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INVESTOR

AVI Global Trust

Investment companies | Update | 5 August 2021

Focused high conviction portfolio

AVI Global Trust (AGT) has had a strong run of performance since last November. Its manager, Asset Value Investors (AVI) has been realising substantial profits from a number of positions where the discounts that these companies have traded at in the market, relative to their underlying net asset values, have narrowed significantly or have been eliminated altogether. As we describe on page 9 onwards, the proceeds of these sales are being recycled into a more focused, high conviction portfolio of good quality companies trading at meaningful discounts to AVI's estimate of their true asset value.

Recent nervousness about new COVID variants has triggered a switch back into growth-focused strategies and AGT has given up some of its outperformance and seen its discount widen in recent weeks. AVI thinks that this is likely to be a short-term phenomenon. If so, this could be an attractive entry point for anyone considering an investment in AGT.

Sector	Global
Ticker	AGT LN
Base currency	GBP
Price	962.0p
NAV	1057.2p
Premium/(discount)	(9.0%)
Yield	1.7%

AGT's portfolio will become more concentrated in coming weeks as it focuses on fewer, high-conviction ideas

Extracting value from discounted opportunities

AGT aims to achieve capital growth through a focused portfolio of investments, particularly in companies whose shares stand at a discount to their estimated underlying net asset value. It invests in quality assets held through unconventional structures that tend to attract discounts; these types of companies include holding companies, closed-end funds, and cash-rich Japanese operating companies.

Holding companies, closed-end funds, and cash-rich Japanese operating companies

AGT beat its benchmark by 4.5% over the first half of 2021

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Contents

Domicile	England & Wales
Inception date	1 July 1889
Manager	Joe Bauernfreund
Market cap	995.9m
Shares outstanding (exc. treasury shares)	103.5m
Daily vol. (1-yr. avg.)	144,522 shares
Net gearing	4.9%

Click for our initiation note

Click for an updated AGT factsheet

Click here for AGT's peer group analysis

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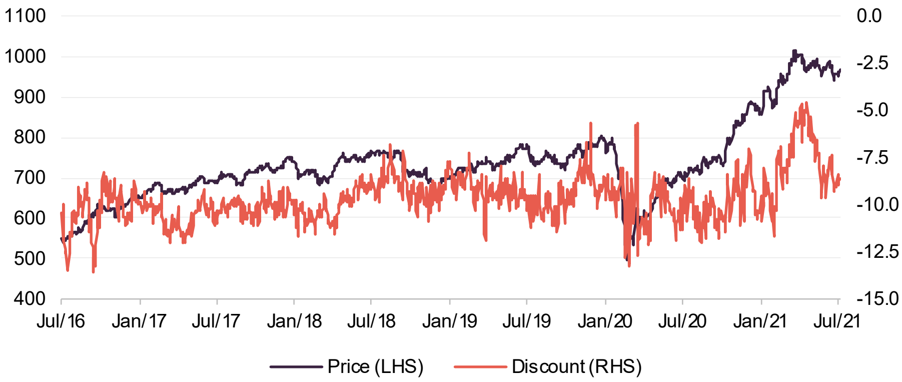
At a glance

Share price and discount

AGT's board uses share buybacks with the intention of limiting volatility in AGT's discount to NAV. Over the six months ended 31 July 2021, around 1.5m shares were repurchased. Buying back shares at a discount enhances the NAV per share.

Time period 31 July 2016 to 3 August 2021

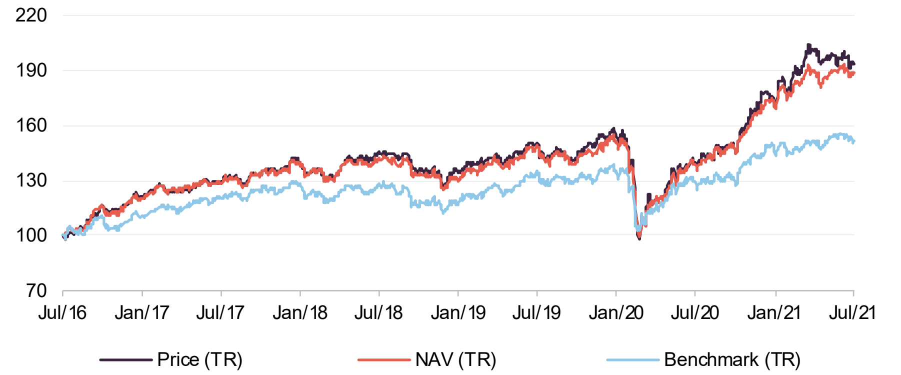


Source: Morningstar, Marten & Co

Performance over five years

AGT's strong run of performance towards the end of 2020 propelled it close to the top of the peer group performance tables over one year. More recently, nervousness about new variants delaying a return to more normal levels of economic activity is once again favouring growth-focused trusts.

Time period 31 July 2016 to 31 July 2021



Source: Morningstar, Marten & Co

Year ended	Share price total return (%)	NAV total return (%)	Benchmark total return (%)
31/07/2017	28.9	28.5	19.9
31/07/2018	12.2	10.3	6.5
31/07/2019	3.7	4.3	4.7
31/07/2020	(8.3)	(8.8)	(6.1)
31/07/2021	40.9	39.9	20.6

Source: Morningstar, Marten & Co. Note 1) AGT's benchmark is the MSCI All Country World ex-US Total Return Index in sterling.

AGT outperforming its benchmark

AGT beat its benchmark by 4.5% over the first half of 2021

AGT beat its benchmark by a decent margin over the first half of 2021 (H1 2021) – as we show in Figure 22 on page 14. On average, valuation discounts to net asset value on London-listed funds continued to narrow back towards pre-pandemic levels (see Figure 4) and that will have benefitted AGT. However, it is stock-specific success on a number of fronts that has been the biggest driver of returns (see page 15 for more detail). This has allowed the manager to book some profits. Gearing (borrowing) levels in AGT have fallen in recent weeks as a result but AVI says that this is likely to be a temporary phenomenon.

The manager anticipates that AGT's portfolio will become more concentrated in coming weeks as it focuses on fewer, high-conviction ideas. AVI says that, despite the environment of narrower discounts, there are still enough stocks trading at significant discounts to populate a high-quality portfolio.

