UPDATE

AVI Global Trust

AGT

April 2020

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

AGT recoups some February & March losses

The AGT NAV rose by +10% over the month. Returns were driven by a recovery in NAVs, with an additional boost provided by a tightening of the portfolio discount.

Read more below

Fujitec campaign launches

We are calling on the elevator and escalator operator to address deficiencies in its corporate governance, business strategy and capital efficiency.

Read more below

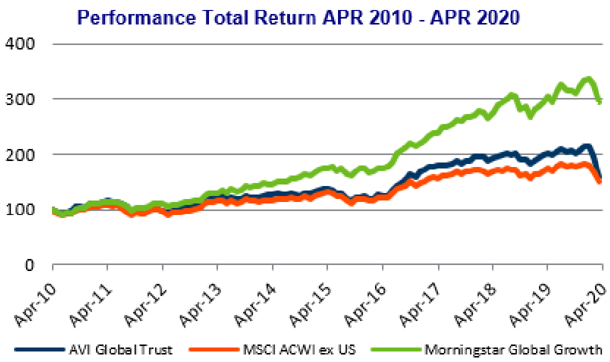
Japan Special Situations leads returns

The basket had previously been one of the largest detractors from performance as Japanese equities sold off heavily during February.

Read more below

PERFORMANCE
(Figures to 30 April 2020)

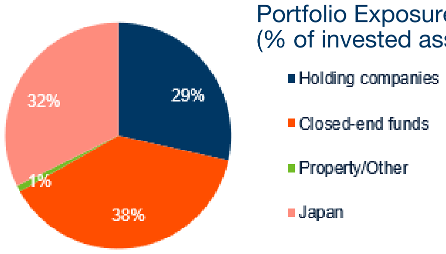
Share Price (pence)	608.0
NAV (pence)	681.5
Premium / (Discount)	-10.8%



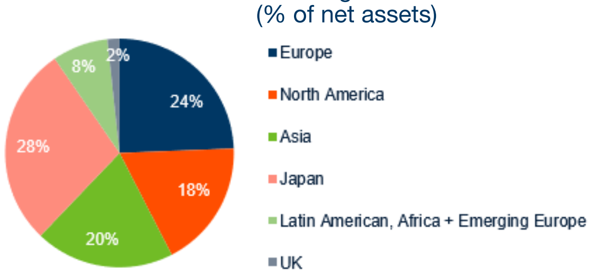
	Month	Financial Yr* to date	Calendar Yr to date
AGT NAV[1]	10.0%	-17.3%	-20.0%
MSCI ACWI Ex US[3]	5.8%	-12.3%	-13.4%
MSCI ACWI Ex US Value[1]	4.6%	-19.7%	-20.2%
MSCI ACWI[1]	8.8%	-7.3%	-8.6%
Morningstar Global Growth[1]	8.7%	-5.7%	-8.3%

THE FUND

Portfolio Exposure
(% of invested assets)



Risk Region Breakdown
(% of net assets)



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.

Top Ten Equity Holdings

Holding	%
Japan Special Situations**	19.5
Pershing Square Holdings	10.0
Oakley Capital Investments	7.9
Softbank Group	6.6
Sony	6.0
Jardine Strategic	5.5
Fondul Proprietatea	5.2
Third Point Offshore Investors	4.7
EXOR	4.2
Kinnevik B	3.7
TOTAL	73.3

MANAGER'S COMMENT

AVI Global Trust (AGT)'s NAV rose by +10% over the month, recouping some of the losses incurred during the February and March sell-off**.** Returns were driven by a recovery in NAVs, with an additional boost provided by a tightening of the portfolio discount. During the sell-off, AGT's performance was doubly affected by declining underlying NAVs and a widening portfolio discount. The recovery since then has been the flipside of this, with improving underlying NAVs being boosted by a tighter portfolio discount. As we have said previously, a widening discount often sets the stage for out-performance in the future. Major contributors included the Japan Special Situations basket, Pershing Square Holdings, SoftBank Group, and Oakley Capital. Major detractors included Jardine Strategic and Godrej Industries.

