REPORT AVI Global Trust AGT

February 2023

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

HEADLINES

FEMSA

FEMSA concluded its strategic review and took considerable steps to unlock the sum-of-the-parts discount at which the company trades.

Read more below

EXOR

Stellantis reported a strong set of results, pushing the shares up +15%.

Read more below

Nihon Kohden

We believe there is as much as +200% upside by 2027 and will work with management to achieve NK's potential.

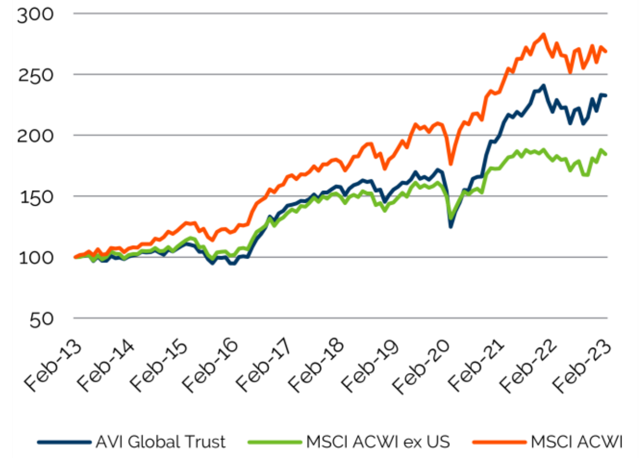
Read more below

THE FUND

(Figures to 28 February 2023)

Share Price (pence)	NAV (pence)	Prem./Disc.
198.8	219.5	-9.4%

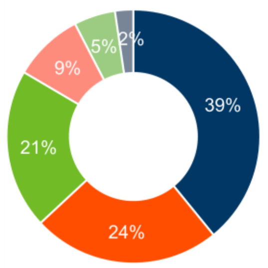
Total Return (£)	Month	CYTD	1Y	3Y	5Y	10Y
AGT NAV	-0.3%	5.6%	6.0%	50.6%	47.6%	132.5%
MSCI ACWI ex US	-1.9%	3.6%	2.9%	23.1%	23.3%	84.4%
MSCI ACWI	-1.2%	3.4%	1.7%	35.9%	51.0%	168.9%



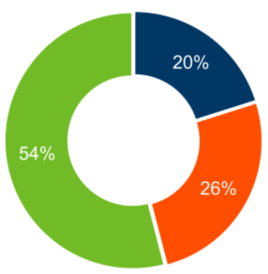
PORTFOLIO

(Holdings to 28 February 2023)

Look-Through Geographic Exposure (% of portfolio)



Portfolio Exposure (% of portfolio)



Top Ten Equity Holdings

Holding	%
Oakley Capital Investments	8.2
Schibsted ASA 'B'	7.2
Aker ASA	6.7
KKR	6.2
Pershing Square Holdings	6.0
Christian Dior	5.9
EXOR	5.5
FEMSA	5.2
Brookfield Corporation	4.9
Apollo Global Management	4.4
TOTAL	60.2

MANAGER'S COMMENT

AVI Global Trust (AGT)'s NAV declined -0.3% in February in what was a weaker month for equity markets.

Within this context EXOR and FEMSA were the most notably strong performers. On the other side, Schibsted was the most significant detractor, followed by the Brookfield/Short SPY trade and a new position we have been building that will be discussed in due course.

FEMSA

During February, FEMSA concluded its strategic review and took considerable steps to unlock the sum-of-the-parts discount at which the company trades. This drove the shares +5% over the month, bringing year to date returns to +18%.

As way of reminder, we initiated a position in FEMSA in 2021, with an investment case predicated on the highly attractive nature of FEMSA Comercio – which operates Oxxo-branded convenience stores, and other small-format retail stores, across Mexico and Latin America – and the unduly low valuation the market was awarding the business. In 2022 management announced a "comprehensive strategic review" of the group structure with a focus on reducing the sum-of-the-parts discount.

The conclusion of the review will see FEMSA simplify its group structure and re-focus on its core businesses. Most pertinently the company announced that it intends to exit its stake in Heineken, which prior to announcement was worth €7.4bn or 28% of FEMSA's market cap (gross of tax). Shortly following the announcement, FEMSA sold €3.2bn of Heineken / Heineken Holding stock in an accelerated book build and issued a €500m bond exchangeable in Heineken Holding shares. The company will also monetise other smaller non-core assets, the most notable of which is US speciality distributor Envoy Solutions and return excess capital to shareholders.

We view these developments highly favourably. The company has taken concrete steps to unlock value and shine light on the value of FEMSA Comercio – an expertly managed and scale-advantaged operator with strong unit economics, improving margins, and a long growth runway. The stub currently trades at 8.4x forward EBITDA vs. closest peer Walmex at 13.4x. Such a discount feels increasingly unjustified given the measures taken, with a cleaner equity story and capital structure conducive to both a narrowing of this discount and the prospect of increased shareholder returns.

To date, AGT has generated a GBP +24% IRR / + 43% ROI from its investment in FEMSA. Prospective returns continue to appear attractive and as such we remain owners of the shares.

EXOR

EXOR shares returned +7% during February as a +6% increase in the NAV was boosted by a slight narrowing of the discount from 45% to 44%. During the month, all three main assets – Ferrari, Stellantis and CNH – reported Q4/FY results.

Results from Stellantis (the autos company that resulted from the merger of Fiat Chrysler [FCA] and PSA) were particularly impressive, leading to a +15% share price return over the month. In 2H22, sales and operating profit grew +19% and +17% year on year, both coming in +4% ahead of consensus expectations. The broad trends that typified 2021 and 1H22– low volumes, strong pricing, high margins – were still present, albeit less pronounced and versus a more demanding comparison period. The full-year group operating margin of 13.0% is a real yardstick of success – driven not only by exceptional North American performance (16.4% margin), but also performance in Europe that was previously unfathomable (9.9% margin vs. the FCA European businesses which was loss-making in five of the last eight years to 2020, with 3.2% the highest margin achieved).

