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BEST ETFS & MUTUAL FUNDS

Causeway Global Value Fund Mines The Stock Market For Ignored Gems

Q&A

BY ADAM SHELL
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To say value funds have been out of favor, forgotten and outshined by fast-growing tech stocks would be an understatement. But that doesn't mean you can't profit handsomely from a benchmark-beating value fund. Case in point: Causeway Global Value Fund **(CGVIX)**, a best mutual fund.

This team-run mutual fund has a knack for buying companies at discounted prices that are on the cusp of a business and stock-price upswing.

Alessandro Valentini, one of eight portfolio managers at Causeway Global Value Fund, says the fund's secret sauce is identifying companies trading at lower prices than their true worth. They then wait for the companies to fix the problems holding them back or regain favor when a turn in the market cycle comes.

"We are value investors," Valentini told IBD. "We want to own companies that have an attractive margin of safety."

The fund's stock-picking philosophy has served its investors well. Causeway Global Value Fund is a 2024 IBD Best Mutual Funds Awards winner. The roughly 50-stock portfolio has topped the MSCI EAFE index in the past one-, three,- five-, and 10-year periods.

And the fund is delivering market-beating returns again in 2024. It is up 11.54% year to date through July 31, outpacing the MSCI EAFE benchmark index by three full percentage points. In July, Causeway Global Value Fund rose 4.06%, versus a 2.59% gain for the index. The fund itself uses the MSCI ACWI as its benchmark.

IBD spoke with Valentini earlier this week to learn more about what drives the fund's long-term success.

IBD: Explain the fund's investment philosophy.

Alessandro Valentini: We are value driven and fundamentally driven. We don't want to be taking risk if we're not getting paid for it. Stock selection is the most important driver.

IBD: How does the team approach boost performance?

Valentini: We do not have a star system at Causeway. We believe that we do the best work, and we can generate the best alpha with a group of portfolio managers. But to do that, we need to have a very strict investment process, and everybody needs to fully buy into the process.

IBD: How does the fund define value?

Valentini: We don't just buy the cheapest companies. What we want to see is a margin of safety. We want companies with strong balance sheets that either are seeing cash flow improvements because they are in the wrong part of the cycle or they need to fix something.

IBD: Are there any specific types of investments you find most appealing?

Valentini: There are two buckets where we find opportunities. One is cyclical value (or stocks tied to the economic cycle). The other bucket of opportunity is (what we call) "restructuring value." One unique aspect of Causeway Global Value Fund is it has very disciplined risk controls.

Alessandro Valentini is one of eight fund managers who seek value winners for Causeway Global Value Fund. Source: Causeway

IBD: How does the fund control risk?

Valentini: We do it two ways. Number one, we want to be the people that know the companies in the portfolio better than anybody else. We also get help from our quant team that assesses the risks for each company we own.

IBD: What's the power of knowing stocks better than your competitors?

Valentini: We don't look at just price-earnings multiples or dividend yields to identify value. What we want to see is when the market doesn't understand what's really going on at a company. We value companies based on their cash-flow producing ability and the ability of management to improve returns.

IBD: The stocks you own are down for a reason. The key is predicting a rebound, right?

Valentini: The stocks we own (can be down in the short-term) because they are at the bottom of the cycle, not because they're not a great company or don't have great management. (The underperformance can be due to) where we are in the economic cycle. And the market just thinks the cycle will never turn. We take advantage of that. When the cycle turns, earnings, cash flow, and the multiple improves. Or it could be companies that have done something wrong (and remedy the problem). Or new management comes in and they change the capital allocation or dispose of underperforming businesses that were acquired, or they fix operations. That's when you see cash-flow improvement.

IBD: It sounds like your strategy benefits from patience.

Valentini: Exactly. (We're

betting on) a positive resolution. Something needs to change in the company. When we own companies that are going through periods of uncertainty, the market doesn't like what's going on. The market's perception might be wrong. We look at the long term. We're not investing quarter to quarter. We think about fair values on a two-year basis. We want to make sure that we have time for the investments to come through.

IBD: The fund is fairly concentrated with around 50 stocks. Why?

Valentini: When you think about value generation, it's really about stock selection. We like to have a concentrated portfolio. (Those are the stocks) where we see the best opportunities over our time horizon.

IBD: The fund's overall P-E ratio is 12 times earnings. Is that part of the margin of error you like?

Valentini: That is part of the discipline. That (low multiple) should provide downside protection. Something that is already trading at a cheap multiple (means) a lot of the bad news is already priced in. That's probably a better opportunity than something that is trading for perfection, and there's no room for error for the company.

IBD: Can a low multiple mean the stock is mispriced?

