

October

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

Corporate governance reform continues

Corporate governance reform is key in raising the value of Japanese companies. These were the words of Japan's new Prime Minister, Suga, at a policy speech given at the end of October.

[Read more below](#)

Portfolio results reported

At the time of writing, 71% of our portfolio had reported results. While we, and the market, had expected a recovery, the quantum of the V-shaped bounce exceeded expectations.

[Read more below](#)

PERFORMANCE¹

(Figures to 31 October 2020)

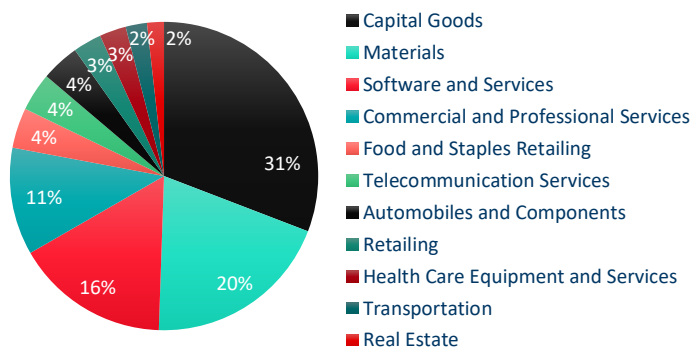
Share Price (pence)	106.3
NAV (pence)	106.4
Premium / (Discount)	-0.2%

	Month	Since Inception*	2020 Calendar Yr
AJOT Share Price	-1.0%	7.9%	-5.5%
AJOT NAV	-1.1%	10.4%	-3.4%
MSCI Japan Small Cap	-2.5%	6.2%	-1.6%

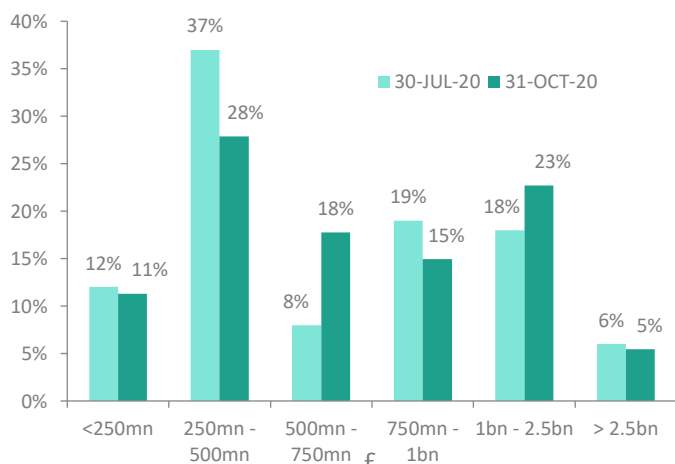
Cumulative Return	1 mo	2 mo	3 mo	6 mo	1 yr
AJOT Share Price	-1.0%	3.8%	2.8%	11.8%	3.0%
AJOT NAV	-1.1%	4.9%	12.1%	10.6%	4.2%
MSCI Japan Small Cap	-2.5%	5.2%	11.4%	10.7%	-1.4%

THE FUND

Sector Breakdown (% of Portfolio)



Market Cap Breakdown (% of Portfolio)



Top Ten Equity Holdings % of NAV

Holding	31-JUL-20	Holding	31-OCT-20
Fujitec	8.7	Fujitec	8.7
Teikoku Sen-I	7.4	SK Kaken	6.6
SK Kaken	6.8	Teikoku Sen-I	6.6
Softbank Group	6.2	Pasona Group	6.5
Secom Joshinetsu	5.9	Secom Joshinetsu	5.6
Pasona Group	5.7	Konishi	5.3
Konishi	5.5	DTS	5.1
Digital Garage	5.2	Digital Garage	5.0
C Uyemura	4.8	C Uyemura	4.8
Kato Sangyo	4.7	NS Solutions	4.6
TOTAL	60.9	TOTAL	58.8
% Gearing	107.6	% Gearing	108.5
No. of Holdings	26	No. of Holdings	27

MANAGER'S COMMENT

"Corporate governance reform is key in raising the value of Japanese companies." These were the words of Japan's new Prime Minister Suga at a policy speech given at the end of October. His speech was laden with mention of reform, including digitalisation, and attacking bureaucratic decision making and the notorious habit of following past precedents.

The follow-up council on revising the corporate governance code discussed various issues put forward by the Financial Services Agency that covered; Digital transformation, companies' hefty cash holdings, quality and quantity of outside directors, and conflicts of interests with parent-child listings. As we remarked in our last quarterly letter, any company management that had hoped a new government might take the foot off the reform pedal will be deeply disappointed.

At the time of writing, 71% of our NAV had reported results. While we, and the market, had expected a recovery, the quantum of the V-shaped bounce exceeded expectations. Compared to the COVID-impacted first quarter, profits were up +83%, and even excluding the remarkable performance from Pasona (which reported its highest ever quarterly profit), bounced +58%.

A number of our companies' share prices have lagged the broader market as investors shunned businesses whose earnings were hit by COVID-induced economic restrictions, and even some who were unaffected but swept up as not being in a "hot" sector. It will take time for the market to readjust its outlook and expectations, but we believe with the wind in our companies' sails, the valuation of AJOT's portfolio justifies a rerating. That said, we are not sitting passively waiting for this to happen and continue to engage with directors and management of all our holdings to varying degrees to unlock shareholder value.

Our portfolio trades on an EV/EBIT of 4.0x with net cash accounting for 48% of the portfolio companies' market caps. These cash piles, despite COVID difficulties, continue to grow. Including cash and listed securities, our companies have 89% of their market caps covered by excess capital.

A core thesis for crystallising the value of our portfolio lies in changing corporate control. The difficult business environment has been fertile ground for restructuring, consolidation, and the privatisation of listed subsidiaries. So far in 2020 the total value of tender offer bids in Japan stands at more than 4x the 2019 level and more than 3x the 2007 record high. Global activity is continuing to expand, inviting optimism amongst management and investors. We know that the private market value of the companies in our portfolio stands at a significant premium to prevailing share prices and that, if management wanted to engage, there would be a line of hungry buyers. For a portfolio of cash-rich, high quality companies that trade at depressed valuations, increased levels of corporate activity are welcome and bode well for generating outsized returns.

FUND FACTS

Fund Facts	
Launch Date	23 October 2018
Net Assets	£125.0m
Investment Manager	Asset Value Investors Limited
AJOT Shares owned by the Manager***	1,504,885
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

² 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

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.