

Nippon Active Value Fund plc Q2 2026 Commentary

	Period Return	Period Return	Period Return	Cumulative Return	Cumulative FX effect	Cumulative Return
	JPY	Sterling/Yen FX Change	GBP	JPY	FX	GBP
21 February 2020 to 31/12/2020	10.56%	3.02%	13.58%	10.56%	3.02%	13.58%
Year Ending 31/12/2021	35.01%	-12.73%	22.28%	49.26%	-10.38%	38.88%
Year Ending 31/12/2022	5.32%	-1.86%	3.46%	57.20%	-13.52%	43.68%
Year Ending 31/12/2023	39.64%	-16.51%	23.12%	119.51%	-42.60%	76.91%
Year Ending 31/12/2024	26.27%	-11.06%	15.21%	177.17%	-73.36%	103.82%
Year Ending 31/12/2025	25.95%	-8.33%	17.63%	249.11%	-109.37%	139.74%
1st Quarter 01/01/2026-31/03/2026	4.58%	0.45%	5.03%	265.10%	-113.31%	151.79%
2nd Quarter 01/04/2026-30/06/2026	2.46%	-2.60%	-0.13%	274.09%	-122.63%	151.45%
01/01/2026-30/06/2026	7.15%	-2.27%	4.89%	274.09%	-122.63%	151.45%
Since Inception 02/21/2020- 30/06/2026	22.83%	-7.37%	15.45%	274.09%	-122.63%	151.45%

Q2 Performance and Market Update

The fund's performance during the first six months of 2026 has been a game of two halves; the strategy returned -0.13% in sterling terms during the quarter and 4.89% in the first half of 2026.

Overall, the first half of 2026 was a historic period for Japanese equities, marked by unprecedented milestones and significant sector polarisation. From April onwards, the market was fuelled by massive global liquidity and the artificial intelligence (AI) boom, the benchmark Nikkei 225 surged by roughly 40% from year-end levels to shatter the 70,000 threshold, marking its strongest first-half performance in decades. Meanwhile, the broader TOPIX experienced a more subdued – but still robust – gain of about 14.1% in sterling terms.

