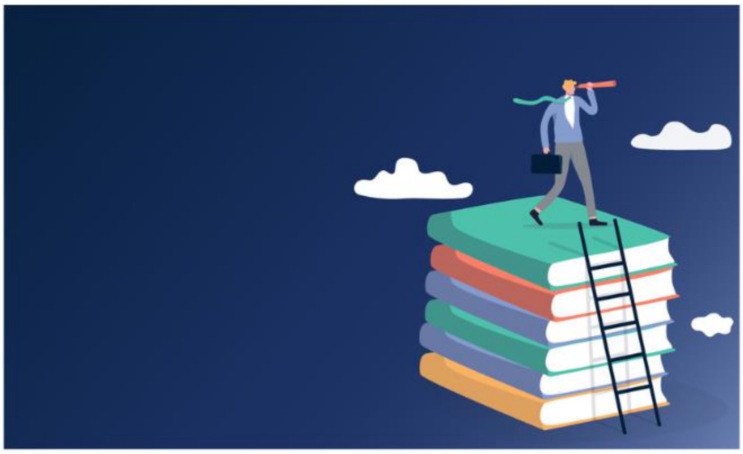
AVI HANDBOOK

An Introduction To
Asset Value Investing



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Introduction:

Asset Value Investors is an employee-owned boutique investment manager that has been investing in global equities with a bottom-up engagement focused style since 1985.

Over this 39-year period AVI Global Trust ("AGT"), our global product, has delivered annualised returns of +11.7% vs +9.3% for the MSCI ACWI (£).

In 2024 AVI is launching a daily trading UCITS product following AVI's unique global equity strategy.

Why is a primer necessary?

There's an old joke that "*football is a simple game: twenty-two men chase a ball for 90 minutes and at the end, the Germans always win*".

In our industry a cynic might quip that investors chase the same stocks and at the end of the day the fund manager always wins.

At AVI we aim to do something different.

Indeed, for nearly 40 years we have done something different.

The purpose of this primer is to explain what "different" means and bring AVI's distinctive approach to life.

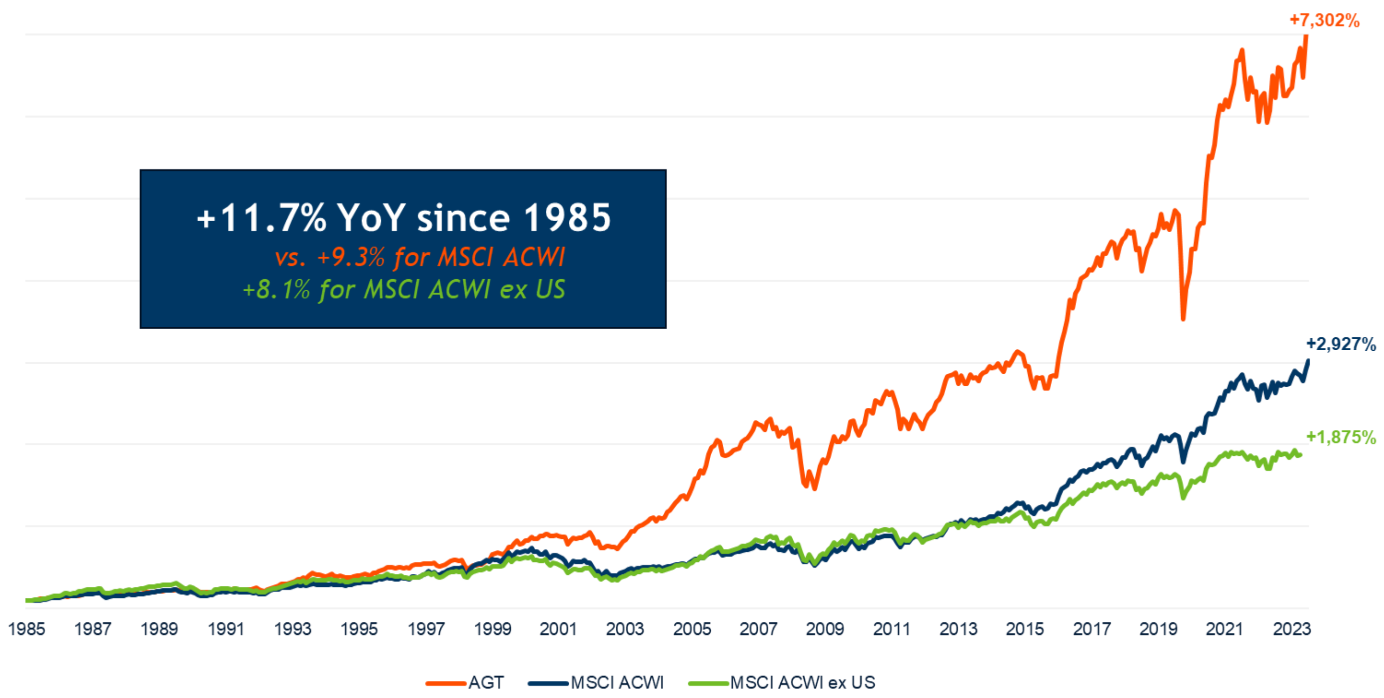
History:

AVI was established in 1985 to manage the assets of what was then British Empire Securities & General Trust and is now AVI Global Trust - one of the oldest listed investment companies in London.

Today the trust has net assets of £1.1bn and is well known for its distinctive, value-focused, and actively engaged approach.

AVI also manages the AVI Japan Opportunity Trust, the MIGO Opportunities Trust, and a series of segregated accounts and smaller funds.

As of January 2024, AVI has assets under management of £1.7bn.



Who we are:

AVI is a firm of 25 people, 14 of whom sit within the investment team.

Joe Bauernfreund is the CEO and CIO of AVI, having joined the company in 2002. Joe became portfolio manager in 2015 and since then AGT has achieved annualised returns of 13.1% vs 12.4% for the MSCI ACWI.

Tom Treanor is Head of Research and has 20 years' experience of investing in the closed-end fund sector (13 years of which at AVI, where he leads on engagement and activism).

Daniel Lee joined AVI in 2015 and has nine years of experience investing in Japanese equities.

Wilfrid Craigie joined AVI in 2018 and has six years of experience researching holding companies.

The investment team is backed by considerable operations and business expertise, with AVI's head of operations, Jake Crowhurst, and AVI's CFO, John Kidd, having both been at the firm for over a decade.

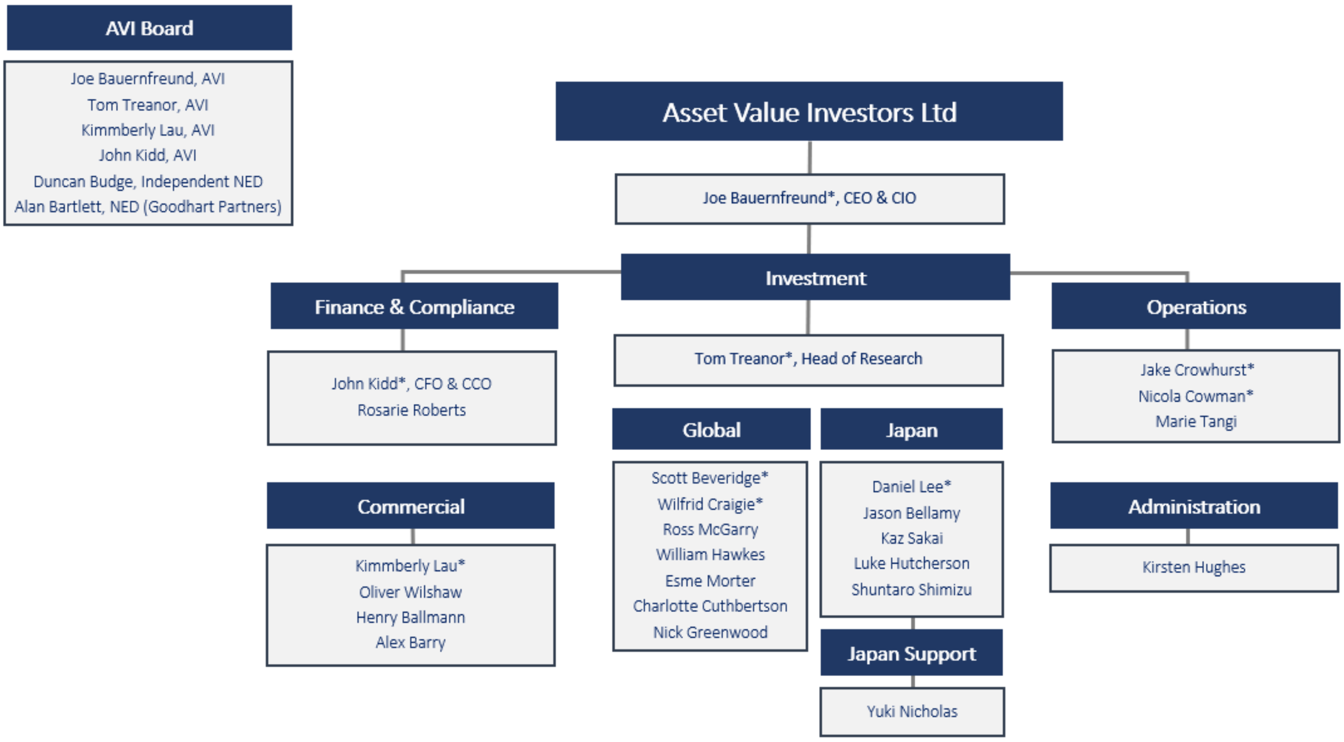


*Figure 1: As at December 2023. * AVI equity owner.*

What we do:

AVI invests in holding companies and other group structures trading at discounts to their sum-of-the-parts ("SOTP") value, which we refer to as their Net Asset Value (NAV).

We look for three things:

1) **Asset** – *durable businesses that are growing in value*
2) **Value** – *trading at discounted values*
3) **Investing** – *with an active approach to unlocking value*

What we are:

Bottom-up stock pickers – we believe inefficiencies are best exploited at the company level
Global – we invest around the world
Long-term – we view stocks as fractional ownership interests in businesses and have a timeline to match
Engaged – we take an active approach to engaging with boards and management

What we are not:

Index huggers – we build portfolios that look very different to the index
Market timers – we time catalysts, not markets, running portfolios at ~100% invested
Growth investors – we believe price paid matters
Value investors – we believe asset quality matters

What we offer:

We assemble concentrated-yet-diverse portfolios with the aim of delivering superior long-term investment performance in excess of broad global equity benchmarks.

More precisely, we seek five year rolling total returns above those of the MSCI AC World Index (£).

This is consistent with what we have achieved historically – with compounded annual returns of +11.7% since 1985, versus +9.3% for the MSCI ACWI.

Why and where:

Our approach is grounded in a belief that stock markets can be inefficient, and that certain pockets of the stock markets are more prone to pricing inefficiencies. It is in these pools that we like to fish.

Specifically, we focus on corporate structures that can be valued on a sum-of-the-parts basis that the market finds difficult to value.

These include holding companies, conglomerates, companies with inefficient balance sheets and other types of special situation that lend themselves to SOTP investing.

This universe is the result of accumulated knowledge, having specialised on these niche areas of the equity market over the last 40 years. Our universe further ebbs and flows with event-driven and other special situations, based on corporate transactions and actions such as M&A, IPOs, private equity activity and strategic reviews.

The market struggles to fairly value these businesses for several reasons:

Complex structures – whilst many investors eschew it, complexity is our friend. Investors are put off by conglomerate group structures, dual-share class structures, cross-shareholdings, and cascades. Moreover, due to their complexity and accounting treatment, such businesses often screen poorly. What you see, is not always what you get.

Under-researched companies – we are typically focussing on niche areas of the equity market that have low or even no sell side coverage. The diversified structures within our universe don't neatly fit into sell side buckets; and the presence of large family shareholders typically limit the potential for trading or investment banking fees to be generated, further dissuading coverage. We like to look where others aren't.

Unlisted and disparate assets – the listed holding companies in which we invest often own both listed and unlisted assets. This gives rise to potential mispricing and can be a source of hidden value for those looking closely and examining the potential value.

Controlling shareholders – the consensus view is to be wary and sceptical of large controlling shareholders. We believe this to be misguided. Controlling shareholders typically take a long-term oriented approach to capital growth.

Engagement opportunities – most investors do not have the remit or resources to actively engage with companies and as such avoid stocks where such action is required. We believe we have a structural advantage from our adaptable and constructive engagement approach and have a demonstrable track record of creating value for all shareholders.

The opportunity set is global in nature – but looks very different to the market-capitalisation weighted MSCI World Index, which is so heavily dominated by the USA.

We find such structures in Europe, North America, Asia, Japan, South America, and other emerging markets.

Whilst different markets have different nuances and require differing approaches to engagement, the opportunities in these markets are united in their characteristics: durable assets, trading at discount valuations, with catalysts to unlock and grow value.

