

NAVF Q4 2025 commentary

	Annualized			Cumulative		
	JPY	Sterling /Yen FX Change	GBP	JPY	FX	GBP
21 February 2020 to 31 December 2020	10.56%	3.02%	13.58%	10.56%	3.02%	13.58%
Year Ended 31 December 2021	35.01%	-12.73%	22.28%	49.26%	-10.38%	38.88%
Year Ended 31 December 2022	5.32%	-1.86%	3.46%	57.20%	-13.52%	43.68%
Year Ended 31 December 2023	39.64%	-16.51%	23.12%	119.51%	-42.60%	76.91%
Year Ended 31 December 2024	26.27%	-11.06%	15.21%	177.17%	-73.36%	103.82%
1st Quarter 12/31/2024-3/31/2025	1.36%	1.85%	3.21%	180.94%	-70.58%	110.35%
2nd Quarter 3/31/2025-06/30/2025	6.55%	-2.32%	4.23%	199.35%	-80.10%	119.25%
3rd Quarter 6/30/2025-09/30/2025	10.72%	-0.58%	10.14%	231.43%	-89.96%	141.47%
4th Quarter 9/30/2025-12/31/2025	5.33%	-6.05%	-0.72%	249.11%	-109.37%	139.74%
Year ended 31 December 2025	25.95%	-8.33%	17.63%	249.11%	-109.37%	139.74%
21 February 2020 to 31 December 2025	23.53%	-7.60%	15.93%	249.11%	-109.37%	139.74%

Market Update

The purpose of this report is to provide a quarterly commentary on key events and themes affecting Nippon Active Value Fund plc (“NAVF”). Globally, expectations of strong growth in generative AI and defence spending supported related stocks and broader sentiment. Domestically, Sanae Takaichi’s election as prime minister and the formation of her coalition government were welcomed as a sign of greater political stability coupled with the promise of a more proactive fiscal stimulus.

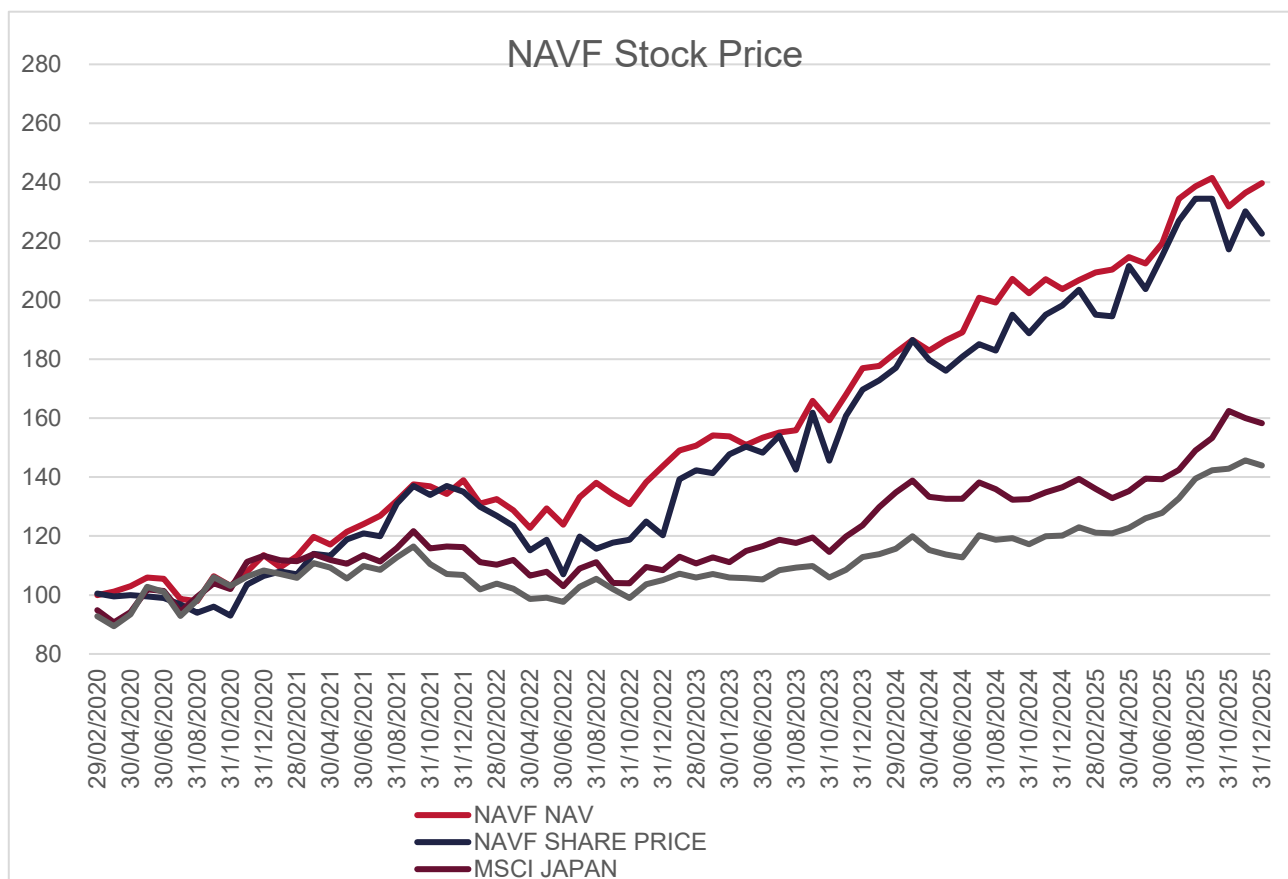
The Bank of Japan raised rates in December and signalled possible further hikes in 2026. That added to optimism about domestic growth and supported share prices. This notwithstanding, the Yen, which had been strengthening before the election, subsequently turned weaker again – as we do not hedge, this continues to cost NAVF lost performance in sterling terms (as is reflected in the chart below).

