Investment Review / Investment Manager's Report continued

Performance Review continued

Despite broader enthusiasm from other investors, our performance in Japan has been a relative weak spot over the last 12 months. Wacom and Digital Garage have been notably poor performers, and a number of our other holdings have failed to keep up with a strong market where capital has principally flowed to larger cap names. Disappointing local price returns have been exacerbated by continued Yen weakness.
It is our expectation that Japan's divergent monetary policy will not persist indefinitely. As and when this occurs the Yen will be a further tailwind behind our backs. More generally we continue to be excited about the rich opportunity set we find in overcapitalised Japanese small caps, and the role we can play in unlocking and creating value.

Looking ahead and borrowing a quote from the CEO of a US automaker on a recent earnings call, the macro environment remains "opaque at best". Bond markets have increasingly started to reflect "higher for longer" rates and we appear to be in a new epoch of non-zero interest rates and a price for risk. Tail risk remains that the infamous "long and variable" monetary policy lags bite unexpectedly, with the UK Liability Driven Investment (LDI)-crisis and US banking crisis having highlighted how systemic problems can suddenly emerge as liquidity conditions tighten.

Readers should know by now that our approach to investing is focused on bottom-up stock picking. We are highly sceptical of the quality of our macro insights and their utility in guiding investment decisions. As such we remain focused on the fundamentals. Discounts – as indicated by our 35% portfolio weighted average discount – are at wide levels historically associated with times of panic and market stress. Such starting valuations provide a strong bedrock and give comfort in an uncertain world.

Overall, we continue to believe that we are in a challenging market environment in which hard work, stock selection and engagement will be differentiating factors. In this vein, we are cautiously optimistic about the prospects for the concentrated-yet-diverse portfolio of high-quality-yet-lowly-valued companies we have assembled, and the potential for attractive long-term returns from the areas of the equity market on which we concentrate.

Source / Belron

A UNIQUE INVESTMENT PORTFOLIO

D'Ieteren is a seventh-generation Belgian family-controlled holding company whose crown jewel asset is a 50% stake in unlisted Belron, the global no.1 operator in the Vehicle Glass Repair and Replacement (VGRR) industry.

We have invested in D'Ieteren across our other funds since 2018 however liquidity was historically insufficient for AGT to build a meaningful stake. In March 2022, following the publication of disappointing full year results, the shares fell -11% on a day the MSCI Europe index was up +6%. We initiated a position the very same day and have added to the position subsequently. In 2023 we added to the position to make it a top 10 holding.

The bulk (65%) of D'Ieteren's NAV is accounted for by Belron, which readers might be more familiar with as Autoglass (UK), Safelite (US) or Carglass (EU). 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.

Increased windshield complexity and the requirement for Advanced Driver Assistance System (ADAS) cameras to be recalibrated upon replacement has re-accelerated top-line growth and taken margins from 6% in 2018, when we visited the European Distribution Centre in Bilzen, to 18% in 2022. We expect Belron to keep riding this wave, with ADAS set to become a larger proportion of the global car parc, supported by a legislative tailwind. Over the medium-term sales should grow at a high single digit rate with margin expansion translating to mid-teens growth in operating profits. Longer-term a possible IPO will likely help crystallise value, with the recent appointment of Carlos Brito – who built AB InBev into a global behemoth – perhaps indicative of this plan. Indeed, given the presence of private equity co-ownership at Belron we believe some form of corporate event is probable in the coming years, with management highly incentivised to increase the equity value, which should act as a catalyst for D'Ieteren shares.

As well as this, D'Ieteren owns a collection of other smaller assets 1) a 40% stake in TVH Parts, a spare parts distributor focused on forklifts and other industrial machinery; 2) a 100% stake in D'Ieteren Autos, which distributes VW brands in Belgium; 3) a 100% stake in Moleskine, the luxury notebook group; and 4) a 100% stake in PHE, a European automotive spare parts distributor focused on the Independent Aftermarket (IAM). Both TVH and PHE are more recent acquisitions, and appear highly attractive, with defensive non-discretionary growth drivers, strong market positions and the potential for accretive bolt-on M&A.

D'Ieteren contributed +0.18% to AGT's NAV in 2023. The prospect for earnings growth at Belron, as well as the strong outlook for D'Ieteren's other holdings, bode well for prospective NAV growth. At a 41% discount, there is potential further upside from discount narrowing. We are excited about prospective returns.

Read more of our insights on our website:
www.assetvalueinvestors.com/agt/about-the-trust/our-edge/insights/

@AVIGlobalTrust
AVIGlobalTrust
AVIGlobalTrust
AVI-Global-Trust