

A Seemingly Popular Holding Company – Market Commentary

The year did not begin well for emerging markets as global investors apparently reallocated capital to developed markets and the US in particular.

The MSCI Emerging Markets index declined -4.6%, while the MSCI World Index, comprising only developed market stocks, rose +1.2%. The S&P 500 rose +1.7% and the Nasdaq +1.9%, suggesting the US was a primary beneficiary (Japan another, among others).

Within the MSCI Growth stocks rose +2.1% vs Value at +0.3%.

The movements suggest that investors are expecting rate cuts in the US and are allocating to risk assets accordingly. This sentiment may have been tempered somewhat with the release of the first inflation report of the year with inflation indicators slightly worse than expected.

South Africa declined -2.9% in ZAR terms. ZAR depreciation however brought the USD return to -4.6% i.e. precisely in line with emerging markets, suggesting the first month's performance had less to do with South Africa and more with global sentiment against emerging markets.

The various market returns are summarised in Table 1 below.

Table 1. South African and global equity returns (USD) for January 2024*

	Jan-24	YTD 2024
FTSE/JSE ALSI (ZAR)	-2.9%	-2.9%
FTSE/JSE ALSI (USD)	-4.6%	-4.6%
MSCI World	1.2%	1.2%
MSCI EM	-4.6%	-4.6%
MSCI Value	0.3%	0.3%
MSCI Growth	2.1%	2.1%
S&P 500	1.7%	1.7%
Nasdaq 100	1.9%	1.9%

*Total return indices, Source: Factset

We have heard of Exor from various market commentators in recent weeks, suggesting this might be a popular stock among investors. We provide a brief review here.

Exor NV is an Amsterdam-listed Italian holding company. More specifically it is the investment vehicle of the Agnelli family of Italy. Giovanni Agnelli was one of the original founders of Fiat, Italy's largest motor manufacturer. Football fans will also recognise the Agnelli family as the owners of Juventus FC, a well-known and successful European club. Financially-minded readers may also find it of interest that the Agnelli family are also ultimate owners of the popular The Economist magazine of the UK.

Why is Exor popular?

There typically is only one reason why a stock tends to be popular and Exor is no exception – performance (think of Nvidia as well currently). Chart 1 sets out Exor's significant outperformance from March 2009 when it was incorporated in its current form, against the MSCI Europe and the MSCI World Indices.

Since 2009 Exor has gained 12.5x, measured in USD terms for consistency, against the MSCI World index's 3.3x, the latter inclusive of the US's 70% weight and Tech performance.

Chart 1. Performance since inception of Exor NV (USD)



Source: Factset

What assets does Exor hold?

The elder Agnelli expanded Fiat, the cornerstone of the empire, over time to include such well-known brands as Ferrari, Lancia and Alfa Romeo. In 2009 Fiat merged with the US Chrysler Corp following its bankruptcy to form FCA or Fiat Chrysler Automobiles. Following a further merger with Peugeot of France, FCA is now known as Stellantis.

Ferrari, no introduction required, was spun out of Stellantis (then still FCA) in 2015 and listed separately.

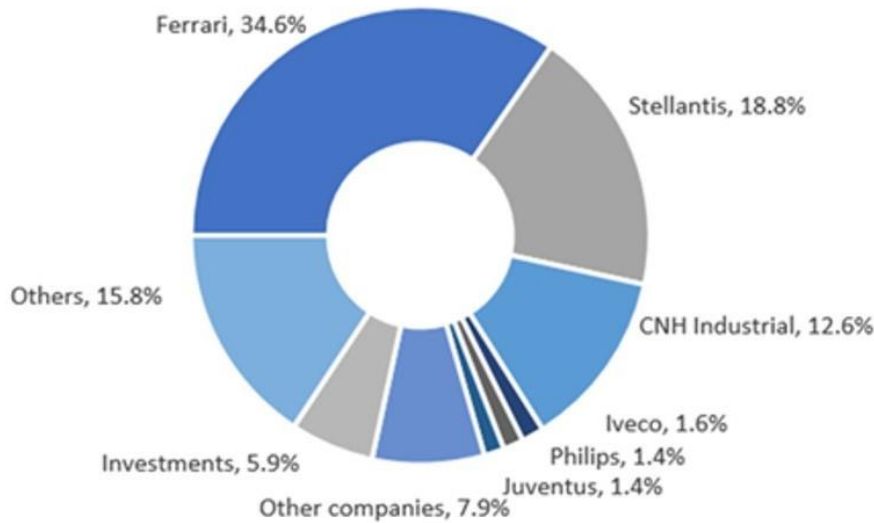
CNH Industrial is another large asset, a multinational engaged in the production of agricultural machinery and construction equipment.

Together these three comprise approximately 2/3rds of the value of Exor. Other assets include Iveco, the truck company, the aforementioned Juventus FC and others.

The company is managed by John Elkann, grandson of Giovanni and chosen successor since 2004 when Mr Elkann was 28 years old.

Chart 2 below provides a recent breakdown of the assets, highlighting the dominance of Ferrari, Stellantis and CNH Industrial.

