STAUDE CAPITAL
GLOBAL VALUE FUND

2nd April, 2020

Investment return – March 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 -13.4% during March.

The Company went ex a 2.9 cent per share dividend, 100% franked, on 30 March 2020. Including tax payments made during the month and the dividend amounts payable, the manager estimates that the pre-tax NTA per share at the end of March was $0.9195.

Mark Licciardo
Company Secretary
This announcement is authorised by the Board.

Update from the Portfolio Manager

Since our last update, financial markets have fallen further, and in a more volatile and disorderly fashion, as unmitigated fear surrounding the Covid-19 Coronavirus has taken a hold of both markets and much of broader society. Incredibly, the 'fear factor' driving many security prices - particularly smaller and less-liquid names - now appears greater than it was during the depths of the 2008 global financial crisis. In a financial market context, extreme levels of fear manifest themselves in a number of ways, which are important to understand at a time like this and which we discuss below. Most relevantly for our investment strategy, severe bouts of market fear lead to a significant short-term widening of the discounts on the assets that we invest into around the world which, in the near-term, negatively impacts our performance.

Thus, as outlined in our regular monthly estimate above, the investment portfolio fell by 13.4% on the month, pacing the wider corrections seen across all financial markets. For the month of March, global share markets fell by 13.5% in US$ terms, or 8.1% in A$ terms, while the local Australian index fell by 20.7%. While March's investment performance is disappointing, understanding the source of these returns is very important at a time like this and, we believe, paints a far more optimistic picture for the coming months. During March, GVF's underlying market and currency exposures generated a negative return of just 5.0%. In comparison, a rapid widening across the discounts on the assets that we hold detracted 8.7% from performance.

We carefully manage market exposures across our portfolio, aiming to keep the see-through risk profile that we are operating with low. On top of this, our strategy is to add a second source of return over time by unlocking the value embedded across our holdings. We wrote in our February update that we expect discounts to widen during periods of stress, and that this is one of the key reasons we seek to keep the see-through underlying portfolio risk low. It allows us to be in a position to capitalise on the new much

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richer opportunity set that arises during sell-offs and, perhaps most importantly, not to be a forced seller at a time when assets are trading at their cheapest.

The final few weeks of March saw financial market anxiety surpass the levels witnessed during the worst of the 2008 global financial crisis, with significant market dislocations and untrammelled fear taking a hold. As highlighted in our report below, discounts across closed-end funds, the staple investing ground for our strategy, widened further and faster during this period than they did during the 2008 crisis. In many cases these moves have little to do with fundamentals, but instead reflect extreme levels of financial market dislocation. At times like this, trading volumes dry up in the less liquid parts of the market and even small amounts of distressed selling can drive large, irrational price swings.

While this month's performance is frustrating, we would be far more concerned if the drivers for these losses were the underlying market movements we were exposed to, as opposed to the discounts across our portfolio's holdings. In the short-term, we have no control over the discounts the securities we own trade at. Over the medium to long-term however, we do have considerable control over this factor, something that we have demonstrated over a long period of time. Therefore, the majority of losses recorded in March should be seen as stored value that we expect to unlock over the coming months. Most importantly, we expect to realise this underlying value irrespective of whether markets keep falling, stay at their current levels, or rebound.

Powerful 'pull-to-par'

To illustrate the confidence we have in our ability to realise this stored value over the coming months, we can point to a strong 'pull-to-par' feature across our investment portfolio. Over the coming 12-months, we expect to realise fully 42% of our entire portfolio through highly certain corporate actions that will take place at a weighted average exit price that is now 12% above our current carrying values. In most cases, these corporate actions are previously announced liquidations or restructuring events. In essence, we have already done the hard work on these positions to ensure we realise the underlying value on this part of our portfolio. That the discounts on these assets have widened during a period of extreme market stress, does not change the fact that we will still be realising this underlying value over the coming months.

