AVI Capital Partners Fund
Investment Manager's Report
For the period 1st January 2022 to 31st December 2022

AVI Family Holding Company Fund - Investment Objective

The investment objective is to achieve long-term capital appreciation. The AVI Family Holding Companies Fund ("Fund") will aim to exceed the returns of the MSCI All Country World (ex U.S.) Index (€) through the active management of a focussed portfolio of listed equity investments in family-backed holding companies.

Investment Review

Over the financial year, the AVI Family Holding Companies Fund decreased -16.7% compared to the MSCI AC World ex USA Index (€) which decreased -10.5%.
Liquidity at year end in the Fund was 2.9%.

For the full year, the fund returned -16.7% vs. -10.5% for the benchmark. NAV weakness has been compounded by significant discount widening, as the generally illiquid, under-researched and misunderstood areas of the market on which we focus have been punished. This is consistent with our expectations and experience in similar market environments historically in 2020, the Eurozone crisis and the global financial crisis.

Since inception – three years and one month ago – the fund has returned +22.1% vs. +8.5% for the index.

Although performance in 2022 was weak across the board IAC was the most significant detractor, suffering throughout the year.

IAC (3.5% of NAV) is a north American internet-focussed holding company controlled by Barry Diller. IAC specialises in building businesses that are trying to transition sectors from offline to online. Such businesses are typically capital light, exhibit network effects and enjoy strong structural growth trends. IAC, who describe themselves as the "anti-conglomerate conglomerate", have a track record of spinning these off to shareholders when they reach maturity, with past examples including Expedia and MTCH.

Following the distribution of MTCH in 2020 and VMEO in 2021, IAC's portfolio now includes: 1) Dotdash Meredith (13% of NAV), a digital media company formed in 2021 through the merger of IAC's Dotdash and the media assets of Meredith Corp; 2) a listed stake in Angi (14% of NAV), the leading home services marketplace; 3) a listed stake in MGM Resorts International (29% of NAV), whose BetMGM is a leader in the nascent US sports betting and online gaming market; and 4) a collection of smaller unlisted assets, the most promising of which are Care.com, a marketplace trying to bring the $300bn care market online, and a minority stake in Turo, a peer-to-peer car rental marketplace.

IAC's NAV has suffered from sharp declines in Angi and Dotdash Meredith, both are down significantly in 2022, as the correction in US internet / tech multiples combined with weaker than expected results created the perfect storm.

Dotdash Meredith has suffered from dual issues of a slow-down in digital advertising as recessionary fears have loomed, and slower than anticipated integration of the Meredith assets. Accordingly, their $450m digital EBITDA target for 2023 has been pushed back. In our view, these issues are by

definition temporary in nature and the strategic logic and long term financial profile remain intact. Indeed, intent driven advertising is becoming increasingly valuable in a world where Apple have upended the cookie-based iOS ad market.

Angi has suffered from continued operational issues and sub-par performance – which ultimately led to the departure of Oisin Hanrahan as CEO in October. Joey Levin – IAC's CEO – has stepped in to run Angi, and is pursuing a back-to-basics strategy which should see a material uplift in profits in the coming years. With low investor expectations this bodes well for future returns.

IAC investors are rightly sceptical following continued disappointing execution and performance. This is reflected in the low valuation at which the company trades – with the stub value equating to 3x Dotdash Meredith's 2023e EBITDA and everything else for free. Of course, the stub can still get cheaper (or indeed turn negative as it has in the past) and there are no immediate catalysts to drive a re-rating. However, comfort is sought from the absolute cheapness of the shares, Barry Diller and Joey Levin's long-term track record of value creation, and the holding company's $1.3bn (32% of market cap) net cash position.

Several names in the portfolio had a strong turnaround in the last quarter of 2022. **D'Ieteren** (9.1% of NAV) and **Christian Dior** (9.6% of NAV), Belgian and French holding companies we wrote about in last year's annual report were up 23% and 15%, respectively, in 4Q2022. The driver of D'Ieteren's performance was a narrowing of the discount and Christian Dior benefited from strong performance of LVMH, the luxury goods conglomerate in which it owns a 42% stake.

FEMSA (9.1% of NAV), a Mexican family-controlled holding company whose origins date back to the establishment of Mexico's first brewery in 1890, also experienced a strong last quarter in 2022. FEMSA's NAV is comprised of 1) FEMSA Comercio (70% of NAV), which operates Oxxo-branded convenience stores and other small format retail stores (pharmacies, fuel) across Mexico and other parts of Latin America; 2) a listed stake in Heineken (16%); 3) a listed stake in Coca-Cola FEMSA (17%), the world's largest Coke bottling business; and 4) a collection of smaller unlisted distribution and logistics businesses (13%).

