

How Nippon Active Value Fund has achieved a near-20% return

Activist manager has benefited from strong Japanese market and corporate activity

Nippon Active Value Fund (NAVF) 167.7p

Gain to date: **18.8%**

We highlighted **Nippon Active Value Fund (NAVF)** at 141p in April 2023 as a great way to play rising shareholder activism and improving corporate governance in Japan.

As part of its activist mandate, investment adviser Rising Sun Management targets stocks it believes are undervalued where engagement with management could unlock value to all shareholders. It typically seeks to persuade management to distribute excess cash to shareholders by buying back shares or paying out larger dividends.

WHAT'S HAPPENED SINCE WE SAID TO BUY?

The Japanese stock market has enjoyed a strong run and the Nikkei 225 index is close to the all-time high of 38,915 reached in December 1989. The trust is also performing well. It has benefited from an offer from private equity firm Bain Capital to take its printing equipment and services firm **T&K Toka (4636:TYO)** private at a 40% premium to the trust's average purchase price.

Meanwhile, Berenberg analyst Alexander Bowers



Nippon Active Value Fund

(p)

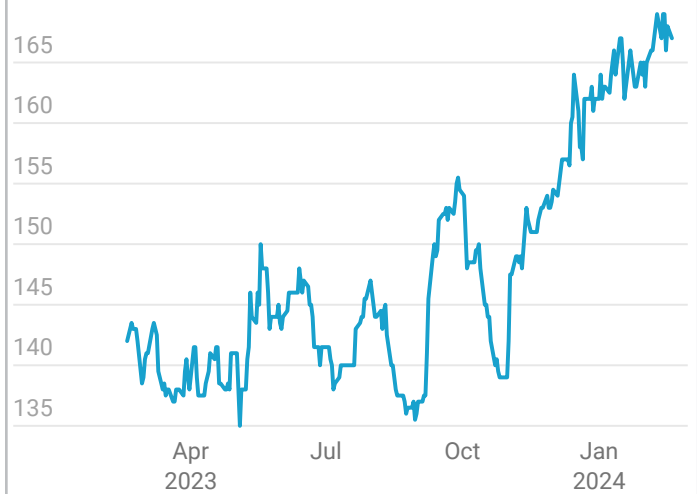


Chart: Shares magazine • Source: LSEG

sees potential for the company's largest holding (as of the end of January) **Fuji Media (4676:TYO)** to enjoy a value uplift. He says: 'Many Japanese broadcasters trade at low price-to-book value multiples, with, under Japanese law, foreign ownership of broadcasters limited to 20% (of voting rights).

'This law is in place to prevent foreign entities from influencing local programming. This limitation on access to foreign investors could mean that companies – such as Fuji Media (which trades at a 0.5 times book value) – resort to larger dividends or buybacks to try and improve their valuation, with the Tokyo Stock Exchange pushing companies to do so, or choose to go private.'

WHAT SHOULD INVESTORS DO NOW?

We think the rally in Japanese stocks is not fully played out and see more potential in Nippon Active Value's portfolio which is not reflected in the current 2.1% discount to net asset value. New investors should be aware however of a fairly onerous ongoing charge of 1.41%. [TS]