STAUDE CAPITAL
GLOBAL VALUE FUND

3rd March, 2020

Update from the Portfolio Manager

Financial markets began the new year with a clear game plan. The growth slow-down seen during 2019 had been arrested by central bank actions and a truce in the trade war between the US and China. Coming into 2020, markets were heavily primed for growth to rebound. Further, with every major central bank recently cutting interest rates, or expanding their quantitative easing programs, markets were expecting this growth rebound to coincide with a period of ultra-supportive monetary policy. In short, the market consensus going into the new year was bullish.

The emergence of the Covid-19 Coronavirus has now forced a rapid reassessment of global growth expectations, and a painful re-pricing across all financial markets. More than anything however, it represents a terrible human tragedy.

Importantly, throughout this market correction, the GVF investment portfolio has behaved as we would expect it to. As outlined in our regular monthly estimate below, the investment portfolio fell by 3.5% on the month, substantially outperforming broader falls in global share markets and other higher risk assets classes. For the month of February, global share markets fell by 8.1% in US$ terms, or 5.1% in A$ terms, while the local Australian index fell by 7.7%.

While a monthly investment return of -3.5% is clearly disappointing, February's loss represents less than the gains that the portfolio generated in January (+3.7%) and leaves financial year-to-date performance at 6.0%.

Given how primed markets were for growth to rebound coming into this year, the evolution of the risks surrounding the Covid-19 virus present a serious challenge to broader asset pricing. Over the coming months, we should expect to see a vigorous debate unfold as to whether the global economy is poised for a 'v-shaped' recovery, or whether the effects of the virus are more permanent, possibly even heralding a recession. In such an environment, it would be reasonable to expect markets to remain volatile, as each potential outcome goes in and out of favour based on the incoming data.

Regardless of how this debate unfolds, the most important point to highlight for GVF investors is that *these sorts of environments create the most exciting opportunities for our specialist investment strategy*. The dislocation in markets at present has created an exceptionally rich opportunity set for us to exploit. The best analogy we can point to is the period of market dislocation that came after the UK public shocked markets in 2016 by voting to leave the European Union. The opportunities that we found during this period resulted in FY2017 being the best year on record for our discount capture strategy.

A fundamental premise of the GVF investment strategy has always been to avoid taking meaningful market bets on the macro outlook. And, since launch, the greatest source of our investment returns has been the value we have unlocked from our investment strategy, not broader market movements. As higher-risk asset classes have raced ahead in recent years, we have stayed true to our risk management principles, believing that, over a full investment cycle, our focus on capital preservation will ultimately benefit shareholders. At times this has been a lonely path to tread. It is important to reiterate therefore, that GVF remains relatively agnostic as to how the coming growth debate unfolds. Instead, what is considerably more relevant for us, is the opportunity set the current uncertainty has created.

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Lastly, in these less certain times, it is worth reminding investors of the consistency with which GVF has paid dividends to shareholders over the past five years. Since we commenced dividend payments in FY2015, the Company has paid total grossed up dividends of 35.2 cents per share[1]. The board recently declared a 2.9 cent per share fully franked dividend for the December half period, payable to all shareholders on the register as at 30 March 2020. It also guided that it currently expects to declare the same again for the final FY2020 dividend payment. In grossed-up terms[2], this equates to 8.3 cents per share of shareholder distributions that will be paid over the next 12-months. Further, the Company has just under two years' worth of profit reserves at the current dividend run rate, providing considerable dividend certainty looking out into the future.

We will expand on these issues in more detail as part of our February monthly report to shareholders. Ahead of that however, both Emma and I are happy to answer any shareholder questions and can be reached at miles.staude@globalvaluefund.com.au or 0423 428 972, and emma.davidson@globalvaluefund.com.au or 0401 299 885.

Miles Staude
Portfolio Manager

Investment return – February 2020

In the interests of keeping the market informed on a timely basis of the investment returns of the Global Value Fund portfolio, the manager produces an interim estimate for release to the market ahead of the more detailed monthly investment update and NTA report.

This estimate refers only to changes in the portfolio's value over the month through the manager's investment activities, after the deduction of operating costs and management fees and before any provisions for taxes.

The manager estimates that the investment return for the Global Value Fund was -3.5% during February.

Including tax payments made during the month, the manager estimates that the pre-tax NTA per share at the end of February was $1.0952.

Mark Licciardo
Company Secretary

[1] Grossed up dividends comprise 26.7 cents per share of cash distributions and 8.6 cents per share of franking credits.

[2] At the Company's 30% tax rate.