The Japan Special Situations basket was the largest contributor to returns in April, adding 126 basis points (bps) to NAV. The weighted average total return for the stocks in the basket was +8% in JPY, which compares to total returns of +4% from both the TOPIX and TOPIX Small indexes. The basket had previously been one of the largest detractors from performance as Japanese equities sold off heavily during February. There has been some recovery since then, but we note that the metrics in the portfolio remain compelling: the average stock in the basket has 91% of its market cap covered by net financial value (net cash + investment securities), and the average EV/EBIT is a derisory 3.2x. Although the economic outlook at the moment could charitably be termed "unclear", we struggle nonetheless to see the logic in applying such low multiples to businesses that are mature, profitable and generating positive cash flows.

With the outbreak of coronavirus and the subsequent economic shock, the obvious question arises: will this halt the tides of corporate governance reform in Japan, with management teams and directors now able to point to the current crisis as justification for their "rainy day" cash piles? While we acknowledge that this economic setback certainly makes a strong case for prudence in balance sheet management, we would argue that there is still plenty of room to find a middle ground between the ultra-lean balance sheets seen in the US, and the cash-replete ones of Japan. Many of our portfolio companies continue to announce buybacks and increased pay-out ratios, giving us further confidence that our thesis is far from dead in the water.

Just after the month's end, we announced **a public campaign calling on elevator and escalator operator, Fujitec** (6406) (3% of AGT's NAV), to address deficiencies in its corporate governance, business strategy and capital efficiency. This campaign is a clear example of AVI's long-term approach to activism in Japan, which focuses on improving the business to the benefit of all stakeholders. A dedicated website for the campaign can be found here.

SoftBank Group contributed 125bps to returns, driven primarily by a tightening of the discount from 66% to 58%. Share price returns were +22%. We have discussed SoftBank at length in previous newsletters (see here and here). April's strong performance reflects both a recovery in global equity markets following the coronavirus-related sell-off, as well as the market's assessment of SoftBank's recent transformative announcements. To wit, SoftBank has announced JPY4.3 trillion of asset sales, the proceeds of which will finance debt reductions and two separate buyback programmes which, together, total JPY2.5 trillion, or 26% of outstanding shares at the current share price.

At the wide discount levels we are observing now, the NAV accretion from buybacks for remaining shareholders is highly attractive: should the buyback programme be conducted at an average discount of (say) 50%, we estimate that NAV per share growth would be in the order of +14%. This is equivalent to a 127% return on invested capital which, given that the accretion is risk-free, immediate, and mathematically certain, makes it a highly attractive investment proposition relative to almost any other opportunity SoftBank might consider.

Oakley Capital Investments (OCI) added 90bps to returns in April as the discount tightened from -41% to -37%*. The major event for OCI during the month was the realisation of its stake in Inspired, one of the world's largest providers of private K-12 education.

MANAGER'S COMMENT

The sale was struck at a +25% uplift to the prior carrying value, which added +3% to NAV. OCI first invested in Inspired (known then as Educas) through Fund I in 2013. Fund II subsequently invested in Educas in 2014, and, in 2017, as Fund I began to enter the harvesting phase of its lifecycle, OCI bought its stake as a direct investment. Inspired has over the years built out a global network of 64 schools educating 45,000 students, in the process generating excellent returns for Fund I (36% IRR) and Fund II (42% IRR – before accounting for uplift on sale). Following the realisation of Inspired, OCI has over 30% of its NAV in cash, leaving it in a strong position to support its portfolio companies; capitalise on the current market environment, which can result in attractive companies trading at distressed prices; or buy back its own shares in the market at a heavily discounted price (as indeed it did in March, buying back 1% of outstanding shares at a headline discount in excess of 50%).

Jardine Strategic (JS) was the single-largest detractor over the month, reducing NAV by 29bps. A +6% improvement in NAV was outweighed by a widening of the discount from -43% to -48%, resulting in share price total returns of -3%. JS's underlying holdings have been impacted by the coronavirus outbreak, with countries across Southeast Asia being forced to lock down their populations in order to contain the spread of the virus. A positive counterpoint to this is the loosening of lockdown regulations in mainland China, which is leading to improved business performance there. Looking to specifics of the portfolio, we note that Dairy Farm (22% of NAV) is reporting continued improvement from its business transformation plan, and we view Hongkong Land (24%)'s acquisition of a 23-hectare site in Shanghai as transformative and having the potential to drive the next leg of growth. The investment will allow it to develop a mix of office, retail, residential and hotel properties (without requiring capital from shareholders), similar to its portfolio of properties in central Hong Kong.