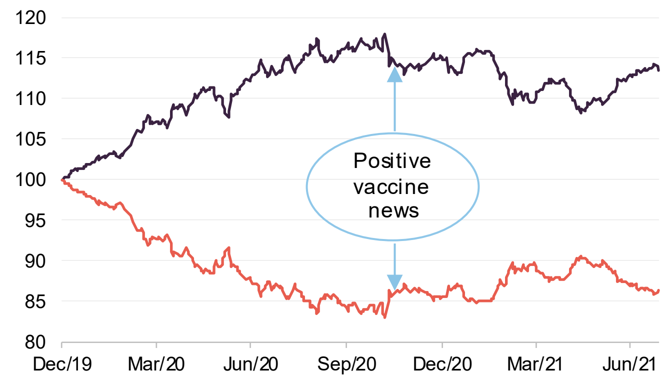
COVID-19 and effects of stimulus driving markets

Readers may wish to read our initiation note, which has more information on AVI's investment process

Our initiation note on AGT was published on 25 January 2021 and referenced portfolio data as at the end of December 2020. Towards the end of January, as vaccination rates began to pick up and hopes rose that COVID-19 was under control, investors' concern switched to the impact of the substantial government stimulus injected into the global economy. Markets have since been influenced heavily by fears of higher inflation and interest rates. This triggered falls in the values of long-duration assets such as growth stocks and longer-dated bonds.

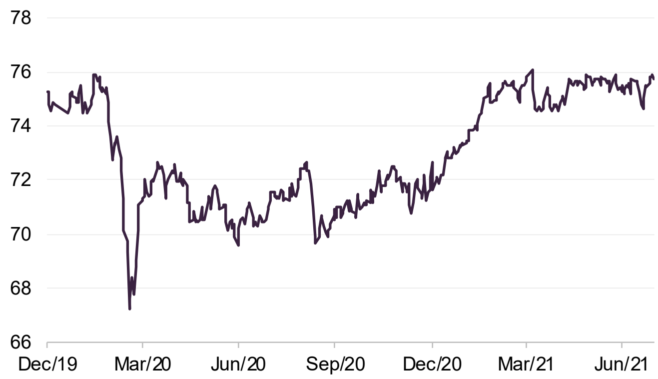
Figure 1 shows how value stocks did better than growth stocks after the good news on vaccines, reversing a long-term trend of growth beating value. However, the position switches back in favour of growth from the beginning of June.

Figure 1: MSCI ACWI growth relative versus value relative, rebased to 100 as at 31 December 2019



Source: Bloomberg

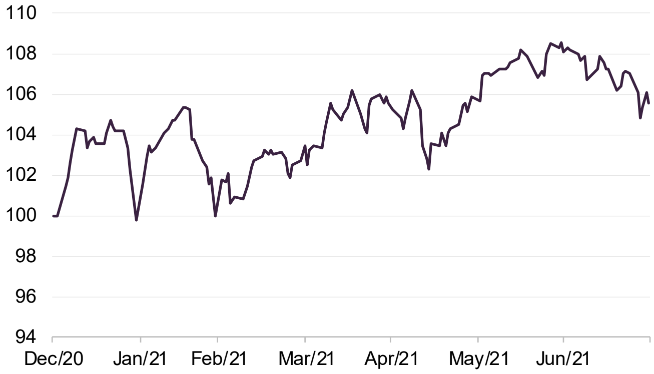
Figure 2: Sterling trade-weighted index



Source: Bloomberg

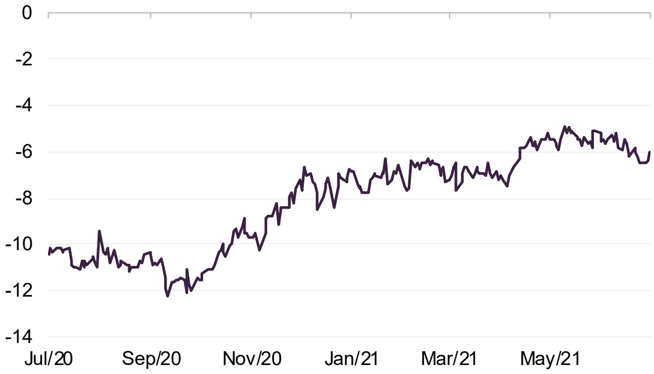
As Figure 2 shows, sterling continued to strengthen, helped by the Brexit deal as well as the speed of the vaccine rollout. The situation changed once again in June, as the Delta variant triggered new waves of infection and dampened hopes of a return to normality; growth stocks rebounded. As illustrated in Figure 3, AGT's benchmark (MSCI ACWI ex US in sterling) made decent progress over H1 2021, returning 8.0%.

Figure 3: MSCI ACWI ex US in sterling, rebased to 100 as at 31 December 2020



Source: Morningstar, Marten & Co

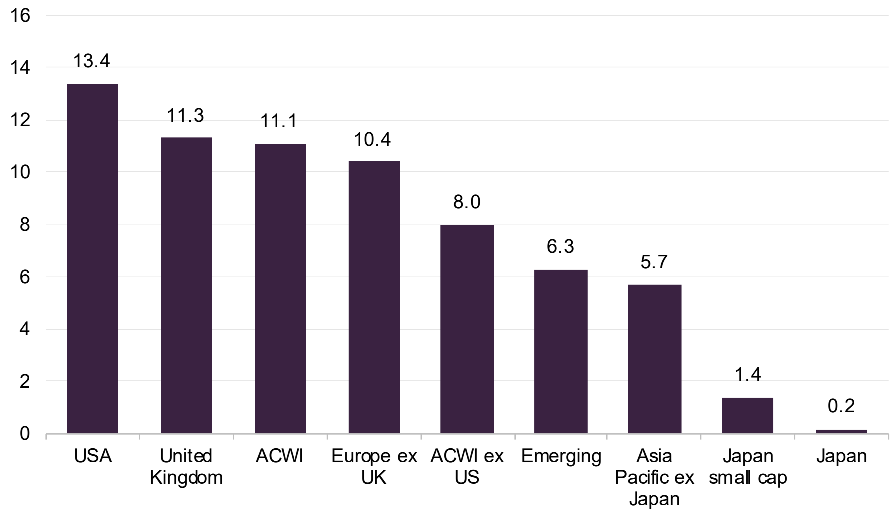
Figure 4: London-listed investment companies median discount



Source: Morningstar, Marten & Co

Japan lagging

Figure 5: Total returns (in sterling) of various MSCI indices over six months to 30 June 2021



