

Global Value Investors



Role in Portfolio:

Core

Risks:

- **Filters lead to portfolio biases at sector, country levels**
- **Team resources are on the thin side**
- **Current ownership structure reduces staff incentives**
- **Large cash holdings can hold back returns in bullish markets**

Morningstar Analyst:

Kalia Smallsman

Morningstar Take

The Global Value Investors strategy has a number of favourable features, but also some limitations. GVI begins with a simple quantitative screening process looking for firms showing quality and value-oriented features with growing earnings and attractive dividend payouts. The team is index-agnostic when building its portfolio, as country and sector tilts show. The dividend yield filter and research undertaken mean that GVI typically favours European names over low-yielding US or Japanese companies, for instance. The approach is also contrarian sectorally, tilting towards high income-paying stocks such as utilities and telecommunication services, which are only a small area of the index. Given these leanings, it's unsurprising that returns are frequently very different to the index and most rivals. One might have expected this option to shine relative to peers in 2008, because of the underweight to financials, but this wasn't the case. Currency hedging was the reason: GVI is largely hedged, and unlike unhedged peers did not benefit from the sharp fall in the \$A in late 2008. The strategy has still outperformed since its inception relative to the hedged index and most hedged rivals. We commend GVI's long-term focus when selecting stocks, reflected in its low turnover. This also renders this strategy attractive on an after-tax basis. Senior Portfolio Manager Roy Chen leads GVI's team of six. Chen's an industry veteran, and other team members are reasonably experienced. Despite a hire in late 2008, though, the firm's still thin on resources, given the size of investible universe covered. The biggest negative issue here is the current ownership structure of the business, which is skewed away from the people managing it. Staff can only own up to 25.0 percent of the business, meaning they don't have the same incentives to stay on as other boutiques. GVI provides an interesting twist on choosing global stocks. Just make sure you keep the sector and regional tilts in mind when investing here.

Strategy/Process

GVI's value-oriented team looks for quality growing companies paying attractive dividend yields and trading at relatively low price/earnings multiples. The initial screening process homes in on stocks from developed markets with a minimum market-cap of US\$1.0 billion. Potential names are subjected to two additional filters – value (positive earnings and interest cover greater than three times), and quality (dividend yield greater than 2.50 percent, price/earnings ratio lower than 20.0, and price/tangible book level of less than three times – this latter for banks only). In accordance with their sector coverage responsibilities, GVI's analysts then research favourable stock candidates on a fundamental basis. The team doesn't tend to look at many technology and biotechnology stocks, because these tend to pay very low or no dividends. Instead, the process favours utilities and telecommunication firms at the sector level, and European names geographically. Analysts assess a company's industry structure and competitive advantage, applying several valuation measures to come up with a target valuation price. Buy/sell decisions are then discussed as a group. GVI is definitely not an index-hugger, and is fully-prepared to go against the index on both regional and sectoral levels. Given the focus on capital preservation, it's also not unusual for cash levels to approach 20.0 percent. GVI's portfolio typically holds 40 – 60 names, the largest weights for the most part not exceeding three percent. Turnover is low, usually less than 30.0 percent per annum, increasing tax-effectiveness.

Flagship Fund: GVI Global Industrial Share Fd

Investment Style 30 Apr 2009

Value	Blend	Growth		
			Large	Pr/Pros Ern Rto 11.67
			Mid	Price/Book Rto 1.59
			Small	Price/Cf Rto 5.18
				Lt Ern Growth 9.22
				Mkt Cap (\$Mil) 36,616
				Dividend Yld % 5.47

Stock Sectors 30 Apr 2009 %

Information Economy	23.80
Software	1.07
Hardware	0.00
Media	6.20
Telecommunications	16.53
Service Economy	26.81
Healthcare Services	11.22
Consumer Services	1.16
Business Services	11.98
Financial Services	2.46
Manufacturing Economy	49.39
Consumer Goods	7.96
Industrial Materials	8.84
Energy	15.64
Utilities	16.96

Top 10 Stock Holdings 30 Apr 2009 %

Origin Energy Limited	2.14
Syngenta	2.07
E.ON AG	2.06
Nestle	2.03
ExxonMobil Corporation	2.02
Gdf Suez	1.99
Telefonica, S.A.	1.95
Vivendi	1.94
Roche Holding AG	1.92
Total SA	1.89

Top 5 World Regions 30 Apr 2009 %

Europe Developed	61.78
North America	19.09
United Kingdom	7.25
Asia Developed	7.20
Australasia	2.40

Asset Allocation 30 Apr 2009 %

Int'l Equity	87.10
Domestic Equity	2.14
Cash	10.75
Other	0.00

Portfolio Stats

Mgr Bmark: MSCI World (hedged)
 No. Stocks: 40 - 60
 Max Weight: 7.50% of portfolio value
 Min Weight: Zero
 Expd Track Error %pa: Not targeted explicitly, but expect to be high
 Expd Turnover %pa: 30.0

People Stats

Lead Manager: Roy Chen
 Appointed: February 2005
 Years Experience: 25
 Team Size: 6
 Average Years Experience: 13
 Average Years Tenure: 3

Hedging Strategy

GVI hedges this strategy substantially, with the intention of minimising the impact of forex movements on returns. The minimum hedged position is 50.0 percent, although GVI expects the total currency hedged position to typically be around 80.0 - 90.0 percent on average over the long term.

