Investment Review / Investment Manager's Report

Performance Review

JOE BAUERNFREUND

Chief Executive Officer, Chief Investment Officer

Sole Portfolio Manager of AVI Global Trust since September 2015

Length of service:
22 years (9 years as sole Portfolio Manager)

"So far, so good" read the introduction to the 2024 annual report by the Bank of International Settlements, the so-called "central bankers' central bank".

And this appears largely true. Inflation has continued to recede such that we are now at the point of monetary policy easing; the US and major Western economies have proved surprisingly resilient; and equity markets have continued to reach new highs.

That is not to say there is nothing to worry about. There are many good reasons to believe that inflation may well be more volatile and structurally higher than it has been in recent decades, and in-turn this increases the chances of central bank policy mistakes. Economic growth and jobs markets might yet deteriorate faster than anticipated and, notwithstanding recent interventions, China's economic malaise poses an increased threat to global growth and corporate profits. Meanwhile the increased financialisation of markets and corresponding inherent leverage in the system can lead to bouts of volatility and instability, as we saw in early August 2024.

Within this context AVI Global Trust's NAV increased by +13.7% on a total return basis over the 12 months to 30 September 2024. This compares to a +19.9% return for the MSCI AC World Index, our comparator benchmark.

It has been well documented that index level returns have principally been driven by a narrow band of US technology companies. Even so, it is stark to note that the equal weighted version of the MSCI AC World index returned +10.7% over the period (£).

The Company's performance was driven by stock selection, with outsized contributions from larger holdings such as KKR, Hipgnosis Songs Fund and Schibsted, as we have continued to shape the portfolio around a concentrated handful of situations where activism and events provide real catalysts to unlock value.

Indeed, we believe that activism and the ability to engage with companies is a key tool in our arsenal, and central to our ability to generate differentiated returns and unlock value for all shareholders. The public example of Hipgnosis Songs Fund – which added +245bps[1] to returns over the period – demonstrates this. With that said, it is our preference and priority that most engagements remain private, where dialogue can be most constructive. In both the London-listed closed-end fund market and amongst Japanese small caps, we find a large number of lowly valued companies where we think we can add value through engagement.

As well as this engagement, a focus on events and catalysts remains an important part of our approach. Schibsted was a prime example of this over the last financial year and we have redeployed capital into new and existing names where we believe the prospects for transformational events are underpriced, such as News Corp (7.5% weight) and Bollore (5.1%).

In recent weeks, we have also added significantly to D'Ieteren, which is now your Company's largest position. D'Ieteren is due to make an extraordinary return of capital of 74 euros per share – a yield of 39% – later this year. On a post-distribution basis D'Ieteren is trading at an implied -54% discount to NAV which we believe to be a highly attractive valuation.

Performance since the interim period has been more challenging as discounts have generally widened and we have witnessed bouts of volatility across markets. A number of companies have endured weaker share price performance, such as Christian Dior and FEMSA, and there has been a lack of commensurately strong performers from the top of the portfolio to offset this. Lulls in performance are not unexpected for a concentrated and catalyst-focused investment strategy, and the underlying asset quality means we can be patient whilst we wait for events to occur.

Latterly, the portfolio has also suffered from extreme volatility in the Japanese equity market as the Bank of Japan raised interest rates and attempted (!) to pave the way for further hikes to come. A strengthening of the Yen saw shifts in the carry trade, which reverberated through to global equities, with the TOPIX registering its largest single day decline since 1987. Such moves are devoid of fundamentals and likely fuelled by algorithmic trading.

In our view, fundamentally very little has changed, and we believe the thesis of governance reform, corporate activity and activism remains a highly valid one that is still in a relatively early innings. As such we took advantage of this volatility, adding approximately 300bps[1] (£33m) to several Japanese names at prices few would have thought possible just a matter of days earlier. As we have always said, as uncomfortable as it feels at the time, volatility is the friend of the long-term investor.

More broadly, both in Japan and other areas of the world, the opportunity set remains rich, and idea generation across all parts of our universe is high. Discounts have generally widened and are wide by historical standards, as indicated by the 35.7% portfolio weighted average discount at the year end.

1. See Glossary

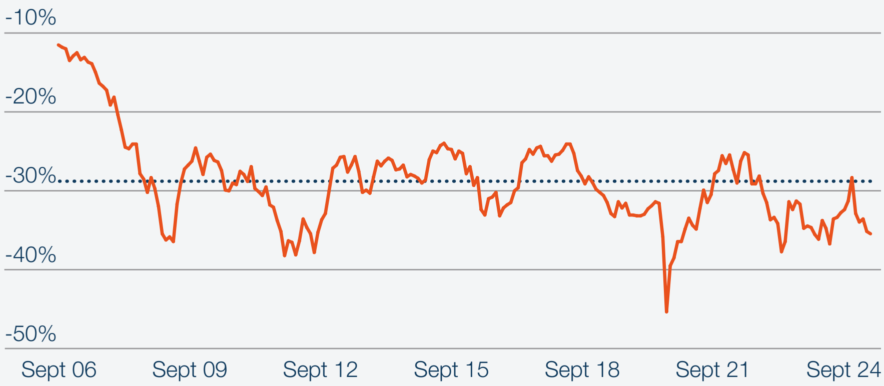
> Our focus remains on the bottom-up fundamentals of a relatively small number of mispriced situations where we have an advantage. We continue to believe that stock picking, hard work, activism and a focus on events are key tenets in navigating our way forward.