Source: Morningstar, Marten & Co

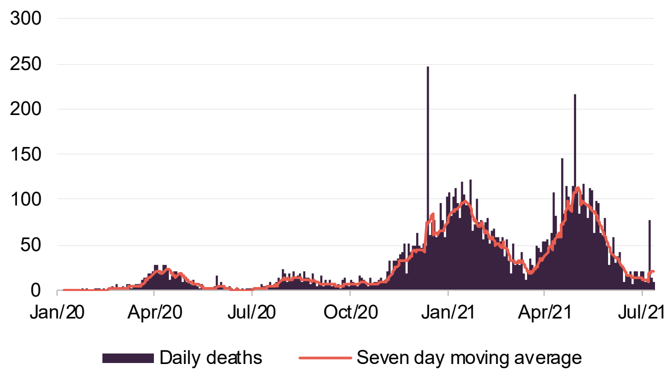
> The earnings of many of AGT's Japanese holdings are rising

From an asset allocation viewpoint, AGT's overweight exposure to Japan has held it back recently as Japanese stocks have underperformed global indices, as you can see in Figure 5. In addition, Japanese value stocks did not participate in the global value rally. AVI notes that the companies held by AGT, in particular, are performing fairly well with regard to their underlying earnings and, therefore, the stocks are getting cheaper. It feels that the catalyst for a re-rating would be increased foreign investor interest in the country, on the back of growing evidence that the environment for corporate control and governance is changing.

Improved vaccination take-up could change sentiment toward the country

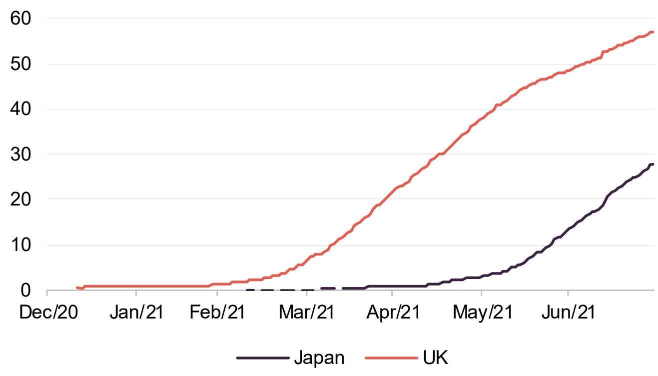
Whilst on many levels Japan's experience of the COVID-19 pandemic has been relatively good – less than 12% of the number of deaths in the UK while having over 1.8x the population, for example – in one respect, Japan has fallen down. The country was slow to approve vaccines and slow to deploy them. A key to changing foreign investors' sentiment towards the country could be signs that vaccinations are catching up.

Figure 6: Japan daily deaths attributed to COVID-19



Source: Our world in data

Figure 7: Percentage of people fully vaccinated Japan versus UK



Source: Our world in data

A recent scandal concerning Toshiba (where it seems the government colluded with the company to put pressure on shareholders not to vote against directors at its AGM and the company did not count some votes) has illustrated the degree to which the government is in bed with the corporate establishment. It could reinforce the old stereotype about Japan being a closed shop to foreign investors. However, AVI notes that the report on the scandal is both detailed and transparent. It feels that this could suggest a change of attitude. Private equity firm CVC made, but later withdrew, an offer for Toshiba in April. If a private equity buyout occurs, AVI thinks that this could be a key catalyst for Japanese markets.

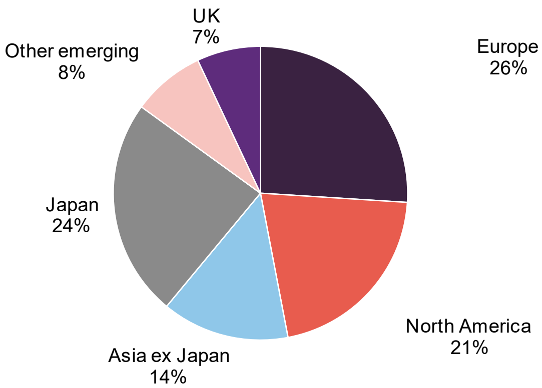
The manager says that changes to Japan's listing rules in relation to free floats (stipulating a minimum percentage of shares which must be available for trading) may help improve corporate governance. While some companies may divest the stakes that they hold in other listed companies in response, it is possible that several Japanese firms could decide to delist.

We may see more mergers and acquisitions activity in Japan

AVI thinks that we could see more management buy-outs and large companies looking at carve outs (where they sell off a division or a subsidiary), selling to private equity. AVI believes that there is increased interest from big US private equity investors in Japan. Firms such as KKR and Bain have been there for some time but Apollo recently opened an office in Tokyo and Blackstone has been buying Japanese property.

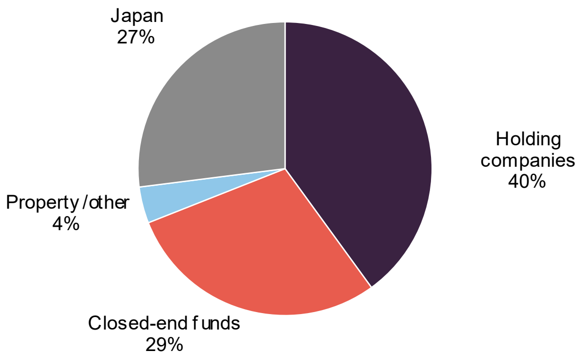
Asset Allocation

Figure 8: AGT geographic breakdown as at 30 June 2021



Source: AVI Global Trust, Marten & Co

Figure 9: AGT portfolio exposure as at 30 June 2021



Source: AVI Global Trust, Marten & Co

Changes to AGT's asset allocation are driven primarily by AVI's stock selection decisions. Over H1 2021, AGT's exposure to Europe fell to the benefit of North America and the portfolio has a slightly higher exposure to Japan and property and lower exposure to closed-end funds than it did at the end of December 2020.

Top 10 holdings

Since end December 2020, Christian Dior and Nintendo have entered the list of AGT's 10-largest holdings, replacing VNV Global and SoftBank. We discussed AVI's purchase of Christian Dior in our last note. Nintendo's video gaming business fared well during the pandemic, driving a 34% increase in sales and 86% rise in profit per share over the year ended 31 March 2021. Its share price has drifted off a little this year and AVI has added to the position.

Figure 10: VNV Global (SEK)

Source: Bloomberg

VNV Global performed well, driven largely by the success of Babylon, the digital healthcare company offering online consultations with health professionals. When we talked to AVI, it had cut AGT's stake in the business by about two thirds. This reflects VNV's valuation. AVI estimates that it reduced AGT's position in VNV at about a 17% premium to its estimated NAV, versus about an average 25% discount on purchases.

