Q1 2023

ASPOMA
Asset Management

Quarterly Report ASPOMA Japan Opportunities Fund

Japan Hidden Value Strategy – April 2023

Key figures of the portfolio*

Price/Book Ratio	Price/Book Ratio adjusted for Net Cash	Net Cash to Market Capitalization	Return on Net Operating Assets	Dividend Yield	Dividend Growth p.a. **
0,69x	0,31x	80%	18%	3,0%	10%

Content

Summary

In the first quarter of 2023 the performance of the **ASPOMA Japan Opportunities Fund** was **+8,7%.** Since implementing the *Hidden Value Strategy* (January 2019) the fund delivered a net return of 39,4% or +8,1% per annum.

The following developments in Japan are especially relevant for investors:

- Japan's economy is developing at a stable pace. The post Covid reopening of China and the recovery in tourism is cushioning negative global influences.
- Many encouraging signals that Corporate Governance is further improving (details on page 5):
    - Initiative for higher valuations by the JPX (Japan Exchange Group).
    - Successful activist campaign leads to a reorganization at ***Fujitec*** and a significant higher valuation.
    - The volume of share buybacks rose by 40% YoY and reached a new historical record high (see chart on page 5).
- For the time being, there are no changes to the extremely loose monetary policy of the Japanese central bank under the new leadership due to continuing low inflation. Financing costs for the economy remain low and the weakness of the yen tends to strengthen international competitiveness.
- Anecdotal evidence: Attracted by low valuation levels Warren Buffet, hedge funds and private equity firms have been increasing their exposure to the Japanese stock market recently. This suggests that the interest in Japan's financial markets is generally growing.

Key developments in Japan

In the first quarter of 2023 Japanese equities (TOPIX Index) rose by 7% on average, compared to European and US stocks which are up by +7,5% and +8,6% respectively.

The Japanese economy, and thus the performance of Japanese companies, has been much less affected by the global economic slowdown caused by higher prices (inflation) and interest rate hikes due to the following factors:

1. **Growing number of incoming tourists** (especially from China) **will increase consumption** in Japan. The reopening of Japan just happened a few months ago and foreign tourists have begun to enter the country again. While Chinese tourists had not yet returned by the end of February, the recovery in arrivals from the rest of the world has already happened (see chart page 2). A further increase is expected in the coming months, which will be driven by the return of Chinese tourists by early summer.

* adjusted portfolio; on a net basis
** of the last 5 years p.a.; adjusted portfolio

2. **Japan is one of the main beneficiaries of China's reopening** after the end of the zero-covid policy and the economic recovery now underway there. Japanese companies are benefiting from a relief in supply chains as well as from stronger demand from China.

The number of tourists entering Japan will continue to rise in the coming months. A sharp increase of Chinese tourists in particular is expected.

Sources: Bloomberg, Ministry of Transport

Stable low interest rates and a weak yen

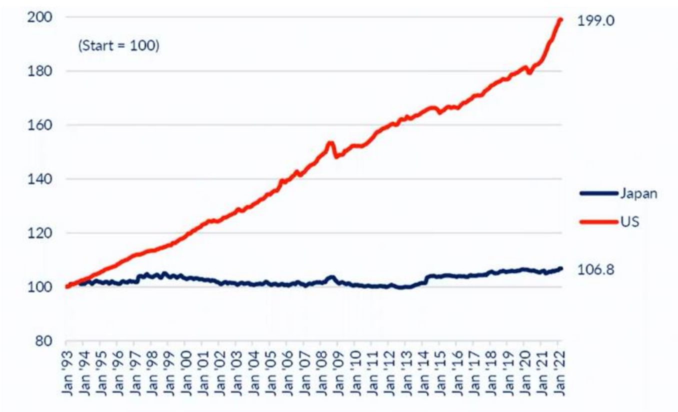
The change at the top of Japan's central bank has so far brought hardly any changes. When he took office ***Kazuo Ueda*** made it clear that he continued to considered the central bank's loose monetary policy to be appropriate in the current environment. Contrary to the expectations of some investors, there has therefore been no departure from the central bank's zero interest rate policy. As a result, the Japanese yen which had recently strengthened somewhat weakened again significantly.

