May 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 +6% in May, continuing the recovery from the February and March sell-off.

Read more below

AGT exits position in Riverstone Energy

At the beginning of the month, we took the difficult decision to exit our position in perennial detractor Riverstone Energy

Read more below

AGT 's major contributors

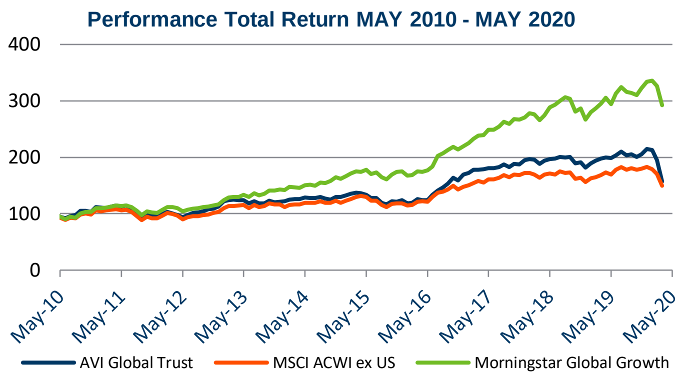
Major contributors included Pershing Square Holdings, the Japan Special Situations basket, and Kinnevik.

Read more below

PERFORMANCE

(Figures to 31 May 2020)

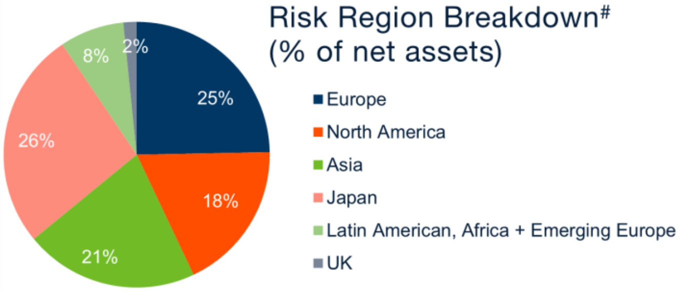
Share Price (pence)	651.0
NAV (pence)	719.3
Premium / (Discount)	-9.5%



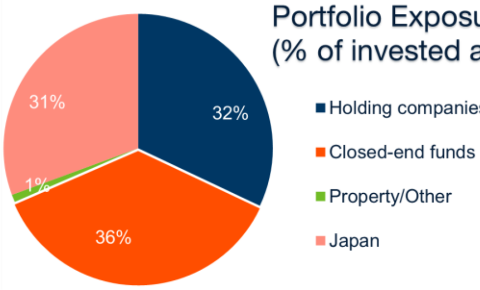
	Month	Financial Yr* to date	Calendar Yr to date
AGT NAV[1]	5.6%	-12.7%	-15.6%
MSCI ACWI Ex US[3]	5.4%	-7.6%	-8.8%
MSCI ACWI Ex US Value[1]	4.1%	-16.4%	-17.0%
MSCI ACWI[1]	6.5%	-1.3%	-2.7%
Morningstar Global Growth[1]	5.5%	-0.4%	-3.1%

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**	19.7
Pershing Square Holdings	10.6
Oakley Capital Investments	7.3
Softbank Group	6.9
Sony	5.9
Fondul Proprietatea	5.6
Kinnevik B	5.4
Third Point Offshore Investors	4.9
EXOR	4.1
Jardine Strategic	3.8
TOTAL	74.2

MANAGER'S COMMENT

AVI Global Trust (AGT)'s NAV rose by +6% in May, continuing the recovery from the February and March sell-off. Returns were driven primarily by a recovery in NAVs, with a boost provided by a weaker sterling. Major contributors included Pershing Square Holdings, the Japan Special Situations basket, and Kinnevik. Major detractors included Swire Pacific 'B', and Oakley Capital Investments.

Pershing Square Holdings (PSH) contributed 137 basis points (bps) to returns, with an increase in NAV (+9% vs +5% for the S&P 500) led by largest holding Lowes (+24%) following consensus-busting results that disclosed Q1 comparable sales up +12% on the back of a surge in DIY activity from locked-down customers (note Lowes stores, along with those of other home improvement competitors, were deemed essential enough to be allowed to remain open). A tightening of PSH's discount from 34% to 32% resulted in share price total returns of +12%. Given the still-wide discount, we are pleased to see the buyback programme continue at an aggressive pace (~10% annualised).

