

September

**Investment Objective:** To achieve capital growth through a focused portfolio of investments, particularly in companies whose share prices stand at a discount to estimated underlying net asset value.

## HEADLINES

## Japan Special Situations Basket

Japan's economy suffers from an outdated reliance on aging IT infrastructure. Recently elected Prime Minister Suga has made this a focus of government policy, and we analyse how the basket is positioned to benefit from this.

[Read more below](#)

## Oakley Capital Investments

Oakley Capital's newly launched Origins fund makes its maiden investment in 7NXT, a provider of online health and fitness solutions based in the German-speaking regions of Europe.

[Read more below](#)

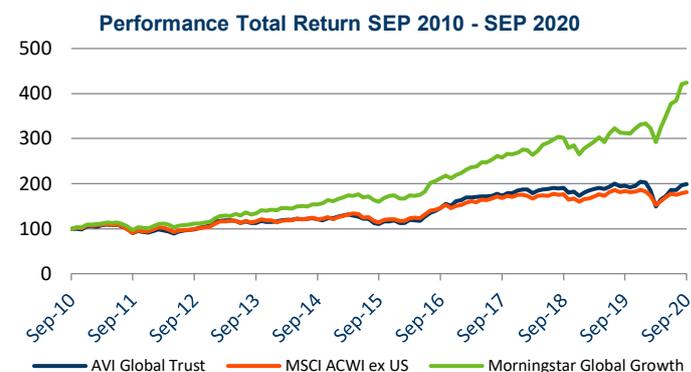
## VNV Global

We discuss VNV Global's second-largest holding, French unicorn BlaBlaCar.

[Read more below](#)

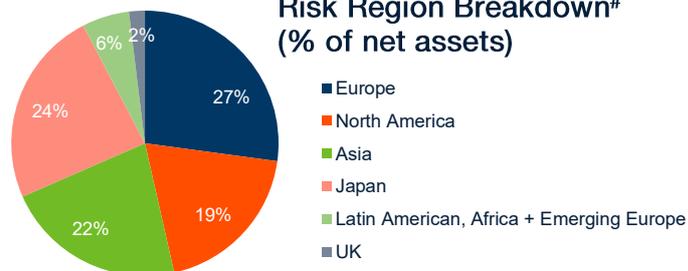
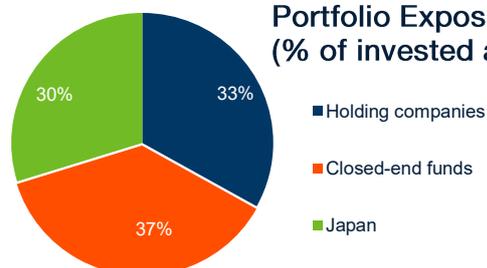
PERFORMANCE  
(Figures to 30 September 2020)

Share Price (pence)	741.0
NAV (pence)	817.0
Premium / (Discount)	-9.3%



	Month	Financial Yr* to date	Calendar Yr to date
AGTNAV <sup>1</sup>	1.0%	0.0%	-3.3%
MSCI ACWI ExUS <sup>3</sup>	1.0%	-1.8%	-3.1%
MSCI ACWI ExUS Value <sup>1</sup>	-0.7%	-15.0%	-15.6%
MSCI ACWI <sup>1</sup>	0.2%	5.3%	3.9%
Morningstar Global <sup>1</sup>	0.0%	7.3%	4.6%

## THE FUND

Risk Region Breakdown#  
(% of net assets)Portfolio Exposure  
(% of invested assets)

## Top Ten Equity Holdings

Holding	%
Japan Special Situations**	18.9
Pershing Square Holdings	9.7
Oakley Capital Investments	8.1
Softbank Group	7.6
Sony	5.9
Fondul Proprietatea	5.2
Kinnevik B	4.7
Third Point Offshore Investors	4.7
KKR	4.0
EXOR	3.5
<b>TOTAL</b>	<b>72.3</b>

\*AVI estimate. Previously, this breakdown was calculated by assigning one region to each portfolio company held by AGT. From the 31-Dec-16 newsletter onwards, this is calculated using the estimated multi-regional exposure for each portfolio company. For listed underlying holdings, the country of listing is used; for unlisted underlying holdings, the exposure is typically assigned according to the country where a majority of sales are made.

## MANAGER'S COMMENT

**AVI Global Trust (AGT)'s NAV rose by +1% in September.** A 1% widening of the portfolio discount (to 35%) posed a headwind for returns, and sterling weakness provided a minor boost. Major contributors included the Japan Special Situations basket, Oakley Capital Investments, Third Point Investors, and Fondul Proprietatea. The most sizable detractors included VNV Global, doValue, and GP Investments.

