August 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

Japan Special Situations Basket

Will the resignation of Prime Minister Abe impact the clear trends we are seeing towards improved balance sheets and corporate governance?

Read more below

Pershing Square Holdings adds 108bps

We comment on Chipotle's strategic initiatives during the first half of 2020, which we believe helped turn a dismal economic environment into a significant advantage.

Read more below

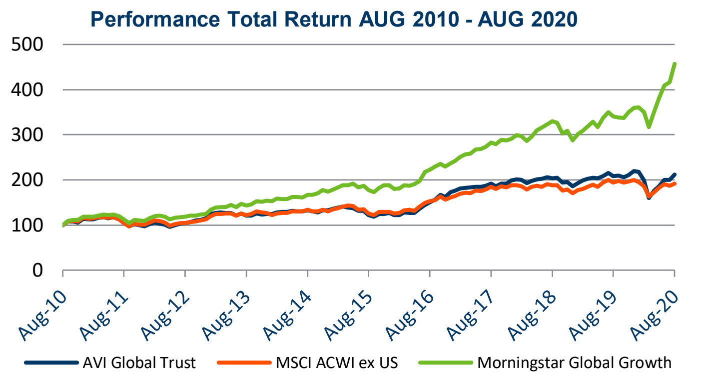
VNV Global

All eyes on Babylon in VNV Global's Q2 report, whose digital healthcare model has become increasingly attractive during the COVID-19 period.

Read more below

PERFORMANCE
(Figures to 31 August 2020)

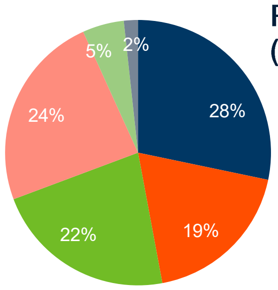
Share Price (pence)	717.0
NAV (pence)	808.6
Premium / (Discount)	-11.3%



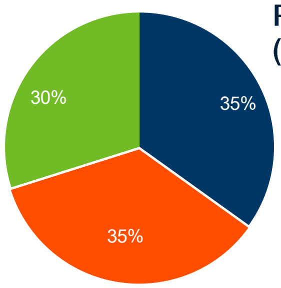
	Month	Financial Yr* to date	Calendar Yr to date
AGTNAV[1]	6.0%	-1.0%	-4.3%
MSCI ACWI Ex US[3]	2.2%	-2.8%	-4.1%
MSCI ACWI Ex US Value[1]	2.4%	-14.4%	-15.0%
MSCI ACWI[1]	4.0%	5.0%	3.6%
Morningstar Global[1]	4.4%	7.3%	4.6%

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**	18.8
Pershing Square Holdings	9.7
Oakley Capital Investments	7.7
Softbank Group	7.6
Sony	6.0
Fondul Proprietatea	4.8
Kinnevik B	4.6
Third Point Offshore Investors	4.3
KKR	4.1
Prosus	3.7
TOTAL	71.3

MANAGER'S COMMENT

AVI Global Trust (AGT)'s NAV rose by +6% in August, driven by a combination of underlying NAV gains and a tightening of the portfolio discount (35% to 34%). Sterling strength against most major currencies was a minor headwind. Major contributors included the Japan Special Situations basket, Pershing Square Holdings, VNV Global, Kinnevik and Godrej Industries.

Reversing its performance from last month, the Japan Special Situations basket was August's largest contributor, adding 125 basis point (bps) to NAV. Japan, and the rest of the world, were surprised this month by the announcement of Prime Minister Abe's resignation; while the deed itself had been expected, the timing thereof was sooner than anticipated. With a change of leader come, naturally, questions about policy continuity. Will the next Prime Minister retain the so-called "Three Arrows" programme? Will the clear trends towards improved balance sheets and corporate governance continue?

The latter question is perhaps the most pertinent for investors – and our answer to it is an emphatic *yes*.

