

July 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

## Volatile earnings season

This quarter's earnings season is likely to be a volatile one, with the quarter to the end of June being the first full quarter reflecting the impact from the Coronavirus outbreak

[Read more below](#)

## Recent Investments

DTS and NS Solutions, are good examples where we took the opportunity to add to our positions following weaker than anticipated Q1 results.

[Read more below](#)

PERFORMANCE<sup>1</sup>

(Figures to 31 July 2020)

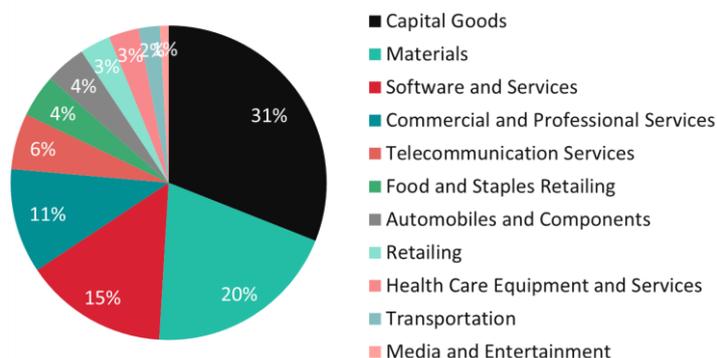
Share Price (pence)	104.0
NAV (pence)	96.6
Premium / (Discount)	7.7%

	Month	Since Inception <sup>*</sup>	2020 Calendar Yr
AJOT Share Price	1.0%	4.0%	-8.1%
AJOT NAV	-6.3%	-1.5%	-13.8%
MSCI Japan Small Cap	-8.4%	-4.7%	-11.6%

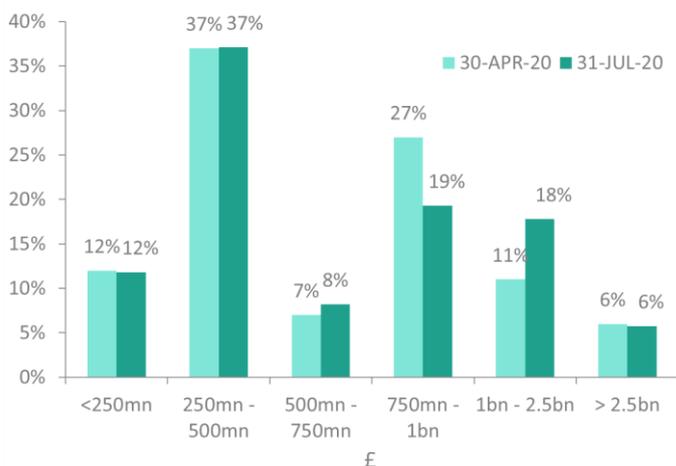
Cumulative Return	1 mo	2 mo	3 mo	6 mo	1 yr
AJOT Share Price	1.0%	1.5%	8.8%	6.7%	-5.6%
AJOT NAV	-6.3%	-7.1%	-1.3%	-11.0%	-8.3%
MSCI Japan Small Cap	-8.4%	-9.5%	-0.6%	-9.0%	-9.4%

## THE FUND

## Sector Breakdown (% of Portfolio)



## Market Cap Breakdown (% of Portfolio)



## Top Ten Equity Holdings % of NAV

Holding	30-APR-20	Holding	31-JUL-20
Fujitec	8.1	Fujitec	8.7
Teikoku Sen-I	7.8	Teikoku Sen-I	7.4
SK Kaken	7.7	SK Kaken	6.8
Secom Joshinetsu	6.1	Softbank Group	6.2
Kato Sangyo	5.9	Secom Joshinetsu	5.9
Digital Garage	5.7	Pasona Group	5.7
Konishi	5.6	Konishi	5.5
Pasona Group	5.2	Digital Garage	5.2
Daiwa Industries	5.0	C Uyemura	4.8
Sekisui Jushi	4.8	Kato Sangyo	4.7
<b>TOTAL</b>	<b>61.9</b>	<b>TOTAL</b>	<b>60.9</b>
% Gearing	112.8	% Gearing	107.6
No. of Holdings	28	No. of Holdings	26

## MANAGER'S COMMENT

**This quarter's earnings season is likely to be a volatile one**, with the quarter to the end of June being the first full quarter reflecting the impact from the Coronavirus outbreak. Our companies have been affected to varying degrees although we expect this quarter to be weak across the board.

However, our focus on quarterly earnings is only relevant to the extent that they help us to gain insight on potential changes in long-term trends. By and large quarterly earnings don't have an impact on our estimated fair values and, in some cases, we are able to exploit the market's focus on short-term results to our advantage.

**Two recent investments, DTS and NS Solutions**, are good examples where we took the opportunity to add to our positions following weaker than anticipated Q1 results. Operating profits fell -22% and -26% respectively, as customers delayed IT investment and existing projects were disrupted by social restrictions. However, we do not believe that the short-term results reflect a change in the appealing long-term prospects for IT service providers.

In 2018 the Ministry of Economy, Trade and Industry ("METI") warned companies that unless they take action to rectify years of underinvestment in IT systems by 2025, Japan could suffer an economic loss of ¥12 trillion per year, equivalent to 2% of GDP. Currently, 20% of mission critical systems are more than 20 years old (increasing to 60% by 2025) and, as an example of the digital transformation opportunity, an estimated 19% of companies use cloud-based accounting software in Japan compared to 53% and 35% in the USA and UK.

DTS and NS Solutions are well placed to capitalise on the increasing importance of IT investment. Both companies have achieved annualised five-year operating profit growth of more than 10% (12% and 11% respectively) and while we don't anticipate profit growth to be as strong over the next five years, high-single digit annualised growth should be possible.

Despite the appealing industry dynamics DTS and NS Solutions trade on lowly EV/EBITs of 5.5x and 6.4x. Both companies suffer from inefficient balance sheets, poor shareholder communications, and weak corporate governance. DTS is overlooked by many investors on account of its small size and low level of sell side coverage, and NS Solutions from its parent/child ownership structure with Nippon Steel. These problems are surmountable, and in NS Solutions' case the parent/child relationship presents an opportunity.

We have been building our investment in DTS and NS Solutions since January and March, and they are now key positions in the portfolio with weights of 4.7% and 4.3%.

## FUND FACTS

## Fund Facts

Launch Date	23 October 2018
Net Assets	£112.3m
Investment Manager	Asset Value Investors Limited
AJOT Shares owned by the Manager***	1,408,313
Shareholder Services	Link Asset Services
Management Fee**	1.0% of lower of market cap or NAV
Website	<a href="http://www.ajot.co.uk">www.ajot.co.uk</a>
Ticker Code	AJOT.LN
ISIN	GB00BD6H5D36

<sup>1</sup> 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](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.