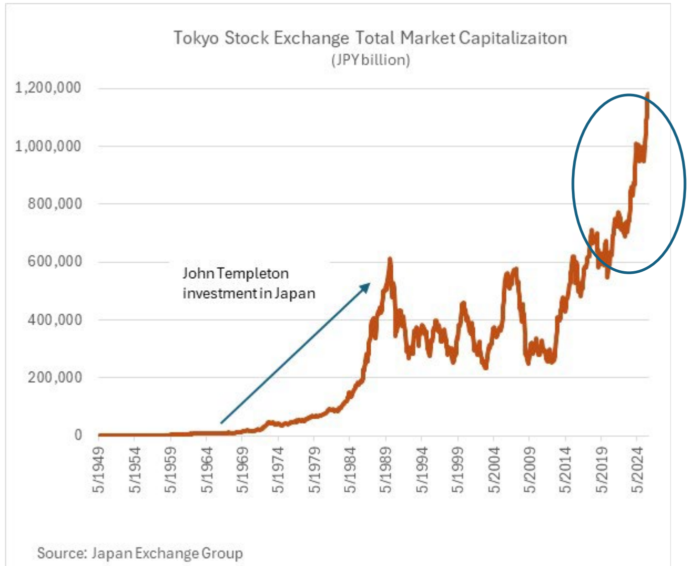
Horizon Kinetics Japan Owner Operator ETF (JAPN)

Investing Alongside Authentic Japanese Entrepreneurs

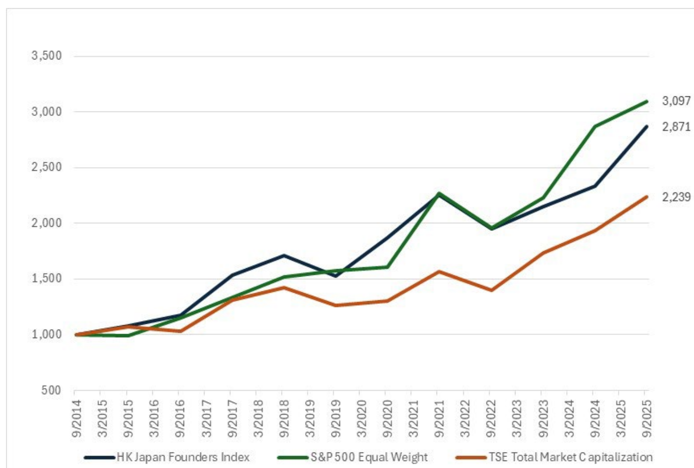
Japan: An Attractive Market for *Conventional* Asset Allocation, But Hiding an Exceptional Uncorrelated Growth Sector "Beneath"—The Entrepreneur Layer of the Japanese Market

Understanding the Owner-Operator, or Entrepreneur CEO, Equity Sector

Once in a long while is found a protected, deeply undervalued, completely uncorrelated sector of a market that offers an uncommonly attractive long-term investment opportunity. "Protected" in that the broad investment community is either unaware of it or flatly disinterested. The crowd is absent and the efficient market is nowhere in the vicinity. Which, in circular reasoning, is why the valuation discount exists in the first place. As John Templeton found in Japan 70 years ago—which led to his first dramatic period of outperformance—and as is occurring for different reasons in Japan today.



A decade ago, Horizon Kinetics established a Japan business founder index, the local application of the owner-operator investment return phenomenon that HK has long studied in the U.S. *(more of which below)*. While the Japan Founders Index[1] full-cycle 25-year return back to December 2000 can't, for regulatory reasons, be included in the JAPN fund literature, it does span from that Dot.com era level through the two-decade period before the Tokyo Stock Exchange (TSE) total market capitalization finally ascended past that prior year-end peak. The full history is worthy of study. The Japan Founders Index *can*



Past performance is no guarantee of future results. Index performance is not illustrative of fund performance. One cannot invest directly in an index.

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[1] As of September 30th, 2025. Calculated using Total Returns in local unhedged unless otherwise noted.
The Japan Founders Index was launched on September 8th, 2014. The Horizon Kinetics Japan Founders Index (the "Index") was created by Horizon Kinetics LLC ("Horizon Kinetics") a U.S. financial institution and parent company to one SEC-registered investment advisory subsidiary. Indxx, LLC ("Indxx"), a third party, has a contractual arrangement with Horizon Kinetics whereby it has agreed to calculate certain index components. Source: Horizon Kinetics Japan Founders Index

be quoted from its going-live date of September 2014.

During the 11 years from September 2014 to September 2025, the Japanese market overall (measured by the total market capitalization of the Tokyo Stock Exchange), which only surpassed the level of the asset bubble peak in 2015, had an annualized return of 7.6%. The S&P 500 Equal Weighted Index— was 10.8% and the HK Japan Founders Index retuned 10.1%. The annualized return was about 32% higher than its domestic market and a touch less than the S&P 500 Equal Weighted Index, with which the HK Japan Founders Index was side by side until about two years ago before S&P 500's IT/AI sector outperformance prevailed.

