

AVI Global's Bauernfreund hears the music, buying Universal, Hipgnosis and Sony

By Jamie Colvin / 13 Jun, 2022

**2**

AVI Global ([AGT](#)) fund manager Joe Bauernfreund's attraction to the music industry crescendoed in the half-year to March, as he opened positions in **Universal Music Group** (UMG) and **Hipgnosis Songs** fund ([SONG](#)) and added to a stake in Sony Music owner, Sony Media Group.

Bill Ackman's **Pershing Square** ([PSH](#)), the largest holding in the portfolio of undervalued investment and holding companies at 9% of assets, is 27% invested in Universal. Over the period, Bauernfreund also bought and sold **Round Hill Music Royalty** fund ([RHM](#)).

The manager of the £962m closed-end fund is bullish about the prospects of music, highlighting the potential of streaming services as they penetrate emerging markets further and become increasingly monetised in developed markets on social media and in video games.

'Our prior research on Universal Music Group, when it was owned by Vivendi, and on Sony Music, given our large position in Sony Group Corp, led us to appreciate the secular growth attractions of the music industry and the advantaged positioning of content owners in the value chain,' Bauernfreund (pictured below) wrote.



Bauernfreund's conviction on the music theme has grown in recent years. He added Sony in June 2019, according to Morningstar Direct, and Pershing bought a 10% stake in the company last year, according to their financial report. Bauernfreund first bought Pershing, a concentrated fund of US-exposed equities, in 2017.

Pershing was AVI Global's largest contributor to investment performance, lifting net asset value by 1% over the period. Bauernfreund attributed this to a sharp rally by several holdings including Universal, whose shares leapt 33% in March.

Bill Ackman's use of derivatives in late 2020 to protect his portfolio from rising inflation also propelled returns for Pershing, adding almost 15%, Bauernfreund estimates.

In the half-year, AVI Global made a modest return on net assets of 1.3%, compared with a 1.4% drop from its international benchmark, the MSCI ACWI-ex USA index, which excludes

the US as Bauernfreund, a value investor, tends to not invest in what has been a more expensive growth market. The shares slipped 1.2%, however, as their discount, or gap, to net asset value, widened to just over 9%.

The new positions in music have lost their rhythm recently, with Universal slipping 12% and Sony 10%.

Since March, the investment company's asset value has slipped 3%, almost double that of its benchmark. Pershing Square has fallen 16.4%, losing \$400m after Ackman ditched his [stake in Netflix](#) only three months after buying into the programme streaming giant.

Over the half-year period, Bauernfreund concentrated the portfolio 'on the most attractively valued companies', which he lists as investment companies Eurazeo and Pershing, holding company IAC, engineering group Aker, Universal, and electronic tablet manufacturer Wacom.

Aker contributed 21.4% to net asset value over the half-year, and another top 10 investment company holding, [private equity](#) fund **Oakley Capital (OCI)**, 18.8%.

To fund these purchases and top-ups, he sold or reduced investment company Investor AB, VNV Global and Associated British Foods alongside Japanese employment company Pasona Group and Keisei Electric Railway from its sub-portfolio of cheap Japan stocks.

The trust has a £150m borrowing facility if Bauernfreund spots opportunities as investment company discounts widen as markets worry about stagflation and rising interest rates.

Under Bauernfreund AVI Global has generated a 48.7% total shareholder return over five years to place it fifth out of 17 trusts in the AIC Global sector. It lags the average 51.5% return in the peer group, however, and stands on an 11% discount.