



2025 Year end letter: Japan Capital Appreciation

Dear Investors,

In 2025, our Japan capital appreciation strategy returned +31.7% net of fees.

Since 2017, We have offered this strategy which is solely focused on Japanese public equities. Japan has companies that are classic Ben Graham net nets yet profitable ones. Over a third of the companies trade below book value. One can also find higher quality companies that are very attractively valued. Our portfolio aspires to build about 30 positions mostly from the latter group. These companies have grown revenues and are consistently profitable, attractively valued on an absolute and relative basis, have significant net cash on their balance sheets and pay an attractive growing dividend.

Performance Summary

	2025	2024	2023	3 Year CAGR	Since Inception
Motiwala Capital	31.7%	17.1%	24.5%	24.3%	12.8%

2025 Performance

Winners: Equities as a group contributed 30.6% while hedging Yen contributed 1%. Our top alpha drivers were concentrated in the domestic technology (11% contribution) and engineering sectors (12.5% contribution). Key individual holdings drove our performance, with **Ryoyu Systems** contributing **+2.9%** to the total portfolio return, followed by **Business Brain Showa-Ota** (+2.2%), **JFE Systems** (+2.0%), and **Maezawa Industries** (+1.9%). 23 holdings appreciated by 20% or more in 2025.

Detractors: The portfolio had only one equity position (out of 32) that ended the year with a negative return: **TDC Soft**.

Yen vs USD change: In 2025, the Japanese Yen (JPY) was highly volatile but ultimately ended the year with a slight **appreciation** against the US Dollar. The year was a "tale of two halves": the Yen hit multi-decade lows in the first half of the year (reaching 160-162 JPY/USD) before staging a significant recovery in the second half as the US Federal Reserve began cutting rates and the Bank of Japan moved toward normalization. By borrowing yen to fund our positions while holding USD cash in SGOV, we were effectively "paid to play," earning a positive carry that enhanced our total return. We continue to monitor interest rates differences to determine any change in hedging stance.



2025 Portfolio Spotlights

To provide insight into our research process, we have selected three holdings that exemplify how we identify and capture value in the Japanese market.

1. Ryoyu Systems Co., Ltd.

- The Thesis: A high-quality IT services provider within the Mitsubishi Group ecosystem. We identified this as a "responsible value" play—a firm with a 50-year history and mission-critical industrial clients, yet trading at a steep discount to its intrinsic value.
- 5 year performance (+255% Return): This was a classic "double play" of earnings growth and multiple expansion. Ryoyu saw its EPS compound at 21% over the last 4 years. As the market recognized this fundamental acceleration, its Price-to-Earnings multiple expanded from 9 to 13x. Furthermore, management rewarded shareholders by growing the annual dividend from ¥30 to ¥85 per share over the 5 year, in line with eps growth.

2. Business Brain Showa-Ota Inc.

- The Thesis: A consultant and BPO provider specializing in management accounting. Our interest was piqued by their "BBS2026" roadmap, which aimed to transition toward higher-margin recurring revenue.
- The 2025 Outcome (+74% Return): Execution was the key catalyst. BBS achieved an organic sales growth rate of 13.0% while improving business profit margins to 7.3%. The company also demonstrated a "shareholder-first" mindset by announcing a significant change in its dividend policy and completing a share repurchase program in early 2025.

3. JFE Systems, Inc.

- The Thesis: Listed subsidiaries of large Japanese conglomerates are often overlooked. As the IT arm of JFE Steel, this company was trading like a cyclical steel firm despite being a high-margin, cash-generative IT consultant.
- The 2025 Outcome (+60% Return): We benefitted from the "Governance Wave." Following the Tokyo Stock Exchange's push for listed subsidiaries to justify their listing, JFE Systems transitioned to a company with an Audit & Supervisory Committee in June 2025, signaling a move toward more independent, transparent governance. This shift, combined with steady revenue of ¥63.97 billion, led to a sharp re-rating of the stock.

Performance by Individual Holdings: Positions that contributed 1% or more

Company Name	Avg Weight	Return	Contribution
Ryoyu Systems Co., Ltd.	7.8%	36.6%	2.9%
Business Brain Showa-Ota	4.0%	71.8%	2.2%
JFE Systems Inc	4.3%	58.6%	2.1%
Maezawa Industries Inc	3.8%	63.6%	1.9%
Marubeni Corp	2.6%	87.7%	1.7%
KSK CO LTD	2.4%	79.9%	1.4%



Sumitomo Corp	2.6%	62.8%	1.4%
Sanyo Industries	3.3%	54.3%	1.4%
Fuji Corp	3.4%	44.6%	1.3%
System Research Co Ltd	3.2%	41.1%	1.2%
Oriental Consultants	3.9%	35.8%	1.2%
Mitsui & Co Ltd	2.5%	44.3%	1.0%

Portfolio Exits

Portfolio holding **Fuji Corp** was acquired by strategic buyer Usami Koyu Corp for a 32% premium. The key reasons cited: vertical integration in the supply chain and operational synergies.

Why Japan and incremental improvements in Japan that may aid in unlocking value

Japan has been considered a value trap for decades. We believe one needs to dig deeper to see the tremendous value opportunities in Japan. According to current 2025 and 2026 data, approximately **one-third (33%) to 44%** of companies listed on the Tokyo Stock Exchange (TSE) still trade below their book value. For context, the proportion of companies trading below book value in other major markets is vastly lower:

- **United States (S&P 500):** Only ~3% to 5%
- **Europe (STOXX 600):** ~16% to 24%

Why the Number is Decreasing

The steady decline from the ~50% levels seen a few years ago is largely due to the **TSE's Corporate Governance Reforms** initiated in March 2023. The exchange effectively "named and shamed" companies trading below 1.0 P/B, requiring them to disclose specific plans to improve capital efficiency.

