

About Asset Value Investors

OUR EDGE

Asset Value Investors specialises in finding companies which have been overlooked or under-researched by other investors. Investments that for one reason or another are priced below their true value but can be made into profitable performers. AVI believes its strategy and investment style differentiate it from other managers in the market because of the following:

1.

38 years' experience of long-term outperformance following our distinctive investment style (annualised NAV total returns of +11.5% since 1985*).

2.

AVI actively looks for the catalyst within a company which will drive fundamental change.

3.

AVI promotes active involvement to improve corporate governance and to unlock potential shareholder value.

* Refer to Glossary on pages 103 to 106.



Please visit our website for more information:
www.aviglobal.co.uk



TYREECE EWING

10,000 Black Interns

The 10,000 Interns Foundation champions underrepresented talent and promotes equity of opportunity, offering students and graduates paid internship opportunities across a range of UK industries.



'It's a bittersweet moment to share that my incredible journey at Asset Value Investors has come to an end. I can't believe how fast time has flown but I guess time flies when you're having fun!

During my time at AVI, I had the privilege of working alongside a highly skilled and supportive team. From day one, I was entrusted with meaningful responsibilities and given the opportunity to contribute to important projects.

I am immensely grateful for the last six weeks at AVI where I have enhanced my skills, especially in producing valuation models and pitching financial recommendations. My exposure to different aspects of the firm's operations have deepened my understanding of the investment management industry.

A special mention to Wilfrid Craigie, Ross McGarry and William Hawkes who have been instrumental in my progress here. Their guidance and expertise has massively helped my progress and taught me many things.

A huge thank you to 10,000 Black Interns and AVI for this incredible opportunity. I am truly grateful for the support and encouragement I received throughout my internship. Looking forward to staying connected and continuing to learn more about the industry.'

Overview of AVI's investment philosophy

The aim of AVI is to deliver superior investment returns. AVI specialises in investing in securities that for a number of reasons may be selling on anomalous valuations.

Our focus on buying high-quality businesses trading at wide discounts to their net asset value has served us well over the long term. There are periods of time, however, when our style is out of favour and the types of companies in which we invest are ignored by the broader market. This requires us to be patient and to remain true to our style, so that when other investors begin to appreciate the value in those companies, we are well placed to benefit. In the short term, this means that there could be some volatility in our returns. However, we are confident that we own high-quality businesses, which are trading on cheap valuations.

Members of the investment team at AVI invest their own money in funds which they manage. As at 30 September 2023, AVI's investment team owned 1,118,477 shares in AGT.

Introduction to the Strategy

Asset Value Investors invests in overlooked and under-researched companies, which own quality assets and trade at discounts to NAV. This philosophy typically leads us to invest in structures such as family-controlled holdings companies, closed-ended funds and, more recently, Japanese cash-rich operating companies. However, our views on the types of structures through which we invest are entirely agnostic, and portfolio weightings are determined solely by the opportunity set and our judgement of the risk-reward potential.

Our research process involves conducting detailed fundamental research in order to: (a) understand the drivers of NAV growth; and (b) assess the catalysts for a narrowing discount. We often engage actively with management, in order to provide suggestions for improvements that we believe could help narrow the discount or improve operations.

Holding Companies

When we consider a holding company as an investment, we seek several characteristics. The first is a high-quality portfolio of listed and/or unlisted businesses with the potential for sustained, above average, long-term growth. Many of the underlying companies that we have exposure to are world-famous brands, and include: LVMH, Ferrari, Stellantis, Universal Music, MGM Resorts, Aker BP, and many more.

Secondly, we look for the presence of a controlling family or shareholder with a strong track record of capital allocation and returns in excess of broader equity markets. Long-term shareholders provide strategic vision; many of our holding companies have been family-controlled for generations. This combination of attractive, quality assets managed by long-term capital allocators creates the potential for superior NAV growth.

Finally, we invest at a discount to NAV, preferably with a catalyst in place to narrow the discount. This provides an additional source of returns. We estimate that historically about three-quarters of our returns from holding company investments have come from NAV growth and one-quarter from discount tightening.

Closed-ended Funds

Similar to holding companies, we look for certain qualities when we consider a closed-ended fund investment. Most importantly, we look for portfolios of high-quality assets (both listed and unlisted) with good growth potential. Our portfolio of closed-ended funds gives us exposure to many quality companies, such as Chipotle Mexican Grill, Hilton Worldwide, Universal Music Group, Canadian Pacific Railway and many more. We also focus to a great extent on the discount to NAV at which the closed-ended fund trades. In a nuanced distinction from holding companies, we usually insist on a high probability of the discount narrowing or vanishing entirely before we will consider making an investment. In accordance with this, our stakes in closed-ended funds are larger, and we engage with management, boards, and other shareholders to enact policies to help narrow discounts and boost shareholder returns. Historically, our portfolio of closed-ended funds has generated half of its returns from discount narrowing.

Asset-Backed Special Situations

The majority of this portion of the portfolio consists of investments outside of holding companies and closed-ended funds. For several years now, these investments have largely been in Japanese cash-rich operating companies. At present, we hold positions in 13 Japanese operating companies which have, on average, 64% of their market value in cash and listed securities.

Japanese companies have a reputation for overcapitalised balance sheets, but we believe that the winds of change are blowing in Japan. The Japanese government has been championing efforts to improve corporate governance and enhance balance-sheet efficiency, and this programme is beginning to have an effect. Major pension funds have signed up to a new Stewardship Code, boards of directors are guided by the principles of an updated Corporate Governance Code, and there is an identifiable uptick in the presence of activist investors on Japanese share registers.

We can see evidence of this change in increasing payout ratios, buybacks, and more independent directors. We believe that our Japanese holdings stand to benefit from this powerful trend, and that the market will assign a much higher multiple to these companies if it reassesses the probability of the excess cash and securities being returned to shareholders. We are active in pursuing this outcome and engage continuously with the boards and management of our holdings to argue for a satisfactory outcome for all stakeholders.

The focus is on quality, cash-generative businesses with low valuations (our current portfolio trades on just 7.5x EV/EBIT). These are the sorts of businesses that one should be happy to own; as such, we can afford to take a long-term view on our holdings as we engage with boards and management to create value for all stakeholders.

Summary

Our strategy centres upon investing in companies which own diversified portfolios of high-quality assets. In each case, we have sought to invest in companies where the market has misunderstood or overlooked the value on offer, and where our analysis shows that there is a reasonable prospect of this being corrected. The historic returns from this strategy have been strong and came from a combination of discount narrowing and NAV growth.