‘We thought Morrisons would get taken over, but sold too early’

Fund of the Week: AVI’s Joe Bauernfreund how he picks out stocks trading at bargain prices

By Jessica Beard

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Fund of the week

There are two types of investor: the bargain hunters, known in the industry as value investors, and then those who are willing to pay more for the companies most likely to generate long-term gains, called growth investors.

Joe Bauernfreund, who runs the £1.2bn AVI Global Trust, has typically fallen into the first camp but admits the pandemic forced him to widen his scope. Performance of the trust, which has been running for 132 years, until 2019 under the name of British Empire, has far outstripped the global benchmark index. The secret to its high returns is buying companies’ shares at a price discount to what Mr Bauernfreund estimates they are truly worth.

He tells Telegraph Money how he finds the most underpriced companies and gets involved with their management to improve the businesses.

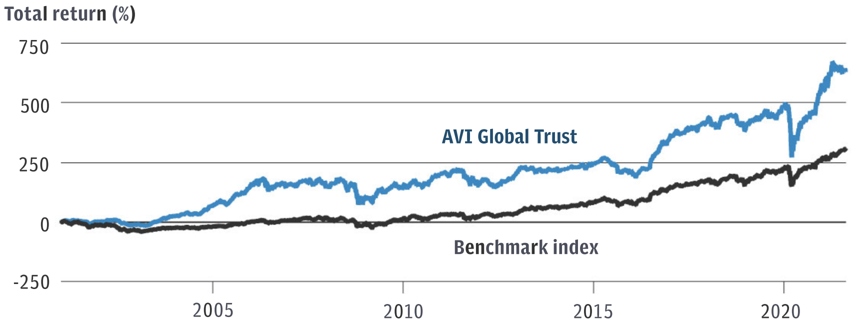
Who is the fund for?

Any investor who wants to own a global equity portfolio but is looking for something different. We try to find good-quality businesses that trade at a discount because of the structures through which they are owned. For example, we invest in French family holding company Christian Dior. It is controlled by Bernard Arnault and his family and is a vehicle through which they own their 41pc stake in luxury brand LVMH.

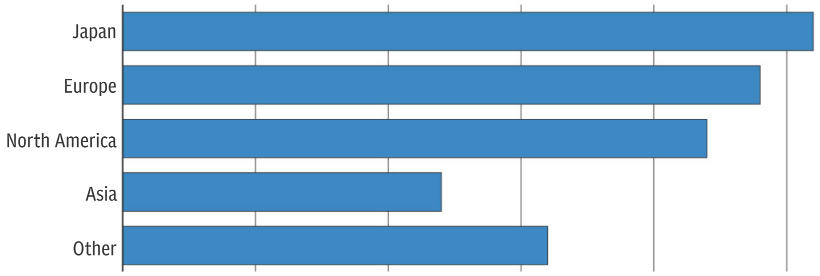
How do you pick stocks and funds?

We invest in listed family-controlled companies, and sometimes funds or investment companies, that are trading at discounts to their net asset value. It’s a way to get access to these high-quality businesses more cheaply because they are owned through these structures. We also often use an active shareholder approach to unlock some of that value.

How does the fund measure up?



Where does the fund invest?



In March 2020 we reduced our exposure to more economically sensitive names. We tilted the portfolio towards companies that had more growth, such as tech, e-commerce and health companies. Since last September we have been tilting it back towards the more sensitive names that we believe are underpriced.

Was the trust affected by the Chinese share price crash?

Yes. We were invested in Softbank, which has a big stake in Alibaba, the giant e-commerce company. We bought it in early 2020 at a 70pc discount, which narrowed to less than 50pc.

We had also invested in investment company Prosus, which was spun out of South African group Naspers. It owns a 30pc stake in Tencent, the Chinese tech giant, and that stake makes up 80pc of its value. It was a good way for us to be indirectly exposed to Tencent.

But over the past few months the uncertainty of the regulatory changes in China and the actions of its government have led to falls of about 40pc for both Alibaba and Tencent and that has weighed on the share prices of our investments. We've sold Softbank.

Where are the biggest discounts?

Japan is the most attractive market in the world. More than a quarter of the fund is invested there. It is really interesting because it has been neglected for a decade. That has meant there is less research on Japanese companies so they are less efficiently priced, which we can take advantage of.

What have been your best and worst investments?

The best was Aker, a Norwegian holding company involved in oil exploration and more lately in renewable energy. I bought it at 148Kr a share in 2008 and today it is 625Kr. We still own a stake because it trades at a 20pc discount.

One of the worst was Morrisons and that really showed that timing is everything. We bought it in January 2014 at 248p and we thought there was a lot of value as a takeover candidate but that didn't happen until very recently so we gave up on it. We sold it in May 2015 at 181p, a 20pc loss.

In focus: Exor

Italian holding company Exor is a real standout. It is offering remarkable value at the moment. It is controlled by the Agnelli family, who founded Fiat and own a big stake in Ferrari and Stellantis, the merger Fiat/PSA.

While the firms have benefited from the economic recovery, it hasn't been fully reflected in Exor's share price. Its discount has widened to more than 40pc and that is entirely unjustified.

How are you paid and do you invest in the fund?

Asset Value Investors is largely employee-owned, so we own shares. If AVI does well, we benefit from the success by way of dividends.

We also get a base salary. The vast majority of my family savings are invested.

If not a fund manager, what would you be?

It sounds nerdy but I became interested in the stock market at a very young age. I read investment books throughout my teenage years and dabbled. It was really all I ever wanted to do.

I learnt that there's a lot of emotion in investing and the trick is to take that out of it. It's easy to get carried away with your winners and to get depressed about your losers.