Longer-term readers of our letters may remember that FCA's extreme undervaluation and the scope for value creation through industry consolidation were key attractions that initially led us to invest in EXOR in 2016. The latter of these two points has of course occurred, with the formation of Stellantis. 2022 results serve to highlight just what a success the merger has been, with Stellantis achieving €7.1bn of net cash synergies – exceeding the €5bn target more than two years ahead of plan. However, the first point – valuation – remains unresolved, with Stellantis trading at a 21% free cash flow yield and roughly half the PE multiple of Ford and GM (adjusted for accounting differences). The recent announcement of a €1.5bn share buyback further highlights the attractive valuation, and combined with the proposed dividend will see a total of €5.7bn (11% of market cap) returned to shareholders.

The past 18 months have been challenging but profitable ones for the auto industry, as volume scarcity has led to increased pricing power, lower levels of dealer incentives and higher margins. Inventory levels are starting to normalise and the path ahead now appears less rosy. With industry-leading breakeven points and a rock-solid balance sheet, combined with the upcoming launch of the RAM BEV, we believe this could be exactly the environment in which Stellantis' quality is recognised.

Nihon Kohden (NK)

Over the last few months we have been building a position in Nihon Kohden (NK), which now accounts for 3.5% of AGT's NAV. NK is a £2bn market cap medical equipment manufacturer famed for its high quality and world-class award-winning products, including patient monitors, ventilators, and defibrillators. NK has achieved a 20-year compound sales growth of 5%, with sales declining in only three of the past 37 years. We expect this growth to continue as NK benefits from structural growth from an ageing population, commensurately higher healthcare expenditure, and a shift to higher value-add digital solutions.

Trading on a forward EV/EBIT multiple of 11x vs peers' 17x, we do not believe NK's growth potential and quality are being recognised by the market. This is in part a reflection of a bloated balance sheet with net cash and investment securities accounting for 26% of the market cap, suboptimal IR disclosure, and a misperception surrounding NK's overseas growth opportunity.

Alongside addressing the undervaluation, we have identified several operational improvements which we believe would allow NK to grow sales at a faster rate and expand margins to 15% from sub-10% currently. These range from enhancing digital solutions, exploring a post-hospital wearable device offering, increasing consumables and in-house manufactured products, and addressing seniority-based pay and excess SG&A costs. NK's shareholder register should be supportive of improvements, with 44% of the company owned by foreigners and no presence of allegiant shareholders.

MANAGER'S COMMENT

So far, we have met with IR, the Head of Accounting, the Head of Japan Operations, and the President (Grandson of the Founder). Our meetings have been fruitful and included discussions on how to rectify the share price undervaluation. NK has all the attributes we look for: an undervalued high-quality growing business, and cash-rich balance sheet, with an engagement angle to unlock the value. We believe there is as much as +200% upside by 2027 and will work with management to achieve NK's potential.

STATISTICS

Contributors / Detractors (in GBP)

Largest Contributors	1-month contribution bps	% Weight
EXOR	41	5.5
FEMSA	31	5.2
Oakley Capital Investments	20	8.2
KKR	17	6.2
Pershing Square Holdings	13	6.0

Largest Detractors	1-month contribution bps	% Weight
Schibsted ASA	-51	7.2
New Position	-44	2.7
Brookfield/Short SPY	-44	4.9
IAC	-20	2.9
Symphony International Holdings	-17	2.6

Fund Facts

Investment Manager Tenure	38 Years
Net Assets	£1,056.8m
Investment Manager	Asset Value Investors Limited
AGT Shares owned by the Manager**	1,972,675
Shareholder Services	Link Asset Services
Management Fee**	0.7% up to £1bn of assets, 0.6% > £1bn
Website	www.aviglobal.co.uk
Ticker Code	AGT.LN
ISIN	GB00BLH3CY60

Total Returns (£%)	1m	1y	3y	5y	10y
Share Price TR[2]	-0.5	3.7	45.5	44.4	128.9
Net Asset Value TR[1]	-0.3	6.0	50.6	47.6	132.5
MSCI ACWI ex US TR[3]	-1.9	2.9	23.1	23.3	84.4
MSCI ACWI TR[1]	-1.2	1.7	35.9	51.0	168.9
FY* Total Returns (£%)	**FYTD**	**2022**	**2021**	**2020**	**2019**
Price[1]	11.7	-10.1	35.8	1.2	2.5
Net Asset Value[1]	10.9	-7.3	36.2	0.0	2.1
MSCI ACWI ex US[3]	9.9	-9.6	18.8	-1.8	4.5
MSCI ACWI[1]	5.4	-4.2	22.2	5.3	7.3

Capital Structure	
Ordinary Shares	527,160,217
Shares held in Treasury	45,600,956
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
1.38% Senior Unsecured Note 2023	¥8,000,000,000
LIBOR + 0.75% Revolving Credit Facility	¥4,000,000,000
Gross Assets/Gearing	
Gross Assets	£1,214.0m.
Debt at fair value (gross)	£157.2m.
Gearing (net)[4]	6.9%

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.
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.
** Shares owned by AVI Ltd & AVI Employees

All return figures in GBP.

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The share price can be found in The Financial Times.
ISIN: GB00BLH3CY60 Trading as: AGT:LN

Information may be found on the following websites:
www.aviglobal.co.uk
www.assetvalueinvestors.com