October 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

Sony Corp

We take a look at Sony's gaming division, one of the most attractive assets withing the Sony group of companies.

Read more below

Jardine Strategic

Jardine Strategic offers significant value, with a wide discount, and a portfolio of assets that should benefit strongly from a resumption of economic activity.

Read more below

Godrej Industries

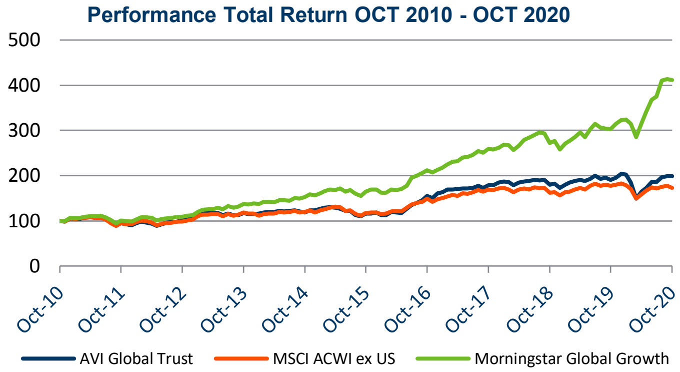
Godrej suffered from painful discount widening during the month. Notwithstanding this, we remain positive on the key assets and the prospects for NAV growth in the future.

Read more below

PERFORMANCE

(Figures to 31 October 2020)

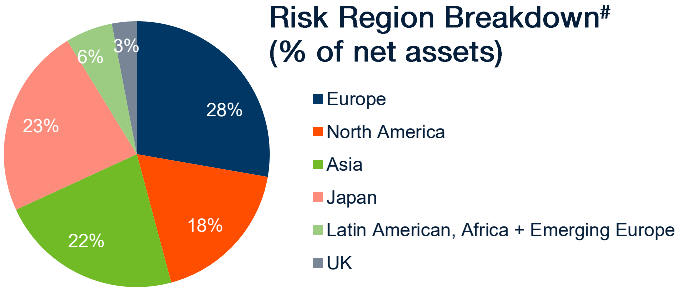
Share Price (pence)	729.0
NAV (pence)	817.2
Premium / (Discount)	-10.8%



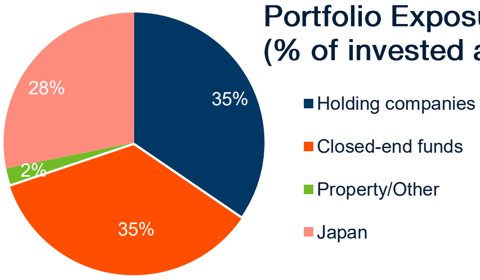
	Month	Financial Yr* to date	Calendar Yr to date
AGTNAV[1]	0.0%	0.0%	-3.3%
MSCI ACWI Ex US[3]	-2.2%	-2.2%	-5.2%
MSCI ACWI Ex US Value[1]	-2.6%	-2.6%	-17.8%
MSCI ACWI[1]	-2.4%	-2.4%	1.3%
Morningstar Global[1]	-1.6%	-1.6%	6.0%

THE FUND

Risk Region Breakdown# (% of net assets)



Portfolio Exposure (% of invested assets)



Top Ten Equity Holdings

Holding	%
Japan Special Situations**	17.4
Pershing Square Holdings	7.9
Oakley Capital Investments	7.1
Softbank Group	6.9
Sony	5.5
Fondul Proprietatea	5.0
Third Point Offshore Investors	4.8
Kinnevik B	4.3
KKR	4.0
EXOR	3.7
TOTAL	66.6

#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.

MANAGER'S COMMENT

AVI Global Trust (AGT)'s NAV was flat in October (+0.02%); a 1% tightening of the portfolio discount (to 34%) provided a tailwind for returns over the month. Major contributors included Sony Corp, SoftBank Group, Jardine Strategic, and VNV Global. Major detractors included Godrej Industries, Investor AB, and the Japan Special Situations basket.