While PM Abe's programme of reforms was indeed radical at the start of his tenure, it has now become doctrine, and we do believe that the gravity of his leadership is no longer necessary to pull companies towards improvement. We draw confidence from our meetings with many managers and directors in corporate Japan: it is abundantly clear from senior-level executives' comments that they are beginning to see the merits of the reforms and have no intention of reverting to the poorer practices of before. Furthermore, domestic institutional investors have begun to flex their muscle, providing significant "oomph" to the changes that we are seeing. Alongside domestic investors, we are encouraged by the increasing presence of other foreign activists, many of whose engagement with companies provides a powerful catalyst for change.

It seems clear to us that the trends we are seeing in corporate Japan are reaching a point of critical mass, such that the reform programme is closer to becoming self-sustaining. Although the pace of travel may not always be to our liking, we remain confident in the strategy, and note furthermore that the cash flow positive nature of the companies we own means that we are effectively being paid to wait. [Author's note: At the time of going to press, it was announced that Yoshihide Suga had been voted in as Abe's successor. Suga announced, prior to his election, that his predecessor's policies would remain untouched – lending further credence to our view that the improving trends are intact.]

Fujitec was a particularly strong performer in the basket, accounting for over one-third of the 125bps of contribution. Since the launch of our public campaign in May (see here), we have continued our dialogue with the company, and are encouraged by improved communication, as well as the recent combination of the elevator and escalator business in China aimed at improving efficiency. While the steps may be small, they are inarguably in the right direction. The shares have risen +47% since the start of May, outperforming the TOPIX Index by 32% – we believe that this is due in some part to our public campaign, and the light it has shone on Fujitec's business.

Pershing Square Holdings (PSH) was the second-largest contributor to returns, adding 108bps. The combination of a strong NAV (+8%) and a tightening discount (32% to 29%) resulted in a share price return of +13%. Many underlying holdings – Chipotle, Restaurant Brands, Starbucks, Hilton Worldwide, Lowe's, Agilent – have reported quarterly earnings, giving us a good picture of the companies' performance. On the whole, revenues declined as might be expected in the current environment, although Lowe's was a notable exception (a beneficiary of the trend towards DIY home improvement during lockdown).

We are not overly concerned with vicissitudes in quarterly earnings, training our sights instead on the potential for above-average long-term growth and margin expansion across PSH's portfolio companies. Viewed through this prism, short-term turbulence can enhance long-term prospects; we quote from a recent thoughtful note by Steven Wood of Greenwood Investors: *"the read coming from companies in the second quarter […] will be largely irrelevant. But the discussions on what the companies did during this most remarkable quarter and first half will be highly informative. Did the companies retrench or did they have a customer-first and market attacker mindset?"*

With that in mind, we are encouraged by Chipotle's actions during the crisis, which included: (1) the introduction of free delivery through the Chipotle app to drive increased use; (2) introducing some "digital only" menu items to encourage customers to convert to ordering online; and (3) availing of real estate that has become available as competitors re-trench, accelerating new store launches with drive-through "Chipotlanes" to capitalise on changing dining habits. We like management's opportunistic mindset and believe that Chipotle's actions have turned a dismal economic environment into a strategic advantage.

PSH's discount had tightened in the run-up to its potential inclusion in the FTSE 100 index, trading at 26% intra-day at one point, only for some – but not all – of those discount-related gains to be given back upon the news that it had just missed out in this review. Should PSH's strong run of performance continue, it is likely a case of "when" rather than "if" it enters the index; the passive buying such an event would trigger should be helpful in narrowing a discount that looks anomalous given the stellar NAV returns generated over the last couple of years.

MANAGER'S COMMENT

VNV Global was the third-largest contributor to returns over the period, adding 62bps. We talked in depth about VNV's portfolio in the July newsletter. VNV's share price appreciated strongly in August, rising +20% as the market anticipated strong NAV growth from VNV's portfolio of digital businesses. Since month end, the shares have declined 6%, perhaps reflecting the abating of investor enthusiasm over what the recently announced Teladoc-Livongo merger might mean for Babylon. Overall in 2020, the share price has risen +21% year to date.