While aggregate valuations now sit near the high end of historical ranges, a solid trend in corporate earnings and ongoing governance reforms, which are expected to continue under Takaichi, alongside her push for increased employee remuneration (something we have always advocated), as confirmed by first-half fiscal year 2025 results released during the period, helped continue to drive the broader market.

Performance Review

2025 has been another banner year for Japanese equities, with the TOPIX up over 22% and the Nikkei 225 better by more than 26%. In Q4, the Japanese equity market extended its rally, with the TOPIX Total Return rising 8.8% and the Nikkei 225 up 12.0%, in local currency terms. For the year, the MSCI Japan index was up 12.6% but down 6.7% for the quarter, while the MSCI Japan Small Companies index was up 28.93% and down 1.45% respectively. By comparison, NAVF’s NAV was up 5.33% in Q4 and 25.95% for the year when measured in Yen, and by almost 250% since the Company was launched in 2020.

NAVF NAV Cumulative Performance: 140%
NAVF Share Price Cumulative Performance: 123%
MSCI Cumulative Performance: 58%
MSCI Small Cap Cumulative Performance: 44%

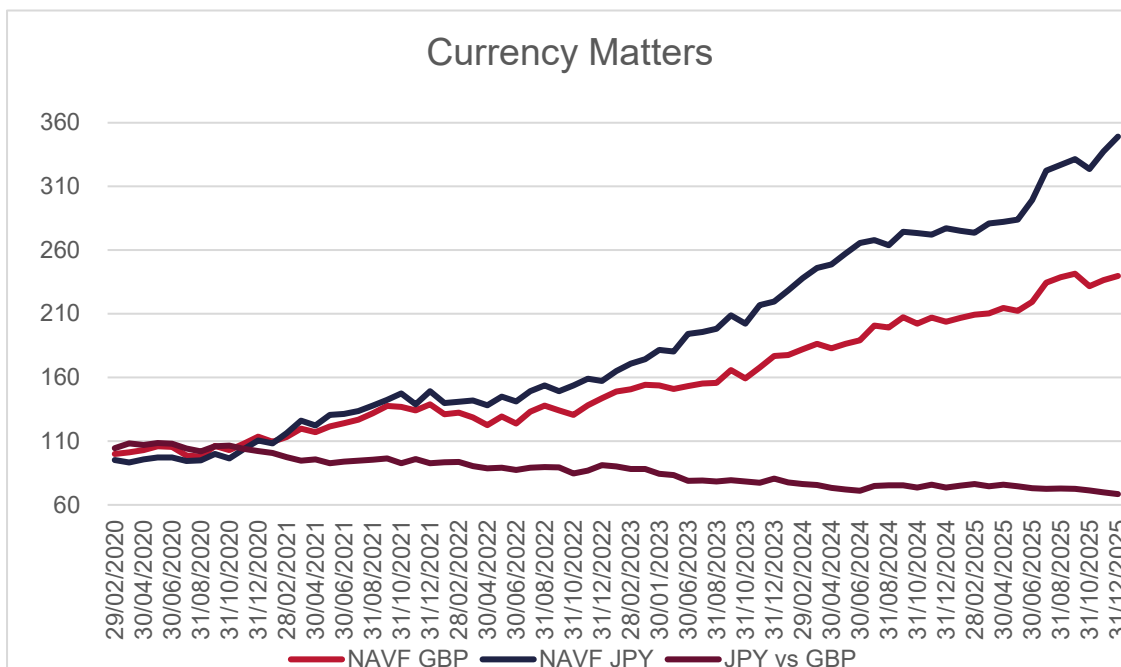


In the fourth quarter, NAVF, in conjunction with its affiliates NAVF Select and Dalton Investments, continued engaging with companies where the consortium or 'concert party' holds significant stakes. The most notable success came right at the end of the period, when, on 17th December, Hogy Medical announced that the company would be taken private in a tender offer organised by Carlyle at JPY6,700 per share. This is the successful culmination of the concert party's longstanding dialogue with management, recommending they pursue this path. The process was accelerated in June with the election of James Rosenwald III, our CIO, as an external member of the board. NAVF, along with its affiliates, will now have the opportunity to continue our support for the company by taking a stake in the new unlisted entity, as we have with two previous MBOs. Thus, we have achieved a profitable exit, set up the prospect of further earnings when the company is sold or re-listed, while simultaneously freeing up substantial capital for reinvestment in our next targets, when the transaction closes in mid-February 2026.

