Performance Review

> Unprecedented times – crises – are the seeds of opportunity.
>
> **Joe Bauernfreund**
> Chief Investment Officer

WEIGHTED AVERAGE DISCOUNT*

Source / Estimated by Asset Value Investors.

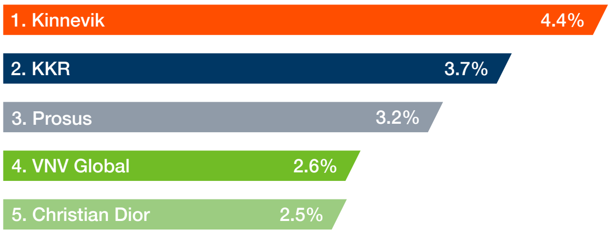
ANNUALISED NAV 10 YEAR TOTAL RETURN PER SHARE*

6.9%

* For definitions, see Glossary on pages 95 to 98.

TILTING THE PORTFOLIO

This year's equity market volatility gave us the opportunity to establish or increase positions in high-quality companies trading at knock-down prices. Some of these new or increased positions include:



Q&A WITH JOE BAUERNFREUND

Q How has COVID-19 impacted your investment decisions?

The impact of lockdowns on companies caused us to put a higher emphasis on resilience. As a result, we tilted the portfolio towards companies with robust, defensive earnings streams, strong balance sheets and high levels of cash flow generation. The flip-side of this is that the portfolio's exposure to more cyclical and economically sensitive stocks has been reduced, although we emphasise that the portfolio's overall exposure remains balanced.

Q Can you elaborate a bit more on what you mean by 'tilting' the portfolio?

One outcome of tilting the portfolio has been a higher number of technology or 'digitally enabled' stocks in the portfolio. Kinnevik, VNV Global, SoftBank and Prosus all have a large portion of their underlying holdings exposed to these types of businesses. Examples of these include Zalando, Livongo, Babylon, BlaBlaCar, Alibaba and Tencent.

Another element of tilting has been a focus on quality companies with strong tailwinds behind them. Examples of this include KKR, whose growth is underpinned by increasing institutional demand for alternative assets, and Christian Dior, whose portfolio of luxury brands (through LVMH) allows it to command high and growing demand, strong pricing power and a significant moat.

Q What do prospects look like for the future?

The economic impact of COVID-19 has been severe, and we are not out of the woods yet. Governments and central banks have been doing their utmost to soften the fall, and we expect that the introduction of a vaccination programme would help economic activity to return to some level of normality – albeit the timing is uncertain. When this happens, strong businesses with solid balance sheets and reasonable valuations can expect to thrive, especially against a backdrop of low interest rates. Your Company's portfolio is well positioned to benefit from this and drive strong performance in the future.

For further information, please turn to **page 23 of the Annual Report**

It has been a year of two halves – or, perhaps more accurately, a play in three acts. Of course, the COVID-19 pandemic took centre stage, but there was no shortage of supporting roles, including the US-China trade negotiations, China's enactment of a national security law in Hong Kong, the OPEC+ dispute and subsequent oil price decline, and Brexit.

The first part of the financial year was characterised by low volatility and the steady upward march of markets. The second act, lasting from mid-February to mid-March, began when investors' view of COVID-19 and its implications turned rapidly and deeply negative. Markets plummeted by approximately one-third during this four-week period; the pace and severity of the sell off was breath-taking, exceeding even that of the global financial crisis. One would need to look back over thirty years to find declines of similar magnitude in such a short space of time. Finally, almost as quickly as it started, the rout ended, and markets began to recover, as the extraordinary efforts of governments and central banks underwrote the worst of the economic consequences. A strong rebound ensued, and by the end of the financial year, the MSCI ACWI ex-USA Index was down just -1.8% in GBP terms.

Your Company experienced a difficult first half, with a widening portfolio discount compounding NAV declines, leading to underperformance. This behaviour is in line with how we expect the portfolio to act during times of market stress. As we noted in AGT's half-year report, the wider portfolio discount has in the past been a deferred store of outperformance. It was pleasing that, in such a short space of time, this proved correct: as markets rebounded, a tightening of the portfolio discount in the latter half of the year provided a powerful tailwind to performance. By the year end, your Company had registered a flat NAV (+0.01%) in total return terms, versus -1.8% from the MSCI ACWI ex-USA Total Return Index. Nonetheless, while discount tightening has been helpful, the portfolio discount, at 35%, remains elevated relative to history and higher than the 33% at the start of the year.

