



Nippon Active Value Fund (“NAVF”)

Targeting high levels of capital growth for shareholders from activist investing in quoted small cap Japanese equities

Terms are not final and may be subject to change.

Key facts

Initial issue size

£200m+ (£100m minimum)

Cornerstone investors

Binding commitment and indication of interest amounting to in aggregate £50m by Dalton Investments LLC or by its managing member

Initial NAV

100p per share

IPO costs will be fully paid by Rosenwald Capital Management (majority shareholder of Rising Sun)

Investment management fee

0.85% of NAV

Performance fee

No performance fee

Ongoing charges ratio

1.34%

Discount control

Share buybacks at the Board's discretion

Dividend policy

The Company's intention is to achieve capital appreciation; as such, no distributions are planned and any that are made would be entirely at the discretion of the Board

Gearing

Up to 20% of NAV at the time of drawdown

Liquidity event

Continuation vote after 5 years and biannually thereafter. In addition the board intends to offer an exit opportunity after 5 years

Listing

Specialist Fund Segment of the Main Market of the London Stock Exchange

Country of incorporation

England & Wales

About NAVF

NAVF is a new Investment Trust to be listed on the Specialist Fund Segment of the London Stock Exchange

NAVF is targeting attractive levels of capital growth for shareholders from the active management of a focused portfolio of quoted small cap Japanese equity investments

The investment adviser, Rising Sun, will target companies which are attractive, undervalued and have a substantial proportion of their market capitalisation held in cash and/or listed securities and/or realisable assets

Investment rationale

- Japan is a highly attractive market
- A number of Japanese companies combine strong balance sheets with low valuations
 - » As at September 2019, Japanese companies had the highest levels of cash on record and more than three times the amount as at March 2013¹
 - » A significant number of Japanese companies have cash in excess of their market capitalisations²
 - » Under-researched and inefficient – an opportunity for active investing
 - » Limited broker coverage – the majority of Japanese companies are covered by two or fewer analysts
- Corporate governance in Japan is changing
 - » Regulatory changes in Japan are improving the environment for activist investors, and are encouraging the delivery of higher shareholder returns and capital allocation efficiency³
- Activist strategies can unlock trapped value

Activist strategies that can be utilised:

- Direct management and board engagement
- Make shareholder proposals; rules for listed companies allow shareholders with more than 3% holdings to call EGMs
- Suggest share buybacks and launch of tender offers

To encourage and enable the restructuring of balance sheets and redeployment of cash flows to deliver value.

The Specialist Fund Segment is intended for institutional, professional, professionally advised and knowledgeable investors who understand, or who have been advised of, the potential risk of investing in companies admitted to the Specialist Fund Segment.

¹ Bloomberg, September 2019

² Source: Ryo Yanagi – Professor, Waseda University, 2019

³ Japanese Corporate Governance Code 2015

Expected timetable

Prospectus published

7 January 2020

First Placing, Offer for Subscription & Intermediary Offer opens

8 January 2020

Placing closes

28 January 2020

Offer for Subscription closes

28 January 2020

Intermediary Offer close

28 January 2020

Announcement of the result of the Issue

31 January 2020

Admission and commencement of dealing

5 February 2020

Key regulatory changes in Japan facilitate the unlocking of value and encourage investee companies to make returns for their shareholders

- 2014** Shareholder Stewardship Code
- 2015** Corporate Governance Code
- 2016** Introduction of Restricted Stock Compensation
- 2017** Tax reform on spin-off transactions
Renewal of Stewardship Code - collective engagement and voting disclosure
"Progress of Corporate Governance" report by Japanese FSA
- 2018** Revision of Corporate Governance Code - "Comply and Explain"
- 2019** M&A guidelines reform

Investment objective

Provide shareholders with capital growth through investment in a focussed portfolio of quoted Japanese equity investments.

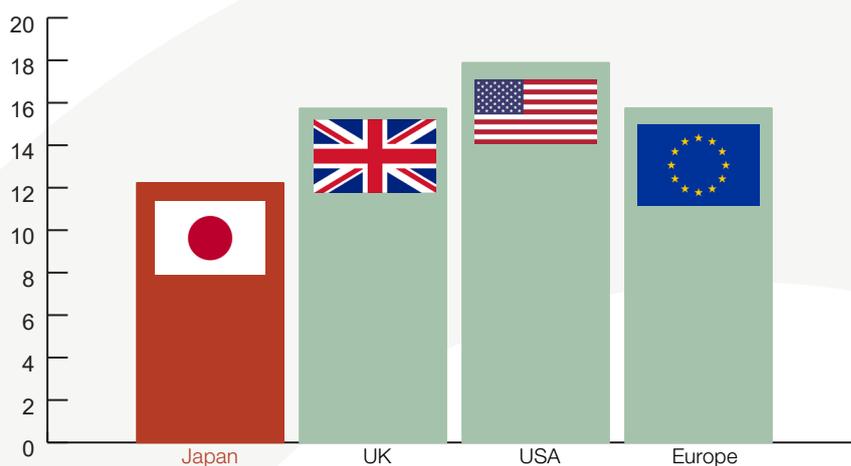
Investment policy

- Invest in quoted Japanese companies deemed to be attractive and undervalued
- Cash will typically represent a significant proportion of the investee company's market capitalisation
- Companies are to typically have no controlling or majority shareholders
- No more than 30% of the Gross Asset Value (GAV) should, at the time of investment, be deployed in any single investment
- Value of the four largest investments, at the time of investment, to not exceed 75% of GAV

