Portfolio Review

TOP 20 LOOK-THROUGH COMPANIES

AVI Global Trust invests in holding companies and closed-end funds that in turn invest in listed and unlisted companies. We show below the top 20 holdings on a 'look-through basis', i.e. the underlying companies to which we have exposure. For example, AVI Global Trust owns a stake in SoftBank Group, a Tokyo-listed holding company, that accounts for 7.0% of AVI Global Trust's portfolio (and 7.6% of its NAV). SoftBank's largest holding is Alibaba, a Chinese internet retailer, which accounts for 72% of SoftBank's own NAV. This translates to AVI Global Trust having an effective exposure to Alibaba of 5.5% of AVI Global Trust's NAV. (Please note that AGT's full look-through exposure to Alibaba is 5.7% of NAV as Alibaba is also held by another company in AGT's portfolio.) The table below is an indication of the degree of diversification of the portfolio.

Look-through companies	Parent company	Underlying look-through weight	Look-through holding sector
Alibaba	SoftBank	5.7%	Internet and Direct Marketing Retail
Tencent	Prosus / Naspers	3.8%	Interactive Media and Services
Fujitec	Fujitec	2.9%	Industrial Machinery
LVMH	Christian Dior SE	2.8%	Apparel, Accessories and Luxury Goods
Hidroelectrica	Fondul Proprietatea	2.4%	Electric Utilities
Sony Technologies	Sony	2.0%	Semiconductors
Zalando	Kinnevik	2.0%	Internet and Direct Marketing Retail
Benefit One	Pasona	1.8%	Human Resource and Employment Services
SK Kaken	SK Kaken	1.8%	Specialty Chemicals
Sony PlayStation	Sony	1.8%	Interactive Home Entertainment
Lowe's	Pershing Square Holdings	1.7%	Home Improvement Retail
Swire Properties	Swire Pacific B	1.7%	Real Estate Operating Companies
Godrej Consumer Products	Godrej Industries	1.5%	Personal Products
Kanaden	Kanaden	1.5%	Trading Companies and Distributors
Restaurant Brands	Pershing Square Holdings	1.5%	Restaurants
Aker BP	Aker	1.5%	Oil and Gas Exploration and Production
Chipotle Mexican Grill	Pershing Square Holdings	1.5%	Restaurants
Ferrari	EXOR	1.3%	Automobile Manufacturers
Agilent	Pershing Square Holdings	1.3%	Life Sciences Tools and Services
Hilton	Pershing Square Holdings	1.2%	Hotels, Resorts and Cruise Lines

PERSHING SQUARE HOLDINGS: HOW THE LOOK-THROUGH ANALYSIS WORKS

Pershing Square Holdings is a Euronext- and London-listed closed-end fund in which AVI Global Trust invests. Although Pershing Square Holdings is just one fund, it has investments in multiple different listed companies, providing your Company's portfolio with exposure to a diversified collection of businesses.

Company name	Estimated % of Pershing Square Holdings' portfolio	Geography	Sector
Lowe's	20%	United States	Home Improvement Retail
Restaurant Brands	17%	North America	Restaurants
Chipotle Mexican Grill	16%	United States	Restaurants
Agilent	14%	Global	Life Sciences Tools and Services
Hilton Worldwide	14%	Global	Hotels, Resorts and Cruise Lines
Starbucks	10%	Global	Restaurants
Howard Hughes	4%	United States	Real Estate Development
Fannie Mae	3%	United States	Thrifts and Mortgage Finance
Freddie Mac	2%	United States	Thrifts and Mortgage Finance

CONTRIBUTORS

KINNEVIK

Classification Holding Company	**Total return on position FY20 (local)**[2] 38.6%
% of portfolio[1] 4.4%	**Total return on position FY20 (GBP)** 43.3%
Discount -6%	**Contribution (GBP)**[3] 313bps
% of investee company 0.6%	**ROI since date of initial purchase**[4] 82.5%

Kinnevik was the most significant contributor to your Company's returns over the past financial year – contributing 313bps. We wrote in last year's Annual Report that, just as it had done many times in the past, Kinnevik was transforming itself once again, into a smaller, more specialist early-stage growth investor, and that we had added to the position as the market took its time digesting this evolution. In what was the inaugural year of this "new" Kinnevik, the shares returned an impressive +85% as the NAV grew by +47% on a total return basis, and the discount narrowed from 22% to 6%. AGT added to its position materially during the sell off, subsequently trimming the position on strength.

Kinnevik is exposed to digitally enabled businesses that have benefited immensely from the pull forward in digital adoption due to COVID-19. This is true no more so than in e-commerce and healthcare, with Zalando (43% of NAV) returning +91%, and Livongo (15%) +703%.

Zalando, the online fashion retailer, which, enjoyed +27% sales growth in the second quarter of 2020, benefited from newly introduced social distancing measures which accelerated the adoption of e-commerce, highlighted by the company's addition of more than three million new customers (+20% year on year), the most in a single quarter since 2013. As well as the heightened demand, the current environment incentivises brands to establish partnerships with Zalando, whose management team has been proactive in using its rock-solid balance sheet to extend attractive terms to prospective partners. The beauty in these partnerships is that the more brands that join, the more extensive the platform offering, thereby attracting more customers, which in turn attracts more brands. This flywheel-effect is hugely powerful and helps establish Zalando as the starting point for fashion in Europe. We see a long runway for future growth as e-commerce penetration continues to increase and Zalando pushes into new markets.

The pandemic has also – unsurprisingly – had ramifications for the healthcare sector. The environment has served as a lightning rod for increased adoption of virtual medical services and digital health solutions. This is an area to which Kinnevik has considerable exposure, most notably through Livongo, the US-based chronic disease management company. In August it was announced that Livongo is to merge with Teladoc, the leading US telehealth company. The combined entity will have an unparalleled breadth as a holistic care platform, creating a strong client proposition and producing ample cross-selling opportunities. From Kinnevik's perspective, this deal allows it to crystallise a portion of the 12.5x multiple of invested capital made on Livongo (the deal is comprised of both stock and cash), as well as making it easier to monetise more of its stake in the future. Kinnevik has a total of 20% of its NAV invested in digital health, with Village MD (value-based care), Cedar (billing) and Babylon Health (AI-enabled healthcare), three of the other most exciting future prospects. Indeed, AGT has built a separate position in Swedish holding company VNV Global – another of Babylon's investors – so as to gain more direct exposure.

AGT has also benefited significantly from a narrowing of Kinnevik's discount to single digit levels versus 22% a year ago. Cognisant of the risks of discount widening, and having added to the position during the sell off, we sold approximately one-third of our stake at a sub-10% discount over the summer. With that said, we note that Kinnevik has a stated policy of distributing excess capital, and has distributed 26% of its market cap to shareholders over the last year. As such, a case can be made that Kinnevik warrants a tighter discount than it has traded on historically. Over the coming years it seems quite plausible that Kinnevik could make further large distributions, in the form of Tele2 or Zalando shares. Coupling this with Kinnevik's growing track record for value creation in its unlisted assets, we see continued upside in the shares.