The position in Softbank was acquired in the depths of the market sell-off last March and its share price (while weak recently) has recovered strongly since then. Again, the position has been cut by about two thirds. Softbank's share buy-back activities helped its rating.

Figure 11: 10 largest holdings at 30 June 2021

Holding	Industry	Country/region	Percentage of NAV 30/06/21 (%)	Percentage of NAV 31/12/20 (%)	Change (%)
Japan special situations	Various	Japan	14.7	14.0	0.7
Oakley Capital Investments	Private equity	UK	6.9	7.0	(0.1)
Third Point Investors	Hedge fund	Global	6.0	4.7	1.3
Pershing Square Holdings	Hedge fund	US	5.1	6.5	(1.4)
EXOR	Agnelli family holding company	Italy	5.0	4.9	0.1
KKR	Private equity/asset management	US	4.9	3.9	1.0
Fondul Proprietatea	Closed-end fund	Romania	4.9	4.7	0.2
Sony	Electronics/media	Japan	4.8	5.4	(0.6)
Christian Dior	Luxury goods	France	4.7	3.6	1.1
Nintendo	Electronics/Games	Japan	3.6	-	3.6
Total			60.6		

Source: AVI Global Trust

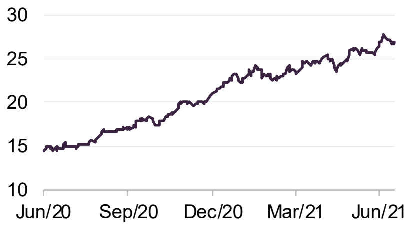
Figure 12: 10 largest underlying holdings at 30 June 2021

Holding	Held through	Sector	Percentage of NAV 30/06/21 (%)
LVMH	Christian Dior	Apparel, accessories and luxury goods	4.7
KKR fund management	KKR	Private equity investment management	3.8
Nintendo videogames	Nintendo	Gaming	3.1
Oriental Land	Keisei Electric	Leisure & tourism property including Tokyo Disney	2.7
Hidroelectrica	Fondul Proprietatea	Electric utilities	2.4
Tencent	Prosus/Naspers	Interactive media and services	2.0
Sony Playstation	Sony	Gaming	1.7
Aker BP ASA	Aker	Oil exploration and development	1.7
FEMSA Comercio	FEMSA	Convenience retail	1.7
Godrej Consumer Products	Godrej Industries	Indian consumer products	1.6
Total			

Source: AVI Global Trust

Third Point Investors

Figure 13: Third Point Investors (USD)



Source: Bloomberg

AGT's stake in Third Point Investors (TPIL) was increased over H1 2021 as AVI ramped up pressure on TPIL to tackle its discount. AGT has been a longstanding investor in this company, which invests in a hedge fund (the Master Fund) run by Dan Loeb. However, TPIL has had a persistent discount problem. On 1 April 2021, TPIL proposed:

- the introduction of a discount control mechanism that will set a long-term target discount level of no more than 7.5% and buy-backs to move the discount towards this target;
- an implementation of two discount-triggered tender offers for 25% of NAV, at a discount of 2% to NAV. These will happen, if in the six-month periods ending 31 March 2024 and 31 March 2027, the average discount is more than 10% (for 2024) and 7.5% (for 2027);
- that the company will elect to receive an increased allocation to venture capital and private equity investment opportunities in the underlying Master Fund but only up to 20% of NAV;
- a new intention to employ gearing using a revolving credit facility. This will not exceed 15% of NAV and is intended to facilitate an ability to increase exposure at times of increased opportunity; and
- the creation of an exchange mechanism, pursuant to which qualified investors would be permitted to convert shares of the company for up to an aggregate of $50m of interests in the Master Fund.

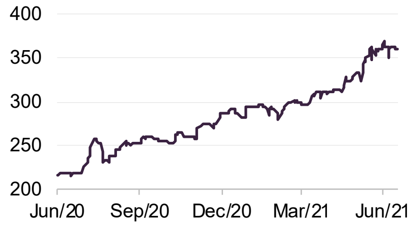
AVI responded publicly on 26 May 2021. At that point, clients of AVI – including AGT – held 10.1% of TPIL's ordinary shares. AVI said that TPIL's proposals fell "woefully short of the structural changes that we believe are necessary to cure TPIL's continuing trading discount to NAV problem". It proposed a quarterly redemption mechanism at a price equivalent to NAV less costs and asked the board to put this proposal to a shareholder vote.

However, the situation is complicated by TPIL's corporate structure, which includes class B shares owned by Third Point Offshore Independent Voting Company Limited (VoteCo). Those class B shares control 40% of TPIL's voting rights and, therefore, AVI's shareholding was not sufficiently large to demand an extraordinary general meeting. AVI appealed to VoteCo's board to back its requisition. The VoteCo board declined to do so.

On 5 July, AVI came back again, this time with the support of three other shareholders. On this occasion, their combined shareholdings were sufficient to force a meeting. However, the TPIL board rejected the requisition on the grounds that the proposal was structured as an ordinary resolution (requiring a 50% majority to pass) and the law and the company's articles prevented the company being bound by anything other than a special resolution.

TPIL's discount had narrowed significantly – hitting around 9% on 5 July – and the fund's performance has been very strong over the past year. AVI is considering its next steps. We note that TPIL's discount is now 12.1%.

Figure 14: Oakley Capital



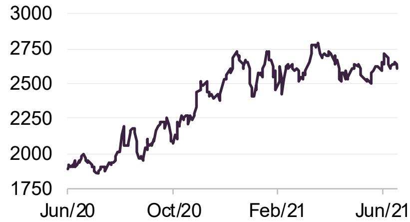
Source: Bloomberg

Oakley Capital

Oakley Capital's performance has been strong over recent years (upper quartile over most time periods). On paper, Oakley's discount has narrowed significantly over H1 2021. However, it may be wider than it appears as, the last-published NAV was at end December 2020. AVI expects to see an uplift in the NAV at the end of June. The position has been trimmed in recent weeks, but AVI still likes the Oakley proposition. AVI says that the manager is good at repeat (investing in businesses that it has held previously) and complex deals.

Pershing Square Holdings

Figure 15: Pershing Square Holdings



Source: Bloomberg

AVI has had a position in Pershing Square Holdings (PSH) for a while and recently it also made an investment in Pershing Square Tontine Holdings (PSTH – an New York Stock Exchange-listed SPAC created and part-financed by PSH).

The stake was acquired after the announcement that the SPAC would be used to fund the purchase of a stake in Universal Music Group as that business is spun out of Vivendi. Vivendi plans to retain a 10% stake in that business, PSTH planned to buy 10%, Vivendi's other 60% is being distributed to its shareholders.