Sony Corp was this month's largest contributor, adding 46 basis points (bps) to returns as its share price rose +8% on the back of a 5% tightening in its discount. As we have been saying for some time, our investment case is predicated on Sony's four core businesses – Gaming, Music, Pictures and Semiconductors – the attractiveness of which is masked by the conglomerate structure that packages businesses with unique characteristics into a single entity.

The Gaming division is the single-largest segment within Sony, and perhaps its most attractive. Historically, Sony's gaming business has been cyclical as it was dependent on the 'console cycle'. This model, however, is changing, as evidenced by 37% of PS4 owners subscribing to Sony's online gaming service, PS Plus, as well as the release of the diskless PS5. Over the lifetime of the PS4, Sony has improved its subscription offering, introducing microtransactions, platform fees and a streaming service, all of which allow Sony to earn increasing volumes of recurring revenues. These revenues, being sticky, stable, and high margin, are highly prized by investors as they lend higher visibility to future earnings growth. With the introduction of the PS5 in the 2020 holiday period, Sony is well-positioned to capitalise on further digitalisation, particularly as COVID-19 has accelerated the shift towards digital consumption. We believe that the prospects of a shift from hardware-only revenues to a recurring-revenue model are highly exciting, and think that Sony's gaming division could be one of its top performers in the future.

Moving to look at the conglomerate structure, it seems that our original thesis of a 'clean up' of the structure is likely off the table, notwithstanding smaller actions, such as the sale of the stake in Olympus and a pickup in the buyback programme. Whilst this was not our preferred outcome, our base case was always that the potential spin-off of certain assets was a free option on top of the appeal of Sony's attractive businesses. We take some solace in the decision to introduce higher management accountability at each business line, leading to a more decentralised holding structure and better decision making. Management has also demonstrated advantages to holding music, pictures and gaming under one entertainment holding company, as divisions can cross-collaborate in content creation (e.g. as has been seen with the Spider-Man film and video game franchises).

Sony is a classic AGT investment – attractive assets, misunderstood by the market, with multiple levers to drive growth and create value for shareholders. At a 37% discount currently, we continue to see significant upside in Sony.

SoftBank added 43bps to returns in October, making it the second-largest contributor to returns. The share price rose +5% over the month, propelled by a tighter discount and a 2% rise in NAV. We have spoken at length on Softbank in recent missives, and will provide an update in next month's newsletter following the release in early-November of its Q2 results. It remains a high conviction position for us.

Jardine Strategic (JS) was the third-largest contributor to returns this month, adding 30bps to returns as the NAV rose +3% which, compounded by a tightening of the discount from 49% to 45%, led to share price returns of +9%.

While we strive to avoid clichés, the term 'perfect storm' seems particularly apt here. Starting in 2019, civil unrest in Hong Kong over a proposed extradition law introduced a significant amount of turbulence into daily life in Hong Kong, which raised concerns about the impact on Jardine's HK-exposed companies. As we moved into 2020 and the period of civil unrest receded, the spread of COVID-19 upended global economies and almost indiscriminately impacted all sectors and geographies to which Jardine Strategic is exposed. Lastly, the Chinese government enacted a national security law in Hong Kong, which led to fallout particularly with the US, which withdrew Hong Kong's 'special status'. In the midst of all this, it was easy to become despondent, and JS at times traded on a 50-55% discount (compared to a historical average of 30-35%).

Many of JS's holdings did not emerge unscathed. Hongkong Land (20% of NAV) was affected by civil unrest in Hong Kong, and doubts about the city's future viability as a financial and commercial hub in Asia. Dairy Farm (19%) and Jardine Cycle & Carriage (JCNC, 18%) were also affected. Dairy Farm, although benefitting from higher levels of grocery shopping as consumers stayed at home, suffered from its health and beauty exposure. JCNC, being geared to the commodity cycle as a result of its exposure to the mining industry, saw decreased revenues as a result of sharp sell-offs in commodity prices.

