Nippon Active Value Fund plc

First Quarter 2025 report

	JPY	Sterling/Yen FX Change	GBP	JPY	FX	GBP
1st Quarter 12/31/2024-3/31/2025	1.36%	**1.85%**	3.21%	180.94%	**-70.58%**	110.35%
2025 Year	1.36%	**1.85%**	3.21%	180.94%	**-70.58%**	110.35%
Since Inception 02/21/2020-03/31/2025	22.13%	**-6.65%**	15.48%	180.94%	**-70.58%**	110.35%

Assumes dividends reinvested

Introduction and Performance

The purpose of this report is to provide a quarterly commentary on key events and themes relevant to Nippon Active Value Fund ("NAVF"). The Japanese equity market declined in the first quarter, with the TOPIX Total Return index ending down -3.4% in yen terms. The Nikkei 225 Index experienced a much larger decline of -9.9%, given its higher exposure to large cap stocks which underperformed during the period, particularly in the technology and exporter sectors.

The Japanese equity market faced selling pressure, driven by uncertainty surrounding tariff policies under the current US administration, as well as rising concerns about the risk of a US recession. Towards the end of March, the announcement that the US administration would impose 25% tariffs on imported cars negatively affected Japanese exporters and technology-related stocks.

Prior to the March and April tariff announcements, the Bank of Japan raised its policy rate in late January, a widely expected move that supported financial stocks, while bond yields rose in response to wage growth and inflation. This all helped the yen strengthen further against the US dollar. For example, the MSCI Japan Small Cap Index, which is recorded in US dollars, was up +3.96% over the period, reflecting two things: yen strength and the domestic focus of smaller companies. Nobody is, or will be, immune to the chaos unleashed by the Trump administration, but the waters in which NAVF operates are shielded to some extent by smaller companies being predominantly exposed to the domestic, yen-denominated market, their returns being driven by interventions to improve capital allocation and balance sheet efficiency.

Corporate governance reform continued to drive pockets of support for specific stocks. NAVF and the growing band of other activist investors in Japan were busy taking advantage of the pressure exerted by the government and stock exchange on recalcitrant managements, leading to an uptick in management buyout activity and improved capital allocation policies more generally.

In the period to the end of March, NAVF was up 3.21% and AUM reached £375.62 million, leaving the fund up over 110% since inception.

Attribution

During the first quarter of 2025, the top five contributors to the portfolio, making the largest gains both realised and unrealised, were as follows:

	Port. Average Weight (%)	Port. Total Return (%)	Q1 2025 Port. Contrib. To Return (%)
Total	**100.00**	**3.88**	**3.88**
Fuji Media Holdings, Inc.	7.80	51.07	3.10
ASKA Pharmaceutical Holdings Co., Ltd.	6.54	12.62	0.83
Eiken Chemical Co., Ltd.	9.81	8.48	0.80
Teikoku Sen-I Co., Ltd.	4.19	10.17	0.41
Hogy Medical Co., Ltd.	12.24	2.99	0.37

During the same period, the principal detractors were as follows (the poorest performer is at the bottom of the list):

Stella Chemifa Corporation	3.30	-9.50	-0.29
Sekisui Jushi Corporation	4.11	-6.85	-0.31
Meisei Industrial Co., Ltd.	5.81	-7.24	-0.36
Nippon Fine Chemical Co., Ltd.	3.08	-13.52	-0.43
Murakami Corporation	5.53	-11.75	-0.71

Fuji Media Holdings (Q1 2025 +3.10%)

By the end of March, Rising Sun Management Ltd ("RSM") had written five letters on behalf of the consortium of Select, NAVF plc and Dalton Investments to the management of this long-term holding. Having effectively created a media storm in Japan about the company's mismanagement of a sexual harassment scandal, we have gone on to call for the replacement of the executive atrophied over too many years in charge and the break-up of what has become a very inefficient conglomerate. In February, we lamented that 'Emperor' Hieda had not yet resigned from the company's main board. On 27th March he finally did just that, after over 40 years. Suspiciously, he acted just days before the independent report on the company's governance scandal was due for release on 31st March. When it emerged, we immediately published a response to its very thorough 400 pages. It vindicated our campaign and, in our view, exposed the cynicism of the reappointment of five leading members of what is known as the 'Old Boy's Club' just two days before its publication. The response to our missive was electric, with the stock rallying +8.7% (all stock returns are in yen), notwithstanding the general market rout that day caused by the US administration's ongoing shenanigans. We are straying into next quarter's commentary here, but suffice it to say, this story is not over yet, not by a long way.

ASKA Pharmaceutical (Q1 2025 +0.83%)

Just as our engagement with Fuji Media has become very public, our engagement with ASKA Pharma continues apace but privately. We wrote at length to the company in January and have continued our 'friendly bearhug' ever since. The analysts in the Tokyo office ascribe a value to what we term our "TSE scorecard", which measures how diligently a portfolio company's management responds to the urgings of the regulators – ASKA has one of our highest ratings. Trading continues strongly and, since touching a low point in early February, the stock price has been on a tear. We expect to be making proposals at the company's forthcoming AGM.

Murakami Corporation (Q1 2025 -0.71%)

Murakami Corporation reversed some of its gains from the previous year (up +49% YoY in 2024). However, the business remains solid (it sells rearview and side mirrors to auto OEMs) and trades cheaply on valuations below 1.5x EV/EBITDA.

