UPDATE

AVI Global Trust

July 2021

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

JPEL Private Equity

JPEL announced the sale of its largest holding at a +19% uplift.

Read more below

Nintendo

Recent announcement of the Switch Pro and weaker-than-expected quarterly results appear to have disappointed investors, leading to share price declines.

Read more below

SoftBank

AGT has exited its investment in SoftBank, earning attractive returns over an 18-month holding period.

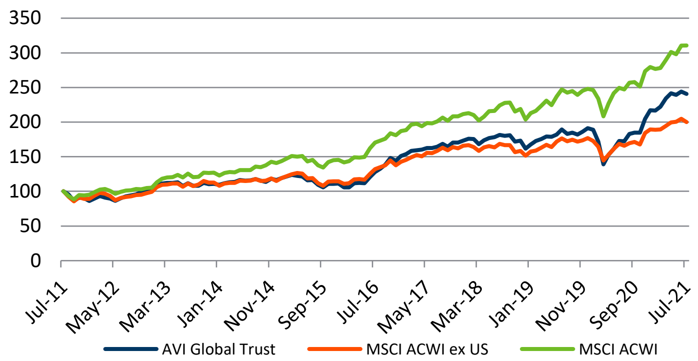
Read more below

PERFORMANCE

(Figures to 31 July 2021)

Share Price (pence)	957.0
NAV (pence)	1045.4
Premium / (Discount)	-8.5%

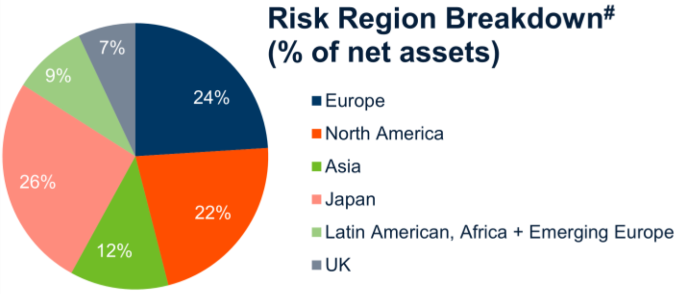
Performance Total Return JUL 2011- JUL 2021



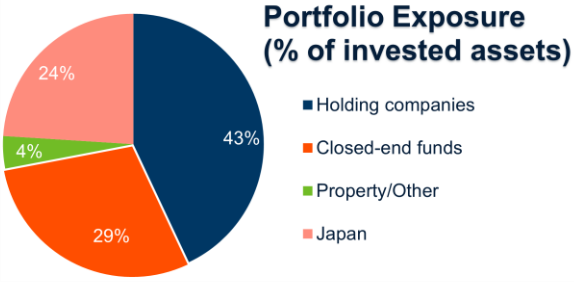
	Month	Fiscal Yr* to date	Calendar Yr to date
AGT NAV[1]	-1.4%	30.2%	10.8%
MSCI ACWI Ex US[3]	-2.3%	16.8%	5.6%
MSCI ACWI[1]	0.0%	20.6%	11.2%

THE FUND

Risk Region Breakdown# (% of net assets)



Portfolio Exposure (% of invested assets)



Top Ten Equity Holdings

Holding	%
Japan Special Situations**	14.8
EXOR	6.0
Oakley Capital Investments	5.9
Pershing Square Holdings	5.9
Third Point Investors	5.8
KKR	5.3
Sony	5.2
Fondul Proprietatea	4.7
Christian Dior	4.7
Pershing Square Tontine	3.5
TOTAL	61.8

#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 declined -1.4% in July. Contributors included KKR, JPEL Private Equity, and Sony Group. Detractors included Nintendo, Pershing Square Tontine Holdings, and SoftBank.

JPEL Private Equity **Share Price: +21%** **NAV: +7%** **Discount: -16%**

JPEL Private Equity (JPEL) announced the sale of its single-largest holding, Swania, to Henkel for $78 million, representing 70% of JPEL's market cap. The sale came at a +19% uplift to carrying value. Following the sale of Swania, JPEL announced that it would return $85 million to shareholders via a mandatory redemption, equivalent to 52% of NAV.

AGT first invested in JPEL in September 2014, engaging with the Board and Manager to implement the optimal structure for the company's planned realisation opportunity. In late 2016, the company announced that it would begin the process of winding down its portfolio and returning capital to shareholders. Since then, JPEL has returned almost $500 million to shareholders (including Swania), equating to 104% and 131% of the NAV and market price prevailing at the time. Over the seven-year lifetime of the investment, AGT has earned a 1.79x multiple on investment cost and a 16% IRR in USD terms (1.98x and 20% in GBP).