As ever, we do not pretend to know what is round the corner from a macroeconomic perspective. Rather, our focus remains on the bottom-up fundamentals of a relatively small number of mispriced situations where we have an advantage. We continue to believe that stock picking, hard work, activism and a focus on events are key tenets in navigating our way forward. Combined with attractive starting valuations, this gives us confidence in generating attractive long-term returns.

EQUITY PORTFOLIO VALUE BY MARKET CAPITALISATION

	2024 %	2023 %
<£1 billion	37	31
>£1 billion – <£5 billion	20	31
>£5 billion – <£10 billion	10	11
>£10 billion	33	27

PORTFOLIO WEIGHTED AVERAGE DISCOUNT*



Weighted Average Discount:

-35.7%

Annualised NAV 10 Year Total Return per Share*:

+10.2%

* For definitions, see Glossary on pages 101 to 105.

Investment Review / Investment Manager's Report continued

Performance Review continued

A UNIQUE INVESTMENT PORTFOLIO

Chrysalis Investments (Chrysalis) is a London-listed closed-ended fund which owns a concentrated portfolio of late-stage, technology-driven private companies.

We first invested into Chrysalis in January 2024, with an investment predicated on 1) the abnormally wide -48% discount to a heavily written-down NAV; 2) Chrysalis' top five largest holdings accounting for 69% of NAV, were all mature, and (mostly) performing strongly; 3) multiple credible prospects for liquidity events which could lead to significant uplifts on carrying value; and 4) a new capital allocation policy, in which £100m of buybacks (24% of the then prevailing market cap) would be undertaken once a cash reserve of £50m from exits was hit.

Chrysalis' largest position is Starling Bank, which accounts for 30% of its NAV at period end. Starling Bank is a cloud-native, UK challenger bank built on a proprietary digital platform known as Engine. Being built from the ground-up, as a digital-first business, Starling not only benefits from significant cost advantages versus the incumbent UK banks, but is also able to develop and launch new products far quicker as a result.

For example, Starling's banking platform is accessed solely via an app, meaning its customer acquisition cost is only around £40, whereas traditional banks have a customer acquisition cost of around £250 due to their legacy tech stack and brick-and-mortar bank branches. This drives up both Starling's margins and its return on tangible equity, which stands at c. 30% vs. peers at 10%, and affords it a premium valuation. We remain confident in Starling's ability to deliver meaningful levels of profitability despite its relatively low loan-to-deposit ratio and its conservative balance sheet.

Elsewhere, Chrysalis' other largest portfolio holdings are Smart Pension (15% of NAV), a UK Pension Master Trust and technology platform; Klarna (12% of NAV), a global leading Buy-Now-Pay-Later payments provider; The Brandtech Group (10% of NAV), a US-based marketing technology group; and wefox (9% of NAV), a European digital platform for insurance brokers which faced liquidity issues earlier this year that have since been resolved.

On 26 September 2024, Chrysalis announced an exit from Featurespace for £89m, at a +21% premium to last carrying value. This kick-started Chrysalis' £100m buyback programme.

The prospect for continued buybacks driven by further realisations at large holdings, such as Klarna or Starling, and the still-wide -36% discount to NAV makes for a compelling investment case. Today, AGT owns over 12% of Chrysalis' shares, with the position representing 6.0% of AGT's NAV. Chrysalis added +1.0% to AGT's NAV in 2024.

Read more on our website: www.aviglobal.co.uk

Source / Starling Bank Limited

SOFTBACK GROUP: WHY WE HOLD THE POSITION ON TOTAL RETURN SWAP

Softbank Group Corp. is a Japanese-listed holding company founded in 1981 by Masa Son that holds a variety of listed and unlisted technology-focussed companies.

90% of Softbank Group's NAV is accounted for by the listed holdings, including Arm (61% of NAV), Softbank Corp (12% of NAV), T-Mobile (8% of NAV), and Deutsche Telekom (3% of NAV), with the unlisted portion including the two heavily marked-down Softbank Vision Funds (15% of NAV).

AGT bought Softbank Group Corp via a total return swap on the 10th June 2024, with an investment case predicated around the likelihood of discount narrowing through large buybacks. At the time of investment, the discount had blown back out to levels last seen during the covid sell-off of close to 60%. However, given the lofty valuations of Softbank's listed underlying holdings, such as Arm, we also hedged our exposure to the five largest listed companies using total return short positions. These short positions account for 86% of Softbank Group's NAV.

Holding both the long and short legs of the investment case via total return swaps allows us to get full equity exposure without making the same capital outlay as holding the shares directly and minimises margin requirements due to netting. Using a combination of long and short total return swaps enables us to get the full benefit from any discount narrowing, while protecting us from downside risk in names where we are not comfortable in their valuations.

Readers might recall that AGT previously held Softbank between Feb 2020 – July 2021, over which period the company reduced its shares outstanding by 24% through a significant buyback program, earning AGT an IRR of 51%, with the lion's share of returns attributable to discount tightening.

The gross notional exposure of the positions is as follows:

Position	% Notional exposure
Softbank Group	5.2%
Total Short Positions	–4.8%
Arm Holdings	–3.4%
Softbank Corp	–0.6%
T-Mobile	–0.5%
Deutsche Telekom	–0.2%
Coupang	–0.1%