Babylon (32% of NAV) has indeed been the focus of investor attention of late, with its digital healthcare offering becoming increasingly attractive during the COVID-19 period. We learnt in VNV's latest quarterly that Babylon's daily consultations grew +70% in Q2-2020 and that is has booked 3x revenue versus the corresponding period last year. We understand that the roll-out of Babylon's offering in the US is progressing at a reasonable pace, pandemic notwithstanding. By way of reminder, the enormous US healthcare market (measured in trillions of dollars) has only 1% digital penetration, compared to 10% in Sweden. Babylon's AI-driven product – unique among its competitors – appears a step-change in terms of the potential cost savings it can offer to health systems, and as such we believe it well placed to capture this growth.

Looking to the Teladoc-Livongo merger, we note that the deal creates a company with a $28 billion valuation and 2020e revenues of $1.4 billion, putting the group on 20x revenues. Whilst cognisant of the problems of applying multiples to early-stage growth businesses, we can nonetheless see very material upside from Babylon's current $2.6bn carrying value, given the inherent attractiveness of a huge total addressable market combined with strong economics. VNV's managing director agrees, writing in the recent quarterly report that: "*I think our expectation that Babylon has the potential to assume a USD 20 bln valuation in five years may prove conservative. There is certainly upside beyond this*".

Elsewhere in VNV's portfolio, Voi (8% of NAV) – the Swedish e-scooter company – is also performing well. Around 50 major UK cities are conducting tenders for scooter licences, with Voi "emerging as the clear UK winner", having so far been appointed as exclusive licensee in 12 cities, including in the regions of Cambridgeshire, Northamptonshire and the West Midlands. As the latest quarterly report points out, Voi is effectively the only provider of e-scooters to 10 million people in the UK. Early reports from the UK rollout indicate that Voi is seeing daily rides per scooter which are well in excess of the breakeven level. While there may be some hype around this initial rollout and daily rides may stabilise at a lower level, we believe nonetheless that the economics of e-scooters are immensely attractive and the total addressable market very large.

Voi's constructive approach to engaging with city councils, as well as its greener technology and longer battery life, makes it the obvious partner of choice for regions looking to increase their population's micro-mobility. Going forward, all eyes will be on London as the highest-profile UK prize, with plans to announce the result of licence tenders in Q4-2020. VNV's management remain confident about Voi's prospects, commenting that $100 million in operating profit lies in the "not too distant future".

Detractors over the month were few and far between. Trading activity was relatively limited, with a small amount of portfolio trimming in order to recycle the proceeds into other attractive opportunities.

STATISTICS

Contributors / Detractors (in GBP)

Largest Contributors	1-month contribution bps	Percent of NAV
JAPAN SPECIAL SITUATIONS**	125	18.8
PERSHING SQUARE HOLDINGS	108	9.7

Largest Detractors	1-month contribution bps	Percent of NAV
FONDUL PROPRIETATEA	-13	4.8
SOFTBANK GROUP	-11	7.6

	Value	% 1 mo	% 1 yr	% 3 yr	% 5 yr
Share Price (pence) TR[2]	717.0	3.6	-0.4	7.5	70.3
Net Asset Value TR[1]	808.6	6.0	0.1	8.5	67.0
MSCI ACWI ex US TR[3]		2.2	-1.5	4.0	51.9
MSCI ACWI ex US Value[1]		2.4	-11.9	-12.5	25.8
MSCI ACWI TR[1]		4.0	6.0	24.6	86.8
Morningstar Global Growth TR[3]		4.4	7.0	22.2	77.8

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	£979.1m.
Debt @ fair value	£120.8m.
Gearing[4]	9.2%

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.
4 Fair value of debt divided by net assets at fair value.
* 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 16 stocks: Daiwa Industries, Fujitec, Kanaden, Kato Sangyo, Konishi, NS Solutions, Pasona Group, Sekisui Jushi, SK Kaken, Tachi-S, 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
www.assetvalueinvestors.com