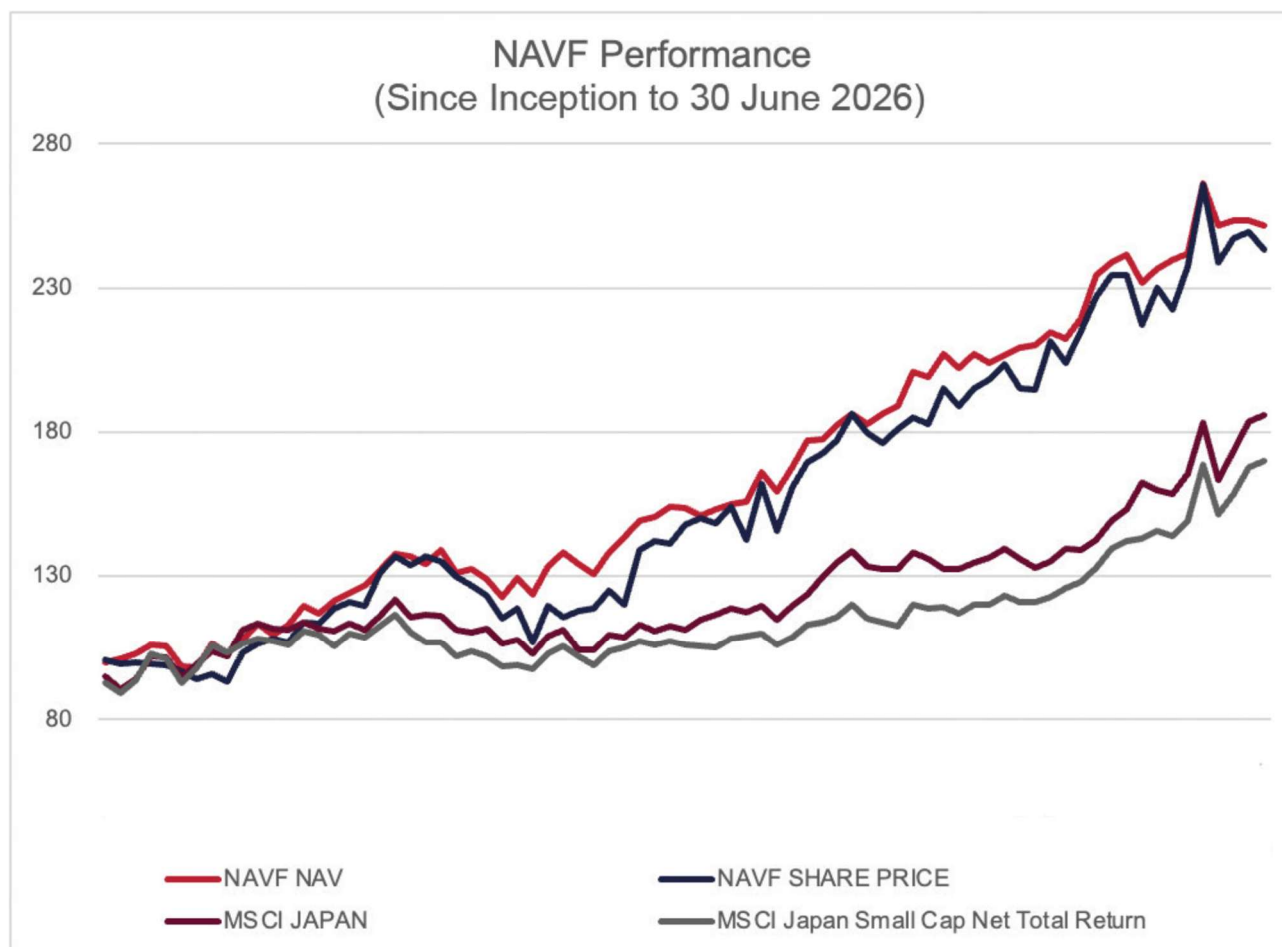
Performance in the Japanese market was led by companies involved in Artificial Intelligence and defence and neither sector is well represented in our universe. Our strategy does not target any index or seek to reflect the Japanese market as a whole. Our focus remains on medium and small capitalised companies, where we can build stakes to facilitate productive engagement with their management. We target companies with a good business, strong cash flow, inefficient capital management and poorer governance structures, usually trading on a low price to book ratio. This results in a relatively concentrated portfolio and returns can vary significantly from both the TOPIX and small cap indices.

This is the first time since NAVF's inception that we have seen such underperformance compared to the Japanese stock indices; however, we are not generally involved in tech and AI stocks as it is not often compatible with NAVF's strategy and is therefore really not where we play, or, indeed, should play. We

always say our performance is uncorrelated and our stock-specific undertakings instead are a driver of performance.

Though June marked the third month in a row that the fund's NAV per share moved in a narrow band between 228p and 230p, there was evidence the tech/AI rally was beginning to run out of steam, with the Nikkei 225 and TOPIX indices only moving 5.3% and 1% higher, respectively. On 5 June, the Nikkei reported that FMH had received 15 offers for Sankei Building, several above ¥1 trillion! This valuation exceeded our expectations and we await the eventual sale with interest.