Owner-Operators—Aligned-Interests Investing with Life-Committed Entrepreneurs

A general form of this phenomenon actually exists in the U.S. If one were to measure the long-term performance of publicly traded companies, past and present, whose CEOs were also their owners—defined as having the largest equity interest *and* for whom that equity was the greatest part of their wealth—you'd have a timeline of the greatest successes in the S&P 500. A sampling: IBM, in its day (the Watson Family); Wal-Mart (Sam Walton), Telecommunications Inc. (John Malone); Starbucks (Howard Schultz); plus, of course, Apple; Microsoft; Amazon (you know who); and, hot out of the oven, NVIDIA.

Those CEOs' average tenure was a full generation. Their stock price returns bear no resemblance to the market: outperformance on the order of 12% points a year or more. *Weirdly (maybe not), this is about exactly the level of outperformance by the Templeton Growth Fund in the 1970s.* This phenomenon persists across different eras and economic cycles—though only until that control person left, after which reversion to the mean kicked in. In other words, if you were to measure it, you'd find a significant identifiable inefficiency that, by the lights of the Efficient Market Hypothesis, shouldn't exist. After all, all interested parties have access to the same publicly disclosed information and have the freedom to act upon it.

Here's a blast from our Horizon Research past[2]: The figures in the below table of performance by S&P companies while they were controlled by such owners—which averaged 19 years, and as long as 31 years—do not include Berkshire Hathaway, because the study was through 2010, while Berkshire was excluded from the S&P 500 until 2020. (Why would just about the largest company, with just about the best return record, be excluded for most of its modern history? To answer a question with a question: "Goodness, what sector is it in?" and "How much trading liquidity does it have?")

[2] Reprised in Horizon Kinetics Research Group, *Owner-Operators*, March 2014

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Company	Owner/Operator	Start Date	End Date	Tenure (Yrs.)	Annualized Return Company	Annualized Return S&P 500	Difference
Apple (Jobs' first tenure)	Steve Jobs	Dec-80	Jun-85	4	(10.6)%	**8.1%**	**(18.7)%**
Apple	Steve Jobs	Jan-97	Present	14	34.3%	**5.7%**	**28.6%**
Amazon.com	Jeff Bezos	May-97	Present	14	40.6%	**4.9%**	**35.7%**
Bed, Bath & Beyond	Feinstein, Eisenberg	Jun-92	Present	19	23.0%	**8.0%**	**15.0%**
Dell	Michael Dell	Jun-88	Present	23	24.5%	**9.4%**	**15.1%**
Hewlett-Packard [1]	Hewlett, Packard	Jan-62	Sep-93	32	12.3%	**6.1%**	**6.2%**
IBM [2]	Watson Family	Jan-62	Jan-71	9	9.8%	**3.2%**	**6.6%**
Intel [3]	A. Grove, G. Moore	Nov-82	Nov-04	22	20.3%	**13.2%**	**7.1%**
Loews Corp [4]	Tisch Family	Jul-80	Present	31	14.7%	**10.9%**	**3.8%**
Leucadia National	Steinberg, Cumming	Jun-78	Present	33	24.2%	**12.8%**	**11.4%**
Microsoft	Bill Gates	Mar-86	Jun-08	22	29.2%	**10.5%**	**18.8%**
NIKE	Phil Knight	Dec-80	Present	31	14.5%	**10.8%**	**3.7%**
News Corp [5]	Rupert Murdoch	May-86	Present	25	6.7%	**9.5%**	**(2.8)%**
Oracle	Larry Ellison	Mar-86	Present	25	29.5%	**9.5%**	**20.0%**
Polo Ralph Lauren	Ralph Lauren	Jun-97	Present	14	10.0%	**4.5%**	**5.6%**
Charles Schwab	Charles Schwab	Sep-87	Present	23	23.1%	**8.9%**	**14.2%**
Starbucks (Schultz's 1st tenure)	Howard Schultz	Jun-92	Jun-00	8	38.0%	**20.0%**	**17.9%**
Starbucks	Howard Schultz	Jan-08	Present	3	18.1%	**(1.1)%**	**19.1%**
Telecommunications Inc [6]	John Malone	Jan-73	Dec-98	24	30.3%	**14.3%**	**16.0%**
Wal-Mart Stores [7]	Sam Walton	Aug-72	Apr-92	20	20.5%	**6.7%**	**13.8%**
Wynn Resorts	Steve Wynn	Oct-02	Present	8	32.9%	**6.3%**	**26.5%**
				19		**Simple Average**	**12.6%**