High inflation rates in North America and Europe have led to a more restrictive monetary policy by central banks and to rising market interest rates. As the rise in inflation in Japan has been lower (most recently at "only" 3%) and is generally desirable, the ***Bank of Japan*** (BOJ), unlike the ***FED*** and the ***ECB***, is sticking to its loose monetary policy, with the consequence that interest rates in Japan will remain low for the time being.

As a result, the widening of the interest rate differential between the USA (and Europe) and Japan caused a significant depreciation of the Japanese yen. Among other things, this led to a sharp increase in energy costs. Overall, the lower yen provides Japanese companies with a competitive advantage internationally.

An adjustment of interest rate policy at one of the upcoming central bank meetings has the potential to reverse the current exchange rate development. A stable or somewhat stronger yen would make the Japanese market more attractive as an asset class for international investors.

Low inflation: Since 1993 consumer prices rose 99% in the US but only 6,8% in Japan



Sources: CLSA, Bloomberg

Growing interest for Japan's financial markets due to attractive valuations

Warren Buffet, who, as reported by us here, invested in Japanese equities on a larger scale for the first time in 2020, has recently announced that he will issue another bond in JPY to further expand his holdings in Japan. Hedge funds such as ***Citadel*** or ***Point72 Asset Management*** and private equity investors such as ***KKR*** are also significantly expanding their presence in Tokyo, underlining the growing attractiveness of the Japan's financial markets.

Fund Performance

Japanese equities represented by the TOPIX Index rose 7% in the first quarter of 2023. The Nikkei 225 Index was up 7,1%[1]. The **ASPOMA Japan Opportunities Fund** achieved a performance[2] of +8.7%. Since the implementation of the Hidden Value strategy in 2019, the performance is +39.4% or +8.1% per annum.

In the first quarter our portfolio companies from the ***industrial***, ***consumer*** and ***basic and raw materials sectors*** performed particularly well, up on average by +10%. The fund is invested in these sectors with around 73% of the portfolio. Companies from the ***financial sector*** achieved only a small increase in value

[1] Note: We do not follow a benchmark approach.

[2] Share class A including dividend distribution.

and those from the ***healthcare sector*** saw a share price decline of 5% on average.

At the individual stock level, the following portfolio companies saw major share price movements:

Shin-Etsu Polymer, a specialty chemicals company that manufactures, among other things, packages for semiconductors, recorded a **33% increase** in its share price. The company reported an **increase of operating profit** by 44% for the first 9 months of the current fiscal year compared to the same period of last year. The fund is invested in this company because of its exposure to attractive growth markets, stable returns, high net cash position, low valuation levels and a potential rerating trigger: the much larger company ***Shin-Etsu Chemical*** already holds more than half of the shares and a takeover bid for the remaining shares is increasingly likely and at least one activist investor holds a substantial stake in Shin-Etsu Polymer.

Ebara Jitsugyo is one of the companies we visited in Tokyo a few months ago. ***Ebara Jitsugyo*** manufactures and installs water treatment equipment, among other things, and saw its **share price rise by 31% in Q1**. Furthermore, it was announced in Q1 that two activist investors are now among ***Ebara Jitsugyo's*** largest shareholders. In addition, the company has almost tripled its dividend from 30 yen per share to 85 yen in the last three years and bought back 400,000 of its own shares in the current fiscal year alone, which corresponds to the average trading volume of 20 trading days***.***

Nippon Road, a listed road construction company, achieved a **28% increase in value** in Q1. Dividend per share was raised by 33% year-on-year from 210 yen to 280 yen. Nippon Road's net cash position stands at approximately 50% of its market capitalization. Besides low valuation levels, the fund is invested in Nippon Road because ***Shimizu***, a very large Japanese construction company, already holds a 50.1% stake in Nippon Road. A taking private of Nippon Road by Shimizu at an attractive premium is a realistic scenario.