Strategy

- Initial target fund size of £200m+ (£100m minimum)
- Concentrated portfolio of up to 20 companies
- Intention is to take large minority positions in investee companies
- Will target small cap companies with market capitalisations of up to \$1 billion
- Invest in businesses which are run by professional directors (salarymen) and not owner-operator businesses
- Utilise activist methodologies to encourage reform and restructuring within investee companies, with the aim of driving share prices and returns for shareholders
- Initial funds expected to be substantially deployed within 6 months

Average PE ratios (at 1 June 2019)



Source: Bloomberg, 1 June 2019

Examples of previous activist investment by Dalton:

Sun Telephone

Dalton Investments



SUNTEL

In early 2007 Dalton exited its shareholding in Sun Telephone into an MBO following activist strategies by Dalton.

- Considered to be one of the earliest major interventions by a foreign activist hedge fund in Japan. Began in 2001 but only attracted wide public attention from May 2006 (at which point Dalton held 30% of Sun Telephone)
 - » Sun Telephone was a wholesaler, importer and exporter of telecommunications equipment, listed on the first sections of the Tokyo and Osaka stock exchanges
 - » Dalton pressed Sun Telephone's board to implement changes for many years, initially through private meetings
 - » Below is a timeline of the events from June 2006 to January 2007 which culminated in the MBO:

June 2006	July – November 2006	November – December 2006	January 2007
<ul style="list-style-type: none"> • Sun Telephone's board seeks to issue potentially dilutive warrants to Mitsubishi UFJ Securities • Dalton obtains an interim injunction from Tokyo District Court to prevent issue of warrants • At this stage, Dalton's shareholding was 30% 	<ul style="list-style-type: none"> • Dalton launches a tender offer for up to 9% of Sun Telephone's outstanding shares with the aim of getting to 40% to be able to block any extraordinary motions • Dalton emphasises not a hostile bid but management intransigence made it necessary • Nearly 9% of holding was tendered and Dalton's shareholding rose to 39.6% in November 2006 	<ul style="list-style-type: none"> • Dalton proposes that Sun Telephone should be delisted through an MBO. Sun Telephone oppose idea and president expresses unhappiness with the presence of any shareholder in such a dominant position • Subsequently, the board arranges an MBO through Japan Industrial Partners and Bain Capital in December 2006 	<ul style="list-style-type: none"> • Dalton sold its shareholding in early 2007 into the MBO, generating a significant return on its investment

Press sources claim that Dalton made a ¥3000m profit from the Sun Telephone investment

Source: Hedge Fund Activism in Japan: the limits of shareholder primacy, 2013, by John Buchanan
Note: past performance is no guarantee of future performance

Prestige International Inc.



Dalton Investments

- Prestige International provides customer relationship management (CRM) solutions services, including contact centres development, value-added program designs, systems designs and strategic marketing planning
- In May 2016, Dalton Advisory KK's CEO, Shiro Hayashi joined the Board of Prestige International
- There has been a significant impact on the size of the distributions to shareholders and share price since his appointment

Prestige share price



Source: Company Reports; Bloomberg; Dalton analysis

Returns to shareholders



Source: Company Reports; Bloomberg; Dalton analysis

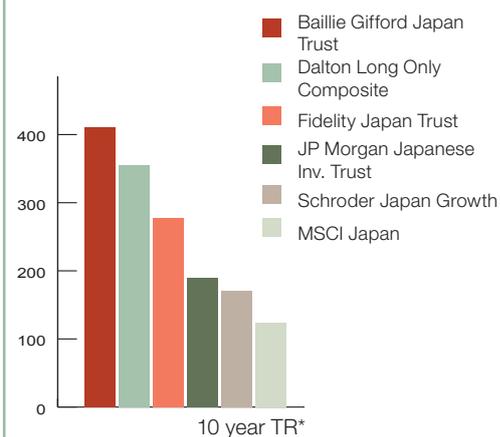
The investment adviser - track record

Rising Sun, has been appointed as investment adviser to NAVF to provide investment advisory services. Jamie Rosenwald, the CIO of Rising Sun, is the co-founder and managing partner at Dalton Investments LLC, which is a value-focussed investment management firm, with a strong record of investing in Japanese equities.

Dalton is headquartered in Los Angeles with subsidiary offices in Tokyo and Mumbai. Dalton manages \$3.4 billion¹ in actively managed long only and long/short strategies for pensions, endowments, foundations, financial institutions and family offices.