[1] Although William Hewlett and David Packard first offered shares to the public in 1957, share price data is only available back to January 1962.
[2] The Watson family has led IBM from the time that Thomas J. Watson became the general manager of Computing Tabulating Recording Corporation (later International Business Machines) in 1914. Watson's eldest son, Thomas Watson Jr., retired from the company in 1971. Although IBM was first listed on the NYSE in 1916, readily available prices begin in January 1962.
[3] Gordon Moore co-founded Intel with Robert Noyce in 1968. The company went public in 1971; however Intel share prices prior to 1982 are not readily available. Note that Andy Grove was Intel's third employee and ran the company until November 2004. It is Grove who is widely considered Intel's key business and strategic leader, and is described as having "participated in founding Intel".
[4] Brothers Preston Robert Tisch and Laurence Tisch began what would come to be Loews Corporation in 1956, and Loews went public in 1959. However, prices are currently only readily available from July 1980.
[5] News Corp was incorporated in Australia in 1979; however, share price data is only available to May 1986.
[6] John Malone joined Telecommunication Inc (TCI) as CEIO in 1973 until it was acquired by AT&T in 1999.
[7] Wal-Mart was initially traded over-the-counter in 1970. It was listed on the NYSE in 1972, which is when readily available share price data begins.

Launched in May 2025, the Horizon Kinetics' Japan Owner Operator ETF (JAPN) invests in owner-operators who also have a high degree of management skills, specific industry knowledge, deep networks, and a strong commitment to long-term growth. This owner-operator factor is just about the only demonstrated, persistent way to solve the much-studied, never-cured agency and incentive alignment problem in public equities.

A stronger form of this phenomenon exists in Japan, as will be described shortly.

But to appreciate the special application in Japan, it's best to first appreciate the basis for this in the U.S., on familiar cultural ground. In behavioral finance, what's known as the agency problem is a much studied, as-yet unsolved area of academic study. The challenge: aligning the economic interests of senior management, acting as agents for shareholders, with those of the shareholders themselves. Put another way, inducing management to make the same capital allocation and risk/reward decisions as the non-professional owners would if any individual shareholder were running it as their own business. It would seem simple enough, yet is intractable nonetheless.

The general-case CEO is an agent hired to the task. The initial impulse was that with large enough cash performance bonuses, this executive will be highly incentivized to expand the company or increase profits as rapidly as possible toward the ultimate goal of a higher value and stock price. It didn't seem to work, no matter how creatively the formula was adjusted, such as introducing stock grants instead of cash bonuses, then restricted stock, then stock options with out-of-the-money strike prices, as if this would make the

CEO think like a shareholder. In practice, it just invited short-term tactics to raise the share price but not necessarily improve the business end of things. Then came non-share-price performance targets like return on equity, or on total equity and debt capital, or peer-company-based comparisons.

The compensation structure experiments never bore fruit because of a few prominent reasons, which all amount to the same thing, none of which can be formularized on a spreadsheet. They have to do with the reality of personally experienced risk and reward. Just about *everyone* games—or, less judgmentally, is influenced by—the incentive rules by which they are asked to play. It's normal and rational, but for corporate management can induce unintended, self-defeating behaviors for shareholders.

Distorted Reward System: The agent CEO might move heaven and earth to achieve whatever near-term incentive-based goals are set. The question is *how and why?* Some will try to achieve them even if they hobble longer term results beyond the time horizon that releases those rewards. In some businesses, firing employees is the surest way to raise earnings in the short term, even if growth eventually suffers from the loss of institutional knowledge or client service quality. That's a camouflaged contractionary strategy. In the expansive direction, acquisitions to boost revenues or some other reward metric is also an easily executed strategy, even if it eventually diminishes return on capital by overpaying or taking on greater balance sheet risk and finance costs. The variety of gaming tactics is as endless as circumstances allow.

If the rejoinder is that stock awards have gravitated over time from outright grants toward multi-year benchmarking and vesting, the counter-rejoinder is: Hah! When did you ever see a 20-year vesting agreement? No stock constructively owned or salable for two decades?

The Free-Ride or Capital-at-Risk Litmus Test: What about CEOs who accumulate enormous amounts of stock? It *still* can't make them think like an owner. The confounding factor is that the stock was *granted* to them. They never really paid for it, not out of their own savings or borrowings from relatives; they didn't have to sleep on the office floor. It's not really their personal capital at risk; it's house money. And with house money, it's natural to take acquisition valuation risks or issue stock more freely than would a true owner with substantially all of their wealth at risk in the company. The kind of risk that keeps you up all night. Scores of such agent decisions, each in their turn diverging from an owner's likely decision, compound and magnify over time.

Commitment Issues: An agent CEO can accept that role at a company, receive a sign-on bonus, try an expansion or profit-recovery strategy for several years, receive the annual benchmarked grants, have the plan not quite work out in the end, then move on to another such position at another company. That's a normal career path. Contrary to appearance, such a CEO's path to wealth is not really through the success of the business, but through a document. An often highly complex, highly negotiated and often-reviewed document called a compensation package.

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The owner-operator doesn't have that "option," so to speak, doesn't even think that way, can't simply step away into a new seat. It's *their* capital at risk, not house money; it's *their house*. That's another variation of decision-shaping risk that the agent CEO escapes.

Now, compare and contrast the U.S. market, in this regard, with Japan. How did Japan owner operator stocks have 10% annualized return and side by side performance as S&P500 Equal Weighted Index during the past decade when the US economy grew 4.9% annually and Japan merely grew less than one third of the US at 1.5%.