Currency

The weakness of the Yen is not only a problem for NAVF. We continue to believe the Bank of Japan will seek to reverse this, notwithstanding the forthcoming election, as it had been doing over the last year or so

through occasional rate hikes, which should, in time, provide a welcome boost to our performance. As the graph below illustrates, this cannot come soon enough, as our avowed policy of not hedging has now cost 110% of performance gains.



NAVF (GBP) Cumulative Performance: 139.7%
NAVF (JPY) Cumulative Performance: 249.1%
JPY/GBP Cumulative Performance: -31.5%

Performance attribution

	NAVF Q4 Fund Matrix	AVG Weight	Total Return	Contribution
Top 5 Performers	Hogy Medical Co., Ltd.	12.79	17.22	2.22
	Helios Techno Holding Co., Ltd.	2.50	13.66	0.32
	Denyo Co., Ltd.	1.32	13.90	0.19
	NASU DENKI-TEKKO CO., LTD.	1.58	9.23	0.14
	Teikoku Tsushin Kogyo Co., Ltd.	1.47	5.30	0.08
Top 5 Detractors	Bunka Shutter Co., Ltd.	6.06	-15.47	-1.10
	ASKA Pharmaceutical Holdings Co., Ltd.	5.78	-16.06	-1.08
	Ebara Jitsugyo Co., Ltd.	4.59	-10.67	-0.55

Eiken Chemical Co., Ltd.	9.06	-5.26	-0.52
Murakami Corporation	5.52	-7.44	-0.47

Analysts' comments on key stocks and engagement update:

Hogy Medical (see above)

Helios Technology

Helios Technology increased 20.6% in Q4. The market welcomed an improved outlook and forecast, leading to a strong increase in the stock price. We continue to develop our friendly dialogue with management.

Denyo Co

Denyo is a specialized manufacturer of generators used for construction sites and disaster prevention, with overseas sales accounting for 40% of the total. Together with its 2Q earnings announcement, the company announced a 1.5% share buyback, and the stock reacted positively. In its 2Q earnings results, sales to the U.S. market struggled significantly due to inventory adjustments and tariff impacts, while domestic sales were roughly flat. Operating profit declined due to the impact of lower U.S. sales and increased depreciation following the start-up of the new factory. With EV/EBITDA of 6x, PBR of 1x, and PER of 16x, Denyo's valuation remains attractive. The company still holds net cash equivalent to 37% of its market capitalization and has further room to expand shareholder returns.

