REPORT | AVI Global Trust | AGT

June 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 value.

HEADLINES

Introduction

AVI Global Trust (AGT)'s NAV increased by +0.5% in June.

Read more below

D'Ieteren

We provide an update on European holding company D'Ieteren, to which we've been adding.

Read more below

Wacom

Wacom's price declined -16% in a difficult operating environment.

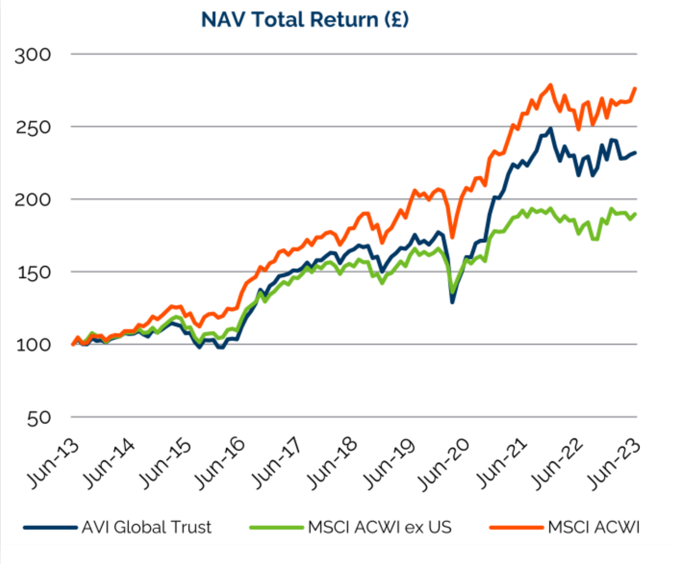
Read more below

THE FUND

(Figures to 30 June 2023)

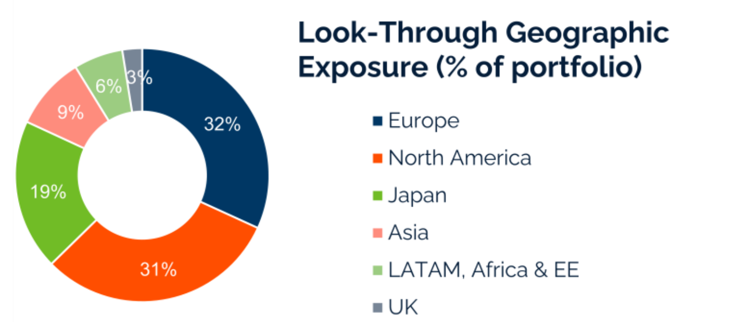
Share Price (pence)	NAV (pence)	Prem./Disc.
189.6	210.8	-10.1%

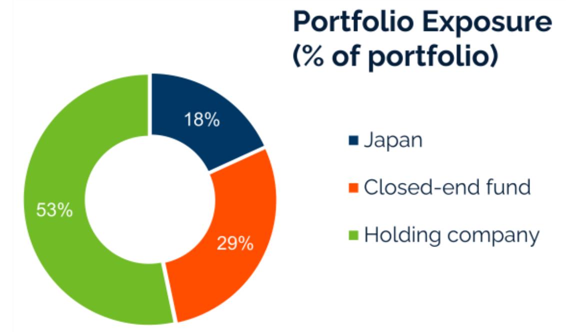
Total Return (£)	Month	CYTD	1Y	3Y	5Y	10Y
AGT NAV	0.5%	2.0%	7.1%	44.9%	40.1%	131.9%
MSCI ACWI ex US	1.9%	3.6%	7.7%	19.8%	23.4%	89.7%
MSCI ACWI	3.1%	7.8%	11.3%	32.9%	53.3%	176.1%



PORTFOLIO

(Holdings to 30 June 2023)





Top Ten Equity Holdings

Holding	%
Oakley Capital Investments	7.9
Schibsted ASA 'B'	6.8
FEMSA	6.4
Pershing Square Holdings	6.2
KKR	6.2
Aker ASA	5.8
Brookfield Corporation	5.5
Apollo Global	5.0
Princess Private Equity	4.7
Christian Dior	4.4
TOTAL	58.9

N.B. Brookfield Corporation is held via a long total return swap. A hedge is held against the position via a short total return swap on three of the listed underlyings (BAM, BIP, BEP), accounting for 57% of NAV. The weights shown reflect the notional exposure calculated from the shares underlying the swaps.