We note that PSH's latest Transparency Report (as at 31-May-20) shows that PSH had established a new long position in credit default swaps (CDS)[1] with a notional value of USD9 billion. For context, the notional value of PSH's previous highly successful CDS hedge positions peaked at over USD70 billion before being closed by the end of March. The exact nature of the latest hedge remains unknown at this stage, and we await further details with interest.

The Japan Special Situations basket was co-dominant with PSH during the month, also contributing 137bps to returns although the weighted-average return (+6%) for the stocks in the basket lagged the TOPIX Small (+10%). Our thesis of a multi-year corporate governance reform programme in Japan continues to receive encouragement from the ongoing pace of buybacks and increasing dividend payout ratios, as well as evidence that shareholder activism is increasing (and has not been dented by the coronavirus pandemic).

Perhaps of more importance than monthly performance figures are the startling valuation metrics on which the stocks in AGT's Japan Special Situations basket trade. At the time of writing, the net financial value[2] is 97% of market value, and the EV/EBIT ratio just 3x. These are truly remarkable statistics for a basket of mature, profitable, cash-generating stocks with a history of consistent operating profit growth. We continue to believe that the prospective returns from holding a basket of overcapitalised stocks – coupled with a changing corporate environment which puts a higher emphasis on governance and balance sheet efficiency – should result in highly attractive returns for shareholders.

Kinnevik – which we added to in the sell-off – was the third-largest contributor to returns over the period, adding 110bps to returns as the NAV rose +19%. Together with a small widening of the discount (22% to 24%), share price returns over the month were +17%. Returns for AGT were boosted by a +6% strengthening of SEK/GBP. NAV growth was driven primarily by very strong performances from online fashion retailer Zalando (49% of NAV) and Livongo (8%), which in May rose +37% and +50% respectively.

Zalando's management gave full-year guidance for revenue growth of 10-20% and EBIT of €100-200m, both of which were materially ahead of market expectations. The current environment is accelerating the penetration of e-commerce, with Zalando reporting +39% growth in new customers in April. Similarly, the current environment also incentivises brands – particularly those reliant on bricks-and-mortar distribution – to use the Zalando platform, with management reporting that over 50 new brands had joined as Partners in recent weeks. This is crucial for Zalando given the flywheel effect in which the more brands that join, the wider Zalando's assortment, attracting more customers and in-turn more brands, thereby cementing Zalando as the "starting point for fashion".

Similarly, Livongo, the chronic disease management company, also raised full-year guidance. Livongo supports users in managing their conditions, such as diabetes, remotely, and thereby benefits as health systems look for ways in which to avoid non-emergency patients making in-person medical visits. Moreover, management explains that Livongo's demonstrated ability to reduce health care costs – valuable in an uncertain economic environment – is accelerating new customer launches.

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[1] A credit default swap (CDS) is a transaction between two parties in which one party (PSH, in this case) pays a premium to a counterparty, in return for which the counterparty agrees to pay the buyer upon the occurrence of certain pre-agreed credit events at the underlying asset, such as a default. CDSs can be bought against individual stocks or indexes. In other words, CDSs are a form of insurance against a deterioration of credit fundamentals, and the price buyers are willing to pay for that protection will increase in line with the market's estimate of the probability of such credit events occurring.

[2] Net financial value = cash + investment securities + treasury shares – debt – net pension liabilities

MANAGER'S COMMENT

Swire Pacific 'B' was AGT's largest detractor over the month, reducing returns by 50bps. The primary culprit was a falling NAV (-16%), with underlying holdings Swire Properties (69% of NAV) and Cathay Pacific (12%) returning -21% and -14% respectively. Swire Pacific has significant exposure to Hong Kong, which has been badly affected over the past year by civil unrest and lockdowns. Fuel was added to the flames recently by the Chinese government's imposition of the National Security law, achieved through a controversial circumvention of the Hong Kong legislature. This sparked further debate on the possible cessation of Hong Kong's special relationship with the US and fears of how this would impact the HK economy and currency. Key asset Swire Properties has an estimated 64% of its NAV in Hong Kong properties, which have been badly affected by falling tourist numbers from mainland China, disrupted retail activity, and lower office activity. A further 32% is exposed to mainland Chinese properties, which have also been affected by lockdown regulations. We estimate that Swire Properties trades at a 62% discount to its sum-of-the-parts NAV.