Nasu Denki-Tekko

Nasu Denki shares rose 46.6% YTD supported by potential electricity demand driven by AI. As a supplier to major electric utilities, Nasu Denki benefits from increased electricity demand. Despite the substantial gains recorded in 2025, the company's valuations remain extremely attractive at sub-5x EV/EBITDA. The current management has led a significant turnaround program over the last five years, resulting in a strong EBITDA margin of 18%.

ASKA Pharmaceutical

The company's share price has remained weak since the announcement of a poison pill in July aimed at our concert party. While we understand that a poison pill, in the face of a bona fide takeover proposal, ultimately serves only as a temporary delaying mechanism and therefore do not view it as a material long-term concern, disappointment in the equity market remains deep-seated regarding management's actions, which are widely perceived as disregarding their responsibilities as a listed company.

From an operating perspective, sales of the company's flagship products continue to perform well, and progress across the pipeline remains on track. We will continue to pursue all available avenues of engagement with the company to restore market discipline and reinforce accountability to the equity market.

Bunka Shutter

Bunka Shutter declined by -15.4% after management announced a potential poison pill policy targeting Dalton. We view this policy as a management self-preservation measure that is inconsistent with the principles of free share transfer and shareholder democracy. We have made our views public, and we remain

committed to engaging with Bunka Shutter to enhance corporate value and advance the interests of all shareholders.

Despite the setback from the poison pill announcement, Bunka has reported strong earnings thanks to continued strength in the company's core business of shutter related products. Sanwa, the market leader, has been successful at passing on cost increases to customers, thus also benefiting Bunka Shutter through similar pricing dynamics. The domestic shutter market is expected to continue expanding until 2028, driven by increasing large-scale construction projects, providing a generally positive industry outlook. With an EV/EBITDA range of 5x and a PER of 14x, we believe the stock price remains cheap.

Ebara Jitsugyo

Ebara Jitsugyo rose over 15.5% in 2025. The company continued to increase its order book on the backdrop of public infrastructure demand to combat flooding. NAVF has held the company shares since inception. The firm continues to surprise us with its ability to execute, while the shares remain relatively attractive at 7x EV/EBITDA.

Eiken Chemical

Eiken Chemical's share price remained flat during the quarter. In Q2, the company reported flat YoY quarterly sales and operating profit, mainly due to weaker-than-expected sales of TB LAMP products in EMEA and in its microbiological business in Japan. However, the company maintained its full-year guidance, anticipating a recovery in the second half. The new CEO appears proactive, working to finalize a plan to optimize the product portfolio by focusing on more profitable businesses and streamlining SG&A expenses. In addition, the company announced the cancellation of treasury shares equivalent to 10% of outstanding shares. We hope this move reflects an improvement in management's approach to corporate governance.

Murakami Corporation

Shares of Murakami Corp were positive in 2025 but were down -7.4% in the final quarter. Murakami shares have performed well over the last couple of years, yet the firm remains incredibly attractive, trading at sub 3x EV/EBITDA. We continue to believe that the shares are attractive as it maintains high market share in automotive mirrors. Despite the debate over ICE or EV, we think that the company will continue to produce steady cash flow over the long run.

Below are recent thoughts from the Tokyo-based Japan investment team on the current Japanese administration, economy, inflation, and regulatory environment:

The Takaichi Administration and Japan's Economic Transformation

Inaugurated in October, Japan's first female Prime Minister has enjoyed a strong debut. With approval ratings holding firm between 64% and 76% across major polls, the Takaichi Administration has achieved a remarkably stable start. Notably, this support is anchored by a strong showing among younger demographics, signaling a shift in the country's political energy.

The administration has placed "responsible proactive fiscal policy" at the heart of its agenda to help promote economic growth. This commitment was solidified by two major milestones:

- ***November Stimulus:*** A comprehensive **JPY 21.3 trillion** package.
- ***December Budget:*** An FY2026 budget proposal that stands as the largest on record.

These measures are dual-purposed. They provide immediate household relief—through income tax adjustments, the removal of gasoline tax surcharges, and utility subsidies—while simultaneously funding strategic long-term growth in AI, semiconductors, and shipbuilding. The message is clear: the government is committed to a decisive exit from deflation and the pursuit of sustainable growth.