Nintendo **Share Price: -13%** **NAV: 0%** **Discount: -49%**

Nintendo was the single-largest detractor for the month of July. At the time of writing, its share price has declined -19% over the past five weeks.

The culprit, we believe, lies in the recent announcement of the Nintendo Switch Pro – where the market had been expecting a new, more powerful "Switch 2" to be announced – and the recent quarterly earnings release, which may have stoked fears of a cyclical peak in earnings.

Turning to the first, Nintendo announced on 6th July that it would be releasing a Nintendo Switch Pro, an upgraded version of the Switch which will be fully backwards compatible. The new console sold out within minutes on pre-orders. Some market participants had been calling for a "Switch 2" style console with a much more powerful chip, instead of the more modest upgrade that Nintendo has opted for with the Switch Pro. We had maintained that this would be a mistake, as such a console would not have been backwards compatible with existing Switch games, effectively making it much harder for Nintendo to build a sustainable ecosystem around the Switch. While we see why avid gamers might be disappointed with this outcome, we think that the announcement of the Switch Pro confirms our initial investment thesis: Nintendo is moving away from the cyclical business model dependent on successful new console releases, and focusing instead on building an environment in which digital and recurring revenues – stickier and higher-margin – play a larger role.

The recent quarterly earnings release revealed that net sales were down-10% year-on-year, while operating profits and margins declined, and digital sales fell as a proportion of overall revenue. At first glance, these figures are discouraging, suggesting that Nintendo may still be exposed to cyclical swings in earnings. However, it is important to remember that the quarter one year ago was a tough one comparatively, as during the COVID-induced lockdowns many subscribers increased their levels of gaming (and, necessarily, digital downloads) in the absence of regular socialising. Furthermore, due to the pandemic, the Switch has suffered from delays to the production of major new titles which were tipped for release this year. If we take 2019 as a baseline, we see much more encouraging figures: sales of the Switch have doubled, revenue is up +87%, and digital sales have grown +148%.

Overall, while the share price reaction to date has been disappointing, we see no contradictory evidence that would shake confidence in our thesis. At the current share price, Nintendo trades at 8x forward operating profits and 14x forward earnings, a valuation which we believe does not adequately reflect the quality of Nintendo's business. Nor does it reflect the importance of the switch (apologies) from a console-driven business model to one focused on digital and recurring revenues and increased monetisation of existing IP.

SoftBank Group **Share Price: -12%** **NAV: -14%** **Discount: -56%**

SoftBank's NAV fell -14% over the month, driven in the main by a fall in Alibaba's share price, which has been affected by the Chinese government's crackdown on consumer technology companies.

During the month, we fully exited the last of the position, having previously trimmed it in January and February of this year. Over the relatively short holding period (18 months from the first purchase), AGT earned a multiple on investment cost of 1.43x and an IRR of 51% in JPY terms (1.40x and 48% in GBP). Three-quarters of these returns came from discount tightening, as we added to the holding at discounts in excess of 75% during the height of the March 2020 sell-off.

STATISTICS

Contributors / Detractors (in GBP)

Largest Contributors	1-month contribution bps	Percent of NAV
KKR	34	5.3
JPEL Private Equity	27	1.6
Sony	27	5.2
Symphony International Holdings	23	2.2
Investor AB 'B'	21	3.3

Largest Detractors	1-month contribution bps	Percent of NAV
Nintendo	-44	3.2
Pershing Square Tontine	-40	3.5
SoftBank	-29	0.0
Third Point Investors	-24	5.8
Swire Pacific Ltd 'B'	-22	2.1

	% 1 mo	% 1 yr	% 3 yr	% 5 yr	% 10 yr
Share Price TR[2]	-1.2	40.9	34.0	93.9	135.7
Net Asset Value TR[1]	-1.4	39.5	32.6	88.0	140.6
MSCI ACWI ex US TR[3]	-2.3	20.6	18.6	51.3	100.1
MSCI ACWI TR[1]	0.0	25.7	38.7	82.3	210.6
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[1]	5.3	7.3	12.9	14.9	30.6

Capital Structure	
Ordinary Shares	116,003,133
Shares held in Treasury	12,396,928
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
JPY Revolving Credit Facility[#]	¥9,000,000,000
Gross Assets/Gearing	
Gross Assets	£1.2bn.
Debt at fair value (gross)	£146m.
Gearing (net)[4]	3.1%

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 net 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, Kato Sangyo, Konishi, NS Solutions, Pasona Group, Sekisui Jushi, SK Kaken, Teikoku Sen-I, Toagosei, Digital Garage, DTS, Bank of Kyoto, Hazama Ando.
# Libor + 1.025%. Capacity ¥9,000,000,000.

Investment Manager – Joe Bauernfreund

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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