1 For definitions, see Glossary on pages 95 to 98.
2 Weighted returns adjusted for buys and sells over the year.
3 Figure is an estimate by the managers and sum of contributions will not equal quoted total return over the financial year.
4 Figure quoted in GBP terms. Refer to Glossary on pages 95 to 98 for further details.

Portfolio Review continued

PERSHING SQUARE HOLDINGS / LOWE'S COMPANIES, INC.

Lowe's is a North American home improvement retailer. From one hardware store in Northern California in 1921, Lowe's has grown into one of the largest home improvement retailers in the world, serving 18 million customers per week and generating over $70 billion of revenue in 2019.

% of portfolio

8.9%

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CONTRIBUTORS

PERSHING SQUARE HOLDINGS

Classification Closed-end Fund	**Total return on position FY20 (local)**[2] 23.8%
% of portfolio[1] 8.9%	**Total return on position FY20 (GBP)** 20.3%
Discount -30%	**Contribution (GBP)**[3] 267bps
% of investee company 1.0%	**ROI since date of initial purchase**[4] 34.4%

Pershing Square Holdings (PSH) was the second-largest contributor, adding 267bps to AGT's returns during the year. The fund generated excellent NAV total returns of +51%, although a widening of the discount from 27% to 30% restricted the share price total return to +45%.

As the COVID-19-induced selloff sent markets into a tailspin, PSH's portfolio materially underperformed the S&P 500 as a result of its higher exposure to lockdown-affected consumer-focused stocks. However, despite this, PSH's NAV performed resiliently led by an extraordinarily successful hedging programme. PSH's manager, foreseeing the economic damage of efforts to "flatten the curve", purchased credit default swaps covering large notional amounts (in excess of $70bn) of European and US predominantly investment grade credits. In a matter of weeks, as the selloff intensified and credit spreads widened, the value of the hedge jumped. Once unwound, a gain of USD2.6 billion was realised across Pershing's funds, a return of c. 100x the premium and commissions paid. This successful hedging endeavour was termed by one analyst as "arguably the greatest trade the UK closed-end industry has ever witnessed", and left PSH in the enviable position of having an enormous amount of capital to deploy into its portfolio of stocks at depressed valuations.

Many of PSH's underlying holdings have now reported quarterly earnings, allowing us to assess the impact of lockdowns on their businesses. On the whole, revenues have declined, as might be expected in the current environment – with the notable exception of Lowe's, a beneficiary of greater time spent at home and the subsequent increased demand for DIY home improvements. Earlier in the commentary, we advanced the view that crises sow the seeds of opportunity. This way of thinking has been useful in judging company performance over the past several months. We believe that what will matter most in 2020 is not the quarterly vicissitude of earnings, but rather how businesses dealt with the crisis.

With that in mind, Chipotle (one of PSH's holdings)'s actions during the crisis can serve as an instructive example. Chipotle introduced a number of initiatives during the past six months, including: (1) the introduction of free delivery through the Chipotle app to drive increased use; (2) introducing some "digital only" menu items to encourage customers to convert to ordering online; and (3) availing of real estate that has become available as competitors re-trench, accelerating new store launches with drive-through "Chipotlanes" to capitalise on changing dining habits. We like management's opportunistic mindset and believe that Chipotle's actions have turned a dismal economic environment into a strategic advantage.

PSH ended the year on a 30% discount, which appears anomalous given the quality of the portfolio; strong performance over the past two years; the manager's actions during the crisis, showing that the fund can offer downside protection, countering the criticism that investors are paying hedge fund-like fees for a long-only portfolio; and the NAV-accretive buyback programme (although, disappointingly, this has not been active of late).

The possibility of PSH's inclusion in the FTSE 100 index provides another potential catalyst for a tighter discount, as a result of the passive buying that such an event would trigger. PSH's discount tightened in August in the run-up to its potential inclusion in the index in the September quarterly review. Although PSH missed out this time round (and gave up its gains from discount tightening in response), it is likely a case of "when" rather than "if" it will enter the index should its strong performance continue.

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Portfolio Review continued

CONTRIBUTORS

JAPAN SPECIAL SITUATIONS

Classification	Total return on position FY20 (local)[2]
Japan	13.1%
% of portfolio[1]	**Total return on position FY20 (GBP)**
17.4%	10.2%
Discount	**Contribution (GBP)[3]**
-39%	196bps
% of investee company	**ROI since date of initial purchase[4]**
n/a	30.1%

Our Japan Special Situations basket was formed in 2017 composed of a selection of high-quality, over-capitalised small-cap Japanese companies. Continued improvements in corporate governance were a boon to the basket's performance over the year, which returned +10% vs +2% for the MSCI Japan Small Cap Index (in GBP terms) and contributed 199bps to returns.

Within the basket the key contributors were Fujitec (AVI public activist campaign), Teikoku Sen-I (AVI public activist campaign), Toshiba Plant and NuFlare Technology (both taken private by their parent company).

Fujitec, the largest holding in the Japan Special Situations basket and a 2.6% weight in AGT, contributed 126bps to returns over the year, making it the fifth-largest contributor in its own right. At the beginning of May, AVI launched a public campaign highlighting a multitude of issues at Fujitec. Fujitec manufactures, installs and maintains elevators and escalators (E&E), primarily in Asia – it is the maintenance part of Fujitec's business that is most appealing.

Regulations mandate the regular maintenance of E&E installations and, given that the original manufacturer knows the product intimately, 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 and it is no surprise that many of Fujitec's peers, which benefit from similar dynamics, trade at EV/EBIT ratios of over 20x, and as high as 30x in Kone's case. What is surprising, however, is that Fujitec trades on an EV/EBIT of just 12x (albeit up from the 6x where it started the year). 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. Most pleasingly, the company has responded to our suggestions with a notable improvement in its shareholder communications (in both English and Japanese) and a commitment to establishing a new strategic direction by the end of this calendar year.

Earlier in January we initiated a similar public campaign at Teikoku Sen-I, including a public presentation and two shareholder proposals. Our aim: to highlight the inefficiency of Teikoku Sen-I's balance sheet, which is replete with cash and investment securities, accounting for 52% of market value. AGT has been a shareholder of Teikoku since March 2018, and we have engaged with management consistently over the past two years to highlight changing corporate governance practices and suggest ways to improve capital allocation. Despite this, Teikoku's management has been recalcitrant and unaccepting of criticism, instead relying on a network of "group" shareholders to defeat AGM proposals aimed at releasing excess capital and rationalising the balance sheet. While, unsurprisingly, our two shareholder proposals did not pass, they received respectable support ratios of 25% and 22%, with the backing of a number of domestic Japanese institutions. During our campaign Teikoku announced a JPY4.2 billion CAPEX programme (c.20% of cash) to utilise its excess cash and expand its production facilities which the market viewed favourably. Teikoku Sen-I contributed 52bps to your Company's returns over the period.