Chart 2. Exor NAV composition on 30 June 2023

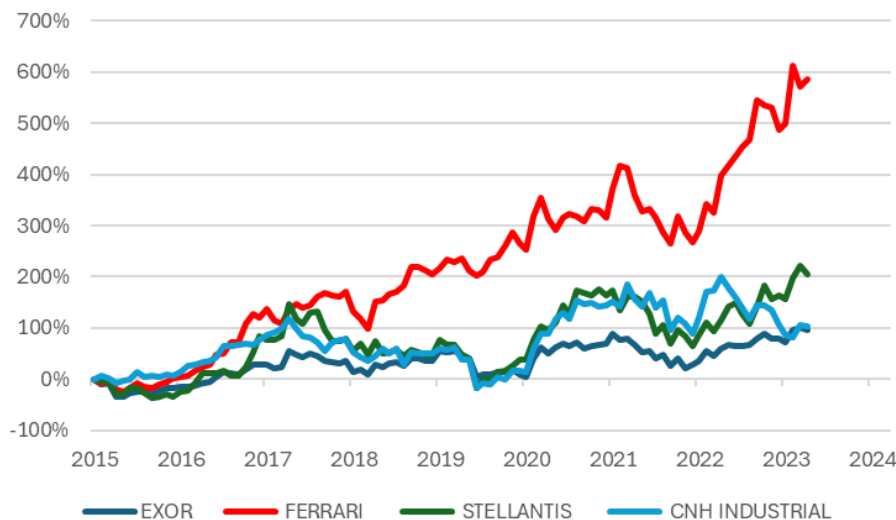


Source: Exor

Why has Exor performed so well?

As with any holding company the performance is driven by underlying assets. Chart 3 below presents the outperformance of the top 3 assets vs Exor since Ferrari’s listing (the red is not coincidental).

Chart 3. Performance of Exor, Ferrari, Stellantis and CNH Industrial (EUR)



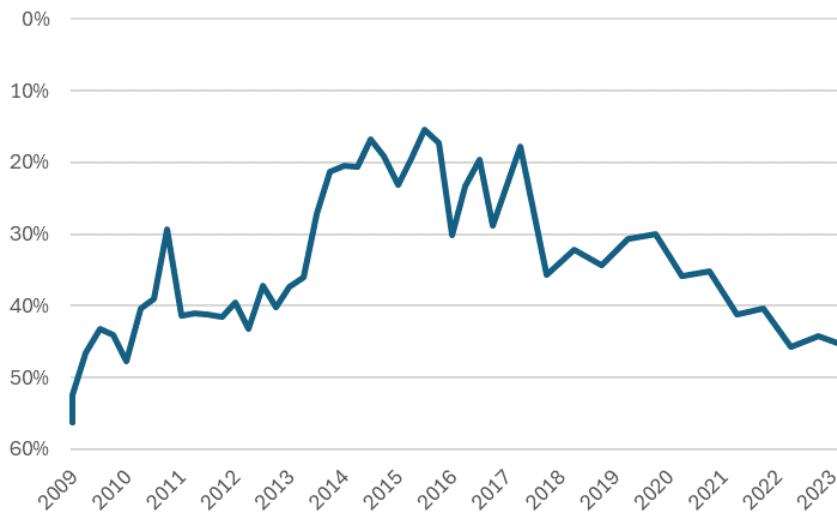
Source: Factset

A not unexpected result. All three of the largest underlying assets have outperformed the holding stock, with Ferrari being a primary driver (no pun intended). Note the top three’s outperformance is over and above Exor’s own outperformance of the MSCI World Index.

Exor's relative underperformance against its own assets suggests either a discount to NAV applied by investors to the holding company's shares, or underperformance of the remaining assets, or both.

It turns out that Exor has traded at a persistent discount to NAV highlighted in Chart 4 below.

Chart 4. Discount to NAV



Source: Exor, Factset

Given the size of the discount in Chart 4 above, it appears perhaps Exor stock is not that popular with investors after all. The long term outperformance of the MSCI World Index nevertheless speaks for itself.

Some problems with holding companies

We are not particular fans of holding companies. A primary reason is that a set of assets typically has to collectively perform well for the NAV to perform well. This is even before any discount applied by the market. Considered a different way, a holding company can easily hide the performance of a star asset. This has apparently been the case with Ferrari and Exor. Indeed, similar reasoning led to Ferrari's spinoff from FCA in the first place.

On the other hand we understand why (particularly professional) investors might want to hold holding company stock. A primary reason is often the perceived ability to obtain a quality asset at a discount (which however never closes, in our view, unless the company is wound down and/or the assets unbundled).

Another reason might be access to Mr Elkann's business acumen and capital allocation skills.

What to do?

This problem is never difficult, in our view, especially if the underlying assets are listed. In our view Ferrari was the clear first choice, and despite Exor's superior performance, the M1 Capital Global Equity Prescient Fund has held Ferrari stock since inception.

On a final note, despite a sharp burst in 2019, Juventus FC has underperformed stock price-wise. Despite prominent club brands and player star power, in our experience listed football clubs typically do not make good long term investments.