

October 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

Aichi's buoyant results and share buyback

Aichi's +5.5% share price performance was driven by buoyant earnings, a 2% buyback, cancellation of treasury shares

[Read more below](#)

Building new position

Building our new position in Wacom, the global number one graphics tablet company.

[Read more below](#)

PERFORMANCE¹

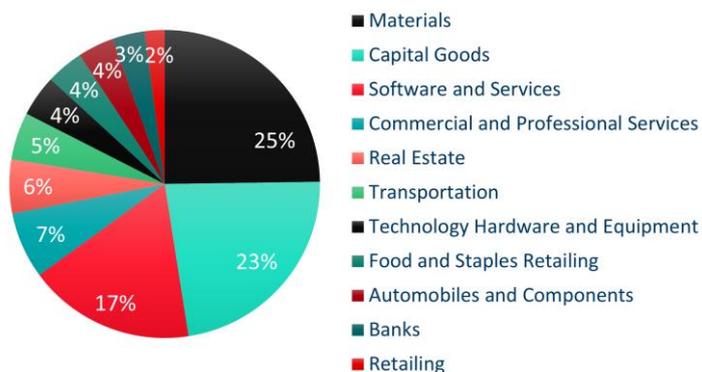
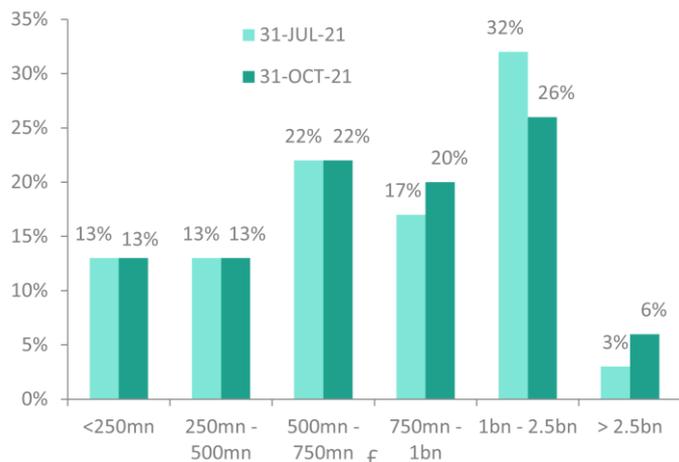
(Figures to 31 October 2021)

Share Price (pence)	118.0
NAV (pence)	114.7
Premium / (Discount)	2.8%

	Month	Since Inception*	2021 YTD
AJOT Share Price	-4.8%	18.0%	7.3%
AJOT NAV	-3.7%	20.5%	6.6%
MSCI Japan Small Cap	-5.2%	13.3%	1.9%

Cumulative Return	1 mo	2 mo	3 mo	6 mo	1 yr
AJOT Share Price	-4.8%	3.2%	6.0%	6.0%	12.3%
AJOT NAV	-3.7%	-0.1%	5.3%	8.9%	9.1%
MSCI Japan Small Cap	-5.2%	-2.2%	1.6%	1.0%	6.8%

THE FUND

Sector Breakdown (% of Portfolio)**Market Cap Breakdown (% of Portfolio)****Top Ten Equity Holdings % of NAV**

Holding	31-JUL-21	Holding	31-OCT-21
T Hasegawa	7.8	T Hasegawa	8.0
DTS	7.4	Pasona Group	7.3
Fujitec	7.1	Digital Garage	6.8
Digital Garage	6.2	DTS	6.6
C Uyemura	5.9	Fujitec	6.6
SK Kaken	5.6	Wacom	5.8
Pasona Group	5.4	Daibiru	5.6
Daibiru	5.4	C Uyemura	5.6
NS Solutions	4.7	NS Solutions	4.8
Kato Sangyo	4.4	SK Kaken	4.5
TOTAL	59.9	TOTAL	61.6
% Gearing	103.6	% Gearing	105.1
No. of Holdings	27	No. of Holdings	27

