

May 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

**Japan weathers the Coronavirus outbreak**

Japan appears to have weathered the Coronavirus outbreak. It has dealt with the spread remarkably well and is in a good position to recover more swiftly and sustainably than most countries.

[Read more below](#)

**Share prices during Coronavirus**

Share prices have rebounded strongly since the Coronavirus-induced lows, with four of our companies up +50%.

[Read more below](#)

## PERFORMANCE

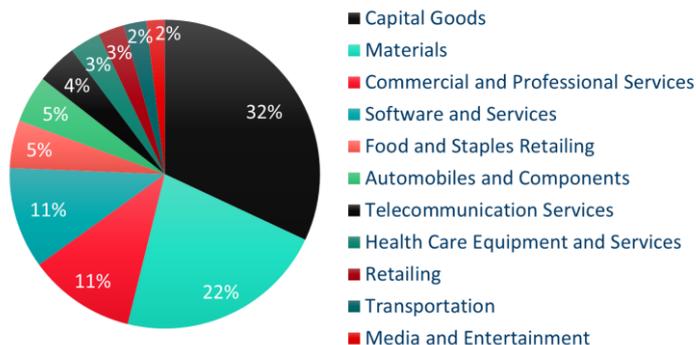
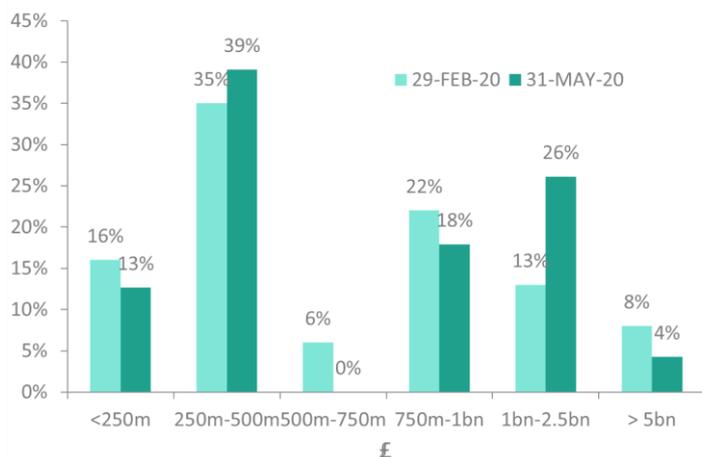
(Figures to 31 May 2020)

Share Price (pence)	102.5
NAV (pence)	104.0
Premium / (Discount)	-1.4%

	Month	Since Inception*	2020 Calendar Yr
AJOT Share Price	7.2%	2.5%	-9.4%
AJOT NAV	6.3%	6.1%	-7.2%
MSCI Japan Small Cap	9.8%	5.3%	-2.4%

Cumulative Return	1 mo	2 mo	3 mo	6 mo	1 yr
AJOT Share Price	7.2%	11.3%	7.8%	-10.0%	-0.7%
AJOT NAV	6.3%	14.0%	7.5%	-5.7%	1.0%
MSCI Japan Small Cap	9.8%	14.5%	10.5%	-3.0%	7.0%

## THE FUND

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

Holding	29-FEB-20	Holding	31-MAY-20
SK Kaken	8.2	Fujitec	7.7
Teikoku Sen-I	6.7	SK Kaken	7.5
Fujitec	6.1	Teikoku Sen-I	7.4
Secom Joshinetsu	6.0	Secom Joshinetsu	6.0
Toyota Industries	6.0	Pasona Group	5.8
Tokyo Broadcasting System	5.4	Konishi	5.7
Kato Sangyo	5.3	Kato Sangyo	5.3
C Uyemura	5.3	Digital Garage	5.3
Pasona Group	5.2	Daiwa Industries	5.0
Konishi	5.2	C Uyemura	5.0
<b>TOTAL</b>	<b>59.4</b>	<b>TOTAL</b>	<b>60.7</b>
% Gearing	112.9	% Gearing	106.7
No. of Holdings	30	No. of Holdings	26

## MANAGER'S COMMENT

**Japan appears to have weathered the Coronavirus outbreak.** It has dealt with the spread remarkably well and is in a good position to recover more swiftly and sustainably than most countries. Probably the least manipulatable and best metric of a country's handling of the Virus, is COVID-19-related deaths per capita. At 0.6 deaths per 100,000 of population, Japan ranks favourably (81st in the world) versus the UK and US with figures of 53 and 28 respectively. This is more striking given that Japan recorded its first death on 13th Feb, a full 18 days before the US - Japan is further through the pandemic.

Japan has tackled the outbreak through contact tracing, cluster-busting, and quarantining. This is only an effective method if the number of infections is kept under control, and Japan's swift response has allowed its tracing to continue without seeing a major spike in the number of cases. While Japan did restrict activity when cases broke through 100 per day, freedom of movement was less severe compared to European countries that implemented total lockdowns. With what is likely to be a limited economic slump, solid balance sheets, and low valuations, we believe that Japan offers an even more compelling investment destination for global investors.

**Our companies reported resilient earnings during the start of the Coronavirus outbreak.** For the first quarter of the calendar year the top 15 companies in our portfolio (>80% of NAV), recorded a weighted average profit growth of +2.1%, while the companies in the MSCI Japan Small Cap reported a fall of -4.2%. For the companies that have provided a profit outlook, guidance is for a relatively modest -10% fall but accompanied by flat dividends, testament to their solid balance sheets.

Even during an economic slowdown, the companies in our portfolio will continue to add to their already large cash piles. Net cash and listed securities cover 95% of the market caps of our companies and the EV/EBIT multiple of the portfolio is near lows at 2.7x.

**Share prices have rebounded strongly since the Coronavirus-induced lows, with four of our companies up +50%.** Whilst our companies have participated in the rally, they have lagged broader markets, which we think is a function of lower liquidity. This illiquidity inevitably means that our performance will often dislocate from our benchmark. However, we are confident that the substantial undervaluation of the portfolio will lead to future strong performance.

We are cognisant of the profound changes that this epidemic is likely to have and some sectors are clearly better placed to benefit than others. We had been building exposure to the IT services sector prior to the outbreak and will continue to do so. IT service companies are uniquely positioned to benefit from a multi-year growth trend in Japan which has been accelerated by changing work conditions and greater adoption of digital services.

Despite the attractive sector backdrop, we were able to identify two IT service companies, DTS and NS Solutions, trading on anomalous valuations of just 6x EV/EBIT with over 40% of their market caps covered by net cash and listed investments. These two companies accounted for 6% of NAV at the end of May.

## FUND FACTS

## Fund Facts

Launch Date	23 October 2018
Net Assets	£118.2m
Investment Manager	Asset Value Investors Limited
AJOT Shares owned by the Manager***	1,372,606
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

\* 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

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