

May 2021

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

Parent-child subsidiary structures

Since the launch of AJOT in October 2018 we have argued that the continued existence of parent-child subsidiary structures in Japan would be unlikely to survive the corporate governance revolution.

[Read more below](#)

Victory for minority shareholders

Secom Joshinetsu was taken private at the end of the month by its parent company Secom at a 66% premium.

[Read more below](#)

PERFORMANCE¹

(Figures to 31 May 2021)

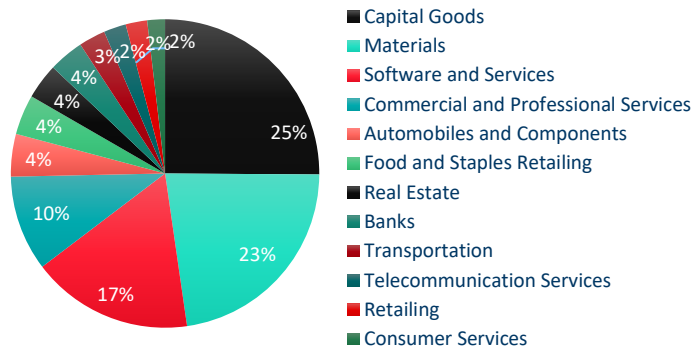
Share Price (pence)	105.0
NAV (pence)	102.6
Premium / (Discount)	2.3%

	Month	Since Inception*	2020 Calendar Yr
AJOT Share Price	-6.3%	7.3%	-5.1%
AJOT NAV	-3.2%	7.1%	-5.2%
MSCI Japan Small Cap	-3.3%	8.6%	-2.4%

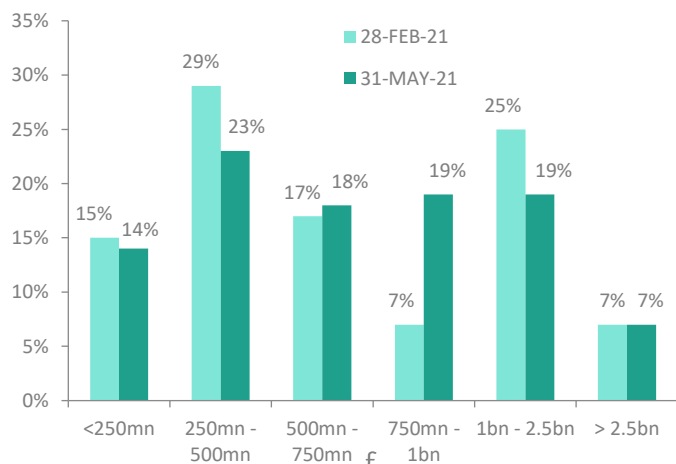
Cumulative Return	1 mo	2 mo	3 mo	6 mo	1 yr
AJOT Share Price	-6.3%	-5.7%	0.1%	-2.7%	3.7%
AJOT NAV	-3.2%	-4.7%	-1.3%	-4.2%	0.9%
MSCI Japan Small Cap	-3.3%	-4.8%	0.1%	-0.6%	3.1%

THE FUND

Sector Breakdown (% of Portfolio)



Market Cap Breakdown (% of Portfolio)



Top Ten Equity Holdings % of NAV

Holding	28-FEB-21	Holding	31-MAY-21
Fujitec	7.8	DTS	7.5
DTS	6.9	Fujitec	7.4
Digital Garage	6.1	Digital Garage	6.5
SK Kaken	5.3	Secom Joshinetsu	5.9
C Uyemura	5.2	C Uyemura	5.8
Secom Joshinetsu	4.9	SK Kaken	5.3
Kato Sango	4.9	T Hasegawa	5.2
Pasona Group	4.8	Pasona Group	4.9
Konishi	4.8	Kato Sango	4.5
Bank of Kyoto	4.6	NS Solutions	4.3
TOTAL	55.3	TOTAL	57.3
% Gearing	103.9	% Gearing	109.6
No. of Holdings	27	No. of Holdings	29

MANAGER'S COMMENT

Since the launch of AJOT in October 2018 we have argued that the continued existence of parent-child subsidiary structures in Japan would be unlikely to survive the corporate governance revolution. Such arrangements are advantageous to the parent company, but abusive of minority shareholders. The corporate governance code challenges their existence, and we believe their days are numbered.

The conflicts of interests with minority shareholders leads "child"/subsidiary companies to suffer from an under-valued share price and take a lackadaisical attitude towards generating corporate value. Our approach has been to invest in a number of "child" or subsidiary companies and engage with management of both the subsidiary and the parent in order to encourage them to either buy out minorities or sell the subsidiary at a substantial premium to the prevailing share price. AJOT currently owns five subsidiary companies, accounting for 15% of NAV, and each has an estimated upside in the range of 40% to 140%.

In a vindication of the parent-child theme and a victory for minority shareholders, **Secom Joshinetsu** was taken private at the end of the month by its parent company Secom at a 66% premium. As a 5% position prior to the announcement, it will add 3.3% to AJOT's NAV. However, less than a third of this gain was included in this month's performance due to stock exchange limits on daily price moves. Our total return on the investment, in a little over two years, amounts to 93%, generating an IRR of 38%.

Our engagement, coupled with changing TSE listing rules, hastened what we thought was an inevitable takeover. We believe the new TSE rules, which come into force next April, will be a catalyst for change at some of our other portfolio companies, most notably, SK Kaken with fewer than 400 shareholders; NS Solutions with a free float below the 35% prime section requirement; and C Uyemura, a candidate for promotion from the TSE 2nd to prime section.

This year's annual AGM season is set to be another interesting one. We - and several other engaged investors - have been busy, with 18 companies receiving shareholder proposals, three of which from AVI. We had originally targeted seven companies but withdrew proposals from four of them after management announced satisfactory improvements ranging from share buybacks to board structure changes and stock-based compensation. It is immensely satisfying to be able to withdraw more proposals than not, highlighting that behind-the-scenes engagement - with the threat of being made public - is a powerful force for change. For the three companies where we have gone public - Tokyo Radiator, SK Kaken and NS Solutions - we are confident that pressure from shareholders at the AGM and thereafter will lead management to make necessary improvements.

Over the month the largest contributors were Secom Joshinetsu (adding 65bps to performance) and **C Uyemura** (61bps). Alongside a 38% YoY increase in profits, C Uyemura announced a 2-for-1 stock split; the introduction of stock-based compensation; a mid-term management plan for the first time; and 8% worth of buybacks over the next three years. **SoftBank Group** (-57bps) and **Konishi** (-52bps) were the largest detractors. SoftBank suffering from investor disappointment by not continuing its buyback program and Konishi on a lacklustre profit outlook.

FUND FACTS

Fund Facts	
Launch Date	23 October 2018
Net Assets	£136m
Investment Manager	Asset Value Investors Limited
AJOT Shares owned by the Manager***	1,852,669
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

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.

+44 20 7659 4800 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

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.