

## **GVI Global Industrial Share Fund**

### **Stock Update 22 May 2006 – Comments on recent overseas sharemarkets correction**

As mentioned in our last monthly report, we have been cautious on global equity markets over the last few months. In our view, following the strong run up in the previous 12 months, the recent correction in world markets was overdue. It was triggered by inflation fears and a sell off in bond markets caused by the steep rise in commodity prices, particularly oil, and a worse than expected April inflation number last week for the US. This worse than expected US CPI number triggered the largest fall in US markets since 2003, with all world markets following the US lead. In fact the MSCI is now down just over 4.5% since 30 April 2006.

While all sectors have come off, it is interesting to note that the hardest hit sectors have been the energy, resources, financials and IT sectors, with all of these falling by 5% or more since 1 May. In terms of regions, European markets have fared worst, followed by Japan and then by the US.

#### **What does this mean for the GVI Global Industrial Share Fund and how is it positioned?**

While our Fund is not immune to the above factors, we would like to point out that:

1. We have zero exposure in our Fund to the IT and resources sectors which have been amongst the worst hit.
2. Our main exposures in the Fund remain to defensive sectors such as utilities, telcos and healthcare companies, which to date have held up well in the current correction.
3. All stocks held by the Fund offer good sustainable dividends which should protect our portfolios greatly if the correction continues.
4. While we do have some energy exposure in our Fund, this is to fully integrated energy companies and not oil exploration companies. While in the short term oil prices may come off further, we believe that the companies held in the Fund remain well positioned going forward.
5. Our Fund's weighting to cash was lifted to almost 12% at the end of April as we believed the uncertainties prevailing would lead to better buying opportunities.

We continue to focus on companies which we believe are attractive and that fulfill our criteria. We continue to target companies that have attractive dividend yields and strong balance sheets. We continue to find good value in many markets overseas, particularly in Europe. This was confirmed in our recent extensive company visitation programme.

We shall thus use any further sustained weakness in markets to use the cash available to target preferred stocks such as German chemical/healthcare company Bayer, Spanish TV broadcaster Telecinco, German utilities RWE and UK brewer Scottish and Newcastle. We believe all these companies look great value, trading on P/E ratios of less than 15 times, with all offering healthy sustainable dividend yields.

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