The answer comes straight from the agency problem lesson. One can easily imagine an agent CEO building a new production plant, in the name of expansion, without clear expectation of a sufficiently high return on invested capital. It happens all the time. One can imagine a CEO reducing or delaying expansion spending during an economic downturn in the name of conservatism and protecting capital.

An owner-operator might do the opposite, *not* expanding during an ebullient M&A period, because the prices are too high for an adequate return on capital. They might then expand rapidly and prosper during a recession because they "know" some particular opportunity—a new production plant, a revamped product line—will offer a high return on investment at an opportunistic purchase price in a buyer's market.

If they find that opportunity, they'll invest; if they don't, they won't: they *always* intend to earn a positive long-term return on investment. It's not heads you win, tails you lose for them—that's for other people's money, not their own. *Of course* they'll generate higher returns on capital over time.

The Conventional Japan vs. The Unique Japan

Conventional metrics legitimately describe Japan as an intriguing place for asset allocation today:

- It wasn't until February 2024, after 35 years, that the Nikkei 225 Index surpassed its 1989 financial bubble high. The only U.S. analogue was the recovery from the Great Depression.
- At that 1989 peak, the Japanese equity market reached 37% of the global stock market capitalization, more than twice its 15% GDP share and greater than the U.S. stock market value at the time. Japan's weighting in the MSCI ACWI Index is now 4.9%.
- Today, the MSCI Japan index trades at a P/E of 16.6x versus an S&P500 multiple of 24.1x, and a Eurozone MSCI Europe Index multiple of 15.8x. On the other hand, Japanese corporate net profit margins and ROE are, each in turn, only 7.7% and 8.7%—single digits—versus a U.S. 12.8% and 18.6%, and a Europe 10.5% and 11.2%. There's a very large profitability gap.

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Global Valuation Comparison

		P/E FY24	P/E FY25e	P/B Current	EV/EBITDA FY25e	ROE FY25e	Div Yield FY25e	10yr Bond Yield Current
Japan	TPX index	15.6	16.6	1.5	6.4	8.7	2.6	1.4
China	MXCN Index	10.8	12.9	1.6	10.2	11.1	2.2	1.6
India	MXIN Index	25.3	24.3	3.8	14.7	15.2	1.5	6.3
Asia ex-Japan	MXASJ Index	14.4	15.1	1.9	9.9	11.9	2.4	NA
US	SPX index	24.7	24.1	5.2	16.3	18.6	1.3	4.2
Europe	SXXE Index	13.8	15.8	1.9	10.6	11.2	3.2	2.6

Japanese universe is TSE 1. Chinese universe is MSCI China Index. India universe is MSCI India Index. US universe is S&P 500. European universe is STOXX Europe 600. Asia ex Japan universe is MSCI AC Asia ex-Japan Index. As of 6/30/2025.
Sources: Bloomberg

- The sub-par profitability, though, is changing. It is largely the residue of decades of the famously anti-competitive corporate cross-ownerships, which protected against outside activist shareholders, of lifetime employment and overstaffing policies, and the like. The past decade has seen steady and insistent pressure by regulators—as a matter of national interest—to force increased transparency and accountability to outside shareholders, and to simplify the complex web of parent company/subsidiary holdings.

  Change examples:

  In the past decade, Tokyo Stock Exchange Prime Section companies with nominating and compensation committees rose from about 12% to 85%, and the proportion of companies with at least one-third independent directors on the board rose from 6% to 95%. The number of companies with specific shareholder return targets rose from about one-third to two-thirds.

  As a result, profitability measures have visibly increased in the past ten years. Another indicator that the policy changes are moving the needle is that the number of merger and acquisitions doubled during the last decade to 2024's historical high of 4,700.

  The market is becoming more accessible, and foreign ownership of Japanese equities has increased from 19% in 2000 to over 32% in 2024.

This type of data describes a market ripe for increased institutional allocations to Japan. But hardly the path to investment glory, because the indexes will not provide exposure to the domestic market, only to the largest-capitalization, predominantly multi-national export-oriented companies.

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This is the narrow aperture of the financial lens into the Japanese market provided by the $15 billion iShares Japan ETF (EWJ): Of around 4,000 publicly traded companies in Japan, there are 183 holdings. Of those, the top 50 account for 67% of the fund. So, give or take, 95% of the Japanese market is missing from the index. Typical: number 50 in the ETF, Fujifilm Holdings, with a $25 billion market cap, gets only one-third of its revenues from Japan.[3]

A counterpoint approach is an elegant method of direct participation in the domestic economy through the most dynamic and reliable growth companies in Japan. It has a history—our Japan and Asia team has been following that market closely for over 17 years—that gets us to the present.

In Japan, where lifetime employment is the norm, the professional- and career- incentivized management culture that permeates the U.S. corporate world barely exists. Once hired as a new graduate, an employee proceeds through various divisions and functions of the company, and their title and wages generally follow a predetermined seniority progression that the employee knows from Day One.

