CONTRIBUTORS

AKER

Description
Investment Holding Company
Weight[1]
2.2%
Discount
-13.5%
% of investee company
0.5%
Total return on position FY18 (local)[2]
92%
Total return on position FY18 (GBP)
91%
Contribution (GBP)[3]
3.43%
ROI since date of initial purchase[4]
168%

Aker was – just as in 2016 – the most significant driver of returns this year. Since 2008, our investment in Aker has been predicated on the attractive value and growth of its underlying businesses; the controlling family's proven M&A track record; and Aker's (at times very wide) discount to NAV. In the last year, a confluence of all of these factors – with the tailwind of a buoyant oil price – helped Aker contribute 3.43% to your Company's performance.

NAV growth at 90% was very strong. This was led by Aker BP (77% of NAV), whose share price advanced 133% during a year in which it successfully completed the acquisition of Hess's Norwegian division. The transaction, finalised in October 2017, included income-producing assets in the form of Hess Norway's 64% and 63% shares in the Valhall and Hod fields, as well as a US$1.5bn tax loss carry forward asset. Aker subscribed to 40% of the new equity raised by Aker BP, highlighting the way in which holding companies can support value-creation at their portfolio companies. This modus operandi of selectively targeted M&A with the support of Aker's balance sheet has helped Aker BP grow into one of the largest independent Exploration & Production companies in Europe following the acquisition of Marathon Oil Norge and BP Norge in 2014 and 2016. With the Johan Sverdrup field due to come on line in 2019, we remain attracted to the prospect of continued growth in NAV.

As well as NAV growth, Aker benefited from continued discount narrowing (from 29% to 14%), adding a powerful fillip to returns. Understanding the interplay of different factors that lead to discount narrowing is invariably more of an art than a science, but the 46% increase in the price of Brent crude to above US$80 per barrel, Aker's 13% dividend increase and value-accretive M&A at Aker BP provided both macro and micro stimuli supportive of tighter discount ranges.

We have held Aker since 2008, with a weighted-average discount on purchases during that period of 42%. In 2018, the position was trimmed significantly (by 70%) on much tighter discounts, with a weighted-average discount on our sales of 18%. Aker closed the year as a 2.4% position, trading on a 14% discount.

DIGITAL GARAGE

Description
Investment Holding Company
Weight[1]
SOLD
Discount
n/a
% of investee company
SOLD
Total return on position FY18 (local)[2]
49%
Total return on position FY18 (GBP)
48%
Contribution (GBP)[3]
1.35%
ROI since date of initial purchase[4]
65%

Despite being held for just seven months of the year, Digital Garage was the second largest contributor to performance, returning 48% and contributing 1.35%. The strong returns benefited from a combination of NAV growth (37%) and a contraction in the discount from 16% at the start of the year to the sub-10% level at which we sold the shares.

We first made an investment in Digital Garage in March 2016, noting its wide discount and the lack of recognition by the market of its two key unlisted assets: a data-driven marketing business and a financial settlement service. These assets had achieved double-digit earnings growth over the preceding five years, benefiting from increased demand for digital advertising and a shift to cashless payments. Despite this, their implied valuation, excluding the 20% stake in listed Kakaku, was negative. Our analysis concluded they were worth far more, and that Digital Garage traded at a discount in excess of 33% to its net asset value.

Over our two year holding period, the marketing and financial settlement business grew earnings by 53% and 62% respectively, which led to NAV growth of 31% and more than offset Kakaku's lacklustre -2% return. We exited the position on a 9% discount compared to an average purchase discount of 31%, recognising a 44% IRR compared to the TOPIX's 23% over the same period.

While our conviction in the quality of these assets remained, we believed the prospects for potential growth in NAV were more than offset by the downside risk of discount widening. As such, we exited our position in favour of more compelling opportunities elsewhere in the portfolio. Our concerns proved valid, with the discount widening to 23% at the end of the year.

1 % of total assets less current liabilities.
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 page 88 for further details.

AKER /
AKER BP

Although its roots can be traced back to the formation of Norway's first oil company in 1971, Aker BP in its current form was established just two years ago through the merger of Det Norske Oljeselskap ASA and BP Norge.

Aker BP operates as a fully-fledged oil company, involved in the exploration, development and production of petroleum resources on the Norwegian continental shelf. Measured by production, Aker BP is one the largest independent oil companies in Europe.

2.2%

% of total assets less current liabilities

Source / Aker BP