During the month, **we exited the position in Pargesa, the Swiss-listed holding company** whose sole asset is a stake in Groupe Bruxelles Lambert, a Belgian holding company with a portfolio of high-quality, large-cap, European businesses.

We initiated a position in Pargesa in 2015 when the spread between it and GBL's discount widened to what we considered to be an unsustainable level. The investment allowed us to gain exposure to GBL's portfolio of companies (Adidas, Pernod Ricard, LafargeHolcim, among others) while also benefitting from any tightening of the discount spread between Pargesa and GBL. In March 2020, the controlling Frère and Desmarais families announced measures which would collapse the Pargesa structure and we took advantage of this opportunity to exit the position. Over the lifetime of the investment, Pargesa generated an IRR of +5% in CHF terms and +9% in GBP, vs. 2% (CHF)/6% (GBP) for the MSCI ACWI ex-US.

Market volatility of the kind witnessed in February and March often throws up attractive opportunities for the investor who is in the enviable position of having capital to invest at distressed prices. Over the period approaching the crisis, we had **reduced gearing substantially to c. 1% of NAV** which, together with the proceeds from the Pargesa exit and other sales, gave us additional capital to invest into companies that had been on our radar for some time, but were not previously attractive enough on valuation grounds. We invested 6% of AGT's NAV into four new companies, namely: KKR, Christian Dior & LVMH, and Howard Hughes. All of these names are highly liquid (providing optionality in volatile markets), high-quality companies with strong earnings growth potential.

KKR (2% of NAV) is a US-listed alternative asset manager which we invested in at an estimated 45% discount to NAV. We believe there are multiple secular tailwinds favouring KKR, many of which are misunderstood by the market:

- KKR operates in a highly attractive industry, with secular growth driven by increasing institutional investments in alternative assets, underpinned by a "lower-for-longer" rate environment.
- Its full suite of alternative strategies – private equity, credit, real assets – allows it to cross-sell to its LPs, and benefit from institutional investors looking to consolidate their GP relationships.

MANAGER'S COMMENT

- Investments in developing new strategies over the last ten years should start to see increasing performance fees as these mature and scale. Up-front investment in these areas has stifled margins, which we expect to increase from here.
- One of KKR's differentiating factors is its very large balance sheet consisting of investments in, and co-investments alongside, its own investment funds. As well as generating attractive returns in its own right in a fee-free manner for shareholders, the balance sheet also allows for potentially higher growth than peers given it can be used to support/seed new investment strategies.
- The long-duration nature of the capital managed by alternative asset managers results in stable and highly visible revenues, with carried interest (performance fees) consistently undervalued as an income stream by the market.

Christian Dior (CDI, 2% of NAV) is the French-listed mono-holding company whose sole asset is a 41% stake in LVMH, the luxury goods conglomerate. CDI is 98% owned by Bernard Arnault, CEO of LVMH and Europe's richest man. Since the creation of the current group structure in 2017, CDI has typically traded at a very small discount to NAV, but the recent market volatility saw the discount widen out to greater than 25%, and **we were able to accumulate a position at wide discount levels.** We also bought a direct stake in LVMH, accounting for another 1% of NAV, as it sold off strongly in February/March. We view LVMH as a highly attractive asset, with diverse category exposure across Fashion & Leather and Wine & Spirits, as well as hard luxury, speciality retail and beauty. LVMH owns a collection of unique brands with intangible qualities that cannot be replicated.

This brand equity translates into high demand for their products, pricing power, and attractive margins. In particular Louis Vuitton is a global mega-brand, operating in an industry in which such status and scale is a huge advantage, driving top-line growth, supporting superior margins, and creating a virtuous cycle in which dominant scale reinforces their incumbent positions. The Christian Dior/LVMH position is a “classic AVI” investment, with the potential to benefit from NAV growth as LVMH recovers and continues to grow its presence in emerging markets, as well the upside from discount contracting, either through normalisation to a 0-1% discount, or the collapse of the CDI holding structure.