Changes in the Portfolio

In Q1 the following investments were added to the portfolio:

Tsutsumi Jewelry designs, manufactures, and sells jewelry and gemstones for wholesale and retail. The company generates on average annual free cash flows of 10 million euros on sales of 134 million euros. It is completely debt-free and valued so low that the company's cash and cash equivalents (267 million euros) even exceed the current stock market valuation (239 million euros).

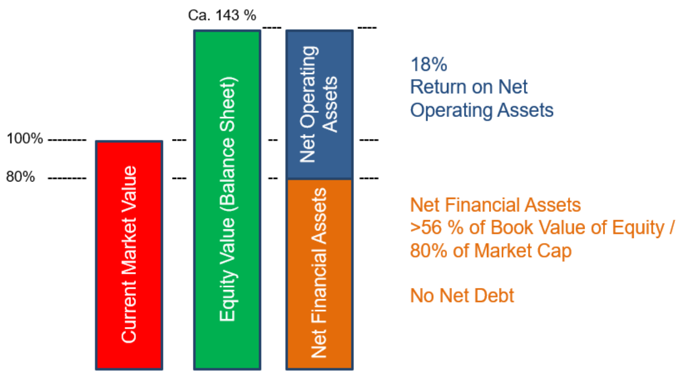
Uchida Yoko Co Ltd. is a trading company for office equipment and furniture. The company has doubled its sales and quadrupled its net profits in the past ten years. Although more than half of its equity capital is tied-up in liquid assets, it generates a return on equity of over 8%. Another reason for our investment is that ***Oasis***, an activist investor with a 7.5% stake, also shares our view that the company deserves a much higher valuation. While we wait for this to happen, we will be "compensated" with a dividend yield of 3%.

Many companies in the portfolio announced dividend increases and share buyback programs in the past quarter. For example, ***Soda Nikka*** announced in February that it would more than double its year-end dividend for the past fiscal year from 13 to 27 yen. Its share recorded an **increase in value of 17.5%** in Q1 2023.

Fund positioning

We invest in a portfolio of Japanese "Hidden Value" companies. Our **investment strategy**, similar to private equity buyout funds, aims to identify companies which are operationally successful and healthy and, at the same time, are massively overcapitalized and trade a low valuation levels. High and resilient operating free cash flows and the potential for a more efficient capital structure provide an opportunity for attractive investment returns over time. The objective of the fund is to participate in both rising dividend payments and share price increases as a result of higher valuations.

In the case of the portfolio companies in the fund, cash, cash equivalents and financial investments already cover 80% of the stock market value on average!



Sources: ASPOMA, Bloomberg

How to interpret the chart: If we invest at current market value, we can acquire balance sheet equity worth 143% of our investment amount (i.e. the company's price-book-ratio is well below 1). 80% of our investment amount is covered by net financial assets. The very profitable and resilient underlying operational businesses (net operating assets) can be acquired at high discounts and sometimes even come "for free".

Portfolio: Valuation and Characteristics

The current "Hidden Value" portfolio consists of around 70 stocks. The main sectors are industrials, technology, automotive and specialty materials. Together, these sectors account for around 70% of the fund. The expected dividend yield currently stands at 3%.

Our portfolio companies (excluding banks and insurance companies) generate a pre-tax return on their net operating assets of 18% on a pro forma balance sheet basis. At the same time their stock market valuation is more than 31% below the value of their balance sheet equity.

As shown in the illustration above, for an illustrative investment of 100 euros we get balance sheet equity worth of 143 euros. 80 euros of the 100 euros are net financial assets. Liquid assets and liquid investments therefore already cover almost 80% of our investment amount.

Furthermore, we get 63 euros of net operating assets (factories, machines, etc.) which generate a return of 18%; however, we only must pay 20 euros for these 63 euros of high yielding operating assets after deducting the net financial assets (100 - 80 = 20). This represents a 70% discount on the balance sheet book values of these operating assets. We are therefore buying these net operating assets at a price-to-book multiple of around 0.3x, even though they generate a pre-tax return of 18%.