Valentini: Sometimes we just disagree with the market multiple. The market really is going to put the lowest multiple on companies with the least amount of clarity or when there is fear. And when you look back, that's when we generated a lot of the alpha. We did that coming out of the financial crisis, coming out of Covid, when the market is just panicking and doesn't know what to do. We buy these companies when the market doesn't believe in them anymore. And when the cycle eventually turns, or when these companies fix themselves, earnings and cash flow go up, and the market starts to pay attention, so the multiple goes up as well.

IBD: Are value stocks ready to start performing better versus growth and momentum stocks?

Valentini: Understanding a company and identifying issues that matter is what should be generating value, rather than just share momentum. Investing in a company just because it's been moving in the right direction is not a discipline that has a lot of fundamental drivers to it. The normalization of interest rates has created a good environment for value. When interest rates were very low, fundamental discipline wasn't necessary. Now that interest rates are higher, it's more relevant. And when you look at the markets right now, you're looking at valuation being really skewed by a handful of companies that the market has really fallen in love with, such as those benefiting from themes like AI and weight-loss drugs. There's a lot of very cheap, very high-quality companies that we get to invest in right now. So, it's a very exciting time. We're getting good opportunities to invest in good companies with great long-term prospects that the market is ignoring.

IBD: Do you see a market rotation away from the Magnificent Seven stocks to "other 493?"

Valentini: Yeah, the market has been focused on a handful of names. And everything else has been a little bit ignored by the market.

IBD: What are some stocks that have been overlooked and have upside potential?

Valentini: One name is Samsung Electronics (a South Korean chip manufacturer that does not trade in the U.S.). The DRAM (dynamic random-access memory) chips it manufactures have suffered from oversupply for several years. But when you think about the real advantages, if AI is as successful as the market expects, semiconductor memory is a vital part of that infrastructure. And they are the largest DRAM manufacturer and very well positioned to benefit from the growing memory demand driven by AI. When you think about the DRAM demand from AI applications, it's a (large) multiple of what it is right now. So, not only is the company in the right part of the cycle right now in terms of the memory and semiconductor manufacturing, but it's also a company that will benefit if AI is successful.

Value investors hope the market rewards stocks other than big-cap tech. Source: AP

IBD: You added a few new positions in the second quarter. Which stocks and why?

Valentini: Renesas Electronics is a Japanese semiconductor manufacturing company. Their end market is automotive, industrials and communications infrastructure. They have a diverse lineup of semiconductors. Revenues in the first half of 2024 declined because, like other companies, they've reduced production and inventories. But they have room to increase production and sales as the chip cycle rebounds. They're positioned very strongly.

They use both internal manufacturing and external foundries. And that is a very capital efficient business model. And right now, what we're seeing is cyclical opportunities. We've seen the broad semiconductor industry showing signs of recovery. They're well positioned for some growth in 2024 and even more growth in 2025. In addition, this is a company that is very disciplined in terms of capital spending, and that provides us with the reassurance that they are not going to increase capacity at the wrong point in the cycle.

IBD: What are some other recent buys?

Valentini: Cognizant Technology Solutions **(CTSH)** is an American information technology company. They provide services and consulting, software development, system maintenance and business processes. They've underperformed peers, because there's been employee attrition and weaker revenue growth (due to moves made) under the previous management. But what we have right now is a new management team, and we think that they're going to change that trend, and we're going to see revenue and profitability improve. This investment is an example of the restructuring bucket we spoke about. This is a company that's well positioned. (Prior) management made some mistakes. But now there's new management and they're fixing those mistakes.

IBD: And the fix will boost fundamentals?

Valentini: In terms of drivers, we expect a recovery in revenues later in 2024 and then even further improvement next year. Restructuring companies need to have a very solid balance sheet. We focus on companies with high-quality balance sheets. When you see companies that need to restructure the business and the need to change something, it's so much easier if you don't need to worry about the debt that you have. So, having a very strong balance sheet is very important, and then match that with the right management and the growth sparks. That is really attractive when we think about a stock that is trading at a significant discount to the market.

IBD: You also started a sizable position in drugmaker Pfizer **(PFE)**. Why?

Valentini: Pfizer is a company we know very well. This is the right time to invest.

IBD: Why now?

Valentini: (The antiviral pill) Paxlovid that treats Covid-19 symptoms and Pfizer's Covid vaccine have been an enormous generator of free cash flow. But as the pandemic decreases, sales of vaccines and Covid therapies have been decreasing. The market really needed to digest that impact. But the December 2023 acquisition of Seagen (for $43 billion), an oncology company (that specializes in cancer drugs), is very complementary to Pfizer's portfolio.