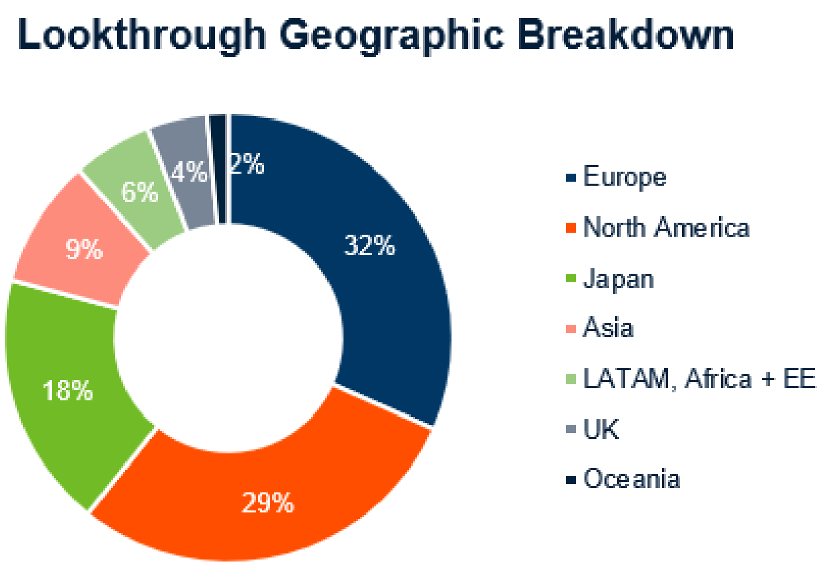


Figure 1: Lookthrough portfolio characteristics based on AVI Global Trust as at 31/12/2023.

Bringing our approach to life – **A**sset **V**alue **I**nvesting

Asset Value Investing

Durable businesses that are growing in value

On an underlying basis we seek to invest in durable businesses that are growing in value.

As equity investors this might sound tautological or self-evident, however we believe it is instrumental in our approach and sets us apart from many other value-focused investors.

NAV growth, or growth in intrinsic value as others might call it, is a key source of return, and we view underlying asset quality as a key factor in avoiding value traps and de-risking catalyst timing. By owning businesses that are likely to be worth more in the future, time becomes your friend. This is in sharp contrast to more structurally or terminally challenged business, where time is the enemy, as value erodes. We are not picking up pennies in front of a steam train – nor having the final puff of a cigar.

The myriad of company structures we invest in require a variety of approaches to assess and value underlying assets that are both listed and unlisted. However, they are all held together by a common philosophy and are interrogated through the same lens as part of the research process.

We look for businesses with favourable and sustainable underlying economics and growth prospects.

We like businesses with competitive advantages – *things that protect them from competition and allow for continued profit growth and corporate value creation*. These can take many forms: brands or intellectual property, scale advantages, switching costs, network effects, distribution capabilities or cost advantages.