**The Japan Special Situations basket** was the largest contributor to returns for the second month running, adding 136 basis points (bps). Returns were driven by a weighted-average share price gain of +5% and boosted by a 4% strengthening of the yen relative to sterling.

This month we would like to write about an important sub-theme within the Japan Special Situations basket – the issue of Japan's aging IT infrastructure. Despite Japan's reputation as a centre of technological excellence, the majority of government offices and companies in Japan still have fax machines: a hangover from the ongoing reliance on *hanko* stamps, which are used in over 11,000 procedures to sign official documents. Over the past few months, several high-profile events have brought the IT infrastructure issue to the fore, including the shutdown of the Tokyo Stock Exchange due to a series of technical glitches, and the Toshiba voting scandal. Toshiba's voting system still has a significant element of postal votes which, due to a high volume this year, could not all be counted in time despite arriving before the deadline.

**Recently elected Prime Minister Suga has made digitalisation of the economy a key priority;** although still early in his tenure, he is already legislating for a new digital agency, has created a ministerial post for 'digital transformation', and appointed a veteran cabinet minister to the role of 'administrative and regulatory reform'.

This trend in improving and updating IT infrastructure is expressed in AGT's portfolio through positions in DTS Corp and NS Solutions, which account for c. 2% of AGT's NAV and over 10% of the Japan Special Situations basket. DTS and NS provide IT solutions for corporate clients and will benefit significantly from the trend towards updating IT infrastructure. Compared to the US, Japanese companies rely more heavily on third-party service providers for IT (65% vs 28%).

The Japanese IT service providers we own are exposed to the same underlying growth trends of the market, yet, for reasons unrelated to their fundamental outlook, trade at steep discounts. They trade on EV/EBITs of 6x and 8x, compared to a sector average of 13x. Both companies suffer from inefficient balance sheets, poor shareholder communications, and weak corporate governance. Furthermore, NS Solutions' valuation suffers from being part of a parent/child ownership structure, which results in a lack of incentives for management and poor protection for minority shareholders. We are engaging with management to address these issues and we believe if they can be improved in line with our suggestions and the valuation normalises, we could see upsides in the order of 50-100%.

**Oakley Capital Investments (OCI) contributed 48bps to returns,** as NAV growth of +3% (primarily FX moves) and a tightening discount drove share price total returns of +6%. Just following the month's end, OCI announced that its recently launched Origins fund, which focuses on the lower mid-market segment, had made its first acquisition. Origins invested €43 million (we estimate OCI's share will be ~2% of its NAV) in 7NXT, a fitness and nutrition company based in the German-speaking regions of Europe. 7NXT's operates three businesses: (1) the largest, Gymondo, is an online subscription-based fitness platform for women; (2) Shape Republic, a direct-to-consumer nutrition and supplements brand; and (3) Brand Solutions, a merchandising and licensing division.

We think this is an exciting first acquisition for the Origins fund, with 7NXT operating in a market with attractive secular growth prospects driven by a number of factors, including increased consumer awareness of the importance of health and fitness, and a "break" in consumer fitness habits induced by lockdowns. The potential for expansion into other geographies is also attractive.

OCI ended the month on a 29% discount, which we continue to believe is too wide given the clear evidence of improvements in governance and the continued impressive NAV returns that now place OCI in 1<sup>st</sup> and 2<sup>nd</sup> place within the listed private equity sector over three and five years respectively. We continue to find OCI's portfolio of fast-growing companies attractive, sourced by its network of entrepreneurs and underpinned by a willingness to look at complex deals that other houses eschew.

**Fondul Proprietatea (FP) added 40bps to returns.** A -7% fall in listed OMV Petrom (13% of NAV) and a weaker RON exchange rate led to a fall in NAV of -4%; this was outweighed by a 6% tightening in the discount, and total shareholder returns were +5%. Following the removal of the requirement for FP to have 20% of its NAV in listed investments, FP successfully placed a quarter of its stake in OMV Petrom. We expect that the proceeds will be used to fund either dividends or NAV-accretive buybacks/tender offers.