Toshiba Plant (48bps contribution) and NuFlare (34bps contribution) both benefited from the simultaneous takeover by their parent, Toshiba Corp. Both bids came at a significant premium to the prevailing share prices of 27% and 45% respectively, yielding IRRs of 26% and 89% over the life of our investment. We have been attracted to the "parent-child" subsidiary theme for some time, believing that listed subsidiaries would either be sold off or bought in by the parent company. We have argued, along with others, that listed subsidiaries trade at depressed prices because of the lack of consideration towards minority shareholders and should be collapsed. With criticism of the arrangements by the Abe administration, and Toshiba Corp's recently refreshed board, it felt like simply a matter of time before the company would acquire or sell off its stakes in NuFlare and Toshiba Plant.

The actions of Toshiba Corp add to the weight of evidence that our overarching theme of improving corporate governance in Japan is valid. With pressure coming from the government, and increasingly shareholder-conscious institutional investors, Japan Inc. is shifting – slowly, but surely – towards a more efficient, fairer system of governance. The Toshiba Corp offer is but one example of this; we see further evidence in the form of rising share buybacks; higher payout ratios; increasing returns on equity; reductions in cross-shareholdings; and increasingly independent Boards.

With the basket trading on an EV/EBIT multiple of 4.9x and listed securities and net cash covering 92% of the aggregate market cap, we remain convinced of the merits of our large allocation to the Japan Special Situations basket.

[1] For definitions, see Glossary on pages 95 to 98.
[2] Weighted returns adjusted for buys and sells over the year.
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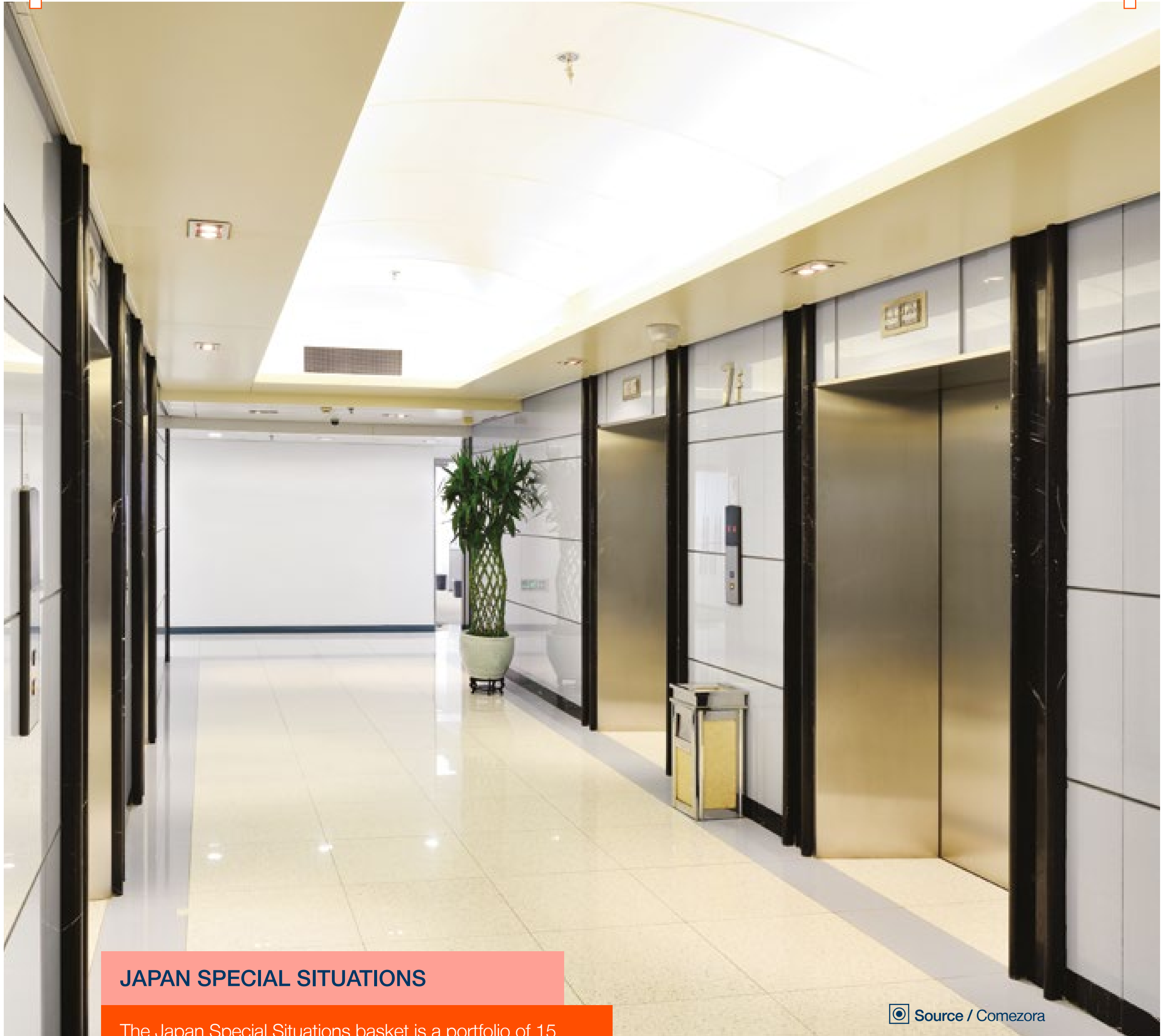

Source / Comezora

JAPAN SPECIAL SITUATIONS

The Japan Special Situations basket is a portfolio of 15 cash- and securities-rich Japanese operating companies. Pressure is mounting on Japanese companies to change their corporate governance practices and capital allocation policies. We believe that it is increasingly probable that these companies will begin to return excess capital to shareholders and take measures to improve the efficiency of their operations, with highly attractive risk-adjusted returns for shareholders.

% of portfolio

17.4%

EV/EBIT*

4.9x

Net cash as a % of market cap*

36%

Net cash and listed securities as a % of market cap*

92%

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

Portfolio Review continued

CONTRIBUTORS

SOFTBANK GROUP

Classification Japan	**Total return on position FY20 (local)**[2] 25.5%
% of portfolio[1] 7.0%	**Total return on position FY20 (GBP)** 28.7%
Discount -56%	**Contribution (GBP)**[3] 170bps
% of investee company 0.1%	**ROI since date of initial purchase**[4] 28.7%

SoftBank Group was the fourth-largest contributor to returns over the period, adding 170bps. We initiated a position in SoftBank – a GBP90 billion Japanese holding company whose key assets include stakes in Alibaba, SoftBank Corp (a Japanese telecommunications company), the Vision Fund, Arm Holdings, and T-Mobile US – in February 2020. During our short ownership we have made a return on investment of +26% and an IRR of +48%, in JPY.