MANAGER'S COMMENT

AVI Japan Opportunity Trust (AJOT)'s NAV fell -3.7% over the month, driven by a -3.5% fall in the Yen. King (+6bps) and Aichi (+3bps) were the largest contributors while DTS (-48bps) and Daibiru (-39bps) the largest detractors, although their detraction was more a function of currency with their share prices falling by a modest -4.4% and -2.0% respectively. The EV/EBIT of the portfolio increased from 4.8x to 5.3x, while the discount to our fair value estimate narrowed slightly from 41.8% to 41.5%.

King is a manufacturer of ladies' apparel with a real estate portfolio worth an estimated 104% of its market cap and net cash equal to 98%. COVID-related social restrictions have had a significant impact on King's business, given its sales are entirely dependent on physical retail stores. We have been engaging with King and management have reacted positively. Initiatives include the launching of an e-commerce platform, redeveloping real estate to increase rent and most recently announcing a 4% share buyback (in response to King's weak share price). Although the buyback was announced in September, King repurchased 156,600 shares over the month accounting for 29% of the total trading volume, which we suspect was the cause for the +6.9% share price increase.

Aichi's +5.5% share price performance was driven by buoyant earnings, a 2% share buyback, cancellation of treasury shares and, contrary to our expectations, an intention to list on the Tokyo Stock Exchange Prime Section. Aichi is a listed subsidiary of Toyota Industries, and a possible candidate for a takeover. We are softly engaging with management on various corporate governance issues relating to its parent/subsidiary relationship. On a FCF yield of 10% and net cash covering 62% of the market cap we can afford to be patient.

DTS, the portfolio's 4th largest position, reported results just before month end. While sales and profits declined by -5% YoY, DTS saw a large upswing in orders, growing +8% QoQ, the highest growth in two years. Encouragingly, digital services (mainly cloud-related) grew +23%, now accounting for 36% of sales. Through our 9% ownership (across AVI funds) we have been engaging with management who have been open to our involvement and have implemented several of our suggestions, including stock-based compensation, improved IR presentation and a more extensive English website. For a business expected to grow at high single digits its 5.9x EV/EBIT valuation is extremely compelling and compares favourably to peers trading on 14.7x.

It is hard to pin **Daibiru's** -2.0% share price weakness on anything fundamental. Rather, it is probably more a consequence of profit taking following its strong share price performance earlier in the year. Daibiru owns a portfolio of high-quality commercial real estate in Tokyo and Osaka and is a listed subsidiary of Mitsui O.S.K. Lines (MOL). We don't think the subsidiary relationship is tenable, and although the timing is uncertain, we expect MOL to buy-in Daibiru. With Daibiru trading on a 50% discount to our estimated NAV, we expect a tender price to come at a substantial premium.

Trading activity for the month was modest (annualised 14%) and mostly related to building our new position in **Wacom**, the global number one graphics tablet company. Since the appointment of Nobu Ide as CEO in 2018, sales have grown by an annualised 6% and operating margins increased from 7% to 12%. Wacom benefits from c.80% market share in the high-end creator segment, while also boasting robust relationships with Samsung, Lenovo, Disney, and other large clients, all of which use Wacom's digital pen technology. Wacom trades at 9.4x EV/forecast EBIT while listed peers traded on an average 15.6x. Across AVI funds we own over 5% of the Company and are using our increased influence to constructively engage with the Company. Having established some early rapport with management, we are excited by the prospect of future engagement on operational and capital efficiency issues, estimating a conservative potential upside in the region of +60%.

FUND FACTS

Fund Facts

Launch Date	23 October 2018
Net Assets	£152.4m
Investment Manager	Asset Value Investors Limited
AJOT Shares owned by the Manager***	1,952,669
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 for, nor receives and transmits orders from, investors in the Fund.