It is fair to say that other investors in PSTH were not fans of the proposal. The share price fell sharply – allowing AGT to acquire it at a discount.

However, AVI likes these music businesses. Universal Music forms part of an oligopoly (a market that dominated by a small group of large sellers and so competition is limited) with Warner Music and Sony (which AGT also holds). These firms tend to own recording rights. AVI feels that the scale of these companies gives them important negotiating leverage with artists, but it still expects modest pressure on margins. AGT also has stakes in Hipgnosis Songs Fund and Round Hill Music, which tend to own publishing rights.

Total revenue from recorded music today is 55% lower than it was pre-piracy in 2002 (inflation adjusted). Music-streaming is driving a recovery for the sector. This revenue has the advantage of being higher-quality in that it offers good visibility, low churn and offers consumers good value for money (helped by a much lower distribution expense).

Figure 16: Pershing Square Tontine Holdings (USD)

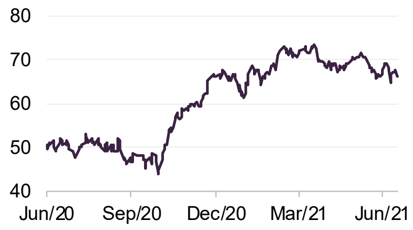
Source: Bloomberg

AVI's assessment of PSTH's value was based in part on a read-across from Warner Music. Sony Music, buried within the wider business, is of limited use in this regard. However, Warner has a very limited free float and AVI suggests that other streaming/subscription businesses, such as Netflix and software-as-a-service (SaaS) companies, may offer better comparisons.

Pershing's plans for PSTH have been frustrated by the US regulator – the SEC – which questioned the legality of the proposed deal. PSTH's rights to acquire the Universal Music stake have been assigned to PSH and Pershing is looking for an alternative initial acquisition for the SPAC (it has an 18-month time limit on this unless PSTH investors agree to extend this). It is possible that whatever deal Pershing comes up with will fire investors' enthusiasm again and lead to a re-rating of PSTH. While the news was disappointing, AGT also has a top five position in PSH, which will now end up with a larger exposure to Universal Music. PSH's ownership of PSTH sponsor warrants will also benefit to a greater extent in any new deal struck by PSTH. AVI believes that the position in PSTH retains attractive optionality.

EXOR

Figure 17: EXOR (EUR)



Source: Bloomberg

EXOR is the Agnelli family holding company. AVI believes that the company trades on a substantial and persistent but unwarranted discount to NAV. Gianni Agnelli's grandson John Elkann took leadership of the family business in 2003, simplifying the group structure and creating EXOR in 2009. He has subsequentially diversified the business exposure through the acquisition of Partner Re, and unlocked significant hidden value from what was then FIAT.

In 2014, FIAT bought Chrysler for $1. That deal gave it valuable access to the light truck, SUV, and Jeep markets. In 2019, following a failed attempt to merge with Renault, FIAT Chrysler merged with Peugeot to form Stellantis. EXOR retains a 14.4% stake in that business and John Elkann is its chairman.

Stellantis

AVI feels that the €5bn of annual synergistic benefits from that combination are, as yet, unrecognised by the market. Stellantis trades on a 25%–35% discount to General Motors and Ford (based on P/E and EV/EBIT), yet it is targeting long-term double-digit profit margins, significantly ahead of previous guidance and potentially making it the world's most profitable automaker.

Stellantis held its 'electrification day' on 8 July 2021. AVI believes that investors have been nervous about the potential impact of measures taken to tackle climate change on the business. Stellantis announced a €30bn investment plan (to be deployed between 2021 and 2025) with the intention that over 70% of its passenger car/light duty truck sales in Europe will be low emission vehicles by 2030. The equivalent target in the US is over 40%. This target will be supported by the development of a number of battery 'gigafactories' (more than five by 2030). AVI says that it views the day as an important initial step in changing the narrative on this stock.

However, not only has FIAT/Stellantis been repositioned, its weight within EXOR's portfolio has been reduced from about 75% of EXOR's NAV to about 30%.

Ferrari

In 2016, Ferrari was spun out of FIAT as a separate company. Ferrari's business was slightly dented by the pandemic – a seven-week suspension of production reduced deliveries by 10% and its 2020 revenues ended the year 8.1% below those of 2019. First quarter of 2021 (Q1 2021) figures are encouraging, however, with revenue 7.6% ahead of 2019 levels and diluted earnings per share +16.8% compared to 2019. Ferrari expects to unveil its first all-electric vehicle in 2025.

CNH Industrial

CNH Industrial is another business that was spun out of FIAT. It has a range of industrial, agricultural and heavy road vehicles including brands such as Iveco, New Holland and Case. It recently strengthened its agricultural offering by acquiring

Raven Industries. Volumes have recovered from the lows of 2020 and Q1 2021 revenues were 41% up year-on-year and the company predicted revenue growth between 14% and 18% for 2021 over 2020.

CNH is planning to split the business between off-highway and on-highway later this year. AVI thinks that this will help highlight the value within the agricultural business.

PartnerRe

PartnerRe is the fourth significant business within EXOR. This Bermudan-based reinsurance company is benefitting from firmer pricing after the industry was impacted by COVID-19-related losses in 2020.

EXOR's portfolio also includes a controlling stake in Juventus.

Luxury pivot?

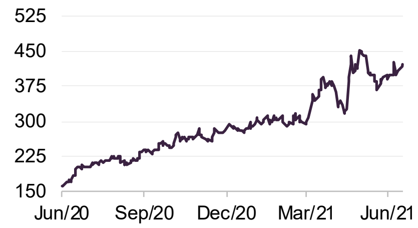
While Stellantis, Ferrari, CNH and PartnerRe dominate, the group's most recent investments in a 24% stake in Christian Louboutin and SHANG XIA – a Chinese luxury brands brand established in connection with Hermès – have caught AVI's attention. AVI thinks that John Elkann may be considering a pivot towards luxury goods, and highlights rumours that EXOR is looking at acquiring Armani Group (denied by EXOR on 16 July). This could have a big impact on the market's perception of EXOR and help eliminate its sizeable discount to NAV.

Other recent portfolio changes

Kinnevik

Kinnevik has been a success story for AGT and is a position that AVI has been taking profits from. After Kinnevik span out its stake in online fashion retail business Zalando, it was trading at a high premium to asset value. AVI also notes that around half of Kinnevik's assets are listed and therefore the implied premium valuation attributed to its unlisted investments is even higher. AGT no longer holds the stock but it remains on AVI's watchlist as it thinks that it is a high-quality company.

