



Causeway

## A Challenging Truth: Investors Need Value Today More Than Ever

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# Agenda

1. Today's Market Distortions and Extreme Value Discount
2. Value Investing Opportunities
3. Why Value Now?

# Value Investors' Patience Is Being Tested

## Quote #1

“The results have been so sorrowful, it’s almost an oxymoron: value investing.”  
*Asset Builder*

## Quote #2

“Over the past year, some of America’s best investors have been misled into buying financial stocks by apparently cheap prices...investors could face the greatest value trap since the Great Depression.”  
*Institutional Investor*

## Quote #3

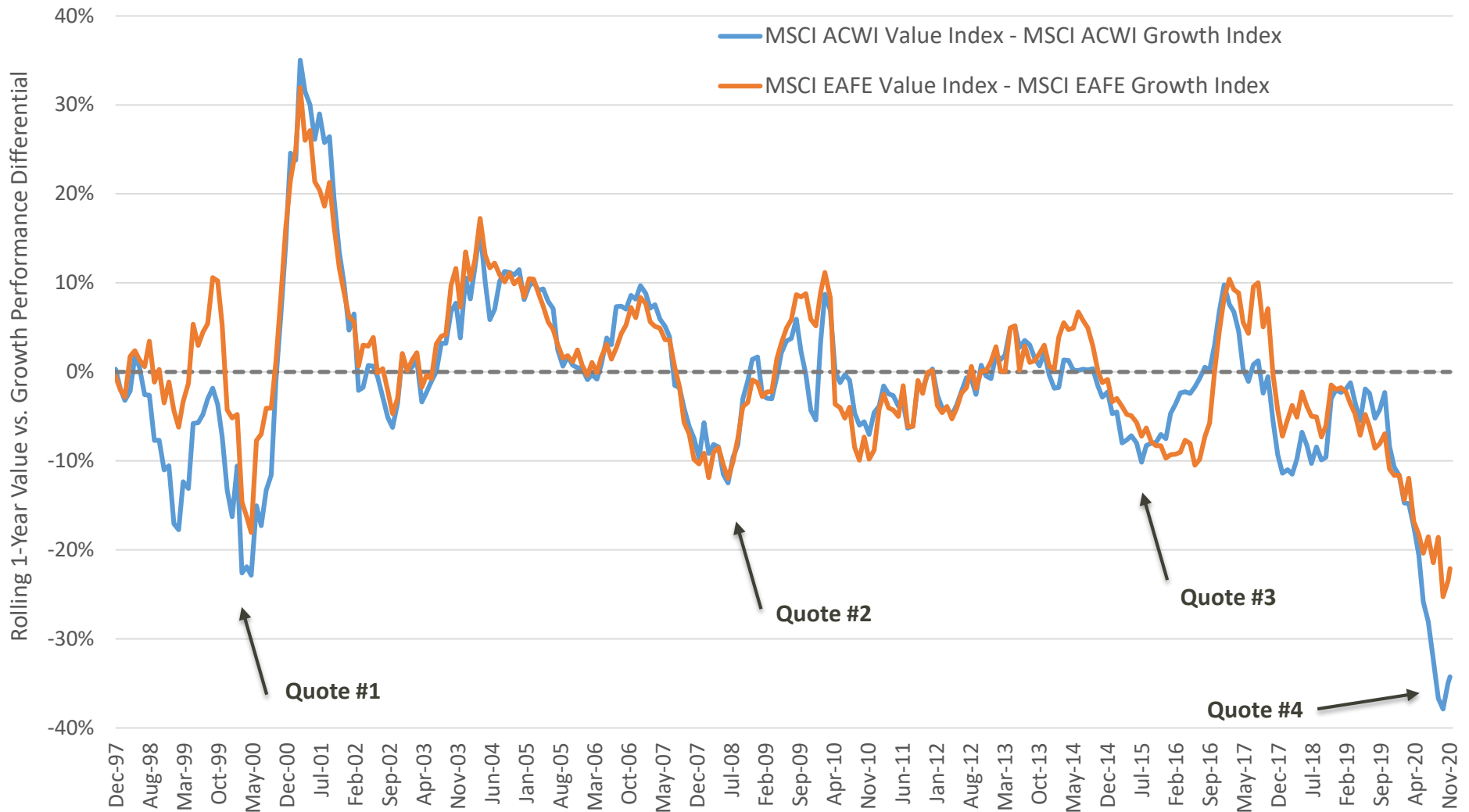
“Value investing isn’t dead. It is, however, comatose and surrounded by grieving relatives.”  
*The Globe and Mail*

