

Strategic Report / Chairman's Statement



GRAHAM KITCHEN

Independent Non-Executive Chairman

Joined the Board in January 2019



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Overview of the year

The world continues to be unstable, with conflict in the Middle East and Ukraine. Elsewhere, geopolitical tensions particularly between the United States and China continue to make news headlines. On a more positive note, inflation appears to be better in check and we have seen central banks in the US and Europe begin the process of cutting interest rates, which should be positive for companies and markets.

Against this volatile background, the Company's NAV total return for the year to 30 September 2024 (one of our three KPIs) was a creditable +13.7%, which was above the long-term average annual return and compares with +19.9% for our comparator benchmark index. Over the last five years the return has been +65.5%, compared to +63.3% for the current comparator benchmark (shareholders may recall that we changed the benchmark last year¹).

Turning to the share price, I said at the half-year stage that having traded in a range of approximately 180p-200p since the beginning of 2022, the share price increased steadily following a dip in October 2023 and by the end of March it was over 230p. It was at a similar level at the end of September, and the NAV per share was also little changed over the second half of our accounting year. For the year as a whole, the share price total return was 16.3%, as the discount closed marginally. The effectively flat return over the second six months does not tell the whole story. The Japanese market, in particular, was very volatile in early August and AVI were able to take advantage of this, as they explain in their report. The Board is encouraged to see that the key driver of returns remains stock selection, demonstrating that the team at AVI remain consistent in their long-term investment style.

1. The current comparator benchmark is the MSCI All Country World Index (£ adjusted net total returns). For periods up to 30 September 2023 it was the MSCI All Country World ex-US Index (£ adjusted net total returns). Over the five years to 30 September 2024, the total return of the previous benchmark was +32.4%.

Revenue and dividends

Revenue earnings for the year under review were 4.2 pence per share. At the half year stage we paid an interim dividend of 1.2 pence per share, which was the same as last year. The proposed final dividend is 2.55 pence per share. The total dividend for the year will therefore be 3.75 pence per share, which I am pleased to report is an increase of 7.1% compared with the previous year's total ordinary dividend of 3.5 pence². The Board recognises that a dividend which is steady and able to rise over time is attractive to many shareholders but, as we have consistently said, the portfolio is managed primarily for capital growth.

Gearing

On 12 September 2024, we completed an agreement to issue further Japanese Yen (JPY) fixed rate unsecured debt. The new debt is JPY5bn, for a term of 15 years and at an annual interest rate of 2.28%. The debt is denominated in JPY and was equivalent to approximately £25.1m when issued. In recent years the Company has issued several tranches of fixed rate debt at attractive interest rates and our Investment Manager uses gearing flexibly to take advantage of investment opportunities. As well as providing funding at an attractive rate of interest, borrowing in Japanese Yen provides a natural hedge against exposure to the currency, as the borrowing offsets some of the exposure to JPY in the portfolio. As at 30 September 2024 net gearing, with debt at fair value, was 7.1%.

AGT previously had a revolving credit facility with Scotiabank but this was terminated at the end of its contracted life in September 2024.

Investment Policy

We are seeking shareholder approval for revisions to our investment policy, which was driven by a review of ways in which AGT can implement gearing.

The Directors have reviewed the Company's Investment Policy and are proposing that shareholders approve a revised policy at this year's AGM. I would like to stress that there will be no change in the overall strategy that AVI takes in managing the investment portfolio.

The proposed changes are designed to align the Investment Policy with current best practice and to clarify the approach to spreading investment risk, investing in derivatives and to gearing. In particular, the level of gearing permitted under the Company's Articles of Association and first adopted several decades ago is much higher than would be considered acceptable in a modern investment policy. The Directors are therefore proposing a limit on total gearing of 20% of net assets. The Company has had both short- and long-term debt for many years and AVI are experienced in managing gearing. In future, gearing will be permitted via the use of derivatives as well as conventional debt, but subject to an overall limit of 20% total market exposure.

The proposal to allow gearing via derivatives is intended to provide additional flexibility in the type of gearing used, particularly bearing in mind that interest rates have increased in recent years and the use of derivatives may prove to be more cost effective. Derivatives such as total return swaps or options provide investment exposure to single stocks or groups of stocks where, depending on the derivative structure, movement in the value of the derivative (both up and down) may be higher than the movement in the related stock prices. Long-term shareholders will be aware that the Company has invested in total return swaps on a number of occasions in recent years and the Directors are satisfied that AVI have the necessary experience and controls to invest in derivatives. We encourage all shareholders to vote in favour of this resolution at the AGM. Further details are set out on page 52.