Record-Breaking Shareholder Returns

Dividends at All-Time Highs: Japanese companies paid out a record **¥18 trillion** in dividends for the fiscal year ending March 2025, a **13.8% year-over-year increase**—more than double the global growth rate. Approximately 40% of all listed companies increased their payouts.

Explosion in Buybacks: Share repurchases in 2024 and 2025 hit consecutive records as companies raced to meet Tokyo Stock Exchange (TSE) capital efficiency mandates. For the first half of FY2025 alone, buybacks were a primary driver of the market's 20% climb.

The "Progressive Dividend" Trend: Many major firms, including **Sumitomo Corp**, have officially adopted "progressive dividend" policies, which publicly guarantee that dividends will never be cut, only maintained or increased.



The "Toyota Era" of Governance (Unwinding Cross-Holdings)

- **Toyota's \$33 Billion Landmark Deal:** In June 2025, the Toyota Group announced a massive deal to dissolve its historic cross-shareholding structure. This included a **\$26 billion tender offer** for shares of Toyota Industries.
- **Symbolic Shift:** As Japan's "bellwether" corporation, Toyota's move to prioritize capital efficiency over "stable" cross-holdings is being viewed by analysts as the "final nail in the coffin" for the old, opaque way of doing business in Japan.
- **Insurance Sector Exit:** Major Japanese insurers have committed to selling off **all** their cross-held stocks (worth tens of billions of dollars) within the next 5–6 years, creating a massive pipeline of capital to be returned to shareholders.

The "Buffett Effect" 2.0 (Trading Houses)

- **Stakes Above 10%:** As of late 2025, Warren Buffett's Berkshire Hathaway increased its stakes in the "Big Five" trading houses (Mitsubishi, Mitsui, Itochu, Marubeni, Sumitomo) to **over 10%** in several cases.
- **50-Year Horizon:** Buffett recently reiterated that he intends to hold these investments for "50 years, or maybe forever," viewing them as diversified, high-yield cash machines that benefit from Japan's new inflationary environment.
- **Value Surge:** Berkshire's initial \$6 billion investment in these firms is now valued at over **\$30 billion**, a return of nearly 400% in five years.

Record M&A and Management Buyouts (MBOs)

- **2025: A Record Year for M&A:** The total value of M&A transactions in Japan shot up **89% to a record ¥59.5 trillion** in 2025.
- **The Rise of "Unsolicited" Offers:** Hostile or unsolicited takeovers, once a cultural taboo, have entered a "second boom." Strategic buyers and private equity firms are now aggressively bidding for undervalued companies with low Price-to-Book (P/B) ratios.
- **Take-Private Surge:** Private equity-backed buyouts (MBOs) totaled **\$27.6 billion** in 2025, tripling the previous year's volume. Companies are increasingly choosing to go private rather than face the relentless pressure for reform from the TSE and activist investors.

Political Tailwind: "Takaichinomics"

- **New Leadership:** Following the elevation of **Sanae Takaichi** as Prime Minister in late 2025, markets have cheered her "pro-growth" agenda.
- **Fiscal Stimulus:** Her administration launched a **¥42.8 trillion (\$275 billion)** spending package focused on AI, semiconductors, and defense, which has helped insulate Japan from global volatility.
- **Governance 2.0:** Takaichi is expected to accelerate corporate reforms, specifically targeting companies with excessive cash piles (estimated at **¥115 trillion** or \$750 billion as of 2025) to force higher Return on Equity (ROE).



We continue to be excited by the Japan investment opportunity. Despite the run up since 2023, Japanese equities overall remain very attractively valued on an absolute basis and certainly relative to most global equities. Many efforts are underway by different stakeholders such as Tokyo Stock Exchange, Japan Ministry of Finance, activist investors and the corporates to improve corporate governance and boost shareholder returns (see Appendix at end). We think the Japan investment opportunity is in its early innings and could last several years.

Thank you for the opportunity to manage a portion of your assets. We will continue to work hard to protect and grow your entrusted capital in 2026 and beyond.

Sincerely,

ADIB MOTIWALA

Adib Motiwala
Portfolio Manager

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Past performance is no guarantee of future results. Motiwala Capital performance is computed on a before-tax time weighted return (TWR) basis and is net of all paid management fees and brokerage costs. Performance figures are unaudited and generated using our custodian's reporting functionality. Performance of individual accounts may vary depending on the timing of their investment, the effects of additions, and the impact of withdrawals from their account.

Appendix Links

Janus Henderson (June 2025): ["Toyota's Bold Move Marks a New Era in Japanese Corporate Governance"](#)

CNBC/Money & Banking (Oct 2025): ["Warren Buffett Increases Stake in Japanese Trading Houses to Over \\$30 Billion"](#)

Business Times (Jan 2026): ["Record Year for Japan M&A: Deals Hit ¥59 Trillion as TSE Pressure Mounts"](#)

JP Morgan Asset Management (2025): ["Japan's Corporate Reforms Boost Shareholder Value: Why 2025 is the Turning Point"](#)

Nikkei/Funds Society (July 2025): ["Japan Leads the World in Dividend Growth as Core Payments Rise 13.8%"](#)

Private Equity Wire (Aug 2025): ["Japan set for record year in take-private activity"](#)