Figure 18: Kinnevik (SEK)



Source: Bloomberg

FEMSA

Fomento Económico Mexicano, S.A.B. de C.V. (FEMSA) is a recent addition to AGT's portfolio. FEMSA is a Mexican conglomerate with stakes in Heineken and Mexico's Coca Cola bottling company – both of which are listed – and account for about a third of NAV. Its main asset is a convenience store and small format retail business – FEMSA Comercio. Within this is the convenience store business – OXXO – a market leader with expanding margins and attractive returns on capital. FEMSA Comercio is already the largest chain of small-format stores in Latin America, but has ample room to grow in a highly-fragmented 'mom and pop'-type market. AVI estimates that the implied value of FEMSA Comercio is less than 10x its EBITDA versus a long-term average of 14x.

FEMSA Comercio was affected by lockdowns last year but recent results for the second quarter of 2021 indicate a strong recovery.

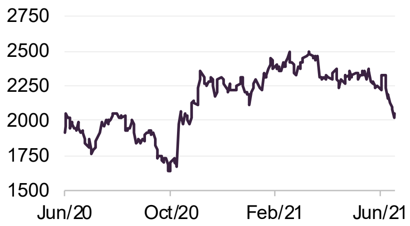
Figure 19: FEMSA (MXP)

Source: Bloomberg

In addition, there is some optionality in fintech as the company expands digital payments services within its stores and via a mobile app ("Spin by Oxxo"). This builds on previous initiatives – such as Oxxo Pay, which allows for instore payment of e-commerce purchases – as Oxxo aim to fulfil the needs of Mexico's large unbanked population. Success in fintech would have very positive implications for margins and value creation.

Associated British Foods

Figure 20: Associated British Foods



Source: Bloomberg

AGT is also now invested in Associated British Foods (ABF), which AVI sees as a potential COVID recovery play. The business is dominated by its high street fashion retail business – Primark – and its food ingredients operations, including British Sugar.

Primark does not have an online presence. Its stores were shuttered for an extended period last year and AVI says that investors have punished ABF for this. However, AVI feels that Primark's business model of permanently low prices would be compromised by the expense of online deliveries and returns, were it to go down the online route. Competition on the High Street has reduced as other players have shut stores – GAP, for example. AVI notes that the queues outside Primark's stores when they re-opened demonstrated pent-up demand.

AVI says that the rest of the business – ingredients and groceries is low-growth but cash-generative. It does not think that the controlling Weston family want to buy back ABF's stock, and therefore believes that it is likely that the dividend will be hiked instead. AVI feels that a high dividend supported by strong cashflow should attract dividend investors and drive up the share price.

Berkshire Hathaway

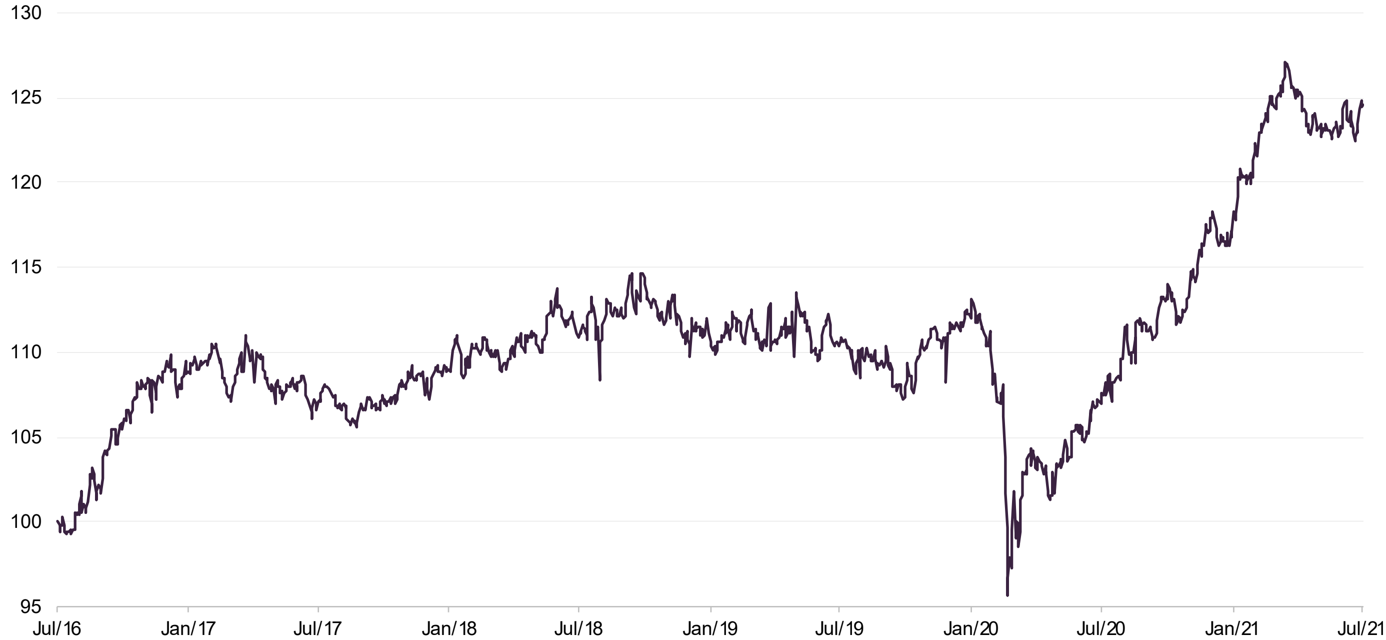
AGT now holds Berkshire Hathaway. AVI feels that it is a beneficiary of the US stimulus. It also thinks that its railroad operations are undervalued. Price multiples that peers are trading on suggest that Berkshire Hathaway may be trading on a high teens discount to the value of its businesses.

UK property COVID-recovery

AGT has exposure to Capital & Counties (owner of Covent Garden and a stake in Shaftesbury), Shaftesbury (owner of Carnaby Street and China Town) and Secure Income REIT (owner of over 120 Travelodge hotels, a number of properties let to Merlin Entertainments in the UK and Germany and a portfolio of healthcare properties). The attraction in AVI's eyes is that these are all COVID recovery plays, especially as tourist numbers start to pick up. Valuations may also be reinforced by the bid activity in the sector in respect of companies such as St Modwen, GCP Student Living and even Wm Morrison Supermarkets, where part of the attraction for the bidders is likely to be its extensive property portfolio.