It is FEMSA Comercio generally, and Oxxo specifically, that are of particular interest to us. A typical Oxxo store is a little over 100m2 and sells ~3,500 high-frequency-low-cost items such as snacks, cigarettes and beer to customers who are principally motivated by convenience. It costs about $130k to fit out a new store, which at maturity earns c.30% returns on capital, with a payback period of around three years. Oxxo are master operators of this format and currently have just under 20k stores in Mexico, opening a new one every 6 hours (pre-Covid), with a long growth runway, both in Mexico and, increasingly, Brazil.

The company reported Q3 results which showed continued robust operational performance, with Oxxo sales growing +20% organically and strong operational leverage as margins increased to 9.4%. Despite the recent share price outperformance, the company remains cheaply priced, with an implied stub multiple of 6.6x forward EBITDA – a 50% discount to peer Walmex. The board are currently in the process of conducting a strategic review into unlocking this value anomaly and the sum-of-the-parts discount at which the company trades. Investor interest in this event has risen in recent months, however the market doesn't seem to be placing a high probability on a satisfactory outcome.

Schibsted (6.3% of NAV) is a £4bn market cap Norwegian listed holding company offering exposure to high quality online classified ads businesses at a discounted valuation, with multiple potential corporate events to unlock value. The origins of the company date back to Christian Schibsted establishing a publishing company in 1839, however the more modern history is defined by his great-grandson, Tinius Nagell-Erichsen, who built the business into a media conglomerate in the latter half of the 20th century, taking the business public in 1992.

From the turn of the millennium, Schibsted have built and bought a collection of online classified ads businesses, which today account for 93% of portfolio value. This is spread across Schibsted's unlisted Nordic assets (57% of portfolio), and a stake in Adevinta (35% of portfolio) which they listed in 2019 as a vehicle to house their international classified ads businesses and pursue sector consolidation (which it has done via the acquisition of eBay's classified ads business for $9.2bn in 2020).

Such businesses exhibit winner takes all dynamics, with strong network effects whereby listing inventory and user traffic mutually reinforce one another. The dominant #1 player in a category becomes the reference point for individuals or businesses looking to buy and sell in that vertical. This integral position translates into high levels of pricing power and excellent financial profiles, with healthy organic growth rates, EBITDA margins of 40-60% and high free cash flow conversion. We had monitored Schibsted from afar for a number of years. However, it took a more than 60% decline in the shares from the summer of 2021 to June 2022 to pique our interest. Both Schibsted and Adevinta have been caught in a perfect storm of earnings downgrades and multiple compression.

We initially started to build a position with Schibsted B shares – which we own – trading at a c.45% discount to our estimated NAV, and an implied stub value of c.5x forward EBITDA, with EBITDA expected to grow +14% p.a. 2022-24. This equates to an EV-EBITDA-Growth multiple of 0.4x, versus global classified peers at 1.4x and legacy media peers at 1.0x.

Management are acutely aware of Schibsted's undervaluation, and have bought shares in the open market, as has the controlling Tinius Trust. We believe a resolution of their stake in Adevinta is key to unlocking value and that the status quo will not persist in the medium term. An in-specie distribution of Adevinta to shareholders, or the sale of Schibsted's stake, most likely to a private equity buyer as part of a take-private transaction, are in our view potential outcomes that would unlock value. In late November 2022 the company took initial steps, selling a 2% stake in Adevinta and entering into a total return swap on a further 3% of the share capital. The proceeds have been used to reduce debt and launch a buyback for 4% of the outstanding shares.

Schibsted exhibits many of the traits we look for: high quality assets, discounted valuations, and potential events to unlock value. Prospective returns appear attractive.

The past year has been bruising as it has become apparent that the era of ever declining interest rates has come to an end. Risk has been re-priced and higher bond yields have been felt along the risk curve. On the "E" side of the equation, how well corporate profits can withstand margin pressures and squeezed consumer incomes is yet to be seen. The good news is that inflation appears to have peaked. The bad news is that we are not out of the woods just yet. Indeed, peak inflation is a necessary but not sufficient cause for equity market optimism.

As a long-only equity fund we will always be correlated with broader markets in the short-run. With that said, our experience shows that discount widening and panic are opportunities in the long-run. However, over the longer-term, as our track record shows, we expect to outperform through a concentrated yet diverse portfolio of lowly valued companies, with often idiosyncratic catalysts for NAV growth and discount narrowing. We remain excited about the prospects for the portfolio we have assembled and opportunities in the broader universe.