Japan Equities Top-Heaviness Statistics

	Number of Companies	Ratio	Market Capitalization ($MM)	Ratio
Japan Equity Market	3898	100%	6,367,130	100%
Large-Cap Companies*	119	3%	4,158,785	65%
iShares MSCI Japan ETF	182	5%	4,632,744	73%

*Large-cap includes companies with market cap greater than USD 10 billion
Source: Bloomberg, iShares MSCI Japan. Data as of March 31, 2025.

Company Name	iShares MSCI Japan (EWJ)	Japan Revenue Ratio (%)
TOYOTA MOTOR	4.2	22.3%
SONY GROUP	4.0	17.3%
MITSUBISHI UFJ FINANCIAL GROUP	3.9	43.7%
SOFTBANK GROUP	3.5	88.0%
HITACHI	3.1	38.6%
SUMITOMO MITSUI FINANCIAL GROUP	2.2	44.6%
NINTENDO	2.1	23.6%
MITSUBISHI HEAVY INDUSTRIES	2.1	43.5%
TOKYO ELECTRON	2.1	7.8%
ADVANTEST CORP	2.0	2.0%
	29.1%	**Average 33.2%**

Data as of 10/20/2025. Source: iShares MSCI Japan ETF.

[3] As of July 31st, 2025

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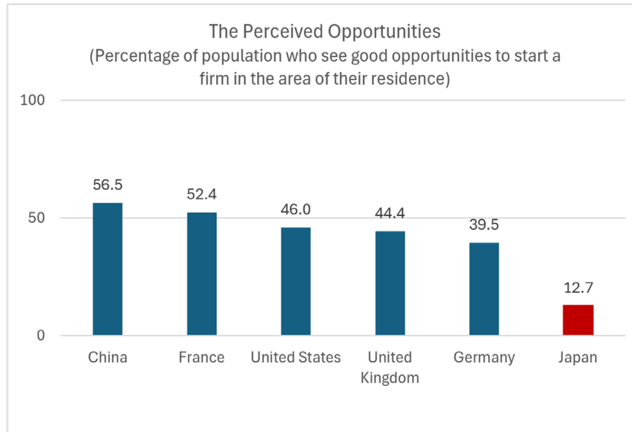
A new employee is by design trained as a generalist specialized for that specific company. They are expected to carry out their job functions precisely as their predecessors did and handed over through multi-rotation periods. More importantly, they are advised against undertaking any unnecessary perceived opportunity that may risk changing the existing businesses and workflows.



Source: World Bank, Global Entrepreneurship Monitor 2022
Survey of population age 18-64 (individuals involved in any stage of entrepreneurial activity excluded)

In Japan, founding one's own company means outright disposing of this kind of stable and assured career life—a counter-cultural adventure that parents, relatives, and friends almost always keenly persuade against. Anyone who turns away from being a "salary man" is unlikely to be able to reenter the secured-lifetime-employment path, one reason among many that entrepreneurship in Japan is a much higher-risk prospect than an American could imagine.

This low level of entrepreneurship was actually captured in a survey. According to the World Bank, a dramatically lower proportion of Japanese see good business opportunities. And they rank high for fear of failure with respect to starting a business.

It should be mentioned that the concept of lifetime employment is not an inherently cultural tradition. In post-World War II Japan, perhaps the only viable economic policy was to build prosperity by concentrating on the export market. Japanese companies could not possibly afford to pay wages on the American scale. Job security was a reasonable exchange for acceptance of a lower salary, which gave Japan an important competitive advantage in the global market. By around 1955, Japan had restored its prewar standard of living, after which it commenced an economic expansion that is probably without parallel.

