

Global Value Investors 2009 Adviser Briefing – a wrap up:

The recent share market rally and what it means for investors.

19 August 2009

Last week saw the conclusion of the GVI adviser briefing series for 2009. The series of lunch presentations took place in all of the mainland state capitals and concluded this week with sessions in Sydney and Brisbane.

With three speakers delivering the key messages at each session, the main focus was on analysing the recent rally in world equity markets, with particular emphasis on the likely landscape that is appearing in the post-financial crisis era.

Roy Chen - Head of Investment and Managing Director, analysed the recent rally in world equity markets since they bottomed on 9th March 2009. He sounded a note of caution on the sustainability of parts of the this rally and highlighted the fact that it has been very much confined to the lower quality and more risky sectors of world equity markets – for example: many of the stricken banks in the financials sector.

Chen, on a positive note, said “I don’t know about you, but I’m excited!” as he identified that the narrowness of this recent rally has meant that many high quality companies in sectors that have not participated in the rally to a great extent, remain attractively priced. He fully expects these share prices to recover in due course. This means that longer term investors have not “missed the boat” with this rally and valuations for many world-class companies are still very attractive. The GVI investment team has moved to take advantage of these compelling valuations over the last 6 months and has added a significant number of new names to their portfolio. Some of these recent additions include: Chevron, Kellogg, Kraft, Abbott Labs, Air Liquide, BNP Paribas and the German IT giant SAP.

More than half of GVI’s holdings will increase dividends in 2009

At the time of the last presentation on 13th August, some 51 out of 66 of GVI’s holdings had reported their results and of these 47 had delivered results that either met or exceeded analyst expectations. More significantly, 56% of GVI’s holdings are increasing their dividends for 2009. While another 39% have indicated that they will maintain their dividends for the year, with only 5% expected to cut their dividends. Those expected to cut their dividends are some of GVI’s more cyclical holdings, however their balance sheets remain strong and the quality of their businesses are high.

Chen further added that GVI remained committed to its overseas travel schedule to meet with company management at this tentative stage of the economic recovery and is a more important part of the GVI process than ever in this climate.

Matthew Hegarty – Senior Equities Analyst, updated the attendees on the precarious state of the world banking system as it stands today, after the US sub-prime crisis. He highlighted that we are likely to see the emergence of a two-tiered banking system in which the few banks that survived will become stronger and more dominant players in their markets, while the many that needed government intervention or that are now state-owned will operate in an impaired state. He was concerned that there is no clear exit strategy for the equity stakes that governments have accumulated in these entities, with many likely to require further capital injections in order to rebuild their balance sheets.

GVI has, since its inception, been very cautious toward the financial sector as a whole and has never held a US financial stock. The events of the last 2 years vindicate this extremely cautious approach, however winners will appear from the wreckage of the global financial crisis and it is these businesses that GVI is searching for.

William Tomac – General Manager Marketing & Distribution, concluded the session by reiterating some key statistics on the performance that has been generated by high quality companies over a number of the last 4 full investment cycles. Quality companies have outperformed without exception over these full cycles. This statistic was contrasted with the poor performance that lower quality companies have delivered over these periods.

William further highlighted that investors could take comfort in the long-term track record of superior performance by high quality companies and should not be deterred by any short term under-performance, at this time when the market is tending to focus on lesser quality and more economically sensitive types of businesses.

For more information on GVI and its Global Industrial Share Fund please visit www.gvi.com.au. Alternatively you may contact William Tomac – GVI General Manager, Marketing & Distribution or the Investors Mutual Limited (IML) representative in your state. IML is responsible for the retail distribution of the GVI Global Industrial Share Fund.

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