SoftBank is a well-known name, plagued by negative headlines – surrounding the Vision Fund in general and the failed WeWork investment in particular. We felt that the publicity around these issues belied the fact that SoftBank's investment in the Vision Fund was simply not very material in terms of its economic impact, and was far outweighed by the value of the stakes in Alibaba (currently in excess of 70% of NAV) and, to a lesser extent, its telecoms holdings: Japan-listed SoftBank Corp and US-listed T-Mobile; and had created an opportunity in terms of a widening discount to NAV at SoftBank.

Despite knowing the company well and notwithstanding the discount opportunity, our view was that there was a lack of meaningful catalysts that could prompt a re-rating of SoftBank's depressed share price. This changed when, in February, news broke that deep-pocketed activist Elliott Advisors had taken a large stake in the company and was seeking sizable buybacks, improved transparency, and better governance.

Having acquired our initial position at what we believed was a very wide discount to NAV, we then saw the discount push out even wider over the COVID-19-inspired market sell off, and we continued to increase our position over this period at discounts approaching 70% and at prices a third lower than where our first purchases were made.

A combination of the pressure from shareholders (we also wrote to the company outlining our recommended course of action) and from the sell off led to Masa Son, SoftBank's CEO and founder, announcing some unambiguously shareholder-friendly measures: SoftBank announced a JPY500 billion buyback (an estimated 6% of market cap at the time of the announcement) followed by a thumping commitment to realise JPY4.3 trillion of assets and buy back a further JPY2.0 trillion of shares (26% of market cap, or 32% in total) in addition to reducing debt. Alongside this, SoftBank announced the appointment of new independent directors to its Board and has improved transparency around the Vision Fund. This was welcome news for investors and, from the nadir in March, the share price has bounced back by +141%, and ended the period +13% above the pre-COVID price at which we initially purchased shares.

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 tentatively embrace higher standards of corporate governance. There is, therefore, significant upside to the 56% discount at which SoftBank ended the period. Secondly, ongoing share buybacks generate risk-free, immediate, and certain NAV accretion for remaining shareholders. As such, we continue to see significant upside in SoftBank's shares, and think the ultimate end game may well be a creeping management buyout via further aggressive share buyback programmes.

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SONY

Classification Japan	**Total return on position FY20 (local)**[2] 23.9%
% of portfolio[1] 5.5%	**Total return on position FY20 (GBP)** 21.1%
Discount -40%	**Contribution (GBP)**[3] 114bps
% of investee company 0.1%	**ROI since date of initial purchase**[4] 34.6%

Sony was the fifth-largest contributor to returns this year, adding 114bps. Its share price rose +29%, behind NAV at +38%, as the discount widened from 36% to 40%.

Whilst Sony is well known to many as a consumer electronics manufacturer, our investment case is predicated on Sony's attractive four "crown jewel" businesses: Gaming, Music, Pictures, and Semiconductors. Together, these four businesses account for 81% of operating profits, and have posted 16% annual operating profit growth over the past two years. Despite this, Sony trades on a 40% discount, which we believe can be explained in part by the complexity of the conglomerate structure, which packages businesses with unique characteristics into a single entity. Pervasive, hard-to-dispel misperceptions about Sony's businesses can also obscure value. Such misconceptions include the idea that the Semiconductor business is exposed to growth in smartphones, or that the mobile communications business will be indefinitely lossmaking. Our research indicates, however, that the Semiconductor segment manufactures genuinely differentiated products and will benefit from the increasing use of cameras in smartphones and automobiles; and, with a focus on cost cutting, we expect the mobile business to return to profitability.

Perhaps the most pervasive misconception surrounds Sony's Gaming division, which accounts for 24% of sales and 28% of operating profits. Historically, Sony's gaming business suffered from earnings cyclicality, driven by its legacy business model which relied heavily on hardware sales. With 37% of PS4 owners subscribing to PS Plus, Sony's gaming subscription service, we feel that this indicates that the gaming business is moving away from cyclical hardware to a subscription-based digital model, as further highlighted by the introduction of the disk-less PS5. Over the lifecycle of the PlayStation 4, Sony has improved its subscription service offering, introducing microtransactions, platform fees, and a streaming service, allowing Sony to generate recurring revenue streams and reduce reliance on hardware sales. These new recurring revenues are prized by investors, as they are stable, sticky, and high margin – lending greater visibility to the Gaming division's future earnings. COVID has accelerated the shift to digital, with consumers switching away from physical games, and traditional retail stores, to purchasing content directly on their consoles. With the launch of the PS5 in the 2020 holiday period, Sony is well-positioned to capitalise on further digitalisation, with Sony's PS Now and PS Plus subscriptions giving the business a powerful embedded user base that remains tied to Sony's platforms driven by high-quality first-party titles. Overall, the prospects for future growth, and the conversion from hardware-dependent revenues to a recurring-revenue model are highly exciting and we believe that the Gaming division will be one of Sony's top performers in the future.

Much attention has been drawn to Sony's conglomerate structure, largely from a public activist campaign by Third Point. While we are encouraged by actions that Sony has taken to improve the structure, including the sale of its listed stake in Olympus and a ramp-up in the buyback programme, it is clear that the structure is here to stay. In May Sony announced that they will change their name from 'Sony Corp' to 'Sony Group', and form separate executive teams at each business line.

We would have preferred that certain assets within the structure were spun-off, but we always saw that as a free option on top of the appeal of Sony's high-quality assets operating in secular growth industries. However, we take some solace in Sony's decision to create a decentralised holding structure with management accountability at each business line, which we think will ultimately lead to higher margins and growth. Furthermore, since we first invested, management have demonstrated some advantages to having music, pictures, and gaming under one entertainment holding company – with cross-collaboration between divisions creating unique and differentiated content.

As we have said on previous occasions, Sony is a classic AGT investment – quality, growing assets that are misunderstood and overlooked by the market due to a complex holding structure, and multiple levers to pull to create and unlock value. We continue to see Sony as a highly attractive investment.

Portfolio Review continued

CONTRIBUTORS

KKR

Classification Holding Company	**Total return on position FY20 (local)**[2] 40.3%
% of portfolio[1] 3.7%	**Total return on position FY20 (GBP)** 33.2%
Discount -29%	**Contribution (GBP)**[3] 94bps
% of investee company 0.2%	**ROI since date of initial purchase**[4] 33.2%

We initiated a position in KKR, the US-listed alternative asset manager, in March 2020, accumulating a stake at an average estimated discount of 45-50%. The shares have returned +39% on the weighted-average buy price, adding 94bps to returns.