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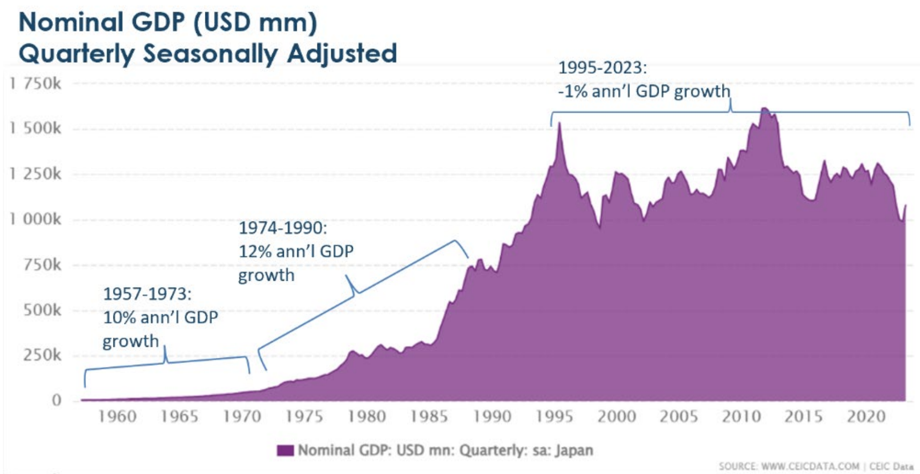
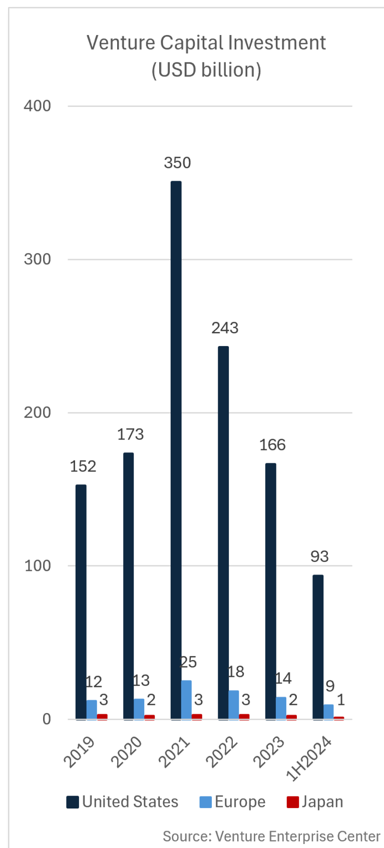
Japan was able to grow GDP by about 10% annually between 1957 and 1973. Its 1973 GDP was about 4.6 times higher than in 1957, while the U.S. expanded 2.9x during the same period. The practice of lifetime employment continued even after the 1989 collapse of the asset-price bubble. Had this happened in an American context, it would have quickly ended. In Japan, the practice continued.



The disinclination toward entrepreneurship is not a matter of motivation or social trait either. Unlike in the U.S., the availability of risk capital is significantly limited. The size of venture capital investments in Japan is a rounding error relative to the U.S., despite Japan's economy being about one seventh of U.S GDP. It is uniquely socially and financially challenging to be an entrepreneur in Japan, apart from the ordinary challenges of growing a startup business to scale.



However, there is likewise a uniquely Japanese silver lining for owner-operators attempting to bring a differentiated and competitive business to critical mass, then scaling it. Because those very barriers suddenly become major advantages. First, the non-creative and change-averse business practices of the country's largest companies create an open field of opportunity for an entrepreneur with a superior product or service to take share without a facing a ready counter response.

Second, because of the dearth of entrepreneurship, even in an untapped market beneath the umbrella of the incumbent giants, there is practically no competition from other entrepreneurs.

One founder explained this based on personal experience. He once tried to bring his online platform business to the U.S., but within ten days, he learned there were so many competitors trying to enter the same market in different ways that he had to withdraw. He was shocked, because he'd never experienced that in Japan: Even after his company proved that the business could generate a high return on equity and lucrative cash flow with a huge market opportunity, no serious competitors emerged.

Japan's economy, the fourth-largest in the world, is massive enough to support decades of double-digit growth for a new entrepreneurial competitor before reaching its expansion limit. And that market is largely ignored by foreign investors for a variety of reasons—not least of which are it cultural, linguistic and social entry barriers. Although it must be said that they did not pose an impediment to John Templeton 70 years ago.

The small population of Japanese entrepreneurs do not have to compete, as they would in the exceedingly well-developed U.S. startup culture and infrastructure, with savvy professional CEOs with their armies of financially motivated talent and ready funding. It's an attitude and capability that is virtually nonexistent in Japan. This is one of the ways in which the dominant companies' competitive "umbrella" works in the entrepreneur's favor:

> A new business, being relatively small, presents little obvious threat to a conglomerate focused on its global expansion.
>
> More central to the point, even if it *is* noticed within a given conglomerate, the particular business division whose sector is now being vigorously pursued is rarely assigned a capital allocation or the resources to compete and take market share domestically—it's not a perceived need, because of long established inter-company cross-shareholdings and market share arrangements.
>
> More importantly, those "salary men" and women *do not want to change* their operations; attempting so entails serious internal career risk, as any such proposal would be received as radical. That makes it easy, from an internal review perspective, to dismiss the risk of losing market or missing growth opportunities. It is not uncommon for the President and CEO, when asked about a strategy to combat competitive threats or simply about a possible business restructuring to strengthen operations and financial returns, to say that those tasks would be best done by their successors.

There are legitimate reasons for the frequent criticisms that Japanese management's change actions are characteristically overly late and too small. This is the incumbent competition, the silver lining, that owner-operators face.

While Japan is always discussed in a context of—and compared to—other developed markets, it is a uniquely isolated social and economic ecosystem. The Japanese business community is well aware of this and does criticize itself for being left behind in the global competition in areas like automobiles, semiconductors and consumer electronics, where it once led the world.

The country's business leaders deplore what has been domestically referred to as Japan's Galapagosization, after the Galapagos Islands, known for their isolation—almost 600 miles west of the Ecuadorian coast—

and unique natural ecology. For owner operators taking on some specific market segment, this uniquely *non*-competitive environment offers a rich climate for creative business development, if an analogue may be drawn from Darwin's famous islands.