Unprecedented times – crises – are the seeds of opportunity. We are pleased to report that we did not let the (market) crisis go to waste. In the run-up to the COVID-19 selloff, the portfolio's gearing had been lowered which, together with capital raised from reducing or exiting positions, provided us with significant resources to initiate or increase positions in high-quality names trading at knock-down prices. New or significantly increased investment in companies in the portfolio include Kinnevik, Prosus, KKR, Christian Dior, SoftBank Group, and VNV Global. Many of these businesses are very high quality, and boast resilient, growing earnings streams. Overall, the effect has been to tilt your Company's portfolio towards higher quality, more liquid stocks, and decrease exposure to cyclical or economically sensitive ones. Portfolio turnover for the year was c. 39%, versus 27% for the prior year, reflecting this tilt in the portfolio.

This increased emphasis on quality has been rewarding to date, as we estimate that the changes have added c. 6% to returns versus the pre-selloff portfolio.

Active management can prove its worth in market environments such as the one that we have gone through. The ability to seize an opportunity and exploit distressed asset prices can lead to valuable outperformance for investors.

Pivoting to the other side of the portfolio, several of our largest detractors – such as Riverstone Energy and Wendel – have been fully exited. The proceeds from these exits have been used in part to fund the investments discussed in the preceding paragraphs.

Other stocks which detracted this year – such as EXOR, Jardine Strategic, Swire Pacific, and Symphony International – remain in the portfolio. Each owns a portfolio of high-quality companies which have suffered as a result of the pandemic and/or are exposed to out-of-favour sectors including travel & hospitality, automobiles, and Hong Kong property.

Looking at your Company as a whole, we believe that the portfolio remains balanced, with multiple potential drivers of performance. In 2020, the two "firing cylinders" driving performance have been discount narrowing and the tilt towards higher-quality companies.

Thinking about future performance, we believe that there are several other cylinders that could drive returns. For example, holdings with exposure to beaten-down assets and sectors – such as the ones discussed in the preceding paragraph. While these assets are not popular now, they retain the potential to deliver significant performance in the future as economies and corporate profitability recover, leading investors to re-assess their prospects.

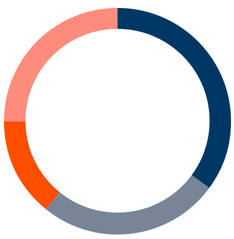
This balance is, in our view, a sensible approach to portfolio construction when the investing backdrop remains uncertain and unpredictable. Whilst high-growth, digitally-focused businesses have led the rally this year – and your Company has, in part, benefited from this trend – we hope that when economic activity recovers more broadly, the pessimistically priced areas of the stock market will recover and strongly contribute to your Company's returns.

Another cylinder to drive performance is the Japan Special Situations basket where, despite strong recent returns, there remains significant value locked up on company balance sheets. The pace of change in corporate Japan is gathering steam, and we are seeing significant improvements in terms of both balance sheet efficiency and corporate governance. Within AGT's own portfolio, we recorded two significant victories in the acquisition by Toshiba Corp of holdings NuFlare Technology and Toshiba Plant Systems & Services at premiums of 46% and 28%. We continue to engage actively with companies in the basket, and launched two public campaigns this year, targeting Fujitec and Teikoku Sen-I. These four companies were the most important contributors to the Japan Special Situations basket strong performance over the year.

We initiated the Japan Special Situations basket in June 2017, since when the strategy has generated returns of +30%. Despite this strong performance, and the significant progress that we are seeing in Japan, valuations in the basket remain extremely low – the EV/EBIT is just 4.9x, and, on average, net cash and listed securities represents 92% of market value. We believe that as the market begins to accept that changes in corporate Japan's practices are here to stay, and not another false dawn, it will reappraise the value on offer. The Japan Special Situations basket remains poised to generate very attractive risk-adjusted returns from here.

On the following pages, we provide more detail on key investments, as well as detailed analyses of the key contributors and detractors to performance over the past 12 months.

EQUITY PORTFOLIO VALUE BY MARKET CAPITALISATION



	2020 %	2019 %
<£1 billion	**35**	46
>£1 billion – <£5 billion	**26**	29
>£5 billion – <£10 billion	**14**	6
>£10 billion	**25**	19