There were, however, some bright spots in the portfolio, with Mandarin Oriental (8% of NAV) and Zhongsheng (15%) turning in good performances. Mandarin Oriental benefitted from the market's growing appreciation of the value offered by its Excelsior property in Hong Kong which is being converted into a mixed-use office led building. The Excelsior property alone is worth more than Mandarin's entire market cap.

The torrid two years endured by JS has led to a double whammy of a declining NAV and a widening discount: JS's share price now trades at levels not seen since 2010. The investment has been a difficult one for AGT since re-building a position

MANAGER'S COMMENT

Many of the underlying listed holdings should benefit strongly from a resumption of economic activity in 2021 – we note in that regard the strong share price reactions to the results of the Pfizer vaccine trials – which would provide a powerful tailwind to performance. Against such a backdrop, we would also expect the current 45% discount to tighten towards the historical average of 30-35%, providing a further boost to performance.

Godrej Industries was the largest detractor from performance during the period, subtracting 35bps from returns as it suffered from a painful widening of the discount from 57% to 63%. The shares returned -11% as the NAV grew +3%. On the NAV front, we are optimistic, particularly at Godrej Consumer (51% of NAV), where an increased focus on health and hygiene should drive domestic demand, and new management additions should improve their performance in the more troubled Africa business. With time, we expect that the discount will narrow (we note that the average discount over the medium-term has been *c.* 40%), which will provide an additional tailwind to returns on top of NAV growth.

Trading activity was relatively limited in October. Over the month, we built a small position in a basket of UK commercial property names affected by the pandemic which we believe will recover strongly when the economy begins to come out of lockdown and return to growth. Several of these stocks also have added optionality surrounding increased private equity activity in the sector. When the positive vaccine news broke recently, this basket punched well above its small weight with some very material share price moves.

STATISTICS

Contributors / Detractors (in GBP)

Largest Contributors	1-month contribution bps	Percent of NAV
SONY	46	5.5
SOFTBANK GROUP	43	6.9

Largest Detractors	1-month contribution bps	Percent of NAV
GODREJ INDUSTRIES	-35	2.5
INVESTOR AB	-26	3.0

	Value	% 1 mo	% 1 yr	% 3 yr	% 5 yr
Share Price (pence) TR[2]	729.0	-1.6	0.6	8.1	72.2
Net Asset Value TR[1]	817.2	0.0	1.6	8.6	66.6
MSCI ACWI ex US TR[3]		-2.2	-2.5	2.1	47.2
MSCI ACWI ex US Value[1]		-2.6	-15.9	-15.6	20.5
MSCI ACWI TR[1]		-2.4	5.0	20.7	76.4
Morningstar Global Growth TR[3]		-1.6	7.3	18.3	70.9

Fiscal Yr Net Returns (%)	2020	2019	2018	2017	2016
Price[1]	2.0	-0.4	12.0	18.7	34.3
Net Asset Value[1]	0.0	2.1	10.0	18.8	31.0
MSCI ACWI ex US (£)[3]	-1.8	4.5	4.7	15.8	27.4
MSCI ACWI ex US Value[1]	-15.0	1.1	3.3	17.7	24.7
MSCI ACWI[1]	5.3	7.3	12.9	14.9	30.6
Morningstar Global Growth[3]	7.3	2.9	13.8	20.1	22.9

Capital Structure	
Ordinary Shares	116,003,133
Shares held in Treasury	10,784,039
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 Drawdown	¥4,000,000,000

Gross Assets/Gearing	
Gross Assets	£985.4m.
Debt @ fair value	£125.5m.
Gearing[4]	8.0%

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 14 stocks: Daiwa Industries, Fujitec, Kanaden, Kato Sangyo, Konishi, NS Solutions, Pasona Group, Sekisui Jushi, SK Kaken, Teikoku Sen-I, Toagosei, Digital Garage, DTS Corp, Bank of Kyoto.
# Libor +102bps. Capacity ¥9,000,000,000

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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