AVI Japan Fund - Investment Objective

The investment objective of the Fund is to achieve long-term capital appreciation. The AVI Japan Fund ("Fund") will aim to exceed the returns of the MSCI Japan Small Cap Index (€) through the active management of a focussed portfolio of equity investments listed or quoted in Japan.

Investment Review

The Fund was launched on the 8th September 2022 and therefore does not have a full financial year under review. Since launch, the AVI Japan Fund decreased -5.9% compared to the MSCI Japan Small Cap Index (€) which decreased -0.5%.

Liquidity at year end in the Fund was 7.9%.

Like much of the rest of the world, inflation continued to creep higher in Japan, with the country's core CPI ending the year at 4.0%, the highest since the late 1980s. Pressure from inflation and relatedly, a low approval rating for Prime Minister Kishida, might have been the catalyst for the BoJ modifying its 10-year Japan Government Bond yield target from 0% ±0.25% to 0% ±0.5% in December 2022. Although only slight, it signalled a change in policy that might pave the way for further rate increases in 2023.

Since the fund launch, we have built a concentrated high conviction portfolio of 20 holdings. The top ten holdings make up over 65% of the portfolio. It covers a broad range of sectors including industrials, consumer discretionary, materials, information technology and others.

The backdrop for shareholder engagement is as supportive as ever. 55 companies received shareholder proposals during the 2022 AGM season (almost double last year's number), Uniden was taken private in what we believe is the first successful friendly tender offer completed by a foreign engagement fund, while EGMs were called at Fujisoft, Fujitec and Japan Securities Finance.

Increased public engagement activity is helpful for our endeavours, reminding management of our portfolio companies, that they are accountable to shareholders, and highlighting the risks of not listening to our suggestions. Support from regulators is also helpful, and it was encouraging that the Japan Stock Exchange continued discussing ways to improve corporate value of companies listed on the TSE. Shortly after the end of 2022 they decided to mandate companies to disclose policies and initiatives to address capital efficiency and low valuations (specifically a price/book ratio below 1x). Most of our engagement has been private behind closed doors.

Wacom (8.6% of NAV) is the largest holding in the portfolio. Wacom is the global leader of digital pen solutions, and our investment was premised on the increased adoption of digital drawing and writing. Wacom manufactures its own branded tablets and sells its technology to other electronic device manufacturers, for example the S22 Ultra smartphone which launched at the start of 2022 had an embedded Wacom pen.

While we continue to believe that digital writing solutions will see strong growth over the long-term, inflationary cost pressures and diminished consumer spending power have weighed on short-term profits. Encouragingly, Wacom's B2B business has been resilient with a growing customer base and higher adoption of digital pens, but the consumer business has suffered from a demand-led slowdown. In October Wacom released a profit warning revising down its full-year sales and profit guidance by -11% and -56% respectively.

We have been a little disappointed in Wacom's investor communications surrounding the profit decline, with comments shortly before the profit warning now appearing naively optimistic and poor planning to control gross margins and SG&A expenses. We sent a letter during November outlining seven actions we think management can take to aid the situation. We recognise that the consumer

environment is out of management's control, but there are several self-help measures that we would like to see implemented.

Our conviction in Wacom's technology and long-term growth potential is unchanged, and the market's myopic focus presents an opportunity to take advantage of the share price dislocation. Using normalised earnings, Wacom trades on an EV/EBIT multiple of only 5.5x, a remarkably low valuation considering Wacom's technology and structural growth tailwinds from the increased adoption of digital writing solutions. As a top three shareholder, we are working closely with management to address the underperformance and ensure efforts are being made to maximise shareholder value. With a return to normalised profits, our estimated potential upside to the current share price is in the order of +100%.

T Hasegawa (7.4% of NAV), second largest holding in the portfolio, is a Japanese global top-ten flavour and fragrance (F&F) company founded by the namesake family in 1903. Flavours are a critical component of consumers' purchasing decisions, while accounting for a small portion of overall costs. This creates sticky customer contracts, strong barriers to entry, and pricing power. TH trades at a 50% discount to our estimated NAV, and at 10.6x EV/EBITA versus global peers at 28.4x.

We are optimistic about the macro environment in Japan. The weak Yen makes Japan highly cost-competitive, both for tourism and manufacturing. Inflation has returned after a 40-year absence and with wage growth and increased spending, we could see a more rational allocation of capital and improved productivity, which would bode well for the portfolio companies.

It is challenging to predict how 2023 will unfold, but we remain convinced that valuations are important. The potential for a reversal of foreign outflows, a stronger undervalued Yen, and a robust economic environment in the coming years, gives us reason to be optimistic about the potential for attractive absolute returns for the portfolio.

AVI | Asset Value Investors
Alternative Investment Fund Manager and Promoter
February 2023