STAUDE CAPITAL

GLOBAL VALUE FUND

20th February, 2020

Discount capture strategy delivers significant outperformance

Highlights

- Operating profit before tax of $9.1M
- Discount capture strategy generates 4.9% of excess returns during the period
- Fully franked dividend of 2.9 cents per share declared

Global Value Fund Limited (ASX: GVF) ("GVF" or the "Company") announces an operating profit before tax of $9.1 million and an operating profit after tax of $6.5 million for the half-year ended 31 December 2019. The Company has declared an interim dividend of 2.9 cents per share, which will be 100% franked.

For the half-year ended 31 December 2019, excluding the impact of dividends and tax paid, the Company's net assets increased by 5.9% in Australian dollar terms.

Company Chairman Jonathan Trollip said: "GVF's lower-risk strategy delivered a commendable performance during the six-months to December. The Company's investment portfolio increased by 5.9% over the period, with most of these returns coming from the Portfolio Manager's discount capture strategy, not underlying market movements. The Board is pleased to announce a fully franked dividend for the December half-year period of 2.9 cents per share. Since its IPO at $1 per share in 2014, the Company has now declared total grossed up dividends of 39.4[1] cents per share".

December 2019 half-year review and Company outlook

Portfolio Manager Miles Staude said: "Financial markets during the December half were characterised by a continuation of the 'bad news is good news' paradigm, which has underpinned markets since the beginning of 2019. The foundation of this playbook is that what is 'bad' for the economy becomes 'good' for asset prices, as central banks ease policy rates to support the former, pushing the latter higher in the process.

Over the period, global GDP growth continued to slow, falling to its lowest level since the financial crisis over a decade ago. The key driver behind the deteriorating economic backdrop continues to be the trade war between the US and China, which has weighed on most countries, but has especially affected export orientated economies like Germany and Japan. In response to stalling growth, central banks around the world once again responded by cutting official interest rates, or by expanding existing quantitative easing programs. In the US, the Federal Reserve cut official rates three times during the six-month period. In Australia, having already delivered a rate cut in June, the RBA cut rates twice more, in July and October, taking the official base interest rate down to just 0.75%.

[1] Grossed up dividends comprise 29.6 cents per share of cash distributions and 9.8 cents per share of franking credits

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In a wearily familiar playbook, financial markets rallied strongly on the back of yet more monetary stimulus, with higher-risk and growth sensitive asset classes leading the way. In US$ terms, global equity markets[2] rose by 8.9%[3], with the FANG[4] index of high-growth technology stocks rallying an eyewatering 22.4% during the period. In Australia, the local equity market rose by 3.1%, while in Australian dollar terms global share markets were 8.7% higher. Falling interest rates increase the relative value of other future income streams, like company profits. This has the effect of rebasing asset prices higher, despite deteriorating fundamentals. The re-basing process can seem somewhat perverse at times. As a case in point, over the December half-year period, reported earnings for the companies within the MSCI All Country global share market index fell by 2.2%[5], relative to the June half-year period. In Australia, they fell by 3.1% on the same basis. For the companies that make up the FANG index, which rallied 22.4% over the period, earnings fell by a remarkable 16.7%.

As a reminder, GVF invests across a wide variety of different assets classes, most of which have a meaningfully lower risk profile than share market investments. Over the six months to December, the fund's see-through equity market exposure averaged just 35%[6]. The fund's other see-through exposures span a variety of different credit markets, as well as other asset classes which have little or no correlation to general financial market moves. While we run with a low risk, highly diversified portfolio, we aim to generate equity market like returns over the long run. We set out to do this through an active hands-on program of unlocking the intrinsic value we see across the various investments that we hold. In doing so we provide our investors with a second source of return and thus market outperformance.

Given our investments into global equity markets typically make up well below half of the overall investments held by the fund, we often find ourselves discussing general equity market moves more than is perhaps warranted given the portfolio's actual composition. In truth, this reflects the fact that the gyrations of the equity markets are generally far more animating to write about than an examination of high-yield bond convexity. That of course is not to say that the latter gets less attention from us. Thus, it is worth bearing in mind that when looking at the fund's performance, an assessment of non-equity market movements is generally as important, if not more so, than a simple evaluation of what share markets did during a period.

