

## Foraging for value and growth, the AVI way

Close your eyes and float downstream. Imagine you're in the depths of a dark forest, the sunlight blocked by an umbrella of trees high above you. You're there, the size of a pea in comparison, foraging through the leaves and rocks and sludge beneath your feet, searching desperately for a hidden piece of treasure. You were told there was something in this forest to find. Something beautiful. An Aladdins' cave of wealth and fortune.

You find an area of interest. A torch strapped to your forehead, you use both hands to explore the undergrowth. Suddenly, something caresses your fingertips, something hard, something surprising. You claw away the dirt, digging deeper and deeper into the soil. Then suddenly, it emerges, a precious stone. A piece of treasure.

The point of this little story is not to say that there's treasure waiting at the end of every rainbow for investors. It's that picking the right investment opportunity is bloody hard work, takes some serious investigation and research, not to mention expertise, and that conditions can be tough when trying to identify the right option.

Every investor has their own way of doing things. At AVI, ours is known as the Third Way.

### How does the **third way** work?

We look for assets which, in their own right, would normally appeal to both value and growth investors. Assets which are valued below expected levels by the market, but which also have the potential to grow over time.

We're looking for quality companies with good growth potential, which are undervalued by the market. These value-growth assets are out there, but they're often overlooked by traditional screening processes. Finding them requires patience, and a huge amount of research. Often the true value of these assets is buried beneath complex ownership structures, and it takes time and expertise to peel these layers of complexity away, to reveal an asset's true value.

Knowledge, timing, and hard graft are key attributes of **the third way**.

#### **Knowledge**

We complete a huge amount of research to identify the right assets that are both trading at a value discount, and possess the potential for long-term growth.

#### **Timing**

Then we wait patiently for the right time to invest, when the asset's value is below what we believe it should be. When the asset is trading at enough of a discount, we make our move.

#### **Hard graft**

But investing is only the start of the process. Once invested, that's when the hard graft starts. At that point we begin working with the company's senior management, helping them to maximise their business practices with a view to realising their potential, and ultimately deliver on that growth promise we identified in our initial analysis.

### **The Third Way - in practice**

Christian Dior (CDI) is a luxury clothing range. It's listed on the French stock exchange as the main holding company through which founder Bernard Arnault controls Moët Hennessy Louis Vuitton (LVMH), a French luxury brands multinational.

In 2017 CDI's valuation was at or around its Net Asset Value (NAV). However, once the pandemic struck in 2020, its discount widened. We monitored the company's progress at this time, and once the discount widened to around 25%, we moved to invest.

This investment was a classic case of value investing; we spotted a good business trading at a false discount, and built a position. But this is only the start of the story of our **third way** approach.

The beauty of owning CDI is that, as well as being an attractive brand in its own right, it's position on the LVMH roster gives us access to a collection of unique, high-end brands, such as Louis Vuitton, Stella McCartney and Rihanna's FENTY. These are strong names offering high quality products which are highly sought after, capable of delivering returns at attractive margins. Since 2000, LVMH have recorded an earnings per share ratio of 13%, higher than the sort of growth you'd expect from an asset held in a 'value' portfolio.

Our **third way** approach allows us to identify and invest in assets like this, assets with dual characteristics of value and growth, companies that are unloved by the market, with high-quality underlying assets and businesses that can deliver real growth for investors.

It takes time, expertise and a great deal of grit and determination to find the right assets to invest in. Fortunately at AVI, we're highly skilled explorers of value-growth assets, and we don't mind getting our hands dirty or putting in the hard graft to do so. Now, back to the forest we go...