July 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

Kinnevik was this month's largest contributor

Returns were driven by the strong performance of holdings benefitting from a giant leap forward in consumers' adoption of digital technologies following lockdowns.

Japan Special Situations Basket

We turn the spotlight on two holdings which have strong secular growth prospects as corporate Japan upgrades its aging IT infrastructure. Both will also benefit from the trend to improved governance and efficiency.

Read more below

AVI initiates new position in VNV Global

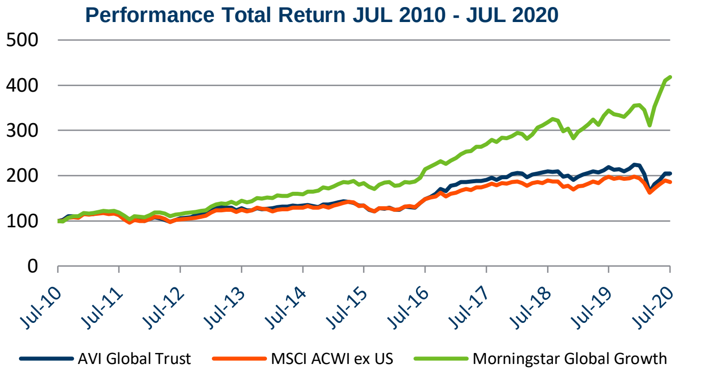
AGT has initiated a new position in VNV Global, a Stockholm-listed investment company focused on investing in disruptive digital businesses with network effects resulting in high barriers to entry.

Read more below

PERFORMANCE

(Figures to 31 July 2020)

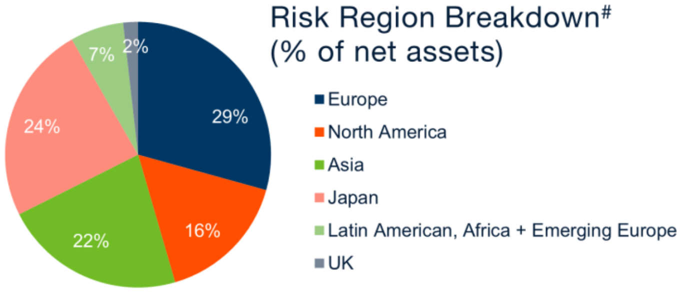
Share Price (pence)	692.0
NAV (pence)	762.6
Premium / (Discount)	-9.3%



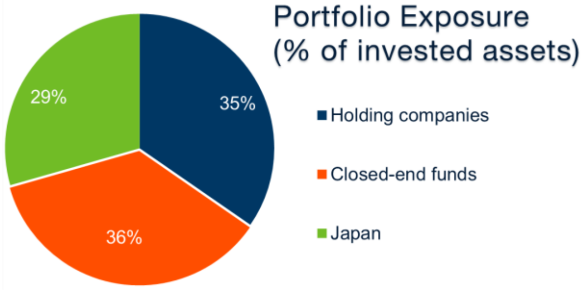
	Month	Financial Yr* to date	Calendar Yr to date
AGT NAV[1]	-0.1%	-6.7%	-9.8%
MSCI ACWI Ex US[3]	-1.7%	-4.9%	-6.2%
MSCI ACWI Ex US Value[1]	-3.9%	-16.4%	-17.0%
MSCI ACWI[1]	-0.9%	1.0%	-0.4%
Morningstar Global[1]	-0.8%	3.3%	0.5%

THE FUND

Risk Region Breakdown# (% of net assets)



Portfolio Exposure (% of invested 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**	16.9
Pershing Square Holdings	9.2
Softbank Group	8.6
Oakley Capital Investments	7.7
Kinnevik B	6.6
Sony	6.2
Fondul Proprietatea	5.2
KKR	4.3
Third Point Offshore Investors	4.3
Prosus	3.9
TOTAL	72.9

MANAGER'S COMMENT

AVI Global Trust (AGT)'s NAV fell by -0.1%, with underlying NAV gains and a tightening of the portfolio discount (37% to 35%) outweighed by a strengthening of sterling against most major currencies. Major contributors included Kinnevik, SoftBank Group, and Oakley Capital Investments. Major detractors included the Japan Special Situations basket, Godrej Industries and Jardine Strategic.

Kinnevik was July's largest contributor, adding 133 basis points (bps) to returns, driven by strong NAV growth (+7%) and a tightening of the discount from 23% to 10%. Kinnevik has been the largest contributor to AGT's portfolio in 2020 (share price total return of +40% at the time of writing), with many of its holdings benefitting from a giant leap forward in consumers' adoption of digital technologies following lock-downs. Key holdings such as Zalando (internet fashion retail; 38% of NAV), Livongo (digital health management; 14%) and Global Fashion Group (internet fashion retail; 5%) have all seen exceptional share price performances since the start of the year.

