GLOBAL VALUE INVESTORS
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# GVI Global Industrial Share Fund

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## Recent additions to the portfolio **June 2009**

### Kellogg

**United States**
**Market cap* $A 22.2 billion**

Kellogg's is the world's largest breakfast cereal maker, owning iconic brand names such as Corn Flakes, Special K, and Nutri-Grain. Cereals contribute over half of revenue, with another third from snack bars and the remainder from other food products. Kellogg is about equal in size to its main competitor in the US cereal market, but in virtually every market outside the US its holds the number one dominant position. Operating and financial performance since current management took over in 2001 has been very strong, with a philosophy based around realistic growth targets and strong investment in the brand and innovation.

The business earns very healthy returns on sales and capital and the balance sheet is conservatively geared. The current price to trailing earnings ratio of around 15.1x and a dividend yield of 3.0% is at the very low end of where the stock has traded for the last decade and represents very attractive value for a strong global franchise whose earnings should prove relatively resilient during the period of economic stress

### HSBC

**Hong Kong**
**Market cap* $A 176.9 billion**

HSBC is the largest 100% free floating bank in the world by market capitalisation. It is Europe's largest bank and is the leading international banking group in Asia with a strong presence in the Middle East, North and South America and the UK. With over 9,500 offices in 79 countries, its regional banking franchises are largely focused on retail banking and consumer finance but the group also has strong FX and treasury capabilities based on trade finance skills.

HSBC has been able to maintain its strong capital position with a Tier 1 Capital Ratio of 9.8% after there upcoming rights issue. HSBC has a very strong deposit base with more customer deposits than customer Loans and Advances (111% deposits to loans ratio). In fact, HSBC has been witnessing an increase in their asset growth as there is a flight to safety during these financial crises, with the stronger banks such as HSBC being able to increase their market share in customer deposits.

### Roche

**Switzerland**
**Market cap* $A 143.9 billion**

Roche is a Switzerland-based global healthcare company with interests in pharmaceuticals and diagnostics. The pharmaceuticals division is the world leader in anti-cancer medicine. The diagnostics division is the world's largest with expertise in blood glucose monitoring and blood virus testing. Currently Roche owns 60% of Chugai Pharmaceutical, located in Japan and as of 2009, 100% of Genentech.

Roche has an extremely positive growth profile going forward with very little patent expiration during the next five years and one of the strongest drug development pipelines in the industry. Roche has an attractive portfolio with 50% in biologics drugs, which are much more difficult for generic manufacturers to replicate due to their nature of being live agents rather than simple chemical compounds. Roche has currently agreed to buyout the minority shares of Genentech, which will improve the growth profile of Roche. Roche's P/E valuation is below its 10 year low despite its superior growth profile.

### Origin Energy

**Australia**
**Market cap* $A 12.2 billion**

Origin Energy was demerged from Boral in 2000 and from then has been led by Grant King who has consistently created shareholder value over the years running Origin as an integrated energy/utilities company. It is involved on the exploration and production side of the mainly gas, power generation and gas/electricity retail business as well as owning 50.5% of Contact Energy in NZ.

Origin also has one of Australia's largest reserves in coal seam gas (CSG) which saw it secure a A$9.6 billion deal from ConocoPhillips via a JV in its CSG to LNG development. The deal is value-enhancing and will boost EPS immediately. As a result of its strengthened balance sheet, Origin will increase its dividend payout and initiate a share buyback. In addition, the company is well-positioned in a credit-constrained world today with net cash on its balance sheet and the potential to selectively acquire assets that can add value to its integrated business.

*** Market capitalisation has been converted to Australian dollars (AUD) using the Spot Rate of Exchange as at 30 June 2009.**