The Dalton Japan Long Only composite track record is shown in the chart (\$1.2bn under management) as well as the 10 year total return of the peer group.²

Dalton and peer group 10 year total return (to 30/04/19)



Rising Sun Management Limited - investment adviser to NAVF

Jamie Rosenwald, CIO



- 40+ years investing in Asia
- Co-Founder and Managing Partner of Dalton Investments LLC
- Director of Shore Capital Group
- Founder of Rosenwald, Roditi & Company

Gifford Combs



- 30+ years investment experience managing equity portfolios
- MD and Portfolio Manager for Dalton Investments LLC
- Former Portfolio Manager at Pacific Financial Research, a \$5bn Beverly Hills money manager

Kazutaka Mizuochi



- 20+ years M&A experience at Baker McKenzie (Tokyo)
- Partner at Hibiya-Nakata law firm (Tokyo)
- Keio University (Tokyo) and University of Illinois College of Law
- Tokyo based and Japanese national

Paul ffolkes Davis



- 40+ years in financial services
- Bursary of Trinity Hall, Cambridge, since September 2004
- Founding Chairman of Cambridge & Counties Bank (now Vice Chairman)
- Previously director at NM Rothschild & Sons Limited

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More information can be found at www.nipponactivevaluefund.com

¹ As at 31 May 2019

² Source: Dalton Investments as at 30 April 2019, presented in accordance with the Global Investment Performance Standards; Morningstar

Key risks

Detailed disclosure of such risks are contained in the prospectus, in the section headed “Risk Factors” which you should consider carefully and includes others not summarised below.

Investment risk	The value of Nippon Active Value Fund’s shares can fall as well as rise. Past performance is not a guide to future performance.
	Nippon Active Value Fund is a newly formed company with no operating results. An investment in the Company is therefore subject to all the risks and uncertainties associated with a new business, including that the value of any investment could decline.
	The track record of the Rising Sun Management Team was acquired as part of activities performed by individuals at prior organisations and may not be comparable to or indicative of such persons’ performance for the Company.
Corporate risk	Failure by any service provider to carry out its obligations to the Company in accordance with the applicable duty of care and skill, or at all, may adversely affect the Company’s NAV, revenues and total returns.
	The Company is reliant on other third party service providers and also depends on the diligence, skill and business contacts of the Rising Sun Management Team and retention of key personnel. The termination of any arrangement may adversely affect performance.
Strategy risk	The Company may not be able to pursue its investment strategy or achieve its investment objective.
	There can be no guarantee that suitable investment opportunities will be available to the Company. Until recent changes to Japanese corporate governance rules encouraged an increase in shareholder activism in the country, shareholder activism has not been common in Japan and there is no guarantee strategies will deliver better value to shareholders.
Country risk	Investing in a single country has associated exposure to fluctuations of a market and currency.
	Risks related to any investment in foreign securities include, but are not limited to, foreign exchange risk, conversion risk, tax risk and general business condition risk in Japan.
Financial risk	The value of an investment in the Company is subject to normal market fluctuations and other risks inherent in investing in securities.
	The market value of investments can fluctuate and may not always reflect their underlying value. The level of returns are reliant primarily on the performance of the Portfolio and, if the Portfolio does not perform as well as expected, Shareholders may not be able to receive dividends or realise the amount of their original investment in shares.

FIND OUT MORE: download the prospectus at www.nipponactivevaluefund.com

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Certain statements included in this document are not historical or current facts but deal with potential circumstances or developments. By their nature, forward-looking statements involve uncertainty because they depend on future circumstances, and relate to events, not all of which are within the control, or can be predicted by the Company. No assurance can be given that such expectations will prove to have been correct. Actual results could differ materially from those set out in the forward-looking statements. The forward-looking statements made in this document relate only to events as of the date on which the statements are made. Nothing in this document should be construed as a profit forecast, nor taken to constitute an invitation or inducement to invest in the Company and must not be relied upon in any way in connection with any investment decision.

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Any prospective investor is recommended to consult an independent financial adviser

The Specialist Fund Segment is intended for institutional, professional, professionally advised and knowledgeable investors who understand, or who have been advised of, the potential risk of investing in companies admitted to the Specialist Fund Segment. Further, the shares are only suitable for investors: (i) who understand and are willing to assume the potential risks of capital loss; (ii) for whom an investment in the shares is part of a diversified investment programme; and (iii) who fully understand and are willing to assume the risks involved in such investment. It should be remembered that the price of the shares can go down as well as up and that investors may not receive, on the sale or cancellation of the shares, the amount that they invested. If you are in any doubt about the contents of this document or the Prospectus, you should consult your accountant, legal or professional adviser or financial adviser.

You should note that your capital is at risk with this investment. The value of shares and the income from them is not guaranteed and can fall as well as rise due to stock market movements and currency fluctuations. When you sell your investment you may get back less than you originally invested. The price of shares in the Company is determined by market supply and demand and may be different to the net asset value of the Company. The Company may use gearing for the purposes of financing its portfolio. The use of gearing means that the Company may be subject to sudden and large falls in value and the investor may get back nothing at all if the fall in value is sufficiently large. Past performance should not be seen as an indication of future performance.