Performance

Figure 21: AGT NAV total return performance versus objective over five years ending 31 July 2021



Source: Morningstar, Marten & Co

AGT quickly made up the March 2020 COVID-19-related underperformance of its benchmark (which reflected a widespread widening of discounts) and has since powered ahead. Its performance has been helped in part by a resurgence of interest in value stocks from November 2020 onwards.

Figure 22: Total return cumulative performance over various time periods to 31 July 2021

	3 months	6 months	1 year	3 years	5 years
AVI Global Trust share price	(4.1)	12.6	40.9	34.0	93.9
AVI Global Trust NAV	(0.1)	11.5	39.9	33.0	88.6
Benchmark	0.3	5.8	20.6	18.6	51.3
Peer group[1] median share price	2.2	11.0	29.6	39.5	107.1
Peer group[1] median NAV	2.7	11.3	28.9	36.5	87.3

Source: Morningstar, Marten & Co. Note 1) peer group is defined on page X

In June, panicked by rising COVID cases – a consequence of the spread of the Delta variant – markets flipped back into focusing on growth stocks once again. This has weighed on AVI's short-term performance.

Drivers of returns

Figure 23: AGT weighted average portfolio discount data

Source: AVI

Figure 23 illustrates the substantial narrowing of discounts that AGT has benefitted from since the Spring of 2020.

AVI has published some information on the stocks that contributed to AGT's returns over the nine-month period ending 30 June 2021, which we reproduce in Figure 24.

Figure 24: Positive and negative contributions to performance over nine months ending 30 June 2021

Positive contributors	Contribution (%)	Share price in GBP (%)	Negative contributors	Contribution (%)	Share price in GBP (%)
Oakley Capital	3.09		Teikoku Sen-I	(0.31)	
Christian Dior	2.67		Kanaden	(0.25)	
KKR	2.46		Nintendo	(0.20)	
Third Point	2.27		Bank of Kyoto	(0.19)	
Pershing Square	1.91		Kato Sangyo	(0.17)	

Source: AVI Global Trust

Strong underlying performance and a narrowing discount helped propel Oakley Capital's share price higher.

Christian Dior's LVMH business has just reported H1 2021 revenue up 56% when compared with 2020 and 11% when compared with 2019. The business has largely shrugged off the adverse effects of the pandemic, although travel-related sales are still depressed, affecting perfume and cosmetics sales in particular. Profits soared within its fashion and leather goods division. Tiffany is said to have been successfully integrated within the business and is performing well.

Impressive growth in assets under management (a near-doubling over three years) and good returns have boosted KKR's fee revenues. The business has diversified from a pure private equity to an alternative assets focus and KKR sees considerable opportunity for further growth.

On the downside, Japan's underperformance of other developed markets contributed to relatively small losses on a basket of Japanese stocks.

Peer group

Up-to-date information on AGT and its peers is available on our website

AGT is a constituent of the AIC's Global sector. The members of this peer group invest predominantly in listed equities.

Since we last published on AGT, the sector has expanded with the addition of Keystone Positive Change, which migrated from the UK All companies sector after its management contract was awarded to Baillie Gifford and its mandate changed, and Blue Planet, which has migrated from the financials sector, but which we have excluded from comparative data as it has a market cap of less than £15m.

Figure 25: Peer group comparative data as at 3 August 2021

	Premium / (discount) (%)	Dividend yield (%)	Ongoing charge (%)	Market cap (£m)
AVI Global Trust	(9.0)	1.7	0.89	996
Alliance Trust	(6.4)	1.5	0.65	3,134
Bankers	0.2	1.8	0.5	1,544
Brunner	(9.5)	2.0	0.64	440
EP Global	(8.3)	2.1	0.99	106
F&C	(7.3)	1.4	0.52	4,615
JPMorgan Elect Managed Growth	(3.5)	1.6	0.54	291
Keystone Positive Change	(3.9)	3.3	0.55	207
Lindsell Train	30.9	2.9	0.75	341
Manchester & London	(15.1)	2.5	0.78	229
Martin Currie Global Portfolio	1.1	1.0	0.61	359
Mid Wynd	1.5	0.8	0.69	473
Monks	1.0	0.1	0.43	3,310
Scottish Investment Trust	(10.8)	3.1	0.52	500
Scottish Mortgage	(3.9)	0.3	0.34	18,511
Witan	(7.0)	2.2	0.75	1,878
Sector median	(5.1)	1.8	0.63	487
AGT rank	13/16	9/16	15/16	7/16

Source: Morningstar, Marten & Co

Whilst comfortably in single digits, AGT's discount is wider than average within its sector. None of these funds is particularly focused on generating a high dividend yield. AGT's ongoing charges ratio is on the high side within this peer group, but none of these is especially high. On a market cap basis, AGT is hovering around the £1bn mark.

AGT's strong run of performance towards the end of 2020 propelled it close to the top of the peer group performance tables over one year. More recently, nervousness about new variants delaying a return to more normal levels of economic activity is once again favouring growth-focused trusts.

We have excluded Keystone Positive Change from Figure 26 as its historic performance reflects its previous UK-focused mandate.

Figure 26: Peer group cumulative NAV total return data as at 31 July 2021

	3 months	6 months	1 year	3 years	5 years
AVI Global Trust	(0.1)	11.5	39.9	33.0	88.6
Alliance Trust	2.7	17.1	30.1	36.5	85.2
Bankers	1.9	10.8	22.1	35.4	87.5
Brunner	4.9	17.5	34.5	38.5	86.9
EP Global	1.1	3.5	12.6	(3.0)	28.7
F&C	3.9	14.9	29.4	36.5	87.0
JPMorgan Elect Managed Growth	1.2	13.2	34.6	31.1	79.0
Lindsell Train	5.5	10.9	22.1	73.1	188.3
Manchester & London	0.1	6.2	8.7	34.7	118.6
Martin Currie Global Portfolio	10.4	15.9	28.5	64.8	117.6
Mid Wynd	5.6	11.6	27.0	56.8	109.4
Monks	2.0	6.4	32.9	67.9	158.8
Scottish Investment Trust	(0.9)	11.1	6.2	(6.2)	26.3
Scottish Mortgage	6.5	6.4	59.4	162.3	367.6
Witan	2.7	14.2	39.1	24.6	69.3
AGT rank	14/15	8/15	2/15	11/15	7/15