## Quote #4

“To fully capture the outperformance, you’d have to say that growth kneecapped value and then ran multiple victory laps around the track.”  
*Money & Markets*

# The Last Year Has Been The Hardest On Value Returns Since At Least 1997

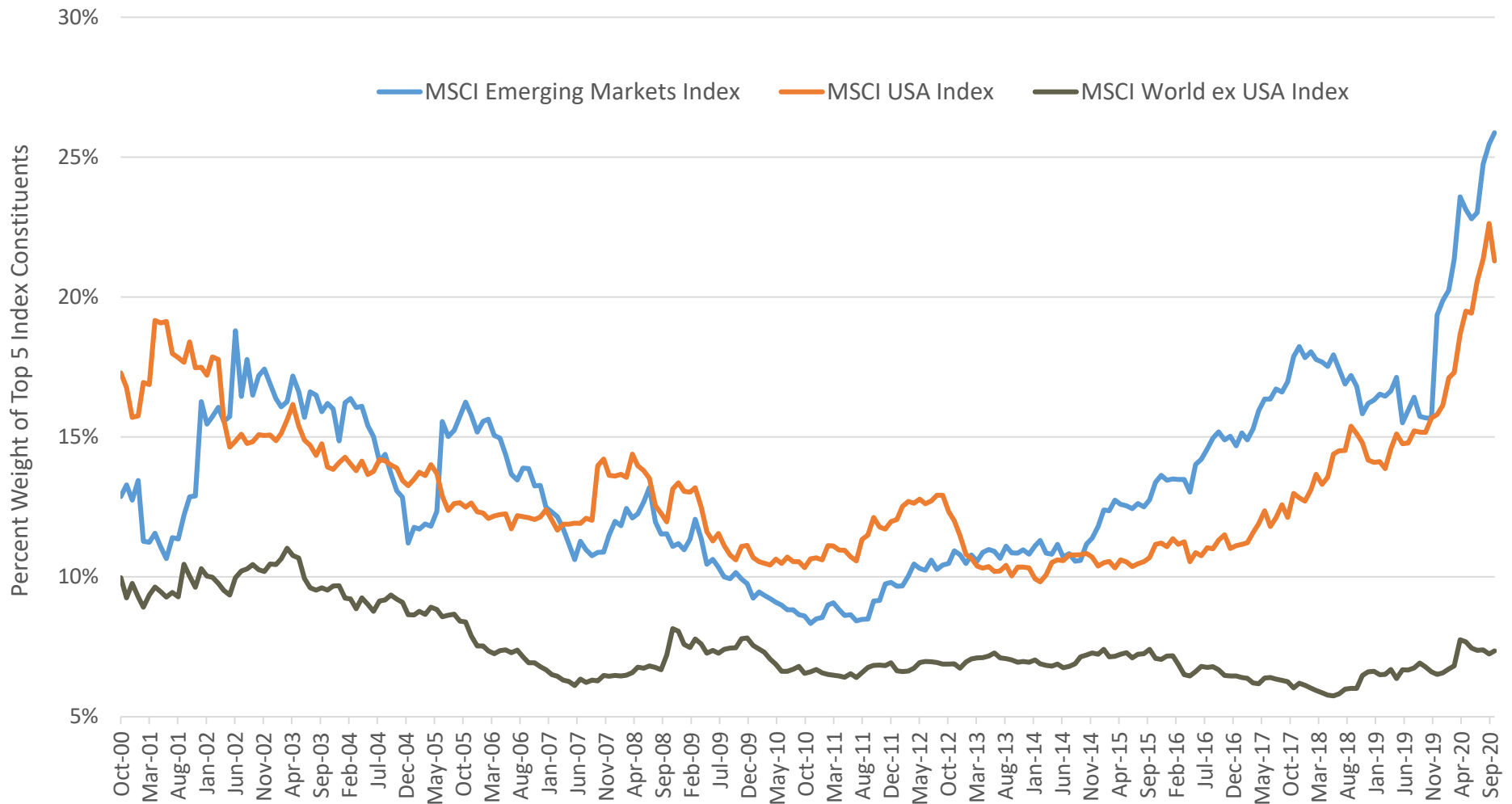
THIS IS NOT THE FIRST TIME INVESTORS HAVE WONDERED IF VALUE IS DEAD



Sources: MSCI, FactSet. Updated through 11/13/2020.

# US And Emerging Market Indices Have Become More Concentrated

THE FIVE LARGEST STOCKS CAN HAVE A SIGNIFICANT IMPACT ON INDEX PERFORMANCE AND RISK