FP continues to offer significant merit as an investment. Several catalysts exist to unlock value for shareholders, including the IPO of Hidroelectrica (48% of NAV), which would make it the only pure-play listed hydroelectricity company in the world. We estimate Hidroelectrica is held at a significantly lower valuation than listed peers, and would benefit from institutional demand for renewable, ESG-compliant, infrastructure-type assets. Other value-unlocking events may include the IPO of Bucharest Airport (7% of NAV) once international travel recovers; further sell-downs of the OMV Petrom stake (13%); and the sale of the Enel distribution subsidiaries (7%). While we await the eventual timing of these catalysts, we remain content to hold a cheaply valued portfolio of some of Romania's most attractive infrastructure assets, all while being paid a 5% dividend yield and benefitting from NAV-accretive tender offers and buybacks.

## MANAGER'S COMMENT

**VNV Global (3% of AGT's NAV) was the largest detractor this month**, reducing returns by 35bps. Share price returns were -12%, driven primarily by the fund moving from a premium to a discount. Following the month end, the share price has recouped most of the previous month's declines.

Share price fluctuations aside, we remain excited by the prospects for VNV's holdings. Babylon (32% of NAV) continues to display rapid growth, significantly boosted by a change in how people approach healthcare as a result of the pandemic and subsequent lockdowns. Babylon's stated mission is to reduce cost and strain on healthcare systems by focusing on *healthcare* rather than, as it contends, caring for *sick* patients as many health systems currently do. In other words, Babylon believes that one solution to over-strained healthcare systems is prevention, not cure. This approach reduces the need for patients to attend hospitals and undergo expensive treatment and procedures, resulting in better health outcomes for patients and lower costs for providers. A recent independent study (pending publication in a peer-reviewed academic journal) of Babylon's trial with the NHS indicated that the use of Babylon reduced hospital spend by 35% and A&E visits by 25%.

As discussed at VNV's recent Capital Markets Day (YouTube replays available [here](#)), Babylon's monthly revenue figures should grow rapidly as it scales up its business; management estimates that monthly recurring run-rate revenue by end-2020 could be over \$50 million, and over \$85 million by end-2021 (i.e. annual run-rate revenues of \$1 billion). Note this compares to an implied carrying value in VNV's NAV for the entire business of \$2.6bn. While these are just estimates and, significantly, depend on contracts in the pipeline being signed, we believe that Babylon has successfully built a business that holds out the twin promises of better health and lower costs – a holy grail of healthcare. Furthermore, Babylon's "integrated care" approach, which uses a mix of AI and digital consultations, is significantly differentiated from the competition and serves to create a network effect as greater customer use drives better AI, which drives higher customer and healthcare-provider engagement, and so on in a virtuous cycle or "flywheel" effect. With several peers operating with what we believe to be inferior business models now having listed and trading at high multiples, we suspect an IPO of Babylon is not too far away.

Having spilt much ink on Babylon to date (and Voi, to a lesser extent), it perhaps behooves us to comment on VNV's second-largest asset, French unicorn BlaBlaCar (21% of NAV). BlaBla was originally set up in France as a carpooling network, wherein a driver undertaking a journey (from, say, Paris to Lyon) could advertise this on BlaBla's website and find fellow travellers with whom to split the cost of the journey. BlaBla now has 72 million passengers undertaking shared trips annually, close to 25% of which are matched and priced using big data. More recently, BlaBla has expanded into other transport "modalities", such as developing a bus marketplace that allows companies to sell seats to passengers. BlaBlaCar here acts as a *booking.com*-style online travel agent by providing the infrastructure and network that links up suppliers of seats with passengers needing them, driving the adoption of digital ticketing in emerging markets.

BlaBla's vision is to eventually add a train marketplace to its network and thus become a one-stop shop that would allow passengers to book complex journeys – car to train station, train to a city near to the destination, bus to complete the last ten miles of the journey, carpool to complete the last mile – in a single ticket. This all-encompassing offering would be powered by proprietary algorithms that plan out efficient routes and determine optimum pricing strategies, creating a strong moat.

The offering to passengers is compelling, and BlaBlaCar's community network of 85 million passengers is highly attractive for carpoolers and transport companies. Growth in one stimulates growth in the other, which drives further growth in the first, and so on in the flywheel effect seen so often across VNV's portfolio. As with many of VNV's investments, we can see a hard-to-assail network effect being developed here which both drives future growth and insulates the company from competition.

With little to no marketing spend required (BlaBla owns 87% of its traffic), the operating leverage is significant and should see rapid earnings growth as revenues increase. Further growth can be found in international expansion and adding on further modalities such as trains and short-distance carpooling for commuters. A company with a significant number of growth opportunities and a network effect is, in our view, an attractive proposition and we are excited about BlaBlaCar's prospects.