What we are seeing now is the Seagen integration starting to bear fruit, in terms of getting products into the pipeline as well as existing drugs (offsetting lost Covid revenues). We're seeing Pfizer's margins improving. Revenue has stabilized and there is an opportunity to grow sales again. The company also started a cost-reduction initiative in late 2023 and that will further help margin expansion. And this is a company with a super-solid balance sheet. They are growing the dividend (the company recently announced that it will pay a dividend for a 343rd straight quarter) and have an attractive price-earnings multiple. So, we're really seeing an inflection point in terms of investing in Pfizer.

IBD: Any top 10 holdings you really like?

Valentini: I think French luxury goods maker Kering is really interesting. They're also restructuring. They have some well-known brands, such as Gucci and Balenciaga. The macro environment has been weak, due to Covid restrictions and now the slowdown in China. Also, Gucci has a very strong track record, but they need to reinvent themselves. They have new leadership at the brand. We think they are making the right strategic adjustments. They have a new head of supply chain. So, you're seeing both restructuring internally and some secret solutions there. We are very excited about the next three, four years for the company. But we know there's going to be a period of adjustment, especially since revenues in China are going to be under pressure. And, you know, the new management just got into their seats. They'll get comfortable, and they'll get the right products out in the market. But when you look at the valuation, you know you're getting paid for taking risk.

To determine if the Fund is an appropriate investment for you, carefully consider the Fund's investment objectives, risk factors, charges and expenses. This and other information can be found in the Fund's full or summary prospectus, which can be obtained by calling 1-866-947-7000 or visit us online at www.causewayfunds.com. Please read the prospectus, or the summary prospectus, carefully before you invest or send money.

Instl. Class shares incepted on 4/29/2008, while Inv. Class shares incepted on 1/31/2011**.**

The performance quoted represents past performance. Past performance is not an indication of future results. Investment return and the principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth less than their original cost and current performance may be lower than the performance quoted. For performance data current to the most recent month end, please call 1-866-947-7000.

Total annual fund operating expenses for the Institutional Class are 1.29% (gross) and are 0.85% (net) after investment adviser fee waiver. Total annual fund operating expenses for the Investor Class are 1.54% (gross) and are 1.10% (net) after investment adviser fee waiver. These waivers are contractual and are in effect until 1/31/2025. Without the fee waivers total return would be reduced. Investor Class shares charge up to a 0.25% annual shareholder service fee.

As of 6/30/2024, the Causeway Global Value Fund Institutional Share Class returned: 17.08%, 7.81%, 10.79%, 6.89%, and 6.48% for the 1 Year, 3 Years, 5 Years, 10 Years, and Since Inception time frames respectively.

This communication expresses the portfolio managers' views as of the date it was created and should not be relied on as research or investment advice regarding any stock or sector. These views and characteristics are subject to change. There is no guarantee that any forecasts made will come to pass.

Mutual fund investing involves risk, including possible loss of principal. In addition to the normal risks associated with equity investing, international investing may involve risk of capital loss from unfavorable fluctuations in currency values, from differences in generally accepted accounting principles or from economic or political instability in other nations. Emerging markets involve heightened risks related to the same factors as well as increased volatility and lower trading volume. There is no assurance that a Fund will achieve its stated objectives.

The Fund's benchmark, the MSCI ACWI Index is a free float-adjusted market capitalization index, designed to measure the equity market performance of developed and emerging markets, consisting of developed country indices, including the U.S, and emerging market country indices. The MSCI ACWI Value Index captures large and mid cap securities exhibiting overall value style characteristics across Developed and Emerging Markets countries. The value investment style characteristics for index construction are defined using three variables: book value to price, 12-month forward earnings to price and dividend yield. Index (Gross) returns are calculated to reflect reinvestment of distributions without any deductions for tax withholdings on such distributions. Index (Net) returns are calculated to reflect reinvestment of distributions after accounting for tax withholdings on such distributions by applying a maximum assumed tax withholding rate. The Fund believes "net" benchmarks are regularly used by other registered investment companies and generally better align with the tax impact on the Fund's foreign security holdings. It is not possible to invest directly in an index.

As of 6/30/2024, the top 10 holdings in the Causeway Global Value Fund were: Rolls-Royce Holdings Plc-4.86%, Samsung Electronics Co., Ltd.- 4.29%, Barclays PLC-3.54%, Shell- 3.41%, Alstom SA -3.33%, The Walt Disney Co.-2.95%, Alphabet, Inc.- 2.69%, Kering SA- 2.60%, TD SYNNEX Corp.- 2.34%, Renesas Electronics Corp.-2.30%

Causeway