



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.

Q3 2019 Total Returns (Net of Fees)	
GVA Global Equity	-1.83%
MSCI All Country World	-0.03%
Value Added	-1.80%
MSCI All Country World Value	-0.33%
MSCI All Country World Growth	0.27%

Regional Indices	
MSCI USA	1.41%
MSCI EAFE	-1.07%
MSCI EM (Emerging Markets)	-4.25%

The GVA Global Equity strategy returned -1.83% in the 3rd quarter of 2019 versus -0.03% for its benchmark, the MSCI All Country World Index. The quarter saw a sudden shift from momentum stocks to value plays, starting in September. GVA’s fund outperformed in September, but was unable to offset the underperformance in July and August.

The -1.83% net relative performance of the fund during the quarter was driven by a negative regional allocation. Stock selection was neutral in the quarter, despite value underperforming growth. Our underweighting to the U.S. and overweighting in Emerging Markets were the largest detractors from performance in the quarter. Materials saw the largest negative sector contribution, due half to allocation effect and half to poor stock selection. This more than offset the strength in Health Care and Financials. The relative underperformance in the quarter was in-line with expectations, as value underperformed growth, the U.S. outperformed all other global regions (with the exception of Japan) 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 Japan into Europe (now overweight) and we increased our exposure to Emerging Markets. Our most notable regional bets include a 30% underweight to the U.S. (26% vs. 56%) 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	\$14 Bln	\$141 Bln
Dividend Yield (LTM)	5.1%	2.5%
Price/Earnings (FY1)	9.9x	16.1x
Price/Book	1.4x	2.3x
Free Cash Flow Yield	8.9%	4.2%
Shareholder Yield**	8.7%	3.0%
Net Debt to Equity (ex-financials)	30.0%	74.8%
Return on Equity	18.6%	19.1%

** Shareholder Yield = dividends + Net Buybacks + Change in Debt. Shareholder Yield and FCF Yield are weighted averages. Source: FactSet as of September 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 low debt. These companies tend to do well in a variety of market environments and, when combined with extremely cheap valuations, should lead to strong outperformance when value stocks are in favor.

Top 3 Performers in Q3 2019

China Medical System Holdings (867-HKG)

China Medical Systems is a specialty pharma company focused on the promotion and sale of in-licensed drugs from both international and domestic pharma companies (100% of sales in China). 1H 2019 results were reported in August, which were ahead of expectations. All major therapeutic product lines posted accelerating growth. Free Cash Flow (FCF) Yield is 10%, Shareholder Yield is 4%, and PE FY1 is 9x.

ASM International (ASM-AMS)

ASM International is based in the Netherlands and sells specialized equipment used to manufacture semiconductors. Q2 2019 results were reported in July, which were ahead of expectations. Sales grew by 25% year-over-year and gross margins expanded. The company remains on track to deliver strong double-digit percentage growth in 2019. FCF Yield is 5%, Shareholder Yield is 7%, and PE FY1 is 17x.

Qantas Airways (QAN-ASX)

Qantas is an international and domestic airline operator. FY 2019 results reported in August were broadly in-line with expectations, but management provided a positive outlook for FY 2020. Group capacity is set to grow only 1% in FY 2020, leading to flat capex spending (and higher FCF). The company also announced an increase in its dividend and additional share buybacks. FCF Yield is 9%, Shareholder Yield is 12%, and PE FY1 is 10x.



Bottom 3 Performers in Q3 19

PT Adaro Energy (ADRO-ID)

PT Adaro Energy is an Indonesian coal miner. Strong Q2 2019 results were reported in August, but the outlook for coal is negative. A combination of slower global growth and higher production trends has pressured coal prices. International coal prices fell 20% in the third quarter and are down 40% YTD. There will likely be limited upside in the share price as long as coal prices remain depressed. We sold our entire position in August.

Franklin Resources (BEN-US)

Franklin Resources is a US based asset manager with close to \$700 billion in assets under management. Q2 2019 results reported in July showed a slowing in net outflows, but investors are still waiting for the business to stabilize. Poor overall performance and a high exposure to retail funds are both headwinds. That being said, the sentiment is already low on the stock. BEN is sitting on \$5 billion in net cash on the balance sheet or 38% of the market capitalization. M&A is a key focus and not yet in consensus estimates. FCF Yield is 10%, Shareholder Yield is 10% and PE FY1 is 11x.

Eregli Demir (EREGL-TR)

Erdemir is an iron ore and steel manufacturer in Turkey. Q2 2019 results reported in August were slightly ahead of expectations. The decent Q2 results were overshadowed by the likely earnings decline in Q3 and Q4. Steel prices more than doubled over the last 3 years, but they declined by almost 20% since May 2019 due to weak demand and tariff conflicts. Erdemir's EPS is on track to decline by roughly 30% in 2019. We sold our entire position in August.

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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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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