Bauernfreund eyes openings for AVI Global's 'dry powder'

By **Jamie Colvin** / 27 Apr, 2022

AVI Global (AGT) fund manager Joe Bauernfreund is cautiously looking for opportunities to deploy up to £150m of cash and borrowing as volatile stock markets weaken the share prices of the investment companies and holding companies he likes to buy.

Bauernfreuend (pictured below), who as chief executive of Asset Value Investors (AVI) has run the £950m investment trust for six-and-a-half years, removed the small amount of gearing, or borrowing, the closed-end fund had at the start of the year. Although the company is paying interest on £30m and €50m of long-term loans, keeping the cash in reserve has helped the trust avoid the steep falls of global growth rivals like **Scottish Mortgage** (SMT) and **Martin Currie Global** (MCP).

While they have slumped 34% and 25% respectively, AGT has fallen 12.5%, a decline that reflects the widening of investment company discounts as investors worry about inflation, rising US interest rates and the impact of the Ukraine war.

‘We have been patient thus far in terms of getting that money reinvested,’ Bauernfreund told *Citywire Investment Trust Insider*. ‘As things stand we are almost 100% invested, which I think is appropriate for our mandate.

‘I am not in favour of making big market-timing bets. We have made a few small incremental additions to some existing holdings in the past few weeks, and we are starting to see some of the weakness in equity markets spread to parts of our universe that had previously looked over-valued.

‘So I expect we will find good opportunities to invest that cash in the coming months but, at present, we are in no rush,’ he said.

Year to date the underlying net asset value (NAV) of AGT’s investments in 36 closed-end funds and holding companies is down 8%, according to Morningstar data from Numis Securities. That’s behind the 6.2% decline in the MSCI All Countries World index, a benchmark that it has underperformed over five years with NAV including dividends up 52.7% against a 60% advance in the MSCI.

Bauernfreund is confident the portfolio of undervalued investments can re-rate once markets stabilise. While he waits, there has also been a lull in his team's investor activism. The fund manager declined to comment on this week's strong results from **Third Point Investors** (TPOU), in which it is nearly 6% invested, having secured – with other rebel shareholders – representation on its board after a bruising corporate governance battle with the Daniel Loeb managed hedge fund last year.

However, he was clear he wanted to see further action on Third Point's discount that has widened to 14% from the 11% it narrowed to after its victory in February.

'We share the frustration of many shareholders that despite the very strong performance, the quality of the underlying portfolio and the success it's had over the last few years in particular, that it continues to trade at a discount that we think is far too wide,' said Bauernfreund, who took advantage of an opportunity this month to exchange some of AGT's holding in Third Point to its underlying 'master' fund at close to NAV.

Bauernfreund is more patient with Third Point's rival **Pershing Square Holdings** (PSH), its top position at 9% of assets at the end of March. Although AVI clashed with Pershing Square three years ago over a long-term loan it thought could frustrate efforts to narrow the fund's wide discount, relations have improved. For the time being Bauernfreund is willing to settle for the turnaround in performance fund manager Bill Ackman has achieved through the pandemic, with shareholder returns up 107% since 2019, despite the stock trailing NAV by a massive 31%.

'The NAV growth and the share price performance more than makes up for the fact that [Pershing] trades on a wide discount. We hope the board continues to look at ways to narrow the discount and we hope [it] does start to narrow,' Bauernfreund said.

The key difference between the holdings is their long-term performance. Since investing in both in 2017, Pershing Square shares have returned around 136% versus Third Point's 74% and the MSCI World's 63%.

AVI is also forgiving of Ackman's recent decision to end a three-month investment in Netflix, at a loss of over $400m, after the US streaming giant disclosed a slump in subscriber numbers due to inflation. Asked for his view, Bauernfreund referred to a comment from his head of research Tom Treanor who last week said: 'Doubling down in these situations is actually the easy option. Yet often the most dangerous. Selling out was a brave decision and we applaud it regardless of Netflix's subsequent share price from here –

it appears Pershing has learnt from past mistakes and has demonstrated commendable discipline.’