Nippon Fine Chemical (Q1 2025 -0.43%)

Nippon Fine Chemical gave up some gains in 2024, after rallying 34.8% in 2023. The business slowed in the Funactional Products segment (particularly in healthcare and fine chemical, while beauty care grew). Meanwhile, home use (sanitization) slowed due to the roll-off impact from COVID.

Hogy Medical (Q1 2025 +0.37%)

On 31st March, Hogy Medical announced a downward revision to its full-year forecast. This was a worse-than-expected revision.

In addition to new sales of kit products not progressing as planned by the company, another reason for the lower earnings is the decision to aggressively write-down the inventories of long-lost products in the current fiscal year. Although these do not affect cash flow, the fact that new sales have not progressed as expected is an additional negative. Further, Hogy Medical posted a 1,090 million yen loss on the valuation of investment securities held by the company.

Although the full-year results are worse than planned, we believe the announcement can also be read as management wanting to book as much loss as possible in the current year. Our discussions about the company's future as a listed entity continue.

Meisei Industrial (Q1 2025 -0.36%)

The company's share price weakened significantly at the end of February, but, since the end of the quarter, it has staged a marked recovery back to levels last seen in mid-January. We continue to accumulate, and, with our affiliates, now control over 9.5% of the free float.

RISING SUN
MANAGEMENT LTD

Sekisui Jushi (Q1 2025 -0.31%)

Last year, Sekisui Jushi acquired WEMAS, a German manufacturer, specializing in barriers, lights, base plates and traffic cones used in German toll roads. The company paid Y6bn in cash and assumed Y14bn in debt, equalling roughly Y20bn in EV, or roughly 10-13x EV/EBITDA. Last fiscal year, the company used Y17bn in cash to buy back its shares, and Y14bn in repayment of assumed debt. In addition, there was a Y4bn in working capital swing, making cash on the balance sheet look smaller than historical levels. Currently, the company trades at 4-4.5x EV/EBITDA and the underlying quality of the business has been diluted by the WEMAS deal. So far, it seems the M&A has been going well (it does not change the fact that they overpaid) and the company is yet to find significant synergies post deal.

Market for Corporate Control

Despite changes in the external economic environment, medium to long-term trends continued to shape the Japanese stock market this quarter. Notably, the increasing sophistication of Tokyo Stock Exchange ("TSE") requests, the rise of shareholder activism, and the prevalence of unsolicited acquisitions remained prominent features. Consequently, going private has emerged as an increasingly viable option for management teams, as the costs and risks associated with public listing are increasingly perceived to outweigh the benefits. This shift is underscored by a significant surge in going-private transactions, as highlighted by the 32 going-private transactions involving publicly listed companies that were announced during the January–March 2025 period, more than double the 15 cases from the same period last year.

This quarter also saw a significant wave of publicly listed companies releasing new strategic plans, notably featuring bold capital allocation policies. This trend is directly driven by escalating capital market pressure, compelling companies to proactively secure shareholder support leading up to their June annual general meetings. Increases in stock ownership by engagement-focused investors like NAVF is demonstrably fueling this determination.

Regulatory Initiatives

The TSE and regulators also announced initiatives to further revitalize the Japanese stock market. It has also announced a plan to revise the maintenance criteria for its "Growth Market Index". Under the proposed change, the current requirement — maintaining a market capitalization of at least JPY 4 billion ten years after listing — would be raised to a stricter threshold of JPY 10 billion five years after listing. This revision aims to enhance the quality of the market by prompting the delisting of companies that fail to demonstrate growth potential, thereby creating a more attractive investment environment. While the policy has not yet been finalized, it is expected to undergo further discussion and a public comment process before implementation.

The Financial Services Agency ("FSA") is calling for listed companies to submit their securities reports before their annual general shareholders meetings ("AGMs"), rather than afterward as has traditionally been the case in Japan. By advancing the disclosure timeline, shareholders would gain access to critical information — including executive compensation and related-party transactions involving potential conflicts of interest — prior to exercising their voting rights. This is expected to improve managerial discipline and accountability. Although the change may increase the reporting burden on companies, it is viewed as a step toward greater transparency and stronger investor confidence over the long term.

Outlook

The United States reignited trade tensions by announcing a 24% tariff on Japanese imports. This revival of "Trump tariffs" was justified by a US estimate claiming Japan effectively imposes a 46% tariff on US goods through currency manipulation and non-tariff barriers, thus injecting significant uncertainty into Japan's economic outlook and corporate earnings. This of course is not singularly the case with Japan.

Progress in mutually beneficial negotiations between Japan and the US could offer some near-term market and a temporary boost to investor sentiment. However, the broader impact hinges on the response of other countries. Retaliatory measures, in particular, could severely disrupt global supply chains, placing significant pressure on Japan's manufacturing sector, particularly export-oriented industries like automobiles.

Despite these headwinds, Japan is fundamentally a domestic-demand-driven economy, with roughly 85% of its GDP generated internally (consumer spending, capital investment, and government expenditures), which provides a significant buffer. Exports, accounting for only 15% of Japan's GDP, represent a comparatively smaller reliance on external demand than in economies like Germany (about 40%) and South Korea (around 43%).

While trade-sensitive sectors have extensive economic linkages, a broad market sell-off extending to unrelated industries could also create compelling investment opportunities. The current "extreme fear" sentiment is not only attracting our (and other investors' attention) to potential bargains but also positions Japan's consistently cash-rich public companies well to take advantage of depressed market valuations. Both market opportunities and our investment methodology remain compelling.