MANAGER'S COMMENT

AVI Global Trust (AGT)'s NAV increased by +0.5% in June.

The hedged position in Brookfield Corporation (+12%), Apollo (+15%), FEMSA (+10%) and KKR (+6%) were the largest positive contributors. Schibsted (-11%), Wacom (-16%) and Oakley Capital (-6%) were the most meaningful detractors.

D'Ieteren

Over the last few months, we have been adding to our position in D'Ieteren on share price weakness, such that the company is now a 4.2% weight in the portfolio.

Since reporting what we considered to be a strong set of full year results in early March the shares have declined -13%, underperforming the MSCI Europe by -11%. Whilst operating profit for D'Ieteren's underlying assets "beat" consensus expectations, investors were perturbed by significant working capital build-up and correspondingly low free cash flow generation. We believe such fears are undue, with the key culprit being D'Ieteren Autos (9% of NAV), where free cash flow swung from €108m to negative €101m as VW accelerated deliveries during the last two weeks of the quarter. This led to a €155m working capital outflow – or as management described it on the earnings call "*a photo finish that was not very pleasant*". This is a heavy-handed tactic we have seen from VW before (e.g. 2018), but one that normalises over time.

In our December newsletter we focused on D'Ieteren's key asset, Belron, which accounts for 63% of NAV following its payment of a €1.1bn dividend earlier this year. As discussed then, Belron has considerable scale advantages and benefits from the long-term growth trend of the proliferation of Advanced Driver Assistance System ("ADAS") cameras and increased windshield complexity.

Whilst Belron will remain the key asset in terms of NAV growth and investment case, we are increasingly encouraged by D'Ieteren's newer smaller assets, namely TVH Parts (TVH) and Parts Holding Europe (PHE). We believe the successful operation of these assets has the potential to boost management credibility and alleviate investors' concerns about re-investment risk / capital allocation, thereby reducing the wide discount at which the shares trade.

Although TVH is the larger and higher quality of the two assets, we believe the 2022 acquisition of PHE - a predominantly French automotive spare parts distributor - appears to be a particularly astute one, with D'Ieteren acquiring the business from Bain following a failed IPO.

Automotive spare parts flow from manufacturers, through distributors to retail and service centres and eventually end customers (drivers). The spare part aftermarket is divided between the Original Equipment Manufacturers (OEM) aftermarket and Independent Aftermarket (IAM), in which PHE operate. In the OEM aftermarket, automakers sell premium-priced branded parts, most typically for newer generation in-warranty models, which are principally distributed through their dealer networks. The IAM on the other hand, operates independently of automakers and is much broader, covering cars typically aged >5 years old, with the average car served by PHE circa 13 years old.

Unlike the auto industry at large, demand for spare parts is highly defensive and stable with the bulk of sales non-discretionary in nature. Moreover, there is an element of counter-cyclicality, in so far as customers are more likely to "make do" and repair during times of economic hardship. Within this the IAM is in turn even more predictable, as the stock and flow of the existing car parc and its resultant demand can be modelled out for many years to come: 100% of the vehicles PHE expects to service in 2025, and ~50% of those in 2030, are already on the road.

In distribution businesses scale is a key determinant of success. PHE are a top three customer to most large suppliers, resulting in considerable purchasing economies of scale compared with smaller operators. Scale also creates distribution centre density and allows for automation of complex logistics processes, both of which support best in class delivery times, with 90% of SKUs deliverable in two hours and some customers receiving up to six deliveries per day. Combined with inventory breadth, this gives PHE an unmatched ability to have the right part in the right place at the right time. In turn this translates to >40% gross margins, which drop down to high single digit operating margins.

Sales have grown at c.6% p.a. since 2010, although a decent chunk of this has been in-organic as PHE have rolled up many small operators. The market remains highly fragmented, particularly compared to the US, and we expect PHE to continue to pursue a consolidation strategy, with considerable synergies as acquirees are plugged into PHE's procurement systems. In the main these will likely be funded through internal cash flows, but over time there could be opportunities for D'Ieteren to deploy more meaningful amounts of capital.