As is normal course for Japanese equities, June saw the majority of the fund's portfolio companies holding their AGMs. Predictably, none of our proposals passed the voting threshold – which is not unusual for proposals made by external shareholders. Disappointingly however, both Bunka Shutter and Aska Pharma were successful in having their so-called 'Poison Pills' adopted, with even proxy advisory firms, such as ISS, recommending external shareholders vote in favour – in our view, an extraordinary dereliction of their duty to uphold shareholder democracy. More generally, there are clear signs of a potential pushback against activism detectable in some of the recent reports emanating from the METI, FSA and other Japanese regulators. This should come as no surprise; the wind at our backs produced by Shinzo Abe's Corporate Governance Reform Programme has continued unabated for over a decade. Though the opportunity set in the Japanese markets is as attractive as ever, with much shareholder value remaining subject to inefficient balance sheets and capital allocation practices, the means of unlocking it will require ever more nuanced dialogue to constructively work with our portfolio companies. This is all in the nature of the healthy operation of markets. Fundamentally nothing has changed. On 30 July, after the period under review, METI has released its latest clarification of the Corporate Governance Guidelines – these will be examined in detail in NAVF's third quarter review.



AGM Season and Engagement Activities

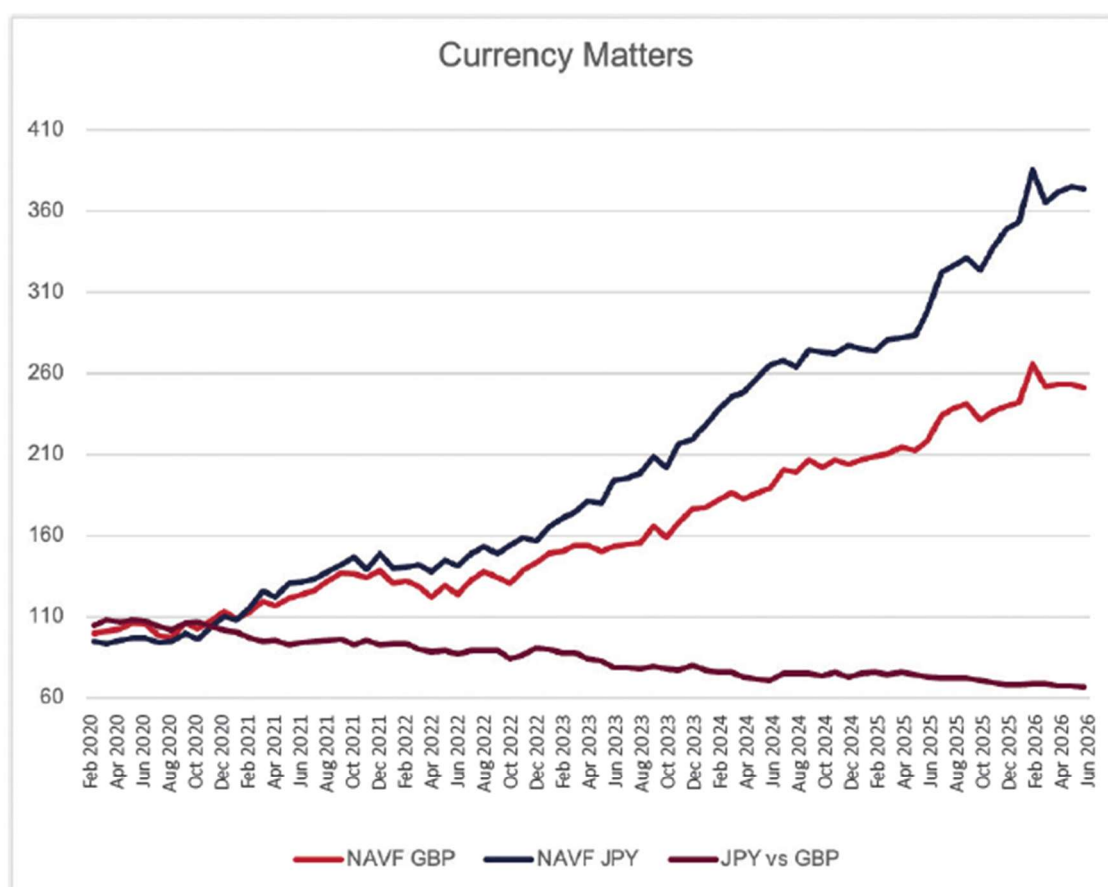
Shareholder pressure on Japanese companies has continued to intensify in 2026. According to the Nikkei, activist investments in Japanese equities reached JPY13.2 trillion in 2025, an increase of nearly 40% year-on-year. During the June 2026 AGM season, 344 shareholder proposals were submitted to 102 companies, the second-highest level after the record 389 proposals submitted to 111 companies in 2025. NAVF also played a meaningful role in this trend, submitting a total of 74 proposals to 24 companies.

