to COVID concerns, and we are confident that our companies are moving in the right direction. The stock market has yet to reflect the recovery in earnings within our portfolio companies, the prospect of a sharp increase in economic growth in 2021, nor the potential for re-rating from exceptionally low multiples as companies embrace more shareholder-friendly policies. This leaves our portfolio particularly good value at present.

## FUND FACTS

Fund Facts	
Launch Date	23 October 2018
Net Assets	£126.6m
Investment Manager	Asset Value Investors Limited
AJOT Shares owned by the Manager***	1,523,385
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

<sup>\*</sup> 23 October 2018 Start Date

<sup>\*\*</sup> 25% of Management Fee to be reinvested in shares of AJOT

<sup>\*\*\*</sup> Shares owned by AVI Ltd & AVI employees

Investment Manager – Joe Bauernfreund, AVI Ltd.

+44 20 7659 4800 [info@ajot.co.uk](mailto:info@ajot.co.uk)

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.