Troubled flag carrier Cathay Pacific – which has suffered from the triple whammy of falling tourist numbers, being the subject of the Chinese air regulator's ire for not sufficiently disciplining staff that took part in demonstrations, and lockdowns – announced a recapitalisation plan following the month-end, aiming to raise HKD39 billion (GBP4 billion) through the issuance of preference shares, a 7-for-11 rights issue, and a loan facility from the Hong Kong government. The Hong Kong government will own 6% of Cathay following the recapitalisation; this is the first time that the government has directly interceded to aid a business since the 1980s, highlighting the exceptionally acute nature of the crisis.

At the time of writing, Swire Pacific 'B' shares trade at a wide 55% discount. However, valuing Swire Properties at NAV, puts the 'B' shares on an extraordinary look-through discount of 77%. The stub value of the 'B' shares (market value less Swire Properties plus debt) is negative HKD9 billion.

Oakley Capital Investments (OCI) detracted 49bps from NAV, primarily due to discount widening from 37% to 43%. This widening, which occurred against a backdrop of recovering equity markets, is unwarranted given the resilience of most of OCI's portfolio holdings and the high levels of cash on its balance sheet (c. 37% of NAV); we believe that the share price decline is related to perceptions of a large overhang of shares from a single shareholder. At the current discount, OCI represents exceptional value given the quality of its portfolio, reasonable valuation multiples, and high levels of cash.

During the month, Time Out Group (TMO, 7% of OCI's NAV) announced plans to raise up to GBP49 million in equity capital – as part of this placing, OCI injected ~GBP21 million. Simultaneously, TMO paid back its outstanding debt facilities with OCI, leaving OCI with exposure solely to TMO's equity. The recapitalisation of TMO was made necessary by the coronavirus pandemic, which forced the group to shut down its Time Out Markets in Lisbon and the US, while simultaneously halting the distribution of its print magazines and reducing corporate appetite for digital advertising. The recapitalisation should provide TMO with sufficient resources to see it through the point when its food markets are able to re-open.

At the beginning of the month, we took the difficult decision to exit our position in perennial detractor Riverstone Energy through a sale of our entire position back to the company as part of a share repurchase programme announced alongside the first quarter valuations. The sale took place at a price more than double that seen in the March lows but crystallised a material loss over our holding period of 75%. While the headline discount at the sale price was wide and the valuation to some extent was supported by cash on the balance sheet and by non-E&P investments, we were mindful of 1) the likelihood of further write-downs at the E&P investments in higher cost basins such as the Bakken, notwithstanding hedging programmes; 2) the limited time opportunity to exit presented by the buyback if other large shareholders were to also sell; 3) the material increase in the stake held by the Manager and cornerstone investors were they not to participate in the buyback, compounded by the shareholder-unfriendly company structure which makes effecting change and capturing the discount far from straightforward; and 4) other higher conviction investment opportunities within our universe into which to deploy the capital. On reflection, our original thesis for RSE focussed to too great an extent on our assessment of the undervaluation of certain of their assets and growth prospects versus publicly-listed peers at the time of our investment, at the expense of a more rounded view on other risks in the investment.

Over the month, we added further to two recently-established positions discussed in last month's newsletter (KKR and Christian Dior), and initiated new shareholdings in two interlinked tech-focussed holding companies trading at outsized discounts to NAV.

STATISTICS

Contributors / Detractors (in GBP)

Largest Contributors	1-month contribution bps	Percent of NAV
JAPAN SPECIAL SITUATIONS**	137	19.7
PERSHING SQUARE HOLDINGS	137	10.6

Largest Detractors	1-month contribution bps	Percent of NAV
SWIRE PACIFIC LTD	-50	3.0
OAKLEY CAPITAL INVESTMENTS	-49	7.3

	Value	% 1 mo	% 1 yr	% 3 yr	% 5 yr
Price (£) TR[2]	651.0	7.1	-9.5	1.2	37.9
Net Asset Value TR[1]	719.3	5.6	-9.8	-0.9	32.9
MSCI ACWI ex US TR[3]		5.4	-1.6	3.7	28.4
MSCI ACWI ex US Value[1]		4.1	-12.4	-10.5	8.2
MSCI ACWI TR[1]		6.5	7.5	21.5	59.7
Morningstar Global Growth TR[3]		5.5	5.4	18.1	54.3
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	8,424,706
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	£896.6m.
Debt par value	£104.7m.
Actual Gearing (Debt less cash divided by net assets)	8.3%

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.
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The share price can be found in The Times.

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