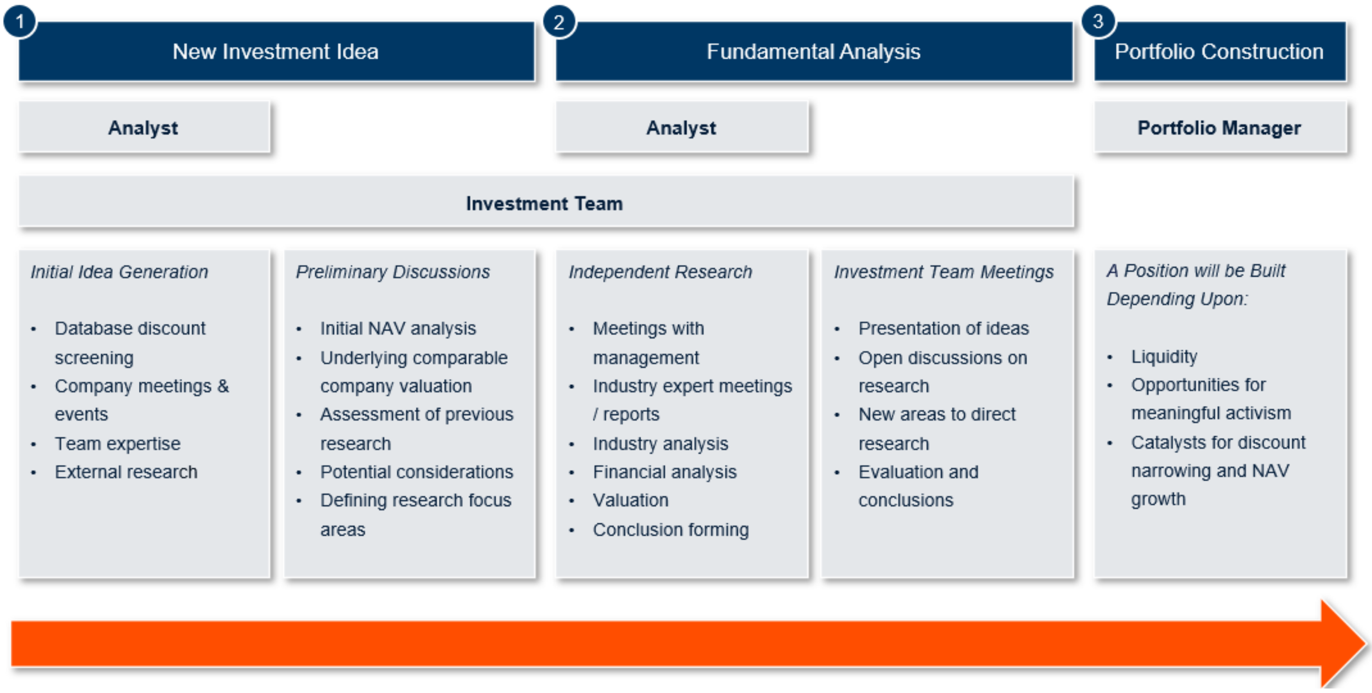
Our approach to this is one of pragmatism and does not fit neatly into style boxes or simplified dichotomies of value vs. growth.

Typically, we avoid highly cyclical and capital-intensive industries that generate both weak returns on capital and lousy shareholder returns. However, we are not dogmatic and have had successful investments in companies with exposure to both oil & gas (Aker BP) and autos (Stellantis) – just as we have had successful investments in industries more universally acclaimed for their attraction (such as classified ads in Schibsted and luxury goods in Christian Dior). Our focus is simply on businesses that we believe will increase in value.

We avoid businesses with too much leverage – particularly at the holding company level. We have learnt the hard way the destructive impact too much debt can have for equity returns.

In our research process we are trying to answer a number of questions:

- Is this a business we want to own? Is time our friend?
- Are the industry and business fundamentals improving? Will they likely be better or worse in the future?
- What is the industry structure?
- What are the business's competitive advantages? What are its weaknesses?
- How does this translate to sales and profit growth?
- Are the management team competent and do they act with integrity? What are their incentives?
- Is the capital structure appropriate?
- Is the starting valuation reasonable?
- What are the key risks or challenges facing the business? What developments would make us more cautious about having exposure to the business?



<u>Asset **Value** Investing</u>
<u>*trading at discounted valuations*</u>

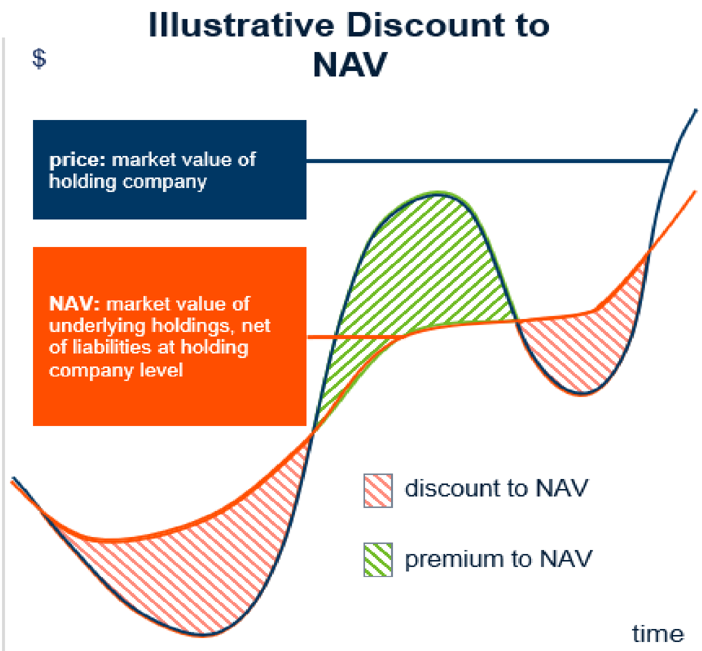
We only invest in companies trading at significant discounts to their sum-of-the-parts NAV.