**Trading activity** over the month was modest, and we ended the month 11% geared. Subsequent to month-end, this has reduced to 6% at the time of writing.

## STATISTICS

## Contributors / Detractors (in GBP)

Largest Contributors	1-month contribution bps	Percent of NAV
JAPAN SPECIAL SITUATIONS**	136	18.9
OAKLEY CAPITAL INVESTMENTS	48	8.1

Largest Detractors	1-month contribution bps	Percent of NAV
VNV GLOBAL	-35	2.8
DOVALUE	-26	2.5

	Value	% 1 mo	% 1 yr	% 3 yr	% 5 yr
Share Price (pence) TR <sup>2</sup>	741.0	3.4	2.0	13.8	81.4
Net Asset Value TR <sup>1</sup>	817.0	1.0	0.0	12.4	74.9
MSCI ACWI ex USTR <sup>3</sup>		1.0	-1.8	7.4	58.5
MSCI ACWI ex US Value <sup>1</sup>		-0.7	-15.0	-11.3	30.3
MSCI ACWI TR <sup>1</sup>		0.2	5.3	27.6	91.3
Morningstar Global Growth TR <sup>3</sup>		0.0	7.3	23.5	81.3
Fiscal Yr Net Returns (%)	2020	2019	2018	2017	2016
Price <sup>1</sup>	2.0	-0.4	12.0	18.7	34.3
Net Asset Value <sup>1</sup>	0.0	2.1	10.0	18.8	31.0
MSCI ACWI ex US (£) <sup>3</sup>	-1.8	4.5	4.7	15.8	27.4
MSCI ACWI ex US Value <sup>1</sup>	-15.0	1.1	3.3	17.7	24.7
MSCI ACWI <sup>1</sup>	5.3	7.3	12.9	14.9	30.6
Morningstar Global Growth <sup>3</sup>	7.3	2.9	13.8	20.1	22.9

## Capital Structure

Ordinary Shares	116,003,133
Shares held in Treasury	10,451,403
4.184% Series A Sterling Unsecured Note 2036	£30,000,000
3.249% Series B Euro Unsecured Note 2036	€30,000,000
2.930% Unsecured Note 2037	€20,000,000
0.992%# JPY Revolving Credit Facility	¥9,000,000,000

## Gross Assets/Gearing

Gross Assets	£998.0m.
Debt @ fair value	£135.6m.
Gearing <sup>4</sup>	11.3%

<sup>1</sup> Source: Morningstar. All NAV figures are cum-fair values.

<sup>2</sup> Source: Morningstar. Share price total return is on a mid-to-mid basis, with net income re-invested.

<sup>3</sup> From 1<sup>st</sup> October 2013 the lead benchmark was changed to the MSCI ACWI ex US (£) Index. The investment management fee was changed to 0.7% of net assets and the performance related fee eliminated.

<sup>4</sup> Fair value of debt divided by net assets at fair value.

\* AVI Global Trust financial year commences on the 1<sup>st</sup> October. All figures published before the fiscal results announcement are AVI estimates and subject to change.

\*\* A basket of 15 stocks: Daiwa Industries, Fujitec, Kanaden, Kato Sangyo, Konishi, NS Solutions, Pasona Group, Sekisui Jushi, SK Kaken, Teikoku Sen-I, Toagosei, Digital Garage, DTS Corp, Toshiba Corp, Bank of Kyoto.

# Libor +102bps

## Investment Manager – Joe Bauernfreund

AVI Ltd. +44 20 7659 4800 info@assetvalueinvestors.com

The share price can be found in The Times.

Information may be found on the following websites:

[www.aviglobal.co.uk](http://www.aviglobal.co.uk)

[www.assetvalueinvestors.com](http://www.assetvalueinvestors.com)

## IMPORTANT INFORMATION

All figures are as at the period under review unless otherwise stated. All sources Asset Value Investors Ltd ("AVI") unless otherwise stated. AVI is authorised and regulated by the Financial Conduct Authority of the United Kingdom (the "FCA") and is a registered investment adviser with the Securities and Exchange Commission of the United States. While AVI is registered with the SEC as an investment adviser, it does not comply with the Advisers Act with regard to its non-U.S. clients. This document does not constitute an offer to buy or sell shares in AVI Japan Opportunity Trust plc (the "Trust"). The contents of this message are not intended to constitute, and should not be construed as, investment advice. Potential investors in the Trust should seek their own independent financial advice. AVI neither provides investment advice to, nor receives and transmits orders from, investors in the Fund.