Share price rating and marketing

AGT has a substantial marketing budget and the Board works closely with AVI as it seeks to generate demand for the shares. Each month AVI produces an informative factsheet which is available on our website and I encourage you to register on the site to receive these when they are published. AVI is also active in the media – both traditional and increasingly social media – as we seek to promote our investment proposition to a growing investor base. We were very pleased to hear that AGT had again won “Best Report and Accounts” in its category in the AIC's annual shareholder communications awards in September 2024. We believe that this award reflects our commitment to provide informative and interesting updates to our shareholders and I would like to thank our fund management team for their open and proactive approach to explaining their investment methodology and individual investments in the portfolio. The Board is pleased to note that our marketing efforts have resulted in a substantial increase over time in the number of shares owned via retail investment platforms, and that these platforms make up four of our top five shareholders.

In common with many investment trusts, our shares continued to trade at a persistent discount during the year. We use share buybacks when the discount is unnaturally wide and when the Board believes that buying back shares is in the best interests of shareholders. This is also something that our Investment Manager encourages for many of our investee companies.

The discount is one of the three KPIs and the Board takes a very close interest in this. There is regular interaction between Board and Investment Manager on the subject, with independent advice from AGT's corporate brokers. There are periods when we buy back shares on most working days and, during the year under review, 20.1 million shares were bought back, representing 4.4% of the shares in issue as at the start of the period. As well as benefiting shareholders by limiting the discount at which they could sell shares if they so wish, buying back shares at a discount also produced an uplift in net asset value to the benefit of continuing shareholders, of approximately 0.4%. The average discount over the year under review was 9.2%, compared with 10.0% for the preceding year.

In April 2024 we announced that Panmure Liberum had been appointed as the Company's corporate broker. We have experienced a positive transition to Panmure Liberum who have introduced a more diverse range of potential investors in the last few months and we look forward to working closely with them going forward, particularly in seeking to find new shareholders. I would also like to thank our previous corporate brokers, Jefferies, for their help and support over the last several years.

2. We also paid a special dividend of 0.2 pence per share last year, to distribute elements of revenue that the Directors consider to be one-off.

Strategic Report / Chairman's Statement continued

In the 2023 Annual Report I raised the issue of the unintended consequences on the investment trust industry of recent regulatory pronouncements relating to Consumer Duty in respect of cost disclosures. In particular, the inclusion of costs embedded in our underlying investee funds in the overall cost figures disclosed in relation to your Company was misleading. We were pleased and relieved to hear that the Financial Conduct Authority had issued a "forbearance" notice on managers' disclosure of charges in regulated documents in September 2024, pending a review of the relevant law and regulations. While, at the time of writing, there is some uncertainty as to how costs will be disclosed to investors by the investment trust industry going forward, we have reverted to publishing an Ongoing Charges Ratio which includes all of AGT's own running costs, which are made up principally of its investment management fee and of the other costs of running the Company itself. Not all listed investment companies disclose their gross costs and so it is not possible to produce a comprehensive summary of the running costs of closed end funds in AGT's portfolio of investments.

AGT's running costs are one of our KPIs and the Board carefully manages the Company's costs, seeking to balance a high quality of service with reasonable costs from our suppliers.

The Board

The Company is pleased to have met the target for at least 40% of individuals on the Board to be women but does not currently meet the targets for at least one senior Board position to be held by a woman and at least one individual on the Board to be from a minority ethnic background. The Directors have discussed whether to appoint an additional Director in order to comply with the guidelines on ethnic diversity. The Directors concluded that a Board of five independent non-executive Directors is appropriate for an investment trust of the size and complexity of AGT and therefore that it would not be in shareholders' best interests to incur fees for an additional Director in order to meet a target. Shareholders' views on best practice will continue to be taken into full consideration when the Board next recruits a new Director.

Annual General Meeting

I am pleased to be able to invite all shareholders to attend our AGM at 11 Cavendish Square on Thursday 19 December 2024. We do recognise that some shareholders may be unable to attend the AGM, and if you have any questions about the Annual Report, the investment portfolio or any other matter relevant to the Company, please write to us either via email at agm@aviglobal.co.uk or by post to Link Company Matters Limited, Central Square, 29 Wellington Street, Leeds, LS1 4DL.

