June 2020

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

AGT continues its recovery

AVI Global Trust (AGT)'s NAV rose by +7% in June as equity markets continued their gains from the March lows.

Read more below

SoftBank this month's largest contributor

SoftBank, the largest contributor over the month, has risen +130% from the March lows following announcements about improved capital allocation and governance.

Read more below

AVI launched a public campaign

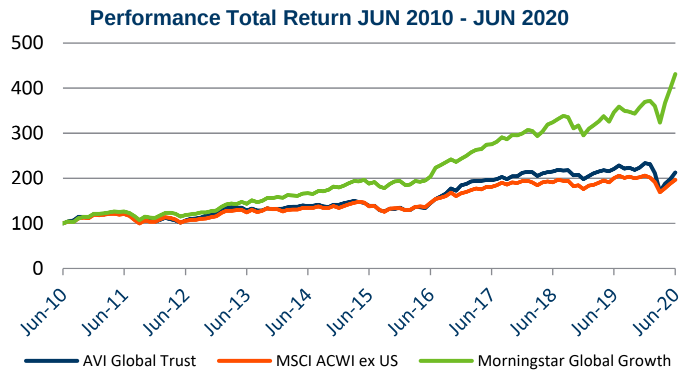
At the beginning of May, AVI launched a public campaign highlighting a multitude of issues at Fujitec.

Read more below

PERFORMANCE

(Figures to 30 June 2020)

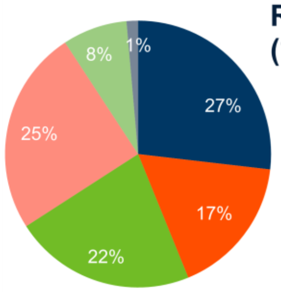
Share Price (pence)	685.0
NAV (pence)	763.2
Premium / (Discount)	-10.3%



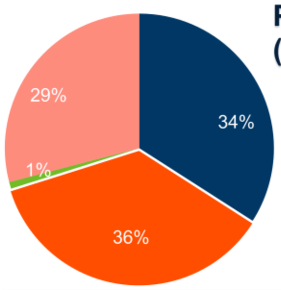
	Month	Financial Yr* to date	Calendar Yr to date
AGT NAV[1]	7.0%	-6.6%	-9.7%
MSCI ACWI Ex US[3]	4.6%	-3.3%	-4.6%
MSCI ACWI Ex US Value[1]	4.0%	-13.1%	-13.6%
MSCI ACWI[1]	3.3%	1.9%	0.5%
Morningstar Global Growth[1]	4.3%	4.1%	1.2%

THE FUND

Risk Region Breakdown# (% of net assets)



Portfolio Exposure (% of invested assets)



#AVI estimate. Previously, this breakdown was calculated by assigning one region to each portfolio company held by AGT. From the 31-Dec-16 newsletter onwards, this is calculated using the estimated multi-regional exposure for each portfolio company. For listed underlying holdings, the country of listing is used; for unlisted underlying holdings, the exposure is typically assigned according to the country where a majority of sales are made.

Top Ten Equity Holdings

Holding	%
Japan Special Situations**	17.8
Pershing Square Holdings	9.2
Oakley Capital Investments	7.3
Softbank Group	7.1
Sony	5.9
Fondul Proprietatea	5.3
Kinnevik B	5.2
Third Point Offshore Investors	4.7
EXOR	4.1
Jardine Strategic	3.8
TOTAL	70.4

MANAGER'S COMMENT

AVI Global Trust (AGT)'s NAV rose by +7% in June as equity markets continued their gains from the March lows. Returns were driven by a combination of the portfolio discount tightening from 39% to 37%, and underlying NAV growth. Major contributors included SoftBank, Godrej Industries, and Oakley Capital Investments. Modest detractors included the Japan Special Situations basket and Tetragon Financial.

SoftBank Group was the largest contributor to returns over the month, adding 85 basis point ('bps') as its share price rose +13%, driven by a rising NAV (+6%) and the discount narrowing to 55%. We initiated a position in SoftBank – a £90 billion Japanese holding company whose key assets include stakes in Alibaba, SoftBank Corp (a Japanese telco), the Vision Fund, Arm Holdings, and T-Mobile US – in February 2020. As the coronavirus pandemic unfolded, SoftBank's discount widened at one point to an eye-popping 76%, and we took advantage of that opportunity to add to the position at wider discount levels, such that SoftBank is now AGT's third-largest individual holding.

We have discussed SoftBank at length in previous newsletters (see here and here). As a quick recap, our initial thesis was based on the presence of activist investor Elliott Advisors on the shareholder register, who we believed would catalyse long-awaited changes in capital allocation and governance. That thesis received swift vindication in March, with SoftBank announcing JPY4.3 trillion of planned asset sales – with the proceeds being used to reduce debt and fund buybacks – as well as appointing two new independent directors and plans to enhance the transparency of the Vision Fund.