The level of discount is our yardstick of valuation, and the narrowing (or widening) of the discount is a key component of our total return.

We maintain 300 - 500 daily SOTP NAV models in our proprietary database
"The Hub" and track discount levels over time.

Our SOTP modelling process breaks companies down into their constituent parts:

- *Listed holdings* – we value listed stakes in other companies at their spot.
- *Unlisted holdings* – we value businesses using peer multiples such as EV/EBIT and PE multiples.
- *Other assets & liabilities* – we take the latest available balance sheet values



Not all discounts are created equal and not all discounts are inefficiencies. This is analogous to saying that all companies trading on low price to earnings multiples are undervalued – they are not!

Individual company discount levels tend to mean revert and discounts that have sharply widened and trade at the wider end of their historic range are what piques our interest.

We seek to understand *why* the discount has widened and if it is justified. Our starting assumption is that the market *is* right, and this must be disproved.

Our specialist approach and focus give us a uniquely informed perspective on what is invariably more of an art than a science. Are there issues with capital allocation? Are there issues with specific assets? Does the market have concerns about underlying valuations? Has structural complexity increased? Are there corporate governance issues? Is the sector out of favour? Are there technical factors at play?

Asset Value **Investing**

with an active approach to unlock and grow value

In Christopher Nolan's *The Prestige*, Michael Caine's character explains the anatomy of a magic trick:

> *"Because making something disappear isn't enough; you have to bring it back. That's why every magic trick has a third act, the hardest part, the part we call "The Prestige"*.

And so is the way with investing.

Finding attractive assets at a cheap price is one thing – the (magic) trick is to find a way to unlock it.

This is central to our approach and can take many forms.

Mean reversion – by investing in companies trading at much wider than average discount levels we can expect to benefit from mean reversion. Our proprietary discount database and specialist knowledge make us well placed to time the discount cycle and exploit anomalies.

Corporate events – in many cases we are investing in situations where there are either soft or hard catalysts in the form of either potential or current corporate events – where companies are undergoing change. This includes strategic reviews, asset sales, listings of private assets, spin-offs, and structural simplifications. Our long-time horizon differentiates us from hedge funds and event driven investors who require shorter holding periods.

Our active engagement – we take an active approach to engaging with boards and management teams of our portfolio companies. Our engagement is focused on finding constructive solutions to solve undervaluation, with a focus on capital allocation, strategy and operational improvements. Over time we have built up a demonstrable track record of unlocking and creating value for all shareholders. Most other investors do not have the remit or resources to do this.

Engagement Intensity	Typical Engagement	Company Characteristics	Universe Examples
Low	— Private meetings with management	— High Quality Management teams — Strong track record of NAV returns — Capital Allocation Policies — NAV discount	EXOR investor
Medium	— Face-to-face meetings — Private letters and/ or presentations to management	— Trading at a wider than historic discount — Management under pressure to carry out strategic review — Potential issues around capital allocation or shareholder returns	Schibsted FEMSA
High	— Public presentations and shareholder proposals to highlighting the failings at the company — Potentially convene an EGM	— Poor Governance — Poor track record of NAV returns — Trading at a perpetually wide discount — Capital Allocation Requiring Work	HIPGNOSIS Digital Garage FUJITEC

AVI in action – FEMSA case study:

FEMSA is a Mexican family-controlled holding company in which we have invested since 2021.

Asset – *durable businesses that are growing in value*

- Bulk of the value lies in the unlisted business FEMSA Comercio, which operates Oxxo-branded convenience and other small-format retail stores in Mexico and LATAM.
- Oxxo is #1 player with >20k units (10x no.2 player) in Mexico, with significant purchasing power & distribution scale advantages. Resilient business model with low average ticket size ($1.5) selling beer, snacks & coffee to customers principally motivated by convenience.
- Attractive unit economics (~$150k to open a new store) which at maturity earns >30% ROIC, with a payback period of ~3years. Proven replicable model (opening 1 store every 6 hours).
- Long growth runway (targeting 30k units in Mexico) and promising signs of market fit in Brazil.