Howard Hughes (HHC, 1% of NAV) is a US-listed property owner and developer focusing on Master Planned Communities in six projects from Hawaii to New York. **We invested in HHC at an average discount of 46%**. (The trust also has indirect exposure to HHC through Pershing Square Holdings, where it accounts for 10% of NAV.) We view HHC as having two distinct elements:

1) A growing investment property portfolio which provides increasing recurring revenue streams, more than covering the market cap of HHC, with the entire MPC landbank not reflected in the current market valuation.
2) The five major MPC landbanks are effectively small cities, with supply closely controlled by HHC in order to drive sales prices over the long term.

Having raised USD 594 million of fresh equity in April of this year, HHC is adequately capitalised to survive the current downturn (which will affect its retail rental streams, as well as office space exposed to oil & gas tenants), and fund the development of its attractive property pipeline.

AGT ended the month with modest gearing of 7%. The portfolio discount closed at 40%, compared to 42% at the end of March.

*Latest valuation for unlisted is December 2019. We adjust OCI's NAV for listed holdings, currencies, dividends, and announced investments/realisations.

STATISTICS

Contributors / Detractors (in GBP)

Largest Contributors	1 month contribution bps	Percent of NAV
Japan Special Situations**	127	19.5
Pershing Square Holdings	125	10.0

Largest Detractors	1 month contribution bps	Percent of NAV
Jardine Strategic	-29	5.5
Godrej Industries	-19	2.2

	Value	% 1 mo	% 1 yr	% 3 yr	% 5 yr
Price (£) TR[2]	608.0	9.6	-15.9	-3.5	25.2
Net Asset Value TR[1]	681.5	10.0	-14.8	-4.6	24.8
MSCI ACWI ex US TR[3]		5.8	-8.6	1.8	20.8
MSCI ACWI ex US Value[1]		4.6	-17.9	-12.0	2.5
MSCI ACWI TR[1]		8.8	-1.8	16.9	50.9
Morningstar Global Growth TR[3]		8.7	-2.3	15.8	49.0

Fiscal Yr Net Returns (%)	2019	2018	2017	2016	2015
Price[1]	-0.4	12.0	18.7	34.3	-9.5
Net Asset Value[1]	2.1	10.0	18.8	31.0	-8.3
MSCI ACWI ex US (£)[3]	4.5	4.7	15.8	27.4	-6.0
MSCI ACWI ex US Value[1]	1.1	3.3	17.7	24.7	-10.3
MSCI ACWI[1]	7.3	12.9	14.9	30.6	-0.1
Morningstar Global Growth[3]	2.9	13.8	20.1	22.9	5.7

Capital Structure	
Ordinary Shares	116,003,13
Shares held in Treasury	7,745,84
4.184% Series A Sterling Unsecured Note 2036	£30,000,00
3.249% Series B Euro Unsecured Note 2036	€30,000,00
2.930% Unsecured Note 2037	€20,000,00
0.992%# JPY Revolving Credit Facility	¥4,000,000,00

Gross Assets/Gearing	
Gross Assets	£858.4m
Debt par value	£102.8m
Actual Gearing (Debt less cash divided by net assets)	7.3%

1 Source: Morningstar. All NAV figures are cum-fair values.
2 Source: Morningstar. Share price total return is on a mid-to-mid basis, with net income re-invested.
3 From 1st 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.
* AVI Global Trust financial year commences on the 1st October.All figures published before the fiscal results announcement are AVI estimates and subject to change.
** A basket of 14 stocks: Daiwa Industries, Fujitec Co, Kanaden Corp, Kato Sangyo Co, Konishi Co, NS Solutions, Pasona Group, Sekisui Jushi Corp, SK Kaken, Tachi-S Co, Teikoku Sen-I Co, Toagosei Co, Digital Garage, DTS Corp.
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The share price can be found in The Times.

Information may be found on the following websites:
www.aviglobal.co.uk
www.assetvalueinvestors.com

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IMPORTANT INFORMATION