Q3 2024

Investment Objective:
The investment objective of the Fund is to generate long-term returns through investment in a portfolio of global companies whose share prices stand at a significant discount to estimated underlying net asset value.

MANAGER'S COMMENT

Introduction:

The third quarter of 2024 marks the first full calendar quarter for the fund. We are excited to be fully underway!

For the first 12 months of the vehicle's life, we are limited by regulations from directly discussing performance. Therefore, for the time being we intend to give you some insight into how we think about companies, opportunities that are arising in our universe and our more general outlook for the strategy.

D'Ieteren (8.2% weight):

D'Ieteren is a seventh-generation Belgian family-controlled holding company whose crown jewel asset is a 50% stake in Belron, the global no.1 operator in the Vehicle Glass Repair and Replacement ("VGRR") industry.

The bulk (58%) of D'Ieteren's NAV is accounted for by Belron, which readers might be more familiar with as Autoglass (UK), Safelite (US) or Carglass (EU). Belron is many multiples larger than competitors with >40% US market share, giving it significant scale advantages in terms of purchasing economies of scale and cost leadership, relationships with insurance partners who are industry gatekeepers, and technological investment, which has become increasingly relevant.

Increased windshield complexity and the requirement for Advanced Driver Assistance System ("ADAS") cameras to be recalibrated upon replacement has re-accelerated top-line growth and taken margins from 6% in 2018, when we visited the European Distribution Centre in Bilzen, to north of 20% currently.

We expect Belron to keep riding this wave, with ADAS set to become a larger proportion of the global car parc, supported by a legislative tailwind. Over the medium-term, sales should grow at a mid-to-high single digit level with margin expansion translating to strong double-digit growth in operating profit. Longer-term, a possible IPO will likely help crystalise value, with the appointment of Carlos Brito – who built AB InBev into a global behemoth – perhaps indicative of this plan and the company's level of ambition.

As well as this, D'Ieteren owns a collection of other smaller assets 1) a 40% stake in TVH Parts, a spare parts distributor focussed on forklifts and other industrial machinery; 2) a 100% stake in D'Ieteren Autos, which distributes VW brands in Belgium; 3) a 100% stake in PHE, a European automotive spare parts distributor focussed on the Independent Aftermarket ("IAM"); 4) a 100% stake in Moleskine, the luxury notebook group.

In early September 2024, D'Ieteren announced that there was to be a reorganisation of the controlling family's shareholding. Nayarit (the vehicle of Nicholas D'Ieteren) is to acquire a 16.7% stake from SPDG (the vehicle of Olivier Périer) at €223.75 per share (the then market price). Concurrently, and to help fund this, D'Ieteren announced their intention to pay a special dividend of €74 per share.

At current prices, this equates to a yield of 39%. The dividend will principally be funded via a €3.8bn dividend recapitalisation at Belron (of which €1.9bn will flow to D'Ieteren), as well as a new €1bn debt facility at the holding company level and cash on hand.

We view this as highly positive – receiving a large portion of your market cap back at NAV is an inherently good thing and investors suggesting otherwise are missing the wood for the trees.

It is our understanding that tax-sensitive Belgian retail investors have been sellers of the shares. In turn, price has led narrative and various negative views have emerged.

Other investors have queried the increased debt at Belron, which will rise to c.5.5x EBITDA. Yes, this is high by public market standards, but the company is a prodigious cash generator and has a track record of deleveraging following previous dividends. Moreover, the dividend recapitalisation is enterprise value neutral for Belron and – in our view – most likely warrants a tighter, not wider – "fair" level of holding company discount.

MANAGER'S COMMENT

D'Ieteren has now fallen -16% from the preannouncement level, such that the capital return now equates to 39% of D'Ieteren's market cap (gross of tax). On an ex-dividend basis D'Ieteren is trading at an implied -54% discount to NAV.

We believe this to be a highly attractive valuation and have correspondingly increased our position such that D'Ieteren is currently an 8.3% weight in the fund.

Outlook:

The economic and market environment remains as interesting as it is confusing. From the lows of October 2023, equity markets have – as they tend to – continued to climb the wall of worry.

Then, as now, there are plenty of issues to worry about: structurally higher inflation and increased risks of monetary policy accidents; market concentration; China's economic malaise; a second Trump Presidency.

However, our experience shows that we will not add much value in assessing these issues. Rather our focus remains on the bottom-up fundamentals – which history shows are the key to generating long-term outperformance.

As such, our attention is on the concentrated-yet-diverse portfolio of high-quality-lowly-valued businesses we have assembled. Valuations remain attractive, as is indicated by the current 36.7% portfolio weighted average discount, and we are positioned in situations with numerous corporate catalysts, including our activism, to unlock these discounts and drive attractive long-term returns.

Investment Manager – Joe Bauernfreund

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

The share price can be found in *AGSS - Asset Value Investors*

Further information may be found on the following websites:
https://www.assetvalueinvestors.com/agss
www.assetvalueinvestors.com