Value – *trading at discounted values*

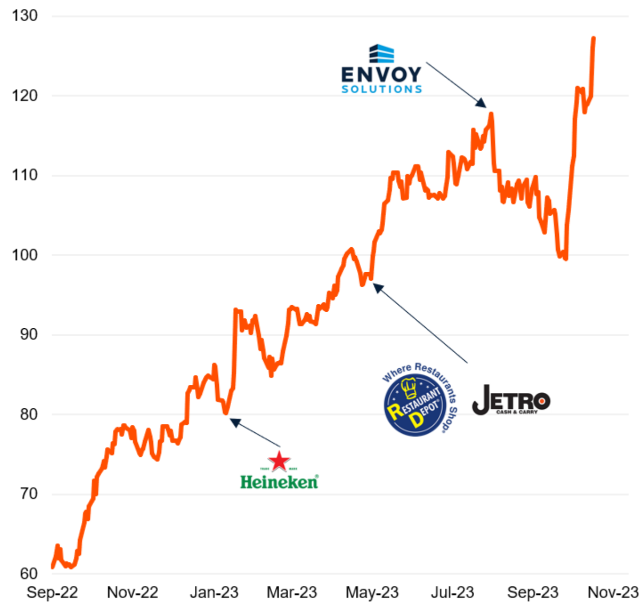
- From its history as the first brewer in Mexico in the 1890's, FEMSA had grown into a messy conglomerate with listed stakes in Heineken and a Coca Cola bottling business equivalent to a significant proportion of its market value, and other smaller unlisted assets.
- This obfuscated Oxxo's quality and deterred investors.
- As a result, by mid-2022, FEMSA traded at an close to 40% discount to our estimated SOTP NAV and the unlisted FEMSA Comercio traded at an implied 6x NTM EBITDA - half of its historical average and that of peer Walmex.

Investing – *with an active approach to unlocking value:*

- Our initial investment in FEMSA was predicated on the low valuation, attractive asset quality and growth prospects. There was no firm catalyst in place, but management had begun to increasingly acknowledge the steep undervaluation.
- In 2022 the company announced a strategic review into the company's undervaluation and discount at which it traded. We added to the position as we felt the valuation did not fairly reflect the probability of management taking positive steps to close the discount.
- In 2023 the FEMSA concluded the strategic review, announcing plans to simplify its structure by selling its stake in Heineken (equivalent to 28% of then market cap) as well as sell other smaller non-core assets. This thereby refocused the business on the core of FEMSA Comercio, returning excess capital to shareholders.
- This has supported a re-rating in the shares from 6x to 9x (as at December 2023).

FEMSA Structure – 31 Dec '22

FEMSA Share Price FY23



How we generate returns:

Our returns are a function of our investment approach, and can be broken down through the following building blocks:

1. NAV growth:

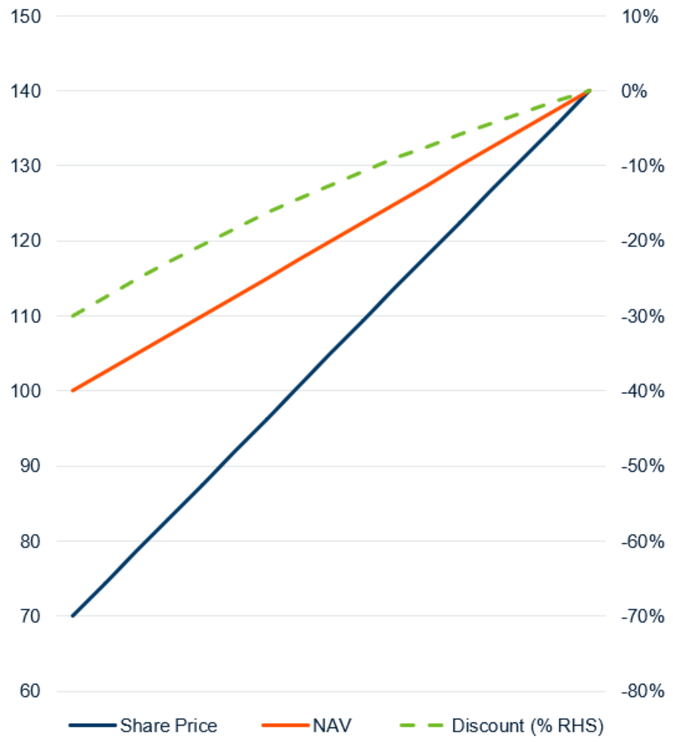
- *At the core of all AVI's investments are attractive businesses with durable earnings growth.*

2. Discount Tightening

- *Occurs when the share price rises more than the NAV. A form of re-rating, often driven by corporate events & catalysts.*