The most important feature of our shareholder proposals this year was the expansion of our commitment to direct engagement at the board level. Last year, our board-related proposals were mainly focused on three companies: Hogen Medical, Fuji Media, and Eiken Chemical. This year, our efforts expanded meaningfully to include Yakult, Eiken Chemical, Aska Pharmaceutical, Nitta, Senko Group, and Bunka Shutter.

Looking only at the voting results, all of our shareholder proposals were rejected, and we will continue to explain why our proposals are important for minority shareholders and for long-term corporate value creation. At the same time, although not always visible from the voting results alone, we are seeing steady positive changes in company behaviour and disclosure that we believe reflect the impact of our engagement and the issues we have raised. By clarifying the key issues through shareholder proposals and making them visible to the capital markets, we often see companies change their behaviour with respect to disclosure and capital allocation. **Yakult Honsha** and **Senko Group Holdings** are such examples, and these will be outlined in more detail in our Q3 newsletter.

Currency

On 16 June, the Bank of Japan finally raised the yen rate to 1%. Since then the currency has weakened and regaining some of the ground we have lost through relative currency movements, is proving to be a very long game. In August, however, after the period under review, there has been coordinated intervention by both the Japanese and US authorities to defend the yen. It is not yet clear whether this tactic will work without sustained evidence of the BOJ's willingness to consistently raise rates over time.



NAVF (GBP) Cumulative Performance:

152.26%

NAVF (JPY) Cumulative Performance:

274.09%

Q2 2026 NAVF Attribution

	NAVF	AVG Weight %	Total Return %	Contribution %
Top 5 Contributors	Stella Chemifa Corporation	3.35	33.22	0.93
	Sekisui Jushi Corporation	3.99	18.29	0.81
	Teikoku Sen-I Co., Ltd.	5.31	15.22	0.78
	Fuji Kyuko Co., Ltd.	1.98	2.15	0.36
	Meisei Industrial Co., Ltd.	7.76	4.48	0.35
Top 5 Detractors	Eiken Chemical Co., Ltd.	9.73	-18.84	-1.95
	Helios Techno Holding Co., Ltd.	2.33	-18.67	-0.47
	Ezaki Glico Co., Ltd.	3.37	-10.74	-0.38
	ASKA Pharmaceutical Holdings Co., Ltd.	6.50	-5.01	-0.36
	Meiko Trans Co., Ltd.	3.29	-3.34	-0.11

Selected Contributors

Stella Chemifa: a leading supplier of high-purity hydrofluoric acid for the semiconductor industry. The share price rally has been driven by the company's strong earnings results, as well as strong performance by semiconductor memory manufacturers, which are key customers of the company. While we have trimmed a small portion of the position as the valuation has become less attractive, the company's competitive advantage, supported by its leading global market share in high-purity hydrofluoric acid for semiconductors, remains unchanged.

Sekisui Jushi: a leading manufacturer of infrastructure products, road safety equipment and residential building materials that benefit from long-term public investment and urban renewal. The company shares outperformed the TOPIX, with the company announcing higher dividends and a stronger focus on ROE. The company announced another share repurchase program of 3.3%, as well as the cancellation of shares in the same amount, which was seen favourably by the market.