In November, comments by Prime Minister Takaichi suggesting that "Japanese companies place too much emphasis on shareholders" sparked concern regarding a potential retreat from corporate governance reform.

We do not share this interpretation. The intent of these remarks should be understood as a recognition that among the three macroeconomic components of the Japanese economy—corporate, government, and household—the corporate and government sectors have maintained their strength through improved earnings and tax revenues, while the household sector alone has been left behind due to the decline in real wages. By promoting wage hikes, the administration aims to revitalize household consumption—the "final missing piece"—and achieve a healthy economic cycle.

Many Japanese companies continue to hold abundant yet inefficient balance sheets, and shareholder returns and growth investment (including investment in people) are not inherently trade-offs. Policies that encourage appropriate wage increases are rational from the perspective of both corporate earnings power and capital efficiency.

While rising long-term interest rates driven by proactive fiscal policy represent a non-negligible risk factor, equity markets have remained broadly resilient. This reflects not only expectations for domestic economic recovery, but also a growing market conviction that Japan has finally entered a post-deflationary phase, alongside increasing recognition that initiatives to enhance corporate earnings power through capital market reform and growth strategies are being pursued seriously and cohesively by both the public and private sectors.

Inflation: A Catalyst for Bottom-Up Alpha

We view the return of inflation in Japan as not merely a macroeconomic shift, but as a critical theme for bottom-up stock selection. For decades, Japanese companies followed a "cost-plus" pricing model—delivering world-class quality at thin margins while essentially subsidizing the consumer. This structural reluctance to price for value has been a primary driver of the long-term undervaluation of Japanese equities.

Today, that paradigm is shifting. We believe significant earnings potential remains "trapped" within companies that have yet to normalize their pricing. Our focus remains on "Good Businesses" high-quality enterprises whose historical investments in R&D and product development were often viewed as excessive in a deflationary world. In an inflationary environment, these investments transform into tangible competitive advantages, providing the "moat" necessary to exercise pricing power without sacrificing volume.

We have already seen this thesis play out. A portfolio company that was taken private two years ago underwent rigorous pricing restructuring under the support of private equity sponsors. By aligning prices with the actual value delivered, the company achieved a substantial expansion in operating profit while maintaining its market share. This serves as an example for the latent value waiting to be unlocked across the broader Japanese market.

Looking ahead, we expect a more active "Market for Corporate Control"—driven by M&A, activist engagement, and overseas acquisitions—to act as the catalyst for this re-rating. Through active engagement, we intend to remain at the forefront of this value-realization process.

Market Advocacy: Shaping the Future of Japanese Governance

In addition to engagement with individual companies, we continue to engage in dialogue with regulators with the aim of enhancing the effectiveness of Japan's capital markets as a whole. In August of this year, we sent a letter to the Minister of Economy, Trade and Industry, the Minister of Justice, the Commissioner of the Financial Services Agency, and the Group CEO of Japan Exchange Group, requesting consideration of measures to promote earlier (integrated) disclosure of annual securities reports and to address the excessive concentration of shareholders' meeting dates. This letter was co-signed by 130 institutional investors participating in the Principles for Responsible Investment (PRI), representing more than JPY 150 trillion in assets under management.

We are pleased to report significant policy momentum following our advocacy. According to reporting by Nikkei, formal discussions have begun regarding the integration of annual securities reports and business reports ("integrated report"), with policy deliberations moving toward institutional support for disclosure of annual securities reports prior to shareholders' meetings. In effect, policy emphasis is shifting away from the long-standing practice—where post-meeting disclosure has become entrenched—to a framework that enables pre-meeting disclosure. This shift is significant in that it reduces information asymmetry at the time of voting and contributes to the substantive functioning of shareholders' meetings.

Why it Matters: *This reform transforms the shareholder meeting from a formal ceremony into a substantive forum for governance and accountability.*

We are already seeing these institutional shifts translate into market practice. During the most recent proxy season, we observed two encouraging trends:

- 1. **Earlier Disclosures:** A significant increase in the number of companies releasing securities reports before their AGMs.*
- 2. **Decongested Calendars:** By adopting flexible record dates, several companies have moved their meetings to July, breaking the long-standing and counterproductive concentration of meetings in late June.*

*These developments address two legacy "pain points" of the Japanese market: **voting in the dark** (due to late disclosure) and **operational gridlock** (due to clustered meeting dates).*

We view these changes as a fundamental step toward elevating "shareholder democracy" in Japan. As a long-term investor, we will continue to provide practical, boots-on-the-ground input to regulators, ensuring that the momentum for capital market reform remains strong.