Investment Philosophy

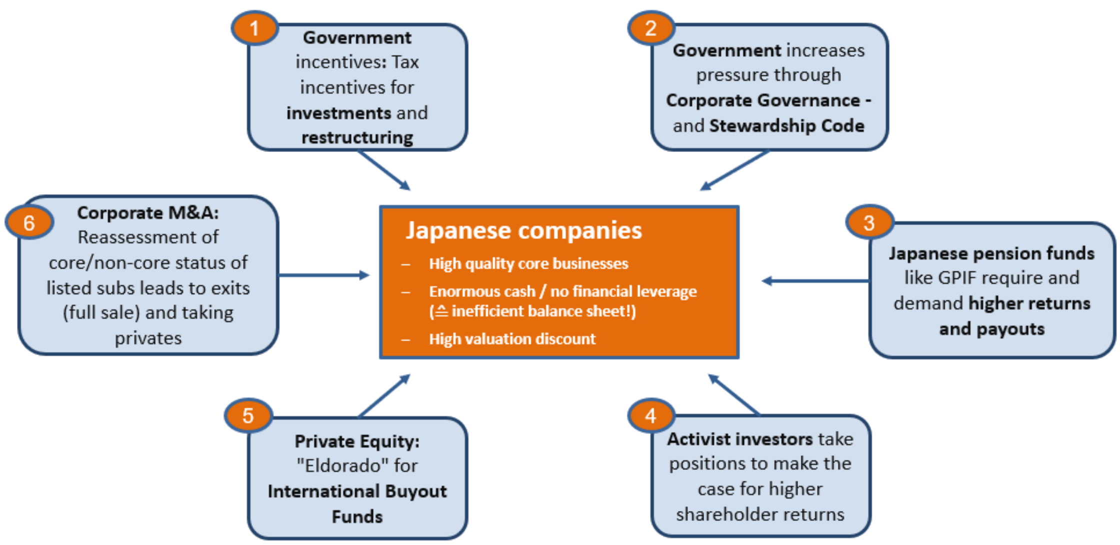
In Japan, there is a group of around 300+ liquid "hidden value" stocks with a healthy operating business, where net financial assets (cash + liquid investments and participations - financial debt) account for 40% to 100% of the market value. The undervaluation of these "hidden value" stocks is - according to ASPOMA estimates - in the range of 50% to 100%. From these companies, ASPOMA selects around 50 to 80 stocks for which we consider the probability of an "Unlocking of Value", i.e. a revaluation, to be particularly high.

Update on corporate governance improvements

Overcapitalized balance sheets and low payout ratios were the result of a lack of shareholder value orientation on the part of companies and have been a major reason for valuation discounts in Japan.

The corporate governance reforms introduced around 10 years ago ("Abenomics") have significantly strengthened the rights and instruments of shareholders and investors and are increasingly having a positive impact.

The Pressure on Companies is increasing from all sides



Source: ASPOMA

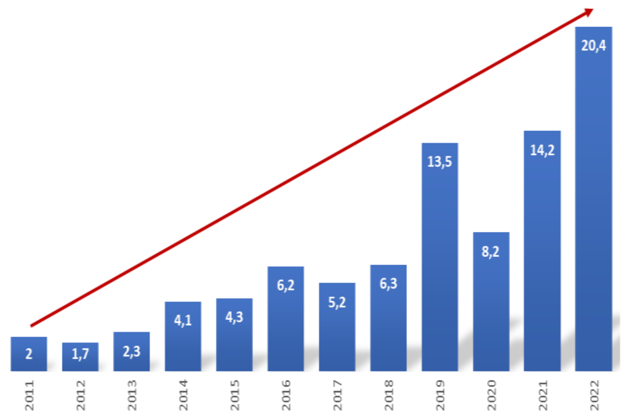
Due to better incentives and increased pressure from various stakeholders, more and more companies are starting to improve their shareholder value orientation, make their balance sheets more efficient (reduce overcapitalization) and increase dividends and share buybacks. All in all, this opens opportunities to achieve significant increases in market value.