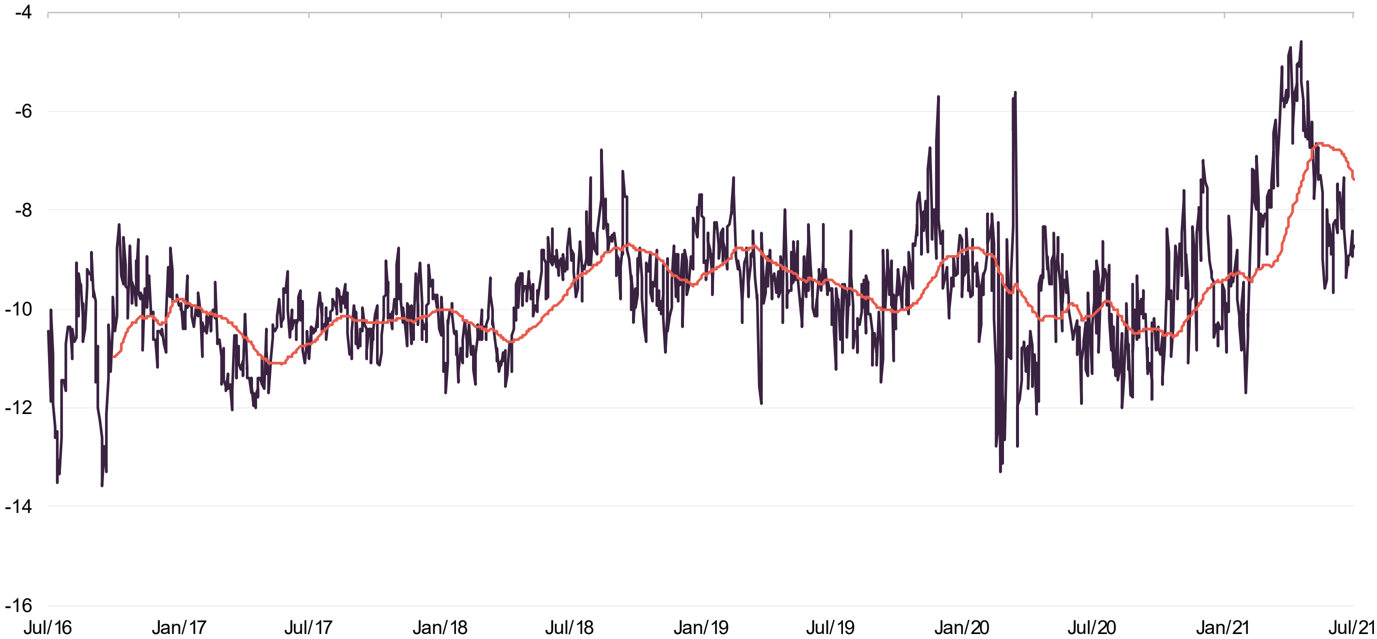
Source: Morningstar, Marten & Co

Discount

Over the year ended 31 July 2021, AGT's discount moved within a range of 12.0% to 4.6% and averaged 8.8%. At 3 August 2021, AGT's discount was 9.0%.

At the AGM in December 2020, shareholders approved resolutions empowering the board to buy back up to 14.99% of its then-issued share capital (equivalent to 15,761,742 shares) and issue up to a third of its then-issued share capital (equivalent to 35,049,460 shares). A separate resolution granted permission for 5% of the then-issued share capital to be issued without pre-emption.

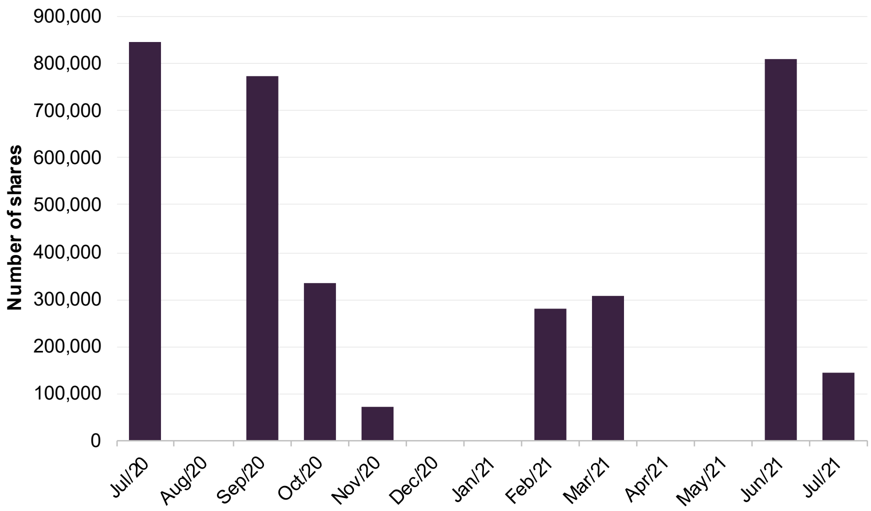
Figure 27: AGT premium/discount over five years to end July 2021



Source: Morningstar, Marten & Co

AGT's board uses share buybacks with the intention of limiting volatility in AGT's discount. Over the six months ended 31 July 2021, around 1.5m shares were repurchased. Buying back shares at a discount enhances the NAV per share for remaining shareholders.

Figure 28: Number of shares repurchased by month



Source: AVI Global Trust

The board also employs a marketing budget (administered by the investment manager) with the aim of stimulating demand for the trust's shares.

Fund profile

Holding companies, closed-end funds, and cash-rich Japanese operating companies

AGT aims to achieve capital growth through a focused portfolio of investments, particularly in companies whose shares stand at a discount to estimated underlying net asset value. It invests in quality assets held through unconventional structures that tend to attract discounts; these types of companies include family-controlled holding companies, closed-end funds, and cash-rich Japanese operating companies.

For performance measurement purposes, the company compares itself to the MSCI All Country World ex-US Total Return Index, expressed in sterling terms. Whilst it has some exposure, relative to an unconstrained global index, the trust has a sizeable underweight exposure to the US, primarily because there are fewer opportunities to invest in family-controlled holding companies.

More information is available at the trust's website: aviglobal.co.uk

AGT's AIFM is Asset Value Investors (AVI). AVI was established in 1985, when the trust's current approach to investment was adopted. At that time, AGT had assets of just £6m and was known as the British Empire Securities and General Trust, later shortened to British Empire Trust. The trust adopted its current name on 24 May 2019.

Previous notes

Readers may wish to refer to our initiation note, published on 25 January 2021 – ***Double discount on quality focused portfolio***.

IMPORTANT INFORMATION

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