2025 Year-End Letters: Aligning for Long-Term Value

As we have in previous years, we sent year-end letters to the boards of our core portfolio companies. Our objective was to reaffirm a shared vision for long-term value creation, ensuring that management priorities remain aligned with the evolving standards of the Japanese capital market.

These letters focused on four primary pillars of corporate excellence:

1. Capital Discipline and Transparency

In line with the Tokyo Stock Exchange's (TSE) mandate for "management conscious of capital costs," we called for more rigorous board-level oversight. This includes:

- **Granular Assessment:** *Evaluating ROIC and WACC at the segment level.*
- **Strategic Allocation:** *Developing coherent capital policies that clearly balance growth investments, M&A, and shareholder returns.*
- **Accountability:** *Enhancing Investor Relations (IR) to better communicate these financial goals to the market.*

2. The "Best Owner" Philosophy

We clarified that "share-price-conscious management" is not about chasing short-term fluctuations. Instead, we advocate for a "Best Owner" perspective: evaluating corporate value based on what could be realized if each business unit were operated under its most optimal ownership structure. This requires boards to maintain an unbiased view of all strategic options, including portfolio restructuring, spin-offs, and privatization.

3. Growth vs. Returns: A False Dichotomy

We emphasized that growth investment and shareholder returns are not mutually exclusive.

- **Where internal returns exceed the cost of capital,** *we fully support growth investment.*
- **Where opportunities are limited,** *we advocate capital efficiency measures, such as share repurchases, to ensure a lean and effective balance sheet.*

4. Enhancing Board Expertise

A high-functioning board requires specialized skills. We highlighted the need for more independent directors and individuals with deep expertise in finance and capital markets. In cases where we hold a meaningful stake, we expressed our readiness to contribute directly to board-level deliberations.

Our goal is to remain a helpful and insightful partner to the companies we invest in. However, our commitment to shareholder democracy remains firm.

While we prioritize constructive dialogue, we are prepared to utilize more assertive engagement, including shareholder proposals—should it be necessary to protect and enhance long-term corporate value. We believe that by fostering substantive board-level debate today, we ensure the sustainable growth of the Japanese market tomorrow.

Outlook

The re-establishment of inflation coordinated economic and capital market reform by the public and private sectors, and the reactivation of the 'Market for Corporate Control' are mutually reinforcing forces driving structural transformation among Japanese companies. Inflation is unlocking long-dormant pricing power and earnings capacity, while simultaneously raising market expectations regarding capital efficiency and managerial discipline. As a result, competition to determine the best owner under which businesses can maximize value is becoming tangible, and is leading to ever higher numbers of MBOs, private equity interventions and corporate take-overs.

This is becoming widely recognised, with articles in the press beginning to ask if the plethora of activists now operating in Japan, and being added to almost daily, can continue to achieve the easy pickings of the last few years. It is a valid question.

The increasing acceptance by Japanese managements of the need to focus on capital efficiency and shareholders' interests generally is leading to an explosion of corporate activity and the realisation that some form of accommodation with third-party activists, whether investors, private equity operators or consolidators, is now a necessity. The stubborn resistance of managements unused to change, or even the need to consider it, is being swept away. So, will projects like that of NAVF Select continue to be able to identify 'suitable cases for treatment'? Our answer is a resounding 'yes'. In particular, the small and medium-cap sectors of the market remain demonstrably cheap, notwithstanding the progress of the last few years. This has been reinforced by the boom in markets around the world – every time Japanese companies begin to close the valuation gap, their foreign comparators have become still more expensive. The FSA has repeated numerous times that there are still approaching 2,000 listed companies too many in Japan. The opportunities for our type of supportive intervention remain abundant – we are not running out of road. If anything, although there is now more traffic on the road, the regulatory and attitudinal changes are making the surface smoother. With fewer curves and roadblocks, the speed limit is steadily being raised, with successful results being accomplished ever faster. Game on!