The catalysts for the "Unlocking of Value" are various players (see figure above): activist investors, private equity groups, the large Japanese pension funds and, last but not least, the Japanese government - which, unlike in the period before **„Abenomics“**[3], are increasingly succeeding in ensuring that the immense intrinsic values lying dormant in the balance sheets of these companies are better reflected in stock market valuations.

The pressure from these players is having an effect: the dividend growth of our portfolio companies has been 10% p.a. over the past 10 years and share buybacks in the TOPIX Index have been rising massively for years (see chart below).

Announced share buybacks in Japan rose sharply to a new record level, which is expected to reach new highs again in 2023.

(in trillion yen)



Source: ASPOMA, CLSA

Japanese companies have massively increased their share buybacks recently. Share buybacks announced in 2022 reached a new high of over 20 trillion yen (approx. 135 billion euros) and are up 40% year-on-year. A key driver behind years of surging share buybacks and dividend increases is the excess cash sitting on the balance sheets of many Japanese companies, which continues to grow each year. More than 50% of the companies in the TOPIX Index have balance sheets with at least 20%, and often significantly more, net cash (cash after deducting financial debt).

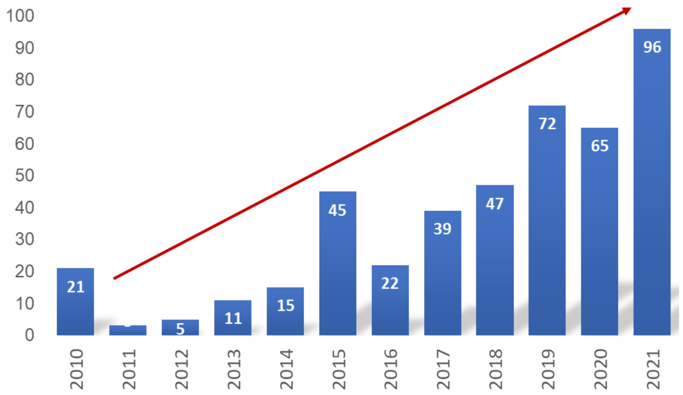
Activist funds are a driving force behind improvements in corporate governance and stronger enforcement of minority shareholder interests.

The activities of activist investors increased very significantly in the past few years (see chart below) and are a key reason for the rise in share buybacks, dividend increases and corporate restructurings.

Many companies are beginning to classify investments (cross share holdings) and business units as "non-core" and put them up for sale, thereby increasing their returns on equity.

Activist initiatives take place primarily in mid cap companies, the segment that is the focus of the ASPOMA Hidden Value Portfolio.

Activist activity increased significantly over the past few years. Japan is now the world's second largest market for shareholder activism.



Source: CLSA, Bloomberg

However, the "Unlocking of Value" process is only just beginning. It will take several years before the high intrinsic values are fully reflected in share prices. **With the ASPOMA Japan Opportunities Fund, this return potential**, which has also been targeted by the leading private equity houses, **has become investable for broad investor groups**.

[3] *Abenomics* is the term used to describe the structural and economic policy measures implemented by former Prime Minister Shinzo Abe when he took office in 2012 to make the Japanese economy more competitive. Key elements are measures to improve corporate governance, balance sheet efficiency and better protect shareholder interests. As has been shown, Abe's successors, Suga and Kishida, are also adhering to these policies and developing them further.

Example Fujitec: Unlocking of value at portfolio companies through better corporate governance by activist investor.

The ongoing improvements in the rights of minority shareholders in Japan (corporate governance) were demonstrated in February 2023 by the example of ***Fujitec***, a global elevator manufacturer. Until then, the founding family, which only held a small stake in the company. The president and CEO was a family member and ran the company as if he was the sole owner. The activist investor ***Oasis*** uncovered that company resources were being systematically used for private family purposes and at the expense of all other shareholders. At an extraordinary general meeting in the first quarter of 2023, ***Oasis*** succeeded in replacing all but one independent board members with own candidates to better protect the interests of minority shareholders. (The ASPOMA Fund also contributed to this through its vote at the shareholder meeting). Bowing to shareholder pressure, the “family” president and CEO also resigned. Only a few years ago, such a success in favor of minority shareholders would have been almost unthinkable.