3. Compounding Effect

- *When these two sources of returns occur simultaneously, an attractive compounding effect enhances investment returns.*



Portfolio construction:

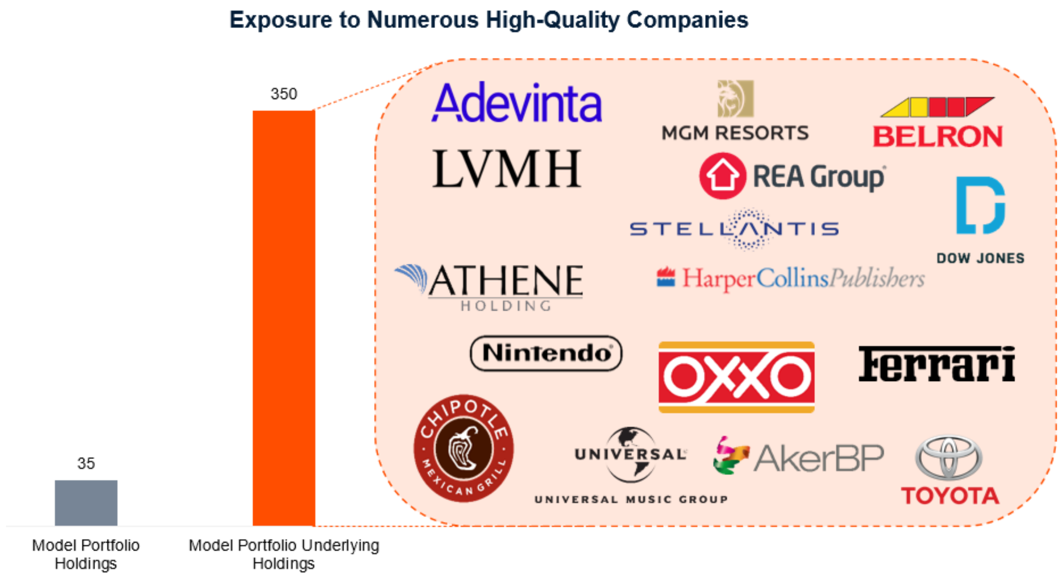
We aim to construct concentrated-yet-diverse portfolios.

The portfolios are constructed on a bottom-up "best ideas" basis balancing our assessment of:

1) the **NAV**
2) the **discount**
3) potential **catalysts & events** to narrow the discount
4) the **liquidity**
5) The opportunity for **activism**

The conglomerate group nature of the holding companies in which we invest provides natural diversification – across company, sector and geography.

On a "look-through" basis a portfolio of 35 holdings provides exposure to ~350 underlying companies.



Whilst the portfolios are constructed from the bottom-up, we use the look-through geographic and sector analysis to ensure that we do not take unintended risks.

We believe that GICS sector classifications are obtuse and misleading, and instead focus on the underlying economics.

For example, both LVMH – the luxury goods conglomerate – and Adevinta – a European classified ads business – are classified as consumer discretionary, despite having very different business drivers.

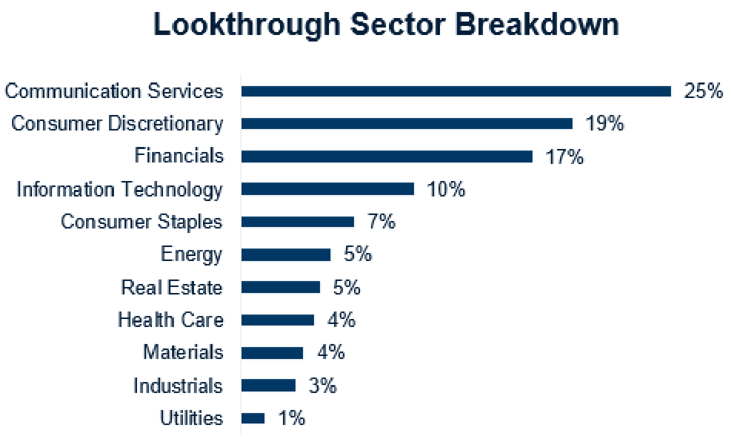


Figure 2: Lookthrough portfolio characteristics based on AVI Global Trust as at 31/12/2023.

The future:

Since 1985 AVI has followed distinctive approach to investing in global equities, delivering returns of +11.7% vs +9.3% for the MSCI ACWI (£).

In 2024 we are launching a daily trading UCITS product, opening our strategy up to a broader pool of investors.

Contacts:

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