If you are unable to attend the AGM, I urge you to submit your proxy votes in good time for the meeting, following the instructions enclosed with the proxy form. If you vote against any of the resolutions, we would be interested to hear from you so that we can understand the reasons behind any objections.

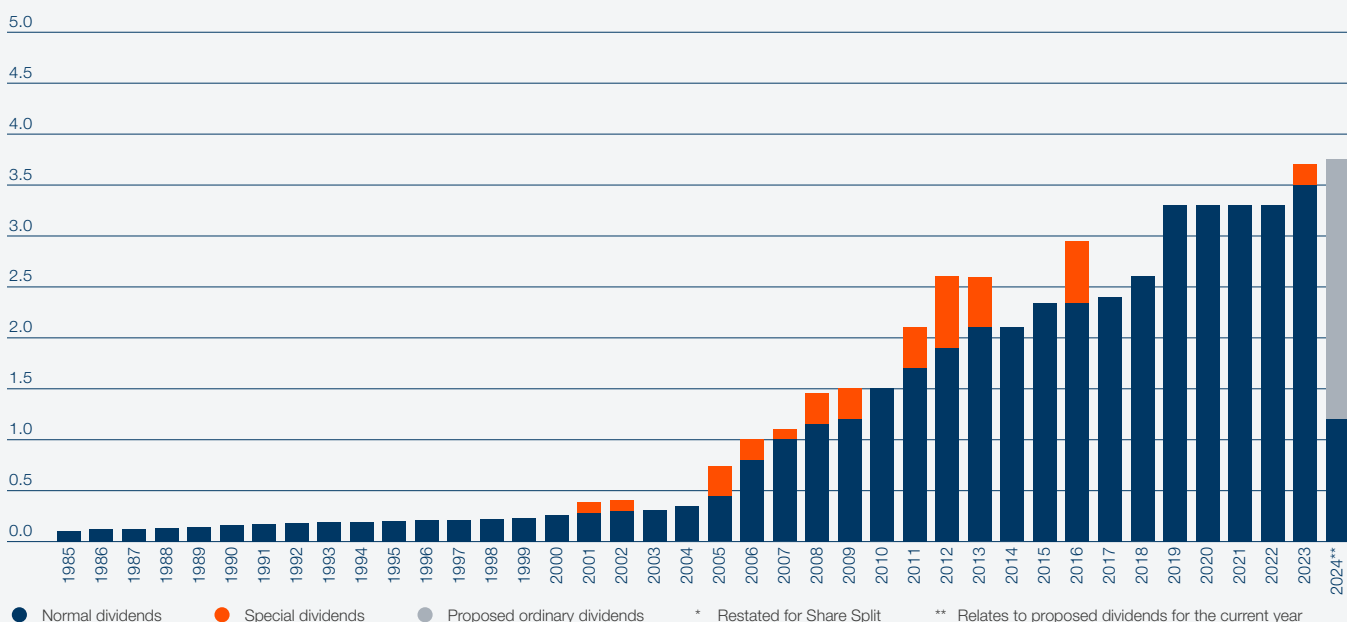
Outlook

This time last year I wrote that "The geopolitical and economic environment are undoubtedly challenging and the world is likely to be unstable for some time" and those words bear repetition this year. The level of geopolitical uncertainty could be exacerbated by the result of the US election. The opportunities that we reported last year have borne fruit in the returns produced over the year to the end of September 2024 but there is clearly more value to unlock. Markets are likely to remain volatile but our Investment Manager reports attractive discounts and an exciting range of prospects. The Board is confident that we have a well-resourced, skilled and experienced manager who should continue to produce attractive returns for AGT's shareholders over the long term.

Graham Kitchen
Chairman

12 November 2024

Dividend track record (£)*



D'IETEREN / BELRON

Belron is the global number one operator in the Vehicle Glass Repair, Replacement, and Recalibration industry.

Known as Autoglass in the UK and Safelite in the US, 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.

We expect Belron to keep riding the tailwinds of increased windshield complexity and the requirement for Advanced Driver Assistance System cameras to be recalibrated upon replacement.

% of Net Assets:

8.3%