We have liked the alternative asset managers for some time, and this year's selloff allowed us to establish a position at a steep discount to our estimate of intrinsic value. We believe that KKR has multiple secular tailwinds favouring it, many of which are misunderstood by the market:

- KKR operates in a highly attractive industry, with secular growth driven by increasing institutional investments in alternative assets, underpinned by a "lower-for-longer" interest rate environment.
- Its full suite of alternative strategies – private equity, credit, real assets – allows it to cross-sell to its investors, and benefit from institutional investors looking to consolidate their asset manager relationships.
- Investments in developing new strategies over the last ten years should start to see increasing performance fees as these mature and scale. Up-front investment in these areas has stifled margins, which we expect to increase from here.
- KKR is unique in having a capital markets business that, by sourcing and syndicating loans, handling refinancings, conducting IPOs, etc., can extract more value from each unit of activity relative to its peers. KKR also does capital markets work for third parties, adding another income stream.
- One of KKR's differentiating factors is its very large balance sheet consisting of investments in, and co-investments alongside, its own investment funds. As well as generating attractive returns in its own right in a fee-free manner for shareholders, the balance sheet also allows for potentially higher growth than peers given that it can be used to support/seed new investment strategies.
- The long-duration nature of the capital managed by alternative asset managers results in stable and highly visible revenues, with carried interest (performance fees) consistently undervalued as an income stream by the market.

In July of this year, KKR announced that it would be acquiring a controlling stake in Global Atlantic, a provider of fixed and fixed-indexed annuities, at a valuation in excess of USD4 billion. Global Atlantic is one of the top players in its industry with an excellent track record, having grown earnings and book value by double-digit figures over the past several years. In our view, it is a high-quality business with the potential for significant growth in the future as low interest rates compel the insurance industry to consolidate and seek out managers of capital who can earn returns on assets in excess of the rates owing on their liabilities.

In addition to Global Atlantic's value as a business per se, we also think that the acquisition is transformational for KKR as an asset manager, as it will manage 100% of Global Atlantic's assets, providing it with an additional USD71 billion of assets under management (AUM) on which fee income can be earned. This additional AUM is permanent in nature, thus increasing the visibility and quality of KKR's fee-related earnings. We estimate that the deal will increase KKR's AUM by one-third, and that permanent capital as a percentage of AUM will increase from 9% to 33%.

There are multiple avenues for KKR to pursue that can increase this earnings stream further, including: (a) deploying some of Global Atlantic's capital into KKR's own funds on which it can earn fees; (b) earning fees on co-investors that KKR brings into Global Atlantic; and (c) fees on "sidecar" funds, essentially large pools of committed capital that Global Atlantic can draw down in order to complete large deals.

When we initiated the position in KKR, we viewed it as a high-quality business in a growth sector. The acquisition of Global Atlantic has, in our opinion, further enhanced the quality of the business and its growth prospects. In this light, the 29% discount at which KKR trades (to our estimate of intrinsic value) appears anomalous, and we remain enthusiastic about the prospect of strong returns from here.

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CONTRIBUTORS

OAKLEY CAPITAL INVESTMENTS

Classification Closed-end Fund	**Total return on position FY20 (local)**[2] 13.7%
% of portfolio[1] 7.4%	**Total return on position FY20 (GBP)** 13.7%
Discount -29%	**Contribution (GBP)**[3] 93bps
% of investee company 14.9%	**ROI since date of initial purchase**[4] 47.4%

Oakley Capital Investments (OCI) is, for the third year running, one of the largest contributors to your Company's returns. This year, growth came from OCI's NAV (+13% in total return terms), with the discount remaining static at 29%. In total, OCI contributed 93bps.

OCI posted a +4% NAV total return for the six months to June 2020, despite the negative impact of the COVID-19 pandemic on some parts of its portfolio. Returns in the main were driven by the realisation of Inspired, the global network of private K-12 schools, at a +25% uplift to carrying value, and strong growth from Career Partner, a private German university benefiting from an increase in student numbers as often happens during a recession. Following the realisation of Inspired and WebPros, and several refinancings, OCI now holds approximately 40% of its NAV in cash. This gives it significant flexibility to fund its commitments to Fund IV and the recently established Origins fund, support its existing portfolio companies, and fund a NAV-accretive buyback programme.

Helpfully, OCI breaks out its portfolio into separate segments, based on how COVID-19 has affected it. Approximately 23% of the portfolio is invested in companies that have either been unimpacted or benefited from lockdowns. Another 27% has seen some short-term disruption but is already recovering, although the potential for further lockdowns could dampen this progress.

Names such as Career Partner, WebPros, Seven Miles, Ocean Technologies, and Contabo – active in sectors including tertiary education, web hosting software, gift cards and maritime e-education – have seen increased or unimpacted revenues and profitability over the past six months. Interestingly, four of these five companies were acquired in the last 12 months, meaning that they are held at cost in the portfolio. That is to say, these investments have not been revalued, despite strong performance; we expect this performance to be seen in the next valuation of the portfolio (December 2020).

Turning to the other parts of the portfolio, c. 28% of NAV is invested in companies that have been significantly disrupted. This includes names such as Time Out and North Sails, both of which have a significant physical presence in the form of Time Out Markets and North Sails Apparel stores. Time Out was recapitalised in May (to which OCI and Oakley contributed), de-gearing its balance sheet and leaving it with sufficient cash to fund operations for the next year. With five out of six Time Out Market locations now re-opened and demand for advertising space increasing again, we are confident that the group can recover from here.

As readers will be aware, OCI has traded at a significant discount to NAV for some time – primarily the result of poor corporate governance in the past, including significantly dilutive share issuances. At the time of writing, the discount remains at a wide 29%.

Our investment thesis is founded in part on the belief that OCI has turned a corner, and is serious about becoming a best-in-class operator from a corporate governance perspective. We note significant improvements which affirm this view: (a) a commitment, enshrined in recently amended bye-laws, not to issue shares at a discount; (b) an ongoing share buyback programme which to date has bought back 7% of outstanding shares at a discount to NAV; (c) a re-listing from the AIM to the SFS, and a voluntary commitment to comply with a large proportion of the requirements of the FCA's premium listing rules; and (d) improved transparency and communication.

Over the past five years, OCI has been one of the top performers among UK listed private equity funds. When we consider this strong growth, and the corporate governance improvements we are witnessing, we believe that it can only be a matter of time before the market begins to appreciate the value on offer and award a substantially higher valuation to OCI.

Portfolio Review continued

CONTRIBUTORS

INVESTOR AB

Classification Holding Company	**Total return on position FY20 (local)**[2] 25.5%
% of portfolio[1] 3.0%	**Total return on position FY20 (GBP)** 31.4%
Discount -17%	**Contribution (GBP)**[3] 74bps
% of investee company 0.2%	**ROI since date of initial purchase**[4] 119.1%

Investor AB – the Wallenberg-controlled family holding company – was also a significant contributor to returns. The shares returned +26%, benefiting from strong NAV growth of +23%, as well a slight narrowing of the discount from 19% to 17%.