For the ***ASPOMA Japan Opportunities Fund***, this process, which has so far extended over a period of 3 ½ years, has resulted in an increase in value of our investment in ***Fujitec*** of approximately 160%. The fund has investments in other companies in which ***Oasis*** also holds significant stakes.

Outlook

Many Japanese companies offer very attractive investment opportunities from both a top down and bottom-up perspective.

Top Down: Low interest rates and the assessment of the Bank of Japan that inflation is still too low - monetary policy in Japan remains expansive. The risk of rising interest rates as a result of increased inflation expectations remains low in Japan, unlike in other industrialized nations.

Bottom-Up: Our portfolio companies have strong balance sheets and sustainable, well-positioned operating business models.

The activities of **activist investors, private equity companies** and **inflows** from foreign investors will provide further **impetus**, as will the ongoing improvements in **corporate governance**.

The **valuations** of our portfolio companies, whose market capitalization is on average 80% covered by cash and cash equivalents and equity investments, are extremely **attractive**. For investors with a medium to long-term investment horizon, Japan's "**hidden value**" companies offer **attractive return potential** with a high *margin of safety*.

Further information on the ASPOMA Japan Opportunities Fund can be found **here**.

More information is available online: https://www.aspoma.com/?lang=en.

- The current monthly fund data sheets can be found **here**.
- Our article "Turn of the tide in Japan" in *Private - Das Geldmagazin* is available **here**.
- The *Handelsblatt* Podcast: Interview with ASPOMA on the Japanese stock market you will find **here**.
- Why inflationary developments do not pose a threat to Japan, read **here**.

Are you interested in more detailed information on hidden value stocks in Japan? We look forward to hearing from you!

Contact

ASPOMA Asset Management
Rudolfstraße 37 I 4040 Linz I Austria
Tel.: +43 732 9444 17
Email: office@aspoma.com I www.aspoma.com

Liechtensteinische Landesbank AG
Trading Desk Investmentfunds
Städtle 44 I 9490 Vaduz I Liechtenstein
Tel: +423 236-8448 I e-mail: fundsdealing@llb.li

Further information – Disclaimer

The ASPOMA Japan Opportunities Fund (hereafter referred to as the “Fund“) is an undertaking for collective investment in transferable securities pursuant to the Act of 28 June 2011 concerning Specific Undertakings for Collective Investment in Securities (UCITSG) under Liechtenstein law with the legal form of a trusteeship (hereinafter called "the UCITS"). The Prospectus, the Key Investor Information Document (KIID), the Trust Agreement and the Appendix A "Overview of the fund" as well as the most recent annual and interim reports, insofar as these have already been published, are available free of charge from the Management Company, the Custodian, the payment agents and from all authorised sales agents in Liechtenstein and abroad as well as from the website of the LAFV Liechtenstein Investment Fund Association under www.lafv.li. The Fund is not approved for sale in all countries of the world. The information concerning funds does not, therefore, constitute an offer or an invitation to purchase in a country in which such an offer or invitation to purchase is unlawful, or in which a person who makes such an offer or invitation to purchase is not in possession of the necessary licences or permits. Furthermore, the information is not directed at or meant for persons to whom no such offer or invitation to purchase may be made for legal or regulatory reasons. Currently, the fund is not registered under the United States Securities Act of 1933 or the Investment Act of 1940. Especially within the USA, therefore, units of the fund may not be offered, sold or delivered to investors domiciled in the United States or having US nationality. The information provided is not to be regarded in any way whatsoever as investment recommendations. As a general principle, investments in the units of investment funds should only be made after the latest, specific product information has been studied and professional advice has been obtained.