Livongo has been the star performer, with its share price rising five-fold in 2020. The company provides users with the ability to manage chronic diseases (such as diabetes) remotely, thus reducing pressures on health systems by allowing non-emergency patients to reduce in-person visits. This functionality has been highly desirable in the midst of a pandemic and, together with Livongo's demonstrated ability to reduce health care costs, has accelerated new customer launches.

Following the month end, Livongo and Teladoc (a US-listed virtual healthcare services company) announced a merger which would see Livongo shareholders receive a combination of Teladoc shares and cash. Kinnevik would own 5% of the combined entity and receive an estimated dividend of $140 million (1% of NAV). At the time of the announcement, this represented a +10% premium to the undisturbed share price, giving Kinnevik a 13x return on the capital invested in Livongo. Kinnevik will benefit from crystallising a portion of its returns *via* the dividend, with the potential to monetise its stake with greater ease as a result of holding a smaller stake in a larger company.

Oakley Capital Investments (OCI) contributed meaningfully to returns in July, adding 41bps as the discount tightened 3% to 35%. Following the month end, OCI's share price has risen another +11%, and is now 10% from its all-time high reached in late February.

OCI released a trading update at the end of the month, highlighting that its NAV total return was +4% over the six-month period to June 2020. Gains were primarily driven by the sale of Inspired at a +25% uplift to carrying value, Career Partner (a German private university benefitting from a surge in online class uptakes), and FX moves. The major detractor over the period was Time Out (share price down -68%), which has suffered as its Time Out Markets have been shuttered, and demand for advertising space has fallen. Time Out conducted a rights issue to strengthen its balance sheet, which should leave it with sufficient cash to survive the next 14 months.

Helpfully, OCI breaks out the performance of its portfolio by impact from COVID-19. We note that five companies in the portfolio (23% of NAV) have either been unimpacted by the pandemic or have benefitted from it. Perhaps most interestingly, four of those five companies have been acquired in the last twelve months, meaning that their valuations are still carried at cost on OCI's balance sheet – i.e. the resilient operational and financial performance of these companies during the pandemic is not yet reflected in the latest NAV.

On the negative side, there are three companies (28% of NAV) that have been significantly affected by COVID-19. Aside from Time Out, North Sails and Iconic Brands (the holding company which owns recently acquired heritage brands, Alessi and Globe-Trotter) have suffered as a result of store closures during the pandemic. While the impact of lockdown on these companies is clearly negative, we expect that performance will improve as economies exit lockdowns and retail sales pick up.

We note that OCI has 38% of its NAV in cash, leaving it with ample room to support its portfolio companies while also meeting its commitments to Fund IV and the recently launched "Origins" fund, as well as buying back its own shares in the market at a heavily discounted price (estimated discount of 27% at the time of writing).

The Japan Special Situations basket was the largest negative contributor, reducing returns by -133bps. The weighted-average share price return was -3%, which compares favourably to a return of -5% from the TOPIX Small Index (both in JPY terms). Returns were further dampened by a -4% weakening of the GBP/JPY exchange rate.

Over the past month, the companies in this basket have been reporting quarterly earnings. We expect in sum that this quarter will be weak as a result of lockdown measures, although the degree to which companies are affected will vary. Quite often, quarterly earnings do not have an impact on the long-term appeal of a company, but can be useful when they result in mis-pricings that stem from the market's sometimes myopic focus on quarterly numbers. Two such instructive examples are DTS and NS Solutions, both of which are held within AGT's Japan Special Situations basket.

It may surprise some to learn that corporate Japan has chronically under-invested in IT infrastructure, to such an extent that the Japanese Ministry of Economy, Trade and Industry has warned that the economic loss from such under-investment could amount to 2% of GDP annually by 2025. Currently, only 19% of companies in Japan use cloud-based accounting software compared to 53% and 35% in the US and the UK, respectively. DTS and NS Solutions both help companies make this digital transition and are therefore well placed to benefit from increased levels of IT spending as companies upgrade

MANAGER'S COMMENT

Despite this, both stocks have performed poorly following the release of weaker than expected quarterly earnings – while disappointing, we do not believe these results put a dent in the long-term attractiveness of these businesses, and we added opportunistically to the positions over the month. In addition to the attractive earnings profile, both trade on undemanding EV/EBIT multiples of ~6x and offer scope for engagement/improvement given their inefficient balance sheets, poor shareholder communications, and sub-optimal corporate governance. NS Solutions is also majority-owned by Nippon Steel, which investors view as an obstacle to change. In our view, these issues present the opportunity for excellent returns alongside the growth in earnings, as companies in Japan increasingly come under pressure to rationalise their balance sheets and improve governance standards.

AGT has initiated a new position in VNV Global (2% of NAV), a Stockholm-listed investment company focused on investing in disruptive digital businesses – typically ones that generate a large "network" effect which raises barriers to entry for competition. The opportunity to invest came about when VNV announced that it would be conducting a dilutive rights issue in May, and we were able to initiate a position by acquiring a large block of shares from a selling shareholder. We augmented the position by buying rights in the market and earned warrants for agreeing to partially underwrite the issue (which in the end was over-subscribed). While we are not typically a fan of companies undertaking dilutive rights issues, this is the first such issue VNV has conducted in over ten years, and our conversations with senior management provided comfort that this was an exceptional time for them in terms of investment opportunities.