For the half-year ended 31 December 2019, the Company's investment portfolio generated net investment returns of 5.9%. The fund's see-through market exposures generated gross positive returns of 3.0%[6]. This figure comprises the underlying returns received from the portfolio's diversified holdings across global equity and credit markets, and the fund's holdings in alternative and real assets. On top of these underlying market returns, the fund's discount capture strategy generated a gross additional 4.9%[6] return over the period. Positive returns from this strategy represent outperformance over the underlying market and currency exposures of the investment portfolio, and the 4.9% return generated over the December half represents substantial market outperformance over a six-month period. The remaining attribution of returns are accounted for by currency movements, which detracted from performance as the Australian dollar strengthened during the period, and the Company's operating costs.

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[2] Global share market returns refer to the MSCI All Country World Index.
[3] All market returns quoted are total returns, including net dividends. Source: Bloomberg LLP.
[4] A share market index comprising the highly-traded growth stocks of technology companies like Facebook, Amazon and Google.
[5] All earnings and market data is sourced from Bloomberg LLP.
[6] Source: Staude Capital Limited.

How much longer the current iteration of the 'bad news is good news' playbook can run for is of course unknowable. In our view, the biggest risk in the current environment is complacency. Highly supportive central banks and rallying stock markets are hiding a host of sins. Central bank stimulus is not infinite, something we discussed in this recent article, while the sorts of returns that have been generated from holding higher-risk assets classes in recent times are unsustainable over the long-run, in our view.

Thus, as ever at the Global Value Fund, we continue to keep our head down and our focus on managing risk, despite how benign the current backdrop may seem today. Our portfolio remains full of underlying value, with clear catalysts in place to release this to the benefit of our investors. Importantly, our ability to unlock this value remains independent of what broader markets may, or may not, do next".

FY2020 Interim Dividend key dates*

Ex-dividend date	30 March 2020
Dividend record date	31 March 2020
Last election date for DRP	1 April 2020
Dividend payment date	13 May 2020

*These dates may be subject to change

Interim Dividend of 2.9 cents per share fully franked declared

The Board has resolved to pay an interim dividend of 2.9 cents per share, 100% franked, payable to all shareholders on the Company's register. GVF shares will trade ex-entitlement to this dividend on 30 March 2020.

Dividend reinvestment plan

The Company's dividend reinvestment plan ("DRP") will be in effect for the fully-franked FY2020 interim dividend of 2.9 cents per share.

The DRP has been designed so that participants will always receive the lowest reinvestment price possible, without their reinvestment diluting the post-tax NTA of those shareholders who choose not to participate in the plan. When the Company's share price is greater than or equal to its NTA, dividends are paid as newly issued shares in the Company. If the share price for Global Value Fund Limited ("GVF") is above the Company's NTA on the dividend ex-date, participating shareholders will be issued new shares at the greater of a 2.5% discount to the volume weighted average share price over the three trading days from the ex-date, or the NTA value of the Company on this day. If the share price for GVF is less than its NTA on the ex-date, cash available for distribution as dividends on shares subject to the DRP will be used to acquire the Company's shares on-market in accordance with the terms set out in the plan.

Shareholders who would like to participate in the DRP can enroll at www.investorserve.com.au or alternatively please contact the Company's share registrar, Boardroom, on 1300 737 760. The DRP participation enrolment deadline for the interim dividend is 5.00 pm (AEDT) Wednesday 1 April 2020. Details of the DRP are available on the Company's website, click here.

FY2020 full year dividend guidance

The Board currently anticipates that the FY2020 full year dividend payment will be the same size as the declared FY2020 interim dividend, being a 2.9 cent per share dividend, 100% franked. This dividend guidance is not a formal declaration of the Company's full year FY2020 dividend. The size and payment of any final dividend for FY2020 will be subject to the Company having sufficient profit reserves and the dividend payment being within prudent business practices. If a FY2020 full year dividend is declared, the Board expects that it would be payable during November 2020.

Contact

Shareholders or interested parties who would like to discuss the interim results, or who have general enquires about the Company, are welcome to contact Portfolio Manager, Miles Staude, at miles.staude@globalvaluefund.com.au or 0423 428 972, and Head of Corporate Affairs, Emma Davidson, at emma.davidson@globalvaluefund.com.au or 0401 299 885.

About GVF

The Global Value Fund (ASX: GVF) is a listed investment company that provides shareholders with the opportunity to invest globally through a portfolio of securities purchased at a discount to their underlying asset value. By capturing this discount for its shareholders, the Company aims to provide an alternative source of market outperformance compared to more common stock selection strategies.

Staude Capital is based in London and its investment team has considerable experience in finding international assets trading at a discount to their intrinsic worth, and in identifying or creating catalysts that will be used to unlock this value. The investment team at Staude Capital has been seconded into Mirabella Financial Services LLP to manage the Global Value Fund portfolio. For more information, visit www.globalvaluefund.com.au.