Since then, SoftBank has realised JPY2.2 trillion of asset sales through the partial disposal of its stake in T-Mobile US and has completed JPY600 billion of buybacks to date, with a commitment to buy back another near-JPY2.0 trillion worth of shares. The market reacted positively to this news, with the share price recovering +130% from its March lows. We believe that, despite the strong gains, SoftBank still represents exceptional value, a claim which we buttress with two observations. Firstly, the average discount of 40-50% that the market has applied to SoftBank in the past is likely no longer appropriate, given that it has shown itself willing to reduce leverage, improve capital allocation and embrace higher norms of corporate governance. Secondly, ongoing share buybacks generate risk-free, immediate, and certain NAV accretion for remaining shareholders. We estimate that the full buyback programme would generate NAV accretion of +10%. As such, we continue to see significant upside in SoftBank's shares.

Godrej Industries was the second-largest contributor in June, as both a strong NAV (+15%) and a narrowing discount (60% to 54%) combined to drive the share price +31% higher. Godrej is an Indian holding company which owns controlling stakes in three listed businesses: 1) Godrej Consumer Products ("GCPL"), a leading Indian consumer products company with an increasing presence in other emerging markets; 2) Godrej Properties, an Indian property developer exposed to the trend of urbanisation; 3) Godrej Agrovet, a diversified agri-business benefiting from the formalization of Indian agriculture.

The jewel in the crown is GCPL (54% of NAV), which holds dominant market positions in hygiene (soaps, handwash, bodywash), hair care, and household insecticides. GCPL benefits from exceptional brand equity and is home to a number of India's most trusted consumer brands, which has translated into strong top-line growth and attractive margins. This has been complemented by inorganic growth to expand the business outside of India, most notably in Indonesia and West Africa. Over the last decade sales have grown at 17% CAGR, however the last few have been much tougher going. In India sales growth has been inhibited by demonetisation, the introduction of Goods and Services Tax (GST), and a general slowing of the Indian economy, all of which have dampened growth in consumer demand. There have also been specific issues with unlicensed competition in the household insecticides business, although this now seems to be abating. Growth in Indonesia has been mixed, although over the last year very strong, whilst the African business, which is less developed, has been more sluggish. All of this has been compounded by COVID-19 and the subsequent lockdowns, which were particularly strict in India. However, we view these as short-term issues which distract from the highly attractive long-term growth trends in GCPL's key markets. Management has a strong track record of product innovation and leveraging the brand to drive organic growth. Indeed, we are already seeing this in new hand-wash product launches to capitalise on the increased focus on hygiene in the COVID-19 environment. As such we remain excited about the prospect of future growth.

Since initiation of the position in early 2019, returns have been below expectations (although we remind readers that our investment timeframes last much longer than a year), with the primary culprit being an expansion in the discount from c. 45% to 54% currently. We continue to believe that Godrej Industries can deliver highly attractive returns from both underlying NAV growth and a narrowing of the discount from the exceptionally high levels seen currently.

Two recent additions to the portfolio, Prosus and Naspers, added 37bps and 15bps to returns respectively in June. We mention these companies in the same breath, given the common underlying exposures. Prosus is a Euronext-listed holding company whose primary asset is a 31% stake in Chinese tech company Tencent (87% of NAV), and which was formed when Johannesburg-listed Naspers spun out its Tencent and other ecommerce holdings into a separately listed vehicle. Naspers' key asset is now a 73% stake in Prosus which accounts for 100% of NAV.

MANAGER'S COMMENT

Tencent is a Hong Kong-listed tech behemoth with a market cap in excess of US$650 billion, with revenues earned across five key areas: (1) social networks, driven by WeChat, China's largest social messaging app with over 1 billion users; (2) video game publishing, where it owns major brands such as Fortnite, League of Legends for PC, and Honor of Kings for mobile; (3) mobile payments, through WeChat Pay which is the second largest mobile payment platform in China; (4) media subscriptions, providing access to music, video, movies and new content; and (5) e-Commerce transactions.

Tencent benefits from WeChat's strong network effect, wherein growth is driven by consumers' increasing use of its platform, which brings in more developers/merchants/advertisers who can be monetised. Owning a powerful brand in an area that benefits from increasing rates of digital penetration (accelerated by COVID-19) is an exciting opportunity. Although Tencent is optically expensive on a near-term multiples basis (c. 32x forward p/e), we consider this a fair reflection of the group's growth potential.

In addition to Tencent, Prosus also owns a portfolio of classifieds, digital payments, and food delivery businesses (11% of NAV) which we consider to be high quality and fast growing. Despite these attractive growth-y assets, Prosus trades at a wide 32% discount to NAV.

Naspers, by virtue of its holding in Prosus, also benefits from these qualities. In addition, however, it offers its own idiosyncratic return drivers, particularly the narrowing of its 33% discount (or a look-through discount of 55% when valuing Prosus at NAV). We believe that there is the scope for this discount to narrow as Naspers looks to reduce its weighting in the Johannesburg Stock Exchange. In the past, Naspers has undertaken value-enhancing activities including buybacks, asset disposals, and the spin-off of Tencent into Prosus, suggesting that the group is serious about tackling the discount.