D'Ieteren's acquisition of PHE came at an enterprise value of €1.7bn and an initial equity outlay of €571m. This equated to a trailing EV/EBITDA multiple of 7x and ~11x free cash flow. This represents a significant discount to listed peers, as well as M&A transactions, with GPC and LKQ having paid 10-11x EBITDA for Alliance and Rhiag in recent years. To complete the deal the EU mandated the disposal of PHE's windscreen repairs activities for just over €100m. As such the net equity outlay for PHE equates to less than 5x this coming year's profit before tax. We believe this represents a steal and should, combined with the acquisition of TVH, help ameliorate some of the market's concern surrounding re-investment risk (which became a valid criticism for the company following its ill-fated, and now immaterial, acquisition of Moleskine in 2014).

Returning to D'Ieteren, the decline in the shares combined with NAV growth means the company now trades at an 42% discount to our estimated NAV. Belron, TVH and PHE collectively account for 79% of NAV and exhibit largely non-discretionary demand drivers; combined with the prospect for margin expansion at Belron and accretive bolt-on acquisitions at TVH and PHE we believe the prospects for NAV growth are attractive, with potential further upside from discount narrowing. Given the presence of private equity co-ownership at Belron we believe some form of corporate event is probable in the coming years, with management highly incentivised to increase the equity value, which should act as a catalyst for D'Ieteren shares.

WACOM

Wacom detracted 65ps from performance, with a -16% share price return that was especially painful in a buoyant market. It's hard to link the share price weakness to a specific event, with all the weakness coming in June after the full-year results announcement in the middle of May. We suspect the weakness was driven by selling pressure from one of Wacom's largest shareholders who announced a reduction in their stake.

Although management are listening to our suggestions and have committed to a buyback program for up to 20% of their shares, the operating environment has weighed heavily on profits. Despite sales growing +4% last year, cost inflation dragged gross profits -21% lower, while SG&A investments led to a -85% fall in operating profits. The weakness came entirely from the consumer business which saw a swing in operating profit from Y8.7bn to a -Y4.0bn loss this year.

Operating profits are expected to rebound +124% next year and recover to the FY03/22 levels in around three years. The pace of recovery is being hindered by Wacom's continued investment in future growth to which we are not necessarily opposed.

The difficult operating environment has already been reflected in the share price, and we still believe that Wacom has a technological advantage which will bear fruit as the digital writing market grows. We will continue engaging with management to enhance Wacom's corporate value and seek ways to recover the share price weakness.

STATISTICS

Contributors / Detractors (in GBP)

Largest Contributors	1-month contribution bps	% Weight
Long Brookfield Corp/Short Listed Underlyings	66	5.5
Apollo Global	53	5.0
FEMSA	44	6.4
KKR	35	6.2
IAC	31	3.5

Largest Detractors	1-month contribution bps	% Weight
Schibsted ASA 'B'	-75	6.8
Wacom	-65	2.4
Oakley Capital Investments	-48	7.9
Pantheon International	-27	4.1
Symphony International Holdings	-19	2.8

Fund Facts

Net Assets	£994.9m
Investment Manager	Asset Value Investors Limited
AGT Shares owned by the Manager**	2,078,576
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 Return (£%)	1m	1y	3y	5y	10y
Share Price TR[2]	0.9	5.7	39.4	37.8	131.2
Net Asset Value TR[1]	0.5	7.1	44.9	40.1	131.9
MSCI ACWI ex US TR[3]	1.9	7.7	19.8	23.4	89.7
MSCI ACWI TR[1]	3.1	11.3	32.9	53.3	176.1
FY* Total Return (£%)	**FYTD**	**2022**	**2021**	**2020**	**2019**
Price[1]	7.7	-10.8	40.3	2.0	-0.4
Net Asset Value[1]	7.1	-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]	9.8	-4.2	22.2	5.3	7.3

Capital Structure	
Ordinary Shares	517,560,261
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	¥8,000,000,000[5]

Gross Assets/Gearing	
Gross Assets	£1,142.0m
Debt at fair value (gross)	£147.1m
Gearing (net)[4]	4.7%

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.
5 Amount of RCF drawn down. Capacity of ¥8,000,000,000.
* 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.

Investment Manager – Joe Bauernfreund

AVI Ltd. +44 20 7659 4800 info@assetvalueinvestors.com

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