Investor's portfolio is split between listed securities (76% of NAV) and unlisted Patricia Industries investments (29%), both of which contributed to NAV growth. Starting with the listed, Atlas Copco (16% of NAV) returned +44% over a period in which it reported record orders and sales for its 2019 results. Copco's shares have rallied off the March lows to new record highs. Investors appreciated the relative defensiveness of its services and its cyclically-resilient after-sales offering, as well as the nature of many of its products, which are often mission critical but make up a low fraction of a user's cost base. Investor has continued to add to its position in ABB (11% of NAV) – now increased by 14% over the last two years. Despite its exposure to the attractive trends of automation and electrification, ABB has been a serial underperformer over the last decade. Investor were instrumental in the appointment of Björn Rosengren as CEO earlier in the year, who will seek to simplify what has become a complex structure; drive operational and margin improvement; and return nearly USD8 billion to shareholders in the form of buybacks following the sale of the Grids division.

During the year, white goods manufacturer Electrolux spun off its Professional arm as a separate listed business: Electrolux Professional. The Professional business, which manufactures equipment for restaurant and hotel kitchens as well as laundry services, is a market leader in a structurally more attractive market, warranting a higher multiple than the rather commoditised legacy home appliance business. This is a further example of the active approach Investor takes to ownership, which in recent years has included the spin-off of Epiroc from Atlas Copco, the sale of ABB's Power Grids division and the IPO of EQT. We note that Investor's running costs have totalled little more than 10bps over the last 12 months – a fee rate that we do not see available from many "activist" investors.

Turning to Patricia Industries, Mölnlycke – Investor's unlisted jewel – has generally performed well, notwithstanding a more recent headwind from delays to elective surgeries in light of COVID. 2019 sales grew by +4% organically, with strong cash generation allowing Mölnlycke to distribute EUR425 million up to Patricia. Peer multiples have also expanded, supporting an increase in valuation. Elsewhere, Investor has been actively supporting its less mature unlisted businesses, with medical equipment provider Laborie (2% of NAV) acquiring US-based Clinical Solutions. Just before year-end Patricia made a new investment for the global leader in analytical osmolality, Advanced Instruments.

AGT has held shares in Investor since 2002. Just as then, we believe the opportunity to align capital with such thoughtful long-term active stewards of capital is an attractive one. We remain excited about the prospect of future returns.

1 For definitions, see Glossary on pages 95 to 98.
2 Weighted returns adjusted for buys and sells over the year.
3 Figure is an estimate by the managers and sum of contributions will not equal quoted total return over the financial year.
4 Figure quoted in GBP terms. Refer to Glossary on pages 95 to 98 for further details.

INVESTOR AB / ATLAS COPCO

Atlas Copco is a global industrial company based in Stockholm. Founded in 1873, today Atlas Copco's leading compressors, vacuum technology, pumps, generators, and power tools can be found in over 180 countries worldwide.

% of portfolio

3.0%

Source / Atlas Copco AB

Portfolio Review continued

CONTRIBUTORS

FONDUL PROPRIETATEA

Classification Closed-end Fund	**Total return on position FY20 (local)**[2] 23.8%
% of portfolio[1] 4.7%	**Total return on position FY20 (GBP)** 20.3%
Discount -19%	**Contribution (GBP)**[3] 64bps
% of investee company 2.9%	**ROI since date of initial purchase**[4] 75.6%

Fondul Proprietatea (FP) added 64bps to AGT's returns. Growth was driven by a combination of NAV growth (+12% in USD terms – driven in part by a 5% weakening of USD relative to RON) and a tightening of the discount from 25% to 19%. Overall, shareholders earned total returns of +21%.

We wrote last year that FP had had a turbulent year, after the Romanian government's Emergency Ordinance, targeting companies in the electricity and gas sectors, seemed likely to significantly impair value for FP shareholders.

This year has been a better one. The Emergency Ordinance has been almost entirely repealed, thus eliminating the impact on FP's holdings. In October of 2019, the ruling PSD party lost a vote of no confidence, leaving a caretaker government in place until the country can hold its general election in December 2020.

Looking to the future, we believe that the key catalysts that we have previously identified for unlocking value within FP remain intact. The IPO of Hidroelectrica (47% of NAV) is particularly exciting, as its valuation within FP is significantly lower than the multiples at which similar peers trade. Hidroelectrica's listing would make it the only pure-play hydropower company in the world, which we think could attract significant attention from institutional investors interested in renewable, infrastructure, and ESG-compliant assets.

Other significant catalysts could include: (1) a future IPO of Bucharest Airports (7% of NAV) once air travel returns; (2) the reduction of the stake in OMV Petrom (13%), with the proceeds being used to fund NAV-accretive buybacks and tender offers; and (3) the sale of FP's stakes in Enel's Romanian distribution subsidiaries (7%).

While the timing of these events has been thrown into uncertainty as a result of the pandemic, we believe that they are nonetheless likely over the medium term, and hold out the promise of generating significant value for shareholders. In the meantime, we are happy to hold a high-quality, cheaply-valued portfolio at a 19% discount while being paid a 5% dividend, and the company continues to conduct NAV-accretive tender offers and buybacks.

COSAN LTD

Classification Holding Company	**Total return on position FY20 (local)**[2] 19.8%
% of portfolio[1] n/a	**Total return on position FY20 (GBP)** 15.9%
Discount n/a	**Contribution (GBP)**[3] 57bps
% of investee company n/a	**ROI since date of initial purchase**[4] 69.6%

Having been the largest contributor in the last financial year, Cosan Ltd (CZZ) – the NYSE listed holding company of two further Brazilian listed holding companies – contributed again to this year's performance, as AGT exited its highly successful investment. Over the course of a three-year holding period, CZZ achieved a GBP total return of +70% versus +2% for the MSCI ACWI ex-US index.

As a reminder, AGT's investment in CZZ was predicated on both the enormous amount of value that was trapped in the overly complex double holding company structure, as well as the attractive nature of the underlying holdings.

As we wrote in last year's Annual Report, "CZZ has consistently communicated its intention to simplify the holding structure". In 2020 this came to fruition, as Cosan SA – one of the aforementioned Brazilian holding companies – announced the intention to become the sole group holding company: CZZ shareholders would receive shares in Cosan SA, whilst Cosan Logistica, the holding company structure through which rail-operator Rumo is controlled, was also to be collapsed. In response to this the look-through discount tightened to a low-teen level, compared to the near 60% at which we first started buying. As such, the decision was made to exit the investment on valuation grounds.

Over the life of the investment, on a look-through basis, the bulk of our returns was generated by discount narrowing, from a weighted average 57% on the buys to 40% on the sells – a +41% return. Impressive local look-through NAV returns of +46% were pared back to +14% in USD terms, as the depreciation of the Real hurt dollar-denominated CZZ.