Fujitec, the largest holding in the Japan Special Situations basket, contributed 64bps to returns in June, making it the third-largest contributor in its own right. At the beginning of May, AVI launched a public campaign highlighting a multitude of issues at Fujitec, a Japanese-listed company that manufactures, installs and maintains elevators and escalators (E&E) primarily in Asia. AGT has been invested in Fujitec since 2018, and it is now the single-largest holding in AGT's Japan Special Situations basket, accounting for 3% of NAV.

While a business like Fujitec may seem capital intensive and cyclical, this is a common misconception. Regulations typically mandate the regular maintenance of E&E installations and, given that the original manufacturer already knows the product intimately well, this usually means that it is awarded a multi-decade maintenance contract – a veritable cash-cow, providing highly visible, high-margin revenues spread over many years. Over half of Fujitec's profits relate to this maintenance work. It is no surprise that many of Fujitec's peers, which benefit from similar dynamics, trade at EV/EBIT ratios of over 20x.

What is surprising, however, is that Fujitec trades on an EV/EBIT of just 10x (albeit up from 5-6x before its recent share price strength). This discounted valuation stems from a myriad of factors, including poor corporate strategy, a lack of sell-side coverage, poor governance, and poor capital allocation. We initiated our campaign to raise awareness about these issues, with a specific focus on three key areas – operational efficiency, capital structure and corporate governance.

Our presentation has so far been well received by other shareholders who share our concerns that the company is being run in a less-than-optimal manner. While we acknowledge that Rome (or should that be Tokyo?) was not built in a day, we are encouraged by the initial reception of our campaign and believe that it could provide the necessary spark to start a transformation of the company.

We are further encouraged by the presence of Hong Kong-based activist, Oasis, on the register. Oasis recently submitted proposals to Fujitec calling for the cancellation of treasury shares; while the measure was not successful, it received a 33% support rate, emboldening Oasis to call for leadership changes and to say it will consider calling an EGM. We appreciate that having two vocal shareholders on the register can serve to hasten the pace of change, so they are a welcome addition.

Trading activity was relatively limited in June. We have initiated a new position in a company with exposure to high-growth digital sectors, the details of which will be discussed when the full position has been accumulated. Gearing was 8% at the end of the month.

STATISTICS

Contributors / Detractors (in GBP)

Largest Contributors	1-month contribution bps	Percent of NAV
SOFTBANK GROUP	85	7.1
GODREJ INDUSTRIES	78	3.1

Largest Detractors	1-month contribution bps	Percent of NAV
JAPAN SPECIAL SITUATIONS**	-14	17.8
TETRAGON FINANCIAL	-3	3.1

	Value	% 1 mo	% 1 yr	% 3 yr	% 5 yr
Price (£) TR[2]	685.0	6.2	-7.1	6.5	53.0
Net Asset Value TR[1]	763.2	7.0	-5.3	6.2	48.7
MSCI ACWI ex US TR[3]		4.6	-1.9	8.8	42.4
MSCI ACWI ex US Value[1]		4.0	-12.7	-6.9	19.5
MSCI ACWI TR[1]		3.3	5.2	25.7	74.0
Morningstar Global Growth TR[3]		4.3	5.2	23.8	67.6

Fiscal Yr Net Returns (%)	2019	2018	2017	2016	2015
Price[1]	-0.4	12.0	18.7	34.3	-9.5
Net Asset Value[1]	2.1	10.0	18.8	31.0	-8.3
MSCI ACWI ex US (£)[3]	4.5	4.7	15.8	27.4	-6.0
MSCI ACWI ex US Value[1]	1.1	3.3	17.7	24.7	-10.3
MSCI ACWI[1]	7.3	12.9	14.9	30.6	-0.1
Morningstar Global Growth[3]	2.9	13.8	20.1	22.9	5.7

Capital Structure	
Ordinary Shares	116,003,133
Shares held in Treasury	8,834,409
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
0.992%# JPY Revolving Credit Facility	¥4,000,000,000

Gross Assets/Gearing	
Gross Assets	£941.1m.
Debt par value	£105.2m.
Actual Gearing (Debt less cash divided by net assets)	8.1%

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. The investment management fee was changed to 0.7% of net assets and the performance related fee eliminated.
* 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.
** A basket of 14 stocks: Daiwa Industries, Fujitec Co, Kanaden Corp, Kato Sangyo Co, Konishi Co, NS Solutions, Pasona Group, Sekisui Jushi Corp, SK Kaken, Tachi-S Co, Teikoku Sen-I Co, Toagosei Co, Digital Garage, DTS Corp.
# Libor +102bps

Investment Manager – Joe Bauernfreund

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

The share price can be found in The Times.

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