A final set of barriers-to-entry in favor of domestic entrepreneurs' guards against threats from abroad. These barriers include Japan's closed corporate structure and the limited information available. That is buttressed by the language barrier and the habitual sense that Japan is a mature economy marked by a declining population and aging society, which is not actually borne out by the statistical record.

Accordingly, Japanese entrepreneurs have a three-ringed set of protective competitive moats: against the stagnant dominant corporations at home; against domestic startup competitors, because that's a desert; and against foreign competitors trying to enter Japan.

Portfolio Spotlight: Japan Elevator Service Holdings (6544 JP)[4]

That being said, this superior competitive advantage is not given to all, but has been earned by only those entrepreneurs who successfully identified business opportunities with vast market size, built a company with the right culture and strategy and, most importantly, continuously executed with unwavering commitment.

JAPN invests in such entrepreneurs, and one such top holding is Chairman, CEO and President Katsushi Ishida's **Japan Elevator Service Holdings (6544 JP) ('JES').**

In 1994 when he founded the company to provide elevator maintenance and repair services to building owners and property management companies, the market was over 95% dominated by well established major enterprise such as Toshiba, Mitsubishi, Hitachi, Fujitec, and Japan Otis, and the remaining 5% was shared by hundreds of independent service providers. Those dominant players are also elevator manufactures and each focus on winning installation contract as the maintenance service naturally accrue to manufacture for its guaranteed high quality and timely service as it has full understanding of the models and most importantly, capable to set aside adequate replacement parts.

Chairman Ishida's JES was one of these hundreds' independent companies, and probably even worse as he had no funds, no partners, and no employees, however, he was determined to provide the highest quality professional service from day one. As a licensed elevator inspector himself, he was convinced a well-run business could generate double-digit operating margins, even at half the price of the leading manufacturers.

When visiting potential customers as a salesperson, he would change into a business suit, then switch back to workwear to do maintenance and inspections. He reviewed inspection reports directly with customers

[4] https://horizonkinetics.com/app/uploads/JAPN-Portfolio-Highlight-6544JP-Japan-Elevator-Service-Holding_Aug-2025_FINAL.pdf for the full company report on Japan Elevator Service Holdings (6544 JP)

before and after; this was not common among typical industry engineers, who would focus on the inspection work itself and delegate customer communication to a sales department. He often slept at the office to respond to emergency calls.

As the number of contracts grew, he needed to hire and train more employees, and he needed to procure enough parts for timely service. Maintenance and repair services, even for a standard model, require thousands of parts. Covering available models of major brands with guaranteed timely service means having an inventory of more than 150,000 parts. Hiring and training qualified inspectors was not so simple; in Japan, only inspectors with a national qualification—which requires certain electrical and electronic engineering degrees and years of on-the-job experience—can conduct annual inspections. He needed an appropriate number of such inspectors to sufficiently cover its customer base as business grew.

For the first three years, JES was literally a hand-to-mouth operation, and Chairman Ishida had to fund the running cost with short-term loans just to meet immediate cash needs. Within ten years, though, the number of maintenance units reached 5,000. At this point, he managed to hire a full management team to run the business. Even though JES had taken 0.7% market share with strong operation as an independent operator, his aspire to further improve the service to match top players did not stop there. For him, it is the steppingstones to build crucial competitive strength.

In 2007, JES hit a milestone as an independent service provider: matching the service capabilities of the leading manufacturers upon developing a 24-hour remote monitoring and controlling service, which enabled the company to detect small irregularities and provide targeted preventive repair and parts replacement to reduce the incidence of malfunctions and breakdowns.

That same year, JES established an original engineer-training program and internal qualification system called “Step 24”, the program that Chairman Ishida undertook since foundation in systemizing the skills and experience of top engineers and analyzing maintenance information and data for various models. Through what became a 24-lecture series and on the-job training, new employees could acquire the skills and knowledge needed to attain a national inspection license in one year. Moreover, the program trained engineers to individually conduct full maintenance work for several models, enabling the company to provide equivalent quality services to the leading incumbent companies.

At the same time, Chairman Ishida sought to publicly list JES to increase its credibility and transparency in furtherance of expansion. However, unlike those entrepreneurs looking to urgently monetize their business, hired managers eager to cashout their rewarded shares and credit oneself for achieving the IPO milestone, he took another decade to prepare for the listing as he anticipates further long-term growth in the public stage; the focus was on human resource development, enhancing technology and capability, and securing genuine parts. JES went public in 2017.

Today, JES elevator maintenance units’ failure rate is as low as 1%, equivalent to that of leading elevator and escalator manufacturers, and one-fifth that of the independent service providers. With a Quick

Renewal Service, the new service the company launched after IPO, which uses its proprietary next-generation control system to renew elevator in just a half day instead of typical one full week, the company has gained the market share surpassing 10%. Most importantly, the company offers the renewal service at half the price and has kept its maintenance services price at 30% to 40% below that of the leading manufacturers.