All in all, CZZ serves as a prime example of AGT's approach to finding high-quality misunderstood assets, with catalysts in place to unlock their value.

[1] For definitions, see Glossary on pages 95 to 98.
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[4] Figure quoted in GBP terms. Refer to Glossary on pages 95 to 98 for further details.

DETRACTORS

WENDEL

Classification Holding Company	**Total return on position FY20 (local)**[2] -39.2%
% of portfolio[1] n/a	**Total return on position FY20 (GBP)** -40.0%
Discount n/a	**Contribution (GBP)**[3] -117bps
% of investee company n/a	**ROI since date of initial purchase**[4] 27.7%

French family-controlled holding company Wendel was the fifth-largest detractor from your Company's returns. During the period we exited the position.

While AGT's investment in Wendel was by no means a terrible one, neither was it a roaring success. Over six years, Wendel achieved a total return of +11% (in EUR terms), versus +19% for the MSCI ACWI ex-US. The depreciation of sterling meant that AGT experienced a +27% total return in GBP. Returns were driven entirely by NAV growth, with the discount stubbornly wide at c. 31% across our buys and sells.

The investment in Wendel was built on the attractive nature of the assets, Wendel's sizeable investments in unlisted businesses, and the possibility of monetising these at uplifts to what seemed a conservative NAV, coupled with the potential for discount narrowing as the impact – both in terms of balance sheet strain and investor sentiment – of the poorly timed 2007 acquisition of Saint Gobain waned.

Starting with the latter, management, particularly under André François-Poncet, did a good job of reducing leverage and indeed exited Saint Gobain in full. Where the disappointment lay was in a lack of events. Whilst Allied Universal was successfully exited, an unfavourable operating environment saw the possible IPO of IHS delayed; neither Constantia nor Stahl were monetised, and Stahl in particular suffered worsening conditions in its key end markets. Events can serve as means through which valuations are proven, and management's ability to create value is certified. A lack of events can leave investors questioning why they should own Wendel, where such a large portion of NAV is held in one listed entity, Bureau Veritas.

Finding a happy medium between patience and decisiveness is one of fund management's great balancing acts. In the case of Wendel, with few catalysts on the horizon and reduced conviction in the NAV, the decision was made to exit the investment in the spring. Doing so gave us valuable capital which we were able to reinvest into more attractive opportunities, all with greater prospects for outperformance.

RIVERSTONE ENERGY

Classification Closed-end Fund	**Total return on position FY20 (local)**[2] -61.1%
% of portfolio[1] n/a	**Total return on position FY20 (GBP)** -61.1%
Discount n/a	**Contribution (GBP)**[3] -156bps
% of investee company n/a	**ROI since date of initial purchase**[4] -75.0%

Riverstone Energy (RSE) detracted -156bps from returns, as the combination of a declining NAV and widening discount drove the share price significantly lower. A breakdown in relations between the OPEC+ group of nations impacted the supply of oil, while the impact of lockdowns was felt in a sharp drop in demand. Together, these factors drove precipitate declines in the price of West Texas Intermediate (WTI) oil. The extent of the dislocation in the oil markets was observed in late April when the May-20 WTI futures contract went briefly negative – a historical first – over concerns about storage bottlenecks, meaning that buyers would be paid for taking delivery of oil.

It was against this backdrop that we took the difficult decision to sell our entire position back to the company as part of a share repurchase programme announced along with the first quarter valuations. The sale 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 focused to too great an extent on our assessment of the undervaluation of certain of the 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.

Portfolio Review continued

DETRACTORS

SWIRE PACIFIC 'B'

Classification Holding Company	**Total return on position FY20 (local)**[2] -39.9%
% of portfolio[1] 2.1%	**Total return on position FY20 (GBP)** -41.9%
Discount -64%	**Contribution (GBP)**[3] -165bps
% of investee company 1.0%	**ROI since date of initial purchase**[4] -28.9%

Swire Pacific 'B' reduced NAV by 165bps with the discount ballooning out from 47% to 64% which, on a NAV falling by -16%, drove a total return of -41% in HKD.

Swire Pacific is dominated by Swire Properties with it now accounting for over 72% of NAV, with the remainder of the portfolio (Swire Coca Cola, Cathay Pacific and HAECO) still given a negative valuation by the market. While Swire Properties may dominate the NAV, Cathay Pacific (11% of NAV) has certainly once again dominated the headlines as it required a sizeable capital injection to save the business. Passenger numbers fell dramatically on Cathay's routes – as few as 500 passengers a day were flying – as COVID halted travel in the first quarter with little recovery in international travel since. As one could imagine, any period with passengers reduced to effectively zero was not sustainable and shareholders and the Hong Kong government stepped in to provide HKD39 billion of capital through a mixture of preference shares and a bridge loan from the Hong Kong government, as well as a rights issue for existing shareholders. This capital provides a runway for international travel to return, and we estimate that the company has enough cash now on hand to manage the current cash burn rate until early 2022. However, this assumes that travel numbers stay at depressed levels. We believe that the upcoming strategic review which should be announced by the end of the year is key to resetting Cathay's cost base and strategy going forward.

Swire Properties was obviously impacted greatly by extradition law protests in 2019 as retailers in its prime shopping centres were shuttered. This appeared to be easing as we entered 2020; however, COVID, the introduction of the national security law, and the worsening US-China trade war have hit Hong Kong sentiment greatly. While Swire Properties' office portfolio has performed well, with occupancy remaining high and still reversionary, sentiment is poor as people are concerned about the longer-term future for Hong Kong as the financial centre of Asia. It is expected that vacancies on Hong Kong Island will increase as international companies move space to other centres in Asia, while the impact of COVID has delayed the expansion of mainland Chinese companies into Hong Kong. While this has a short-term impact we believe that there will not be a widespread exodus of international companies from Hong Kong.

Source / Swire Pacific Limited

SWIRE PACIFIC 'B'/
SWIRE COCA COLA

Swire Coca-Cola owns Coca Cola bottling and distribution franchises in the USA and China, with a combined franchise population covering over 700 million people. With their China franchise covering half the Chinese population they aim to benefit from the rising middle class and the roll out of higher priced Coca-Cola brands not yet launched in China.

% of portfolio

2.1%

Hong Kong still provides a gateway to a huge growth market for many international companies and is therefore a required base for many companies looking to expand into China. In addition, due to the US-China trade war, the Hong Kong Stock Exchange as a destination for Chinese companies to list is becoming more attractive and we have seen many already list in Hong Kong, either as a primary listing in new IPOs or secondary listings. This will create office demand in Hong Kong for those companies listing and the ancillary services which support listed companies. Swire Properties is particularly geared to the latter with its Hong Kong Island East portfolio which targets back office type tenants who require/desire cheaper rents than those available in Central.

