

**Performance of the Fund for 2020, 2021, 2022 and 2023:**

		JPY	Sterling/Yen FX Change	GBP	JPY	FX	GBP
21 February 2020 to							
	31-Dec-20	12.19%	1.39%	13.58%	12.19%	1.39%	13.58%
Year Ending						-	
	31-Dec-21	34.18%	-12.77%	21.41%	50.54%	12.64%	37.90%
1st Quarter						-	
	31-Mar-22	-5.01%	-2.28%	-7.30%	42.99%	15.15%	27.84%
2 <sup>nd</sup> Quarter						-	
	30-Jun-22	-2.26%	-3.07%	-5.33%	39.76%	18.73%	21.03%
3 <sup>rd</sup> Quarter						-	
	30-Sep-22	6.13%	2.24%	8.37%	48.33%	-17.17	31.16%
4 <sup>th</sup> Quarter						-	
	31-Dec-22	5.19%	1.90%	7.09%	56.04%	15.58%	40.46%
Year Ending						-	
	31-Dec-22	3.65%	-1.79%	1.86%	56.04%	15.58%	40.46%
1st Quarter						-	
	31-Mar-23	11.26%	-3.95%	7.31%	73.61%	22.88%	50.73%
2 <sup>nd</sup> Quarter						-	
	30-Jun-23	8.69%	-11.35%	-2.66%	88.70%	41.98%	46.72%
3 <sup>rd</sup> Quarter						-	
	30-Sep-23	7.49%	0.68%	8.17%	99.80%	41.09%	58.71%
4 <sup>th</sup> Quarter						-	
	09/30/2023-12/31/2023	5.11%	1.53%	6.64%	110.01%	40.76%	69.25%
2023 Year						-	
	12/31/2022-12/31/2023	36.66%	-16.16%	20.50%	110.01%	40.76%	69.25%
Since Inception						-	
	02/21/2022-12/31/2023	20.86%	-6.48%	14.38%	110.01%	40.76%	69.25%

**Introduction**

The purpose of this report is to provide a quarterly commentary on key events and themes affecting Nippon Active Value Fund plc (“NAVF”), the UK Investment Trust, and Rising Sun Management’s (“RSM”) first venture into the world of Japanese small and mid-sized companies’ activism. I will not dwell on the merits, or lack of them, of individual holdings, except when they become the story generating the alpha in our returns. The driver for success in this fund is not to buy the cheapest or most undervalued stocks (though this cannot hurt!), it is to identify businesses where our hands-on engagement can bring about the greatest change in management practices. We like decent companies, that have too many non- operational assets, whether cash, cross-shareholdings or property, on the balance sheet, solely to allow their “salaryman” managers to sleep well at night. Even if these characteristics reflect poor capital allocation, thus making them worthy of our attention, they also provide comfortable margins of safety, which help us sleep well too, until we can make

something happen to unlock value. In addition, we look for open share registers, a lack of third-party brokerage research (especially in English), and demonstrable cheapness of a type likely to attract the attention of the regulators. This last is most important: we never forget that the largest shareholder across all Japanese stock exchanges, owning 12-13% of the markets, is the combination of the Finance Ministry and the state pension fund, in other words Japan Inc. When Prime Minister Shinzo Abe began the corporate governance reform programme in 2014, he did so out of self-interest. Ten years' later, reform is still in full swing and has provided a wind at our back to bring about change. The wind is now becoming a gale!

Most recently, Hiromi Yamaji was appointed head of the JPX (all the Japanese stock exchanges). It would not be an exaggeration to suggest he is a man with a mission. Ex-Nomura, he has clearly stated his goal of improving the capital allocation processes of listed Japanese companies. In particular, he is requiring all those with share prices trading below book value, to present a roadmap as to how they will reach that first hurdle and then go on towards an appropriate premium to book. Amazingly, for such a mature market, when this policy was instituted in the Spring of 2023, over half of all listed companies fell into this category. At RSM we like to think we are activists, but there can be little doubt that the biggest and most feared activist operating in Japan today is Yamaji-san. We take our hats off to him!

## Performance

NAVF has no natural benchmark. Over the course of 2023, the MSCI Japan Index was up 20.32% and the MSCI Japan Smaller Companies Index was up 13.33%. In the same period NAVF's NAV per share moved 23.1% higher and its share price improved by 41.1% (helped additionally by the narrowing of the discount).