Facing the threat of this independent operator, especially in the recent inflationary environment where property management companies looking to lower its management cost, those leading manufactures have little incentive to directly compete. They are not aggressively looking to service other company's elevators as it requires training engineers and setting aside an adequate replacement parts to cover the major models, which inadvertently and inherently support the competitors' products. Given they have historically provided services at higher price, cutting price to match JES could destroy its profitability of existing service contract. They may have all these logical reasons to ignore the threat, but primarily because no one management is fully responsible or committed to lead the change.

In Japan, where lifetime employment is a norm, there is no expectation at these corporations that managers at any of their small divisions would come up with new strategies—let alone new products and services—that could change industry rules or business standards. Nor is there any incentive to do so. In fact, such employees are advised against taking unnecessary risks that could disturb operations and businesses that have been passed on from their predecessor managers. In this sense, competitors are not even managed professionally, in terms of western corporate culture standards.

For independent service providers, it is not easy to set a competitive price without operational scale, since they need to hire licensed engineers and procure parts, essentially where JES was in its early years.

As a result, the company is taking market share both from the manufacturers and the smaller independent providers. JES is also expanding its coverage area, entering second- and third-tier cities and acquiring smaller independent service providers, which usually start from a loss-making position until the branch achieves sufficient scale.

Even with the advancements to date, having improved the operating margin from 12.7% to 17.7% during the last five years, management appears confident about reaching 20% in the coming two years. In the longer term, once the growth investment spending decelerates, management sees a 30% margin as a natural, sustainable profitability level.

There is an opportunity for even more expansion domestically. In other developed markets outside Japan where major maintenance providers compete, independent service providers typically represent a 50% market share. That should be possible in Japan, too. For the near term, JES is aiming to take at least a 30% market share, approximately three times its current level.

Chairman Ishida owns 21% of JES. As with typical successful owner-operators, this represents more than just a number of shares in financial terms. It is the intrinsic ownership of and presumed responsibility for operational excellence, safety, building a strong corporate culture, and the ultimate goal of surpassing those leading manufacturers. Bringing the shares public is not the goal, but rather a tool to achieve the goal.

Owner-operators have none of the standard compensation structure interests or incentives that compromise them in achieving such goals. Given that JES undercuts its competitors' service prices by 30-40%, it could easily hike prices by about 50%. In an environment where competitors are raising prices, JES keeps them flat and focuses on taking market share—a decades-long strategy.

Professional management would find it daunting the point of impossibility to replicate that single aspect of Chairman Ishida's multi-dimensional, generation-long strategy-set. Raising prices in the JES circumstance by just a couple of percentage points could lift margins and annual earnings sufficiently to meaningfully benefit an executive's career and stock-based compensation, at least in the short term. This is the essence of the agency problem in linking management incentive systems to performance. The situation is distinctly different for business owners—they're not hired agents, so the agency problem is nonexistent for them.

This is the opportunity—not stocks, per se, but the owner-operators in which the JAPN ETF truly invests. And in this instance, their opportunities often exist solely because of the uniquely Japanese business culture.

IMPORTANT RISK DISCLOSURES

Please consider carefully a fund's investment objectives, risks, charges and expenses. For this and other important information, obtain a statutory and summary prospectus by visiting www.horizonkinetics.com/products/etf/japn. Read it closely before investing.

To access the Top 10 Holdings for JAPN, please click here: JAPN Top 10 Holdings

Top 10 Holdings as of December 3, 2025:

Name	% Net Assets
Japan Elevator Service Holdings Co Ltd	4.84%
Resorttrust Inc	4.66%
Hikari Tsushin Inc	4.17%
Visional Inc	4.07%
ULS Group Inc	3.95%
M&A Capital Partners Co Ltd	3.84%
Pan Pacific International Holdings Corp	3.72%
Yonex Co Ltd	3.67%
AlphaPolis Co Ltd	3.53%
KeePer Technical Laboratory Co Ltd	3.45%

Investing Alongside Authentic Japanese Entrepreneurs

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Definitions:

Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA) Margin: is a financial metric that measures a company's operating profitability as a percentage of its total revenue.

Net Margin: is a ratio that measures the percentage of net income a company earns from its total revenue and reflects the overall profitability after expenses.

Return on Equity (ROE): is a ratio that measures a company's annual return on its shareholders' equity by dividing net income by shareholder's equity.

Revenue Growth: measures the rate at which a company's revenue increase or decrease over a specific period.

Earnings Per Share (EPS) Growth: EPS is a measure of a company's profitability per share of stock. EPS growth refers to the increase or decrease in a company's EPS over a specific period.

Price to Earnings (P/E): is a metric that compares a company's stock price relative to its earnings per share.

Price to Book Value (P/B): is a metric that compares a company's stock price relative to its book value per share.

Enterprise Value to EBITDA (EV/EBITDA): is a ratio that compares a company's value of a business relative to its EBITDA and is useful in comparing companies regardless of different capital structure.

Dividend Yield: is a ratio that measures how much a company pays in dividends each year relative to its stock price.