While Swire Pacific has been a particularly painful investment over the last two years we believe the current valuation, a 65% discount to NAV with Swire Properties at share price, or an even more egregious 80% discount to NAV with Swire Properties at NAV, is not sustainable. While this has been our position for some time now, we nonetheless maintain that it is correct to hold at this time due to the significant headwinds encountered and navigated so far.

1 For definitions, see Glossary on pages 95 to 98.
2 Weighted returns adjusted for buys and sells over the year.
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DETRACTORS

JARDINE STRATEGIC

Classification
Holding Company

% of portfolio[1]
2.9%

Discount
-49%

% of investee company
0.2%

Total return on position FY20 (local)[2]
-32.3%

Total return on position FY20 (GBP)
-33.8%

Contribution (GBP)[3]
-213bps

ROI since date of initial purchase[4]
-19.0%

Unfortunately, Jardine Strategic (JS)'s poor performance continued as the company detracted 213bps from NAV over the year. This return was driven by both a falling NAV (-22%) and widening discount from 40% to 49% as the share price fell by 34%.

Last year JS was navigating the stormy waters of extradition law protests in Hong Kong, which had a large impact on its portfolio companies. Going into this financial year, protests continued up until the end of 2019, however as we entered 2020 there was a sense that the protests were petering out and that some normality might return to daily life in HK. While painful, the protests were localised problems only impacting part of JS's portfolio. Then 2020 began and more intense storms began to bluster, with Hong Kong providing no safe harbour. As we now know the COVID outbreak in early 2020 has had a profound impact on JS's investee companies across all geographies, with explicit exposure to retail properties (Hongkong Land), retailers (Dairy Farm), commodities and commodity-related economies (Jardine Cycle & Carriage) and the tourism industry (Mandarin Oriental).

While dealing with COVID, in April it was reported that the Chinese government was going to introduce a national security law, which was duly passed in June. The passing of this law has created much direct fall out with the US removing Hong Kong's "special status", and it also further worsened US-China relations in general causing much debate about the long-term future of HK as the financial centre of Asia.

With all the above, as you can imagine few parts of the portfolio emerged unscathed. Dairy Farm and Jardine Cycle & Carriage, accounting for 36% of NAV, were the worst performers in the portfolio. Dairy Farm, while benefiting from stay at home policies in its grocery retail portfolio, suffered from its health & beauty and convenience store networks which in large parts were closed. Despite this the company remained profitable during the period, due to the strong performance from the grocery retail division which saw a 471% increase in operating profit on revenue growth and margin expansion.

Jardine Cycle & Carriage is highly geared to the commodity cycle through its exposure to the mining industry (through their holding in Astra International) and their auto-distribution businesses. With the shut down of large parts of the global economy, commodity prices have seen sharp selloffs and demand has not returned fully as yet. This resulted in poor mining operations and lower sales of heavy equipment at United Tractors (60% owned by Astra International). The lockdown measures in place impacted JCC's auto-distribution businesses (both via Astra and directly held) as show rooms were closed and production was halted. Four-wheel and two-wheel auto sales have fallen by c. 40-50% in their target markets, with lower margins further impacting net income. In addition, financial services saw increased loan loss provisioning and deferred payments have been offered to customers.

Source / Hongkong Land

JARDINE STRATEGIC / HONGKONG LAND

Hongkong Land's largest asset base is its best-in-class office and retail portfolio in Central, Hong Kong, comprising 4.8 million square feet of office and retail space in the heart of the financial district. They continue to expand in China with the recently announced acquisition of the exciting West Bund development site in Shanghai, which will provide a similar best-in-class mixed-use development on a prime site in Shanghai.

% of portfolio

2.9%

While large parts of the portfolio were impacted, two holdings, Mandarin Oriental and Zhongsheng, were bright spots in the portfolio. Mandarin Oriental, while obviously suffering from a lack of travel across the globe, is nonetheless up by 15% over the year. While it is hard to pinpoint the exact reason, given its exposure to international travel, we believe that the value in the Excelsior Hotel development site in Hong Kong, which is being converted into a mixed-use office-led building, is becoming apparent. This site alone is valued in excess of the market cap of Mandarin Oriental. It could be argued that this development does not belong in Mandarin's portfolio in the long term so we could see this property sold at some point in the future.

Jardine Strategic has had a torrid two years, with both NAV declines and discount widening creating a double-whammy headwind. While this has been painful, the company has been active in managing its portfolio and now sits with over USD2.3 billion of cash on the balance sheet to deploy into markets where it sees opportunity.

Portfolio Review continued

DETRACTORS

SYMPHONY INTERNATIONAL

Classification Closed-end Fund	**Total return on position FY20 (local)**[2] -54.7%
% of portfolio[1] 1.8%	**Total return on position FY20 (GBP)** -56.9%
Discount -57%	**Contribution (GBP)**[3] -240bps
% of investee company 15.7%	**ROI since date of initial purchase**[4] 8.6%

Symphony International was your Company's largest detractor during the year, reducing returns by 240bps. Both a falling NAV (-35%) and a widening discount contributed to total share price returns of -55%.

Key holding Minor International (30% of NAV) fell sharply over the year as a result of the COVID-19 lockdowns, which saw the large majority of both its hotels and restaurants temporarily closed, with the exception of some regions including Australia, New Zealand, Africa and (more recently) China. With a fall in earnings and cash flows, concerns grew over Minor's ability to service its debt – the burden of which had increased following Minor's acquisition of NH Hotels. We were confident that these fears were exaggerated, given a number of factors: (1) Minor's strong asset-backing, opening the option to conduct sale-and-leasebacks; (2) undemanding covenants on its debt; (3) the extension of the NH Hotel bridging loans; and (4) gross cash and undrawn facilities equating to two-thirds of market cap. Nonetheless, Minor's management prudently decided to issue USD600 million of perpetual bonds and equity (c. 20% of market cap) in order to shore up the balance sheet.

Looking to the future of Minor, the immediate environment is murky. Leisure travel has declined precipitously and likely will take some time to recover. However, this is not Minor's first crisis: the 2003 SARS outbreak, 2004 tsunami, 2010 Icelandic ash cloud, and multiple bouts of domestic political strife have all loomed threateningly at times. Minor's management team has in the past steered it deftly through these crises, a testament to its skill. Furthermore, the quality and wide reach of Minor's brands suggest that it will participate in any eventual global economic recovery, while the strong rebound of its Chinese operations provides optimism for its global business once COVID-19 is behind us.

Symphony International's very wide discount (57%) is, we believe, primarily a function of poor governance, misalignment of interests of the Board/Manager with shareholders, and the illiquidity of the shares. We continue to engage with the Board and management regarding solutions to its persistently wide discount. We note in this regard the recent announcement that Symphony would reduce the minimum management fee from USD8 to USD6 million annually, which is welcome albeit barely even a start on addressing our concerns. All said, there is considerable value to be unlocked at the company and we remain focused on achieving a successful outcome in this respect.

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