

24th November 2020

**Nippon Active Value Fund plc
(the “Company” or “NAVF”)**

Rising Sun Management Ltd – Quarterly Commentary

Performance

This report covers the extended period from 30th June 2020. Over the four months ended 31st October 2020 the Company’s Net Asset Value per share lost 0.5% to 105.03 whilst the share price has reflected a discount to NAV of up to 10%. We understand that the share price performance has been affected by low volumes and a paucity of news-flow on the Company’s activist engagements in Japan. Nevertheless, we are pleased to note that since month end both the NAV per share and the share price have risen, closing on 16th November 2020 at 109.33 and 105 respectively. Thus the discount has narrowed to 4%.

We trust shareholders will readily understand Rising Sun Management’s (“RSM”) sensitivities about too much information being released prematurely. Such leaks could affect confidential ongoing discussions with portfolio company management teams. Our approach is already starting to yield positive results (see below). RSM believe the flow of information to the market will inevitably pick up over the coming months as the Company’s holdings in individual stocks reach levels requiring public filing, as has already taken place with Ebara Jitsugyo (“EJ”), which is discussed in more detail below, and also now in Sakai Ovex (“SO”). In addition, and as part of our strategy to secure management’s attention, RSM may propose specific corporate actions, such as a management-led buyouts (“MBO”) at a stated price level, which, under FEFTA guidelines, would require stock exchange announcements in Tokyo and consequently for NAVF in London. Consequently, RSM is not worried that the news vacuum will continue indefinitely.

Portfolio building, the first SPV and target engagements

In mid-August just over 75% of NAVF’s funds had been invested. At the end of October that figure was 84% and is higher now. The larger than expected cash reserve is the result of positive performance and will be deployed either to take us over the 5% threshold in stocks requiring public filing or held in reserve as additional firepower to focus on our most immediate targets.

Two of our largest holdings (as a percentage of outstanding market cap) are Ebara Jitsugyo (“EJ”) and Sakai Ovex (“SO”). We have breached the 5% level triggering a formal announcement on the Tokyo Stock Exchange on each of them. These filings were made on 28th October and 17th November respectively. We continue to make rapid progress towards the 5% limit in two other stocks, one of which has a comparatively large market capitalisation where we are going to need the extra firepower afforded by the first special purpose vehicle established for this role. The fundraising for this vehicle is now closed, the company is fully incorporated and is now busy accumulating shares in the chosen target to add to the over 4% already held by NAVF. As of today’s date, the combined ‘concert party’ position comprises 4.75% of the Company’s outstanding common stock. All appropriate and necessary filings have and will continue to be made by our retained Japanese counsel.

We have begun our campaign to persuade the management teams of our initial targets to rethink their capital allocation policies. To date, we have written to EJ, SO and one other company suggesting specific courses of action. We are about to write to the concert party’s target company. This missive will be timed to arrive just before we breach the reportable 5% shareholding level. Initially, we are offering confidentiality if management respond openly to our advances.

Simultaneously with these initial contacts, we are continuing our dialogue with several private equity (“PE”) houses, both Japanese and American, to identify those who may be most interested to co-operate or, indeed, take the lead in any corporate actions our tree-shaking might initiate. To date we have been able to successfully identify credible third parties for whom each of our targets were already on their radar. There are no promises made in these instances but levels of mutual interest and understanding are high and encouraging.

Ebara Jitsugyo

On 28th September NAVF announced it owned 337,900 shares or 5.03% of the share capital. This followed our dispatch of a letter to EJ with our preliminary views of the strengths and weaknesses of the company and

suggestions for remedies of the latter on 9th September. This was considered by the target's board on 15th September. We met with the company virtually on Zoom for a second time on 21st October in a meeting led by the chairman, Mr Suzuki. We have also kept on buying and today own 5.8%.

On 4th November EJ announced its third quarter results. Earnings were higher than forecast and profit guidance for the year end was raised too. Most importantly (from a shareholder's perspective) the dividend was raised from Yen 60 to Yen 100. As they say in American football, a good defence is to show a strong offence and these are classic moves (almost certainly suggested by investment bank advisers who we believe the Company has now consulted). The effect of these announcements was to cause a more than 20% bounce in the share price the following day with a resultant boost to NAVF's portfolio value and share price. RSM takes some pride and responsibility in having had a role in causing this outcome with its quiet engagement. An independent validation of this view comes from the eloquent pen of John Seagrim at CLSA, part of whose opinion piece of 17th November is available on the NAVF website. The decision now under consideration is whether to continue to push for a corporate action (now potentially a more capital intensive proposition) or to further encourage EJ management to make better use of their existing capital and liquidity as they have already proven capable.

Also available on the website are our research partner Dalton KK's analyses of EJ and SO, providing the original investment rationale for the companies' inclusion in the NAVF portfolio, and an update note on EJ following the recent Q3 earnings announcement.

Outlook

There have been a myriad of recent articles on the changing landscape in Japan for corporate activity and consolidation of smaller, cash-rich companies. Certainly our initial engagement with EJ suggests these companies are susceptible to focused shareholder intervention – the auguries for NAVF's ongoing campaign look bright.

Paul ffolkes Davis
Chairman, Rising Sun Management