Role in Portfolio

We see this as a Core holding. The inherent value leaning makes it logical to combine GVI with a growth or blend strategy.

People

GVI has a compact investment team of six, all based in Sydney. Leading the effort is Senior Portfolio Manager Roy Chen, who has over two decades' experience, primarily in Asia. The other key staffers are Matthew Saddington, an alumnus of The Boston Company's International Value team, and Stephen Arnold, who joined GVI from Goldman Sachs in November 2008 with 18 years' experience. Research Analyst Matthew Hegarty arrived in 2005, having already known Chen for several years. Daniel Fitzgerald, previously employed offshore, came on board in the second half of 2007, while GVI hired Scott Gilchrist in March 2008. Research responsibilities are divided along GICS lines, Chen and Saddington acting as team leaders across various sectors. Unlike other boutiques, staff can only own up to 25.0 percent of the business.

Performance

GVI's performance has been consistent since the strategy was launched in February 2005, outperforming the hedged index an impressive 73.0 percent of the time in down market conditions. GVI has also outperformed most of its hedged peers since inception. The nature of the process, which shies away from financials and favours utilities and telecommunication services (among them companies such as Koninklijke (Royal) KPN and Telefonica), worked well for this strategy in 2008. But because this strategy is largely hedged, it did not like many unhedged rivals benefit from the fall in the \$A in late 2008. An underweight to consumer staples companies also did not play in GVI's favour. Overweight positions in Syngenta, Bayer, and Oesterreichische Post were among GVI's top stockpicks over the past year, while Dow Chemical, DaimlerChrysler, and Gestevisión Telecinco numbered among the detractors. The quality of returns was boosted by low turnover of less than 30.0 percent, making GVI even more attractive for tax-conscious investors.

Parent

Investors Mutual and listed entity Treasury Group own 57.80 and 28.90 percent of GVI respectively. GVI investment staff own 13.30 percent, and may own up to 25.0 percent of the firm under the current agreement. GVI had A\$510.0 million assets under management at 31 March 2009, A\$468.0 million in this strategy.

Fees

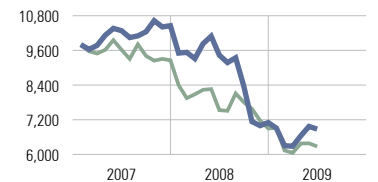
The 1.23 percent ongoing fee is pricier than the wholesale peer average. The 1.30 percent annual fee for the retail option offered through Sandhurst Trustees is, however, cheaper than peers.

Top 5 Funds by Net Assets

	Ticker	Net Assets (\$Mil)	Quartile Rank 3yr	Total Ret 3yr
GVI Global Industrial Share Fund	12290	494.37	■	-6.26
Sandhurst Professional GVI Global Industrial Fund	14317	76.67	■	-6.33
IOOF WIS GVI Global Industrial Share	14493	11.75	NAv	--
IOOF OIS GVI Global Industrial Share	14499	2.72	NAv	--
IOOF OSS GVI Global Industrial Share	14517	2.61	NAv	--

Flagship Fund: GVI Global Industrial Share Fd

Performance 30 Jun 2009 ■ Fund ■ Index
 Growth of \$10,000 **\$7,074**



	1Yr	3Yr	5Yr	7Yr
Quartile Rank	■	■	NAv	NAv
Total Ret%	-26.57	-6.26	--	--
Income Ret%	0.80	3.20	--	--
Growth Ret%	-27.36	-9.46	--	--
Index%	-16.24	-10.76	-3.14	-2.64

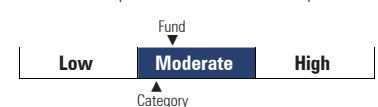
Index: MSCI World Ex Aust Net \$A
 Category: World Large Value

Performance Analysis 3 Yrs to 31 May 2009

Value Add vs Bmark%	4.52
Tracking Error	13.04
Information Ratio	0.35

MPT Statistics 30 Jun 2009

	3Yr%	5Yr%	7Yr%
Beta	0.69	--	--
Alpha	-0.01	--	--
R Squared	0.38	--	--
Sharpe Ratio	-1.06	--	--

Risk Meter (3 Year Standard Deviation)

All figures and stats relate to the Flagship Fund, and all performance figures are shown as % per annum, net of fees.

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