In my last quarterly report, I described at some length our final and successful disengagement from Intage Holdings last September. This had been NAVF's largest holding and a long-running saga from which we were happy to 'take the win', even if we still do not accept either the logic or skewed symmetry of NTT Docomo's partial take-over of the company. Intage is a good example of why we should not get ahead of ourselves. However much we perceive evidence of improving corporate behaviour in Japan, the closed and reprehensible double-dealing that has driven cosy management rationale of the past, to the inevitable detriment of minority shareholders, has not disappeared. Things are getting better, but there is still a long way to go.

Since then, winners making the largest unrealised gains in the fourth quarter include:

Bunka Shutter, up 23.89%  
Murakami Corp, up 33.53%  
Rinnai Corp, up 18.23%  
Nippon Fine Chemical, up 20.66%  
Eiken Chemical, up 18.04%

I mentioned above we seek comfortable safety margins and, perhaps, the best illustration of the merits of this approach is reflected in the performance of our losers. Again, there are several listed below, but none is a real stinker, with the possible exceptions of Topcon and Broadmedia. In Q4, the poorest performers contributing the largest unrealised losses were:

Topcon Corp, down 9.73%  
Mitsuboshi Belting, down 3.05%  
Hokuetsu Corporation, down 7.46%  
Broadmedia Corp, down 19.60%  
Toyota Industries, down 0.89%

Fortunately, the worst of these were relatively small holdings, while Mitsuboshi Belting is one of our all-time greats and was up 17.79% for the whole year. It is also worth noting that Topcon and Hokuetsu Corp have now left the portfolio.

### Corporate engagement

Undoubtedly, the key development in Q4 has been the beginning of Bain & Co's take-over of T&K Toka Co Ltd. Following NAVF's proposed TOB last year, the CEO chose to resign, and the Board resolved to take the company private under the auspices of Bain & Co. A requirement for the deal to proceed was that T&K Toka's holding in its Chinese joint-venture needed to be brought below 30%. Once this was achieved, Bain's tender for the whole company was formally launched on 22nd January 2024.

NAVF was able announce its participation in the tender offer. Following the de-listing of T&K Toka, NAVF and its concert party of co-investors will be offered up to 15% of the unlisted equity in a holding company of the Offering Vehicle, pro rata to their individual percentage holdings in the public company. Additionally, pursuant to the tender agreement Kazutaka Mizuochi, President of RSM, will be appointed as a director of the private holding company and be able to represent the interests of the concert party on the Board.

NAVF's earlier engagement with T&K Toka, including its previous tender offer, appears to have had the intended effect of prompting management to assess the strategic future of T&K Toka. We expect Bain's tender offer to succeed and for the transaction to complete before the summer.

It has always been envisaged that NAVF would take minority positions in former portfolio companies once they were taken private. RSM believes that, from a performance point of view, the liquidity event associated with a company's relisting or eventual sale, is likely to prove considerably more profitable than the sale of existing holdings into public tender offers. Nevertheless, the overall uplift on NAVF's holding in T&K Toka realised by participating in the tender is in the region of 40%.

RSM hopes that T&K Toka will establish a precedent in the market and in the minds of private equity houses taking over our portfolio companies. We believe that, having failed to secure any of the back-end in the privatisations of Sakai Ovex and Ihara Science, in future our ongoing participation following liquidity events will be easier to achieve.

### Outlook

There is plenty going on. In particular, we have engaged with both Fuji Media Holdings and Toyota Industries – both much larger companies than we have tackled in the past. As ever, we don't know what will happen, but we fervently believe that something will have to give with both of them over the coming months. The regulatory and press spotlights are becoming practically impossible for managements exhibiting shortcomings, as both of these are, to ignore.

RSM principals' recent trip to Tokyo consisted of a multitude of company visits accompanied by the relevant analysts from Dalton KK. We were reassured in several of our choices; nevertheless, following a visit to Komaihaltec Inc, we decided to dispose of our position in that counter. Seeing management in person, remains invaluable.

The last issue to point out is becoming distressingly familiar: the yen continues to weaken. Yesterday, it reached a new low against the US dollar. Our much-anticipated performance boost from a recovering currency continues to be on hold.

Paul ffolkes Davis  
15<sup>th</sup> February 2024