In addition to the above, we believe it is very likely that we will secure exits within the year across a further 10% of our portfolio. These exits relate to investments that are facing continuation votes in the coming months which, given their current discounts and corporate dynamics, we do not see shareholders approving. If we are able to exit these holdings as we anticipate, our weighted average sales prices will be at a 33% premium to our current carrying values.

Lastly, we also have high certainty of exiting a further 15% of our portfolio through previously established corporate events, albeit ones scheduled to take place beyond the coming 12-month period. While these exits are not scheduled to happen in the short-term, based on current market prices, our exits will take place at a weighted average sales price 20% above where we carry them today.

In aggregate, the above realisation schedule accounts for 67% of our investment portfolio that has weighted exits 17% above current values. This reflects work we have already done, or are most of the way through doing, in terms of realising the considerable underlying value from our holdings. We believe this realisation schedule provides a significant margin of safety in the event of further or protracted market declines.

Outside of the above, a further 39% of the portfolio is invested into deeply-discounted asset plays (noting that we were 105% invested at month end). These investments represent unique situations where we see both compelling underlying value *and* a path to realise that value over time through the application of our investment strategy. Notably, over the course of March, the weighted average discount on these holdings

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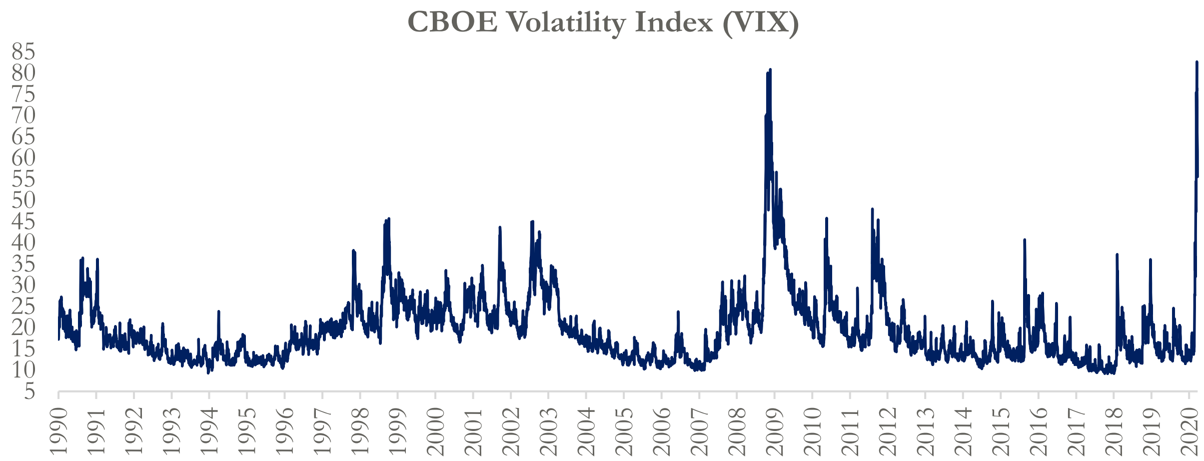
widened from 23% at the of February, to 32% by the end of March. To state the obvious, if we were excited about holding these names at 23% discount, at a 32% discount they now represent truly compelling value. Moreover, experience has taught us that our ability to successfully engineer exits from deeply-discounted asset plays increases considerably during periods of greatly distressed pricing. So, while the discounts on these holdings have widened in the short-term, over the medium to long-term we believe this increases the likelihood of success in ultimately unlocking value.

Fear

By our observation, the most important aspect of the Coronavirus pandemic over the past few weeks has been the manner and speed with which the 'fear factor' has moved exponentially higher. For all of us privately worried that maybe we *will* run out of toilet paper, how unalloyed fear has taken a hold of society in a very short period of time is well understood. In the space of just a few weeks, western governments have moved from telling us that Covid-19 was an issue that could be managed with modest disruption (until recently, the UK plan was to 'carry on' until we developed 'herd immunity'), to an issue that now requires a war-time marshalling of society and resources.

In financial markets, the exponential move higher in the 'fear factor' can be seen most starkly through the VIX index. The VIX is a measure of the market's expectations of future volatility, which is to say it measures how much the share market is expected to move up and down in the future, and thus how risky the future looks. The chart below shows the VIX index since its inception in 1990. In the depths of the global financial crisis of 2008, the index peaked at 81, which at the time was nearly twice as high as any other reading throughout its history. Illustrating the scale of the uncertainty that markets are suddenly grappling with, in the second half of March the index set a new all-time high of 83[1], surpassing the 2008 reading.



Fear in our investment universe

In our investment universe, bouts of market fear manifest themselves in widening discounts on closed-end funds - a phenomenon that is well understood. What has been unique about this market episode is the speed with which markets have gone from maximum optimism, to what feels like maximum pessimism. To

[1] The way to interpret the VIX index is that it represents the expected annualised volatility of the US share market over the coming 1 month period. So, a VIX reading of 83 implies a 68% probability (one standard deviation) that the market expects the US share market to trade within a range from 24% higher to 24% lower over the next month. In January the same expected range was just +/-4%.

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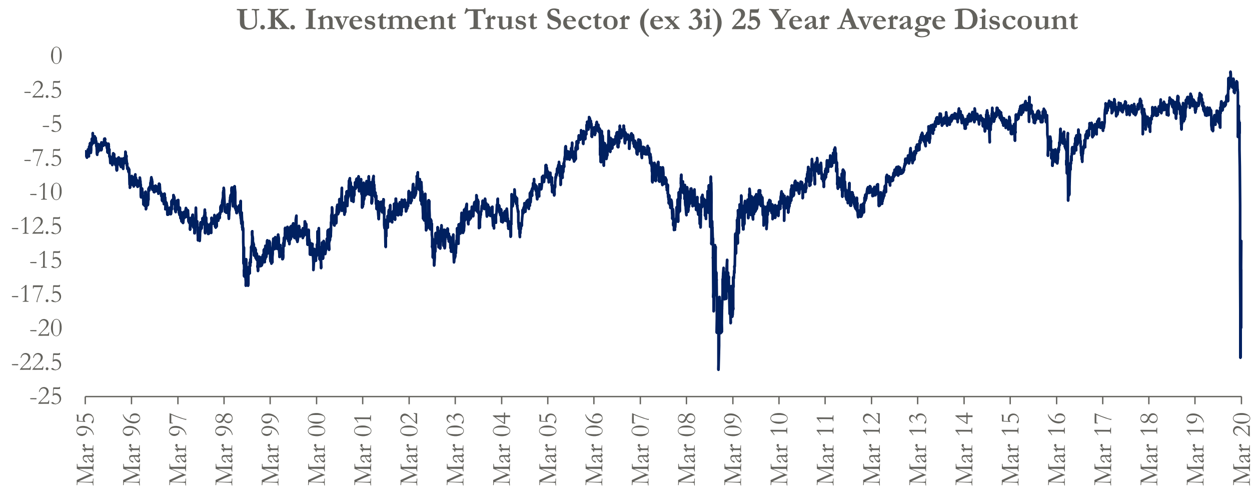
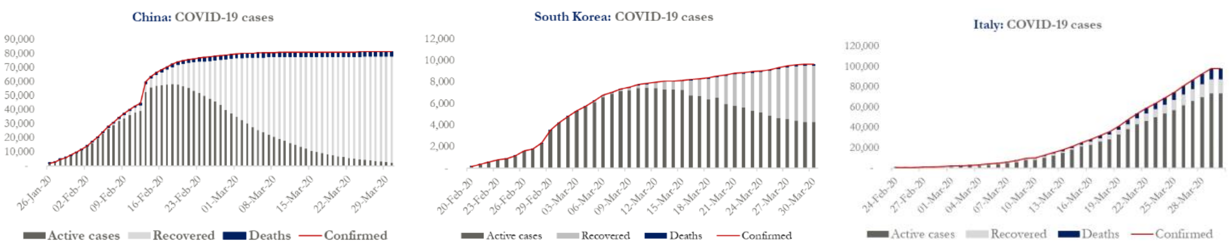
illustrate this point, the following chart shows the average discounts for the UK investment trust sector, a US$147Bn closed-end fund market, going back to 1995. The swing over the past few weeks dwarfs even the 2008 financial crisis in terms of its scale and speed. Having recorded their tightest level ever in January, discounts then moved to their 2008 lows in a matter of weeks.



While a move of this sort of magnitude creates an exaggerated near-term mark-to-market loss on existing holdings, history holds two very important lessons about periods like this. Firstly, that extreme discount levels like this are unsustainable over time, and secondly, that episodes like this create the most exceptional investment opportunities within this universe.

A level-headed assessment of the realities of the virus.

Given how markets are currently dominated by fear, it is most likely that the floor in asset prices will be found when the news flow on the spread of the virus starts to turn positive. With this in mind, it's worth considering that over the coming weeks we will see more alarming news headlines about deaths, and a variety of charts from the media showing exponential growth patterns. We do not pretend to be virologists, however these exponential charts on their own do not represent how the full picture is currently developing. If one takes a calm look at data from countries further down the track with the virus, there are grounds for cautious optimism - optimism which should be making its way into the news cycle in the not-too-distance future. The following charts show data from China, South Korea, and Italy, with the dark grey bars indicating the size of the infected population. These charts show countries at various stages of success: China having almost defeated the outbreak, South Korea winning the battle, and Italy, after some truly dreadful statistics, seemingly turning a corner.



Source: Bloomberg, Staude Capital

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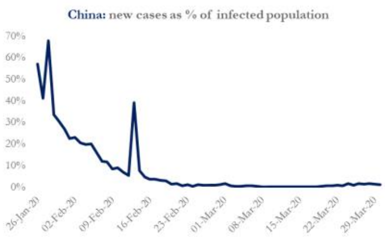
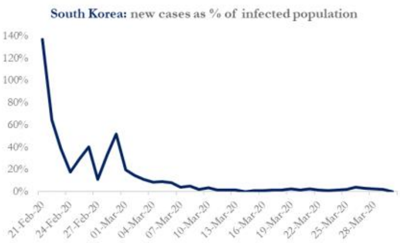
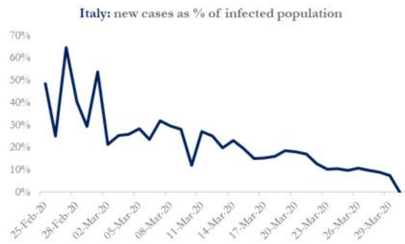
The next charts present the data in a different way using a metric suggested by RBC Capital Markets. These show new cases as a percentage of the existing infected population. This can be thought of as a simple “reinfection rate”. These, too, look positive, but more importantly, provide clearer signs of progress in Italy.







Source: Bloomberg, Staude Capital

What these charts show is that the virus *can* be defeated, but it requires two things: a strong commitment to lockdowns and quarantining, however economically painful, and widespread testing. Governments globally have thankfully grasped the nettle when it comes to the former. Measures taken in Wuhan in January, which at the time were seen as so draconian only the Chinese government could implement them, have become widespread – and largely with the support of the population. And when it comes to the testing, after a slow start, many countries are finally appreciating its importance. Here too, there is further cause for optimism, with hopes that before too long antibody tests will become widely available. Seen as a ‘game changer’ in the fight against the virus, these can quickly and cheaply test whether a person has already had the virus. As well as giving authorities a much better picture of how far the virus has already spread through the population, this should allow restrictions to be lifted on large parts of the population that have had it and, therefore, have some level of immunity.

Unprecedented times

Our overriding hope is that shareholders and their families are safe and well during these unprecedented times. We will expand on the issues discussed in this report, especially the current remarkable opportunity set, in more detail as part of our March monthly report to shareholders.

Ahead of that however, both Emma and I are available 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.

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