Meisei Industrial: is Japan's leading provider of thermal insulation and maintenance services for refineries, LNG facilities, and industrial plants, with a resilient business model supported by recurring maintenance demand. Meisei Industrial's earnings were weaker than the previous fiscal year; however, we remain comfortable with the company's ability to capture maintenance and repair cycles for refineries and chemical plants. Operationally, Meisei Industrial experienced a super cycle in FY25, when the larger refiners conducted once-in-four-year maintenance, boosting the company towards record revenue and profits. We expect a slower year for its Financial Year ending March 2027, as forecast by the company.

Selected Detractors

Ezaki Glico: produces confectionery and frozen desserts and is best known for its flagship brand, "Pocky." The share price has declined following the latest quarterly results, amid concerns over the slow pace of improvement in the domestic businesses. Headline earnings were largely in line with expectations, although the details showed a clear divergence between business segments. The key positive was the overseas performance, particularly in China. However, the domestic health food and dairy businesses continued to struggle, with limited improvement in profitability. The valuation remains attractive relative to global peers,

and NAVF continues our engagement with the company.

ASKA Pharmaceutical Holdings: We remain deeply disappointed by ASKA Pharmaceuticals' decision to adopt a takeover defence measure ('Poison Pill' – see prior section above), which we believe is entirely unreasonable and inconsistent with the interests of shareholders. That said, this does not change our positive assessment of the company's underlying business operations. Over the past five years, ASKA has steadily grown revenue from ¥55 billion to ¥71 billion and operating profit from ¥3.6 billion to ¥6.0 billion, demonstrating solid execution in its core specialty pharmaceutical business, particularly in women's health. We also view the company's newly announced mid-term management plan and long-term vision positively. The FY2028 targets of ¥80–90 billion in revenue, a 10% operating margin, 10% ROE, and a 40% total payout ratio, together with the 2035 targets of ¥150 billion in revenue and a 15% operating margin, represent a more ambitious and concrete framework than the previous plan. In particular, the inclusion of profitability and capital efficiency KPIs is encouraging, as it suggests that management recognises the need to move beyond top-line growth and focus more clearly on shareholder value creation. While the governance issue remains serious, the strategic direction and operating targets themselves are worthy of recognition.

Helios Techno: develops manufacturing equipment and lighting systems. Helios shares enjoyed a strong rally until March 2026; but then declined more than 30% amidst the AI vs non-AI market sentiment that prevailed thereafter. On a positive note, Helios Techno Holdings completed its first takeover by acquiring Honda KK. Rising Sun Management had signed a Business Alliance Agreement with HTH, appointing RSM members Masumi Nishida and Kazutaka Mizuochi to the board.

Eiken Chemical: The share price of the reagent manufacturer declined after the company revised down its mid-term plan due to external factors (e.g. the U.S. Agency for International Development (USAID) budget freeze that affected sales of tuberculosis reagents and rising costs) and internal factors (e.g., slow progress in product optimization). The rejection of our shareholder proposal to nominate two outside directors (NAVF's Kazutaka Mizouchi and Masumi Nishida) at the AGM also resulted in the lower share price. However, its main FIT products continue to sell well globally, and our thesis remains intact.

Outlook

In the short term, concentration in high-beta, large-cap, AI-related stocks may continue to drive momentum in the Japanese equity market. However, in our experience, as a bull market matures, market leadership tends to broaden gradually. We believe the current situation, in which index gains depend excessively on a narrow group of stocks while low-beta and attractively valued stocks are left behind, is unlikely to persist over the long term.

Many of the portfolio companies continue to demonstrate solid earnings growth, strong balance sheets, significant room for improved capital allocation, and meaningful potential for governance reform. Recent share price performance does not necessarily reflect these qualities, but the concrete drivers of corporate value creation remain firmly in place.

NAVF's Interim Report for the half-year to 30 June 2026 was published on 16 September and is available to view on our website.

Paul ffolkes Davis
Q2 to 30 June 2026