We view VNV Global's portfolio as very exciting. The majority (>80%) of the NAV is in four key assets: Babylon (32% of NAV), BlaBlaCar (21%), VOI (10%), Gett (9%). Following the rights issue, VNV also has 17% of NAV in gross cash (6% net cash).

Babylon is a data-driven digital healthcare provider which uses custom-built AI to diagnose ailments, and provides users with the ability to make on-demand digital appointments with doctors. We had already encountered Babylon through Kinnevik, where it is 3% of NAV, and saw VNV as a way to meaningfully increase our exposure to this attractive asset.

The company has been a beneficiary of COVID-19 as healthcare systems have sought to reduce the number of unnecessary in-patient visits. Babylon's competitive edge is found in its AI technology, which benefits from a network effect as it gains users, enhancing the accuracy of the diagnostic tools, which in turn brings in more patients and commercial partners. This effect raises barriers to entry and makes it difficult for new entrants to dislodge incumbents. To date, Babylon has already partnered with the NHS throughout the UK and has plans to expand through private partnerships in China, Asia and the US. The US is a particularly exciting opportunity, with only 1-2% digital penetration in healthcare (for context, Sweden has higher levels of digital healthcare adoption, with 9% penetration), highlighting the growth potential in this massive market. We also take comfort from Babylon's relatively conservative valuation: we estimate that it is held in VNV at ~6x 2020e revenues, compared to multiples of 15x and 33x for listed peers Teladoc and Livongo, respectively.

BlaBlaCar is a French transportation company that links up drivers undertaking a (typically long-haul) trip with other travellers, in order to split the cost. Similar to Babylon, BlaBlaCar's key advantage is the network effect, wherein the company with the highest number of users attracts the highest number of drivers, which in turn attracts more users – and so on, in a virtuous circle. BlaBlaCar has suffered as a result of COVID-19, but we expect the company to rebound as lockdown measures lift. Further growth should come from geographic expansion, introducing short-haul ride-sharing (e.g. commuting), new add-ons (insurance, car financing), and the recent acquisition of Ouibus to offer complementary services.

Voi is a Swedish mobility company operating networks of electric scooters around major European cities. We believe that it will be a beneficiary of the pandemic, as cities move to emphasise solo methods of transport and reduce reliance on buses and trains. The recent shift in Europe towards the issuance of licences to scooter companies is beneficial insofar as it moderates competition and encourages more rational economic behaviour. Voi's reputation as a "green" player (longer battery life) and respect for regulations makes it an attractive partner for cities. While Voi suffered a recent public setback by not winning a licence in Paris, we think it is worth noting that: (a) the licences are renewed every 2 years, giving Voi a chance to re-apply; and (b) the license was for a relatively small 5,000 scooters. For context, Voi recently won a contract to deploy 2,000 scooters in Cambridge, UK. While Paris is a mega-city and would have been a high-profile win, the real loss here is not as major as it first appears.

Finally, Gett is an Israeli ride-hailing app similar to Uber, Lyft, et al. However, Gett is an app with a difference: it derives a significant portion of revenues from corporate clients, who are less price sensitive. Gett also provides corporates with significant benefits, such as billing software and analytics, which allows companies to streamline and potentially reduce their ground transportation costs – making Gett more difficult to dislodge.

At the time of writing, VNV trades at a relatively narrow discount as a result of a strong share price and FX moves. However, we still see highly compelling upside to the NAV as VNV's portfolio continues to display strong growth.

STATISTICS

Contributors / Detractors (in GBP)

Largest Contributors	1-month contribution bps	Percent of NAV
KINNEVIK B	133	6.6
SOFTBANK GROUP	117	8.6

Largest Detractors	1-month contribution bps	Percent of NAV
JAPAN SPECIAL SITUATIONS**	-133	16.9
GODREJ INDUSTRIES	-61	2.5

	Value	% 1 mo	% 1 yr	% 3 yr	% 5 yr
Share Price (pence) TR[2]	692.0	1.0	-8.3	6.7	55.1
Net Asset Value TR[1]	762.6	-0.1	-8.8	4.9	48.3
MSCI ACWI ex US TR[3]		-1.7	-6.1	4.7	39.3
MSCI ACWI ex US Value[1]		-3.9	-17.4	-12.5	15.0
MSCI ACWI TR[1]		-0.9	0.0	23.0	69.7
Morningstar Global Growth TR[3]		-0.8	0.8	20.6	64.2
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	116,003,133
Shares held in Treasury	9,679,616
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	¥4,000,000,000
Gross Assets/Gearing	
Gross Assets	£932.9m.
Debt @ fair value	£122.1m.
Actual Gearing (debt less cash divided by NAV @ fair value)	9.9%

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.
\# 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
www.assetvalueinvestors.com