



Global Value Advisors is an investment boutique specializing in long-only international and global equities. We are value investors, who buy businesses that are undervalued due to temporary, non-structural reasons. We believe in combining the discipline of quantitative investing with qualitative judgement informed by fundamental research. Our research shows that companies that generate positive free cash flows and return capital to shareholders outperform the market.

Q2 2019 Total Returns (Net of Fees)	
GVA Global Equity	1.42%
MSCI All Country World	3.61%
Value Added	-2.19%
MSCI All Country World Value	2.54%
MSCI All Country World Growth	5.03%

Regional Indices	
MSCI USA	4.28%
MSCI EAFE	3.97%
MSCI EM (Emerging Markets)	0.74%

The GVA Global Equity strategy returned 1.49%/1.42% (gross/net) in the 2nd quarter of 2019 versus +3.61% for its benchmark, the MSCI All Country World Index. The quarter saw a continued recovery of global markets, with most indices at-or-near all time highs.

The -2.19% net relative performance of the fund during the quarter was driven by a negative regional allocation impact combined with a weak stock-picking contribution, generally a reflection of the value style being out of favor this quarter. The MSCI All Country World Value Index returned +2.5% for the quarter and the MSCI All Country World Growth Index returned +5.0%. Our underweighting to the U.S. and overweighting in Emerging Markets detracted from performance in the quarter. Stock selection in these regions generally kept pace with the index. Consumer Discretionary saw the largest negative sector contribution due to poor stock selection. This more than offset the strength in Financials and Industrials. The relative underperformance in the quarter was in-line with expectations, as value underperformed growth, the U.S. outperformed all other global regions and the Emerging Markets lagged – all of which are headwinds to the portfolio.

Our portfolio positioning has not changed substantially over the past few months apart from a reallocation from the U.S into Europe (now close to equal weight) and we increased our exposure to Emerging Markets. Our most notable regional bets include a 33% underweight to the U.S. (22% vs. 55%) and a 20% overweight to Emerging Markets (32% vs. 12%). We remain overweight in Materials, Energy and Financials and are underweight Technology, Healthcare and Consumer Staples.

The following table provides a selection of metrics that summarize the identity of our portfolio especially when compared to its benchmark:



	GVA Global Equity	MSCI All Country World Index
Wtd. Average Market Cap	\$13,069M	\$136,528M
Dividend Yield (LTM)	5.4%	2.5%
Price/Earnings (FY1)	9.8x	15.8x
Price/Book	1.4x	2.3x
Free Cash Flow Yield	8.5%	4.3%
Shareholder Yield**	9.2%	3.2%
Net Debt to Equity (ex-financials)	22%	109%
Return on Equity	18.6%	18.8%

** Shareholder Yield = dividends + Net Buybacks + Change in Debt. Shareholder Yield and FCF Yield are weighted averages.

Source: FactSet as of June 30, 2019

As you can see, our portfolio reflects deep value metrics without sacrificing profitability and balance sheet strength. Our approach leads us to companies with strong and sustainable cash flow generation, a proven record of returning cash to shareholders while generating above average Returns on Equity and carrying almost no debt. These companies tend to do well in a variety of market environments and their extremely cheap valuations should lead to strong outperformance when value stocks are in favor.

Top 3 Performers in Q2 2019

Fortescue Metals Group (FMG-ASX)

Fortescue is an iron ore producer in Australia. A significant supply/demand imbalance since a competitor's Brazil dam accident has triggered a massive rebound of iron ore price from 70 to 120 in 6 months. The company also reported satisfactory FQ3 results in April.

Severstal PAO (CHMF-RU)

Severstal is a steel producer based in Russia. Strong Q1 results were reported in April. The company saw strong dynamics in Russian steel, top profitability, and good shareholder returns.

Banco Santander Mexico SA (BSMXB-MX)

Banco Santander Mexico is a full-service bank in the region. The company received a take-over bid from Santander Spain at a 14% premium. We sold out of our position after the announcement.

Bottom 3 Performers in Q2 2019

Kohl's Corporation (KSS)

Kohl's is a US retailer. The company reported disappointing Q1 results in May and cut guidance. We are actively monitoring the position for further signs of secular headwinds.



Alliance Resource Partners (ARLP)

Alliance Resource produces and markets coal to US utilities and industrial users. The company reported strong Q results in May, but cautioned that production growth may slow in the 2H. Coal prices have also come down significantly because of poor seasonal demand in Europe. Supply is not the issue.

Dongfeng Motor Group (489-HK)

Dongfeng Motor is a Chinese automaker. The company reported weak FY18 results at the end of March, as Chinese auto volumes continue to roll over. We sold our position, as both FCF and shareholder yield turned negative.

Please feel free to contact us with any questions or comments. Thank you for your interest in Global Value Advisors. We look forward to updating you again next quarter.

Sincerely,



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GLOBAL VALUE ADVISORS

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Global Equity

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COMMENTARY

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For comparison purposes, the GVA Global Equity strategy performance is measured against the MSCI All Country World Index.

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