

Great Ideas: Investments to make today

## Why you should play Japan through Nippon Active Value Fund

Strongly-performing activist trust enables investors to capitalise on country's improving corporate governance

Investors seeking to profit from rising shareholder activism and improving corporate governance in Japan should open a position in **Nippon Active Value Fund (NAVF)**.

An activist fund floated on the London Stock Exchange before the onset of Covid in 2020, the investment trust's one year share price total return of 22.1% makes it comfortably the best performer in the Association of Investment Companies' (AIC) Japanese Smaller Companies sector, and performance has outstripped that of rivals in the AIC Japan sector too.

Nippon Active Value is confident its activist strategy will 'continue to generate superior returns' compared to the broader Japanese market. Strong performance has narrowed the discount to net asset value (NAV) from 16.4% at of 31 December 2022 to 5.7%, still an attractive entry point into a fund delivering impressive returns by rattling the cages of Japanese corporates sitting on excess net cash.

Nippon Active Value seeks to capitalise on the corporate governance reforms in Japan introduced over the past 15 years and deliver capital growth through the active management of a concentrated portfolio of Japanese small caps.

Investment adviser Rising Sun Management targets stocks it believes are undervalued where engagement with management could unlock value to all shareholders; Rising Sun typically seeks to persuade management to distribute excess cash to shareholders by buying back shares or paying out larger dividends, an approach which means the fund's returns should be relatively lowly correlated to the broader Japanese market.

Nippon Active Value produced an NAV total return of 3.5% in 2022, representing a cumulative increase of 43.7% since launch on 21 February 2020. The latter compares very favourably with a 7.4% rise in the MSCI Japan Small Cap Index in sterling terms since the fund's launch.

### NIPPON ACTIVE VALUE FUND (NAVF)

Price: 141p

Market cap: £159.4 million



Nippon Active Value has recently rationalised its portfolio to 18 names to permit the 'more vigorous pursuit' of its goals by building bigger positions in companies and speaking with a louder voice to more 'recalcitrant' management teams.

Cash accounted for 30.4% of the company's assets as at 3 April 2023, proving the trust with the flexibility to invest in what remains a universe of hundreds of potential targets for engagement.

Admittedly, ongoing charges of 1.41% are on the expensive side, but these are worth stomaching given that, on its third anniversary, Nippon was the UK's top performing Japanese trust and had enjoyed several successes since listing.

Engagement with Sakai Ovex resulted in that company's management buyout (MBO), realising a 102.5% gain for the fund, while **Ihara Science (5999:TYO)** has also launched a take-private MBO. Meanwhile, **Mitsuboshi Belting (5192:TYO)** and **Teikoku Electric (6333:TYO)** have both followed Nippon's recommendations to increase dividends and incentivise management with shares, triggering large share price jumps. [JC]

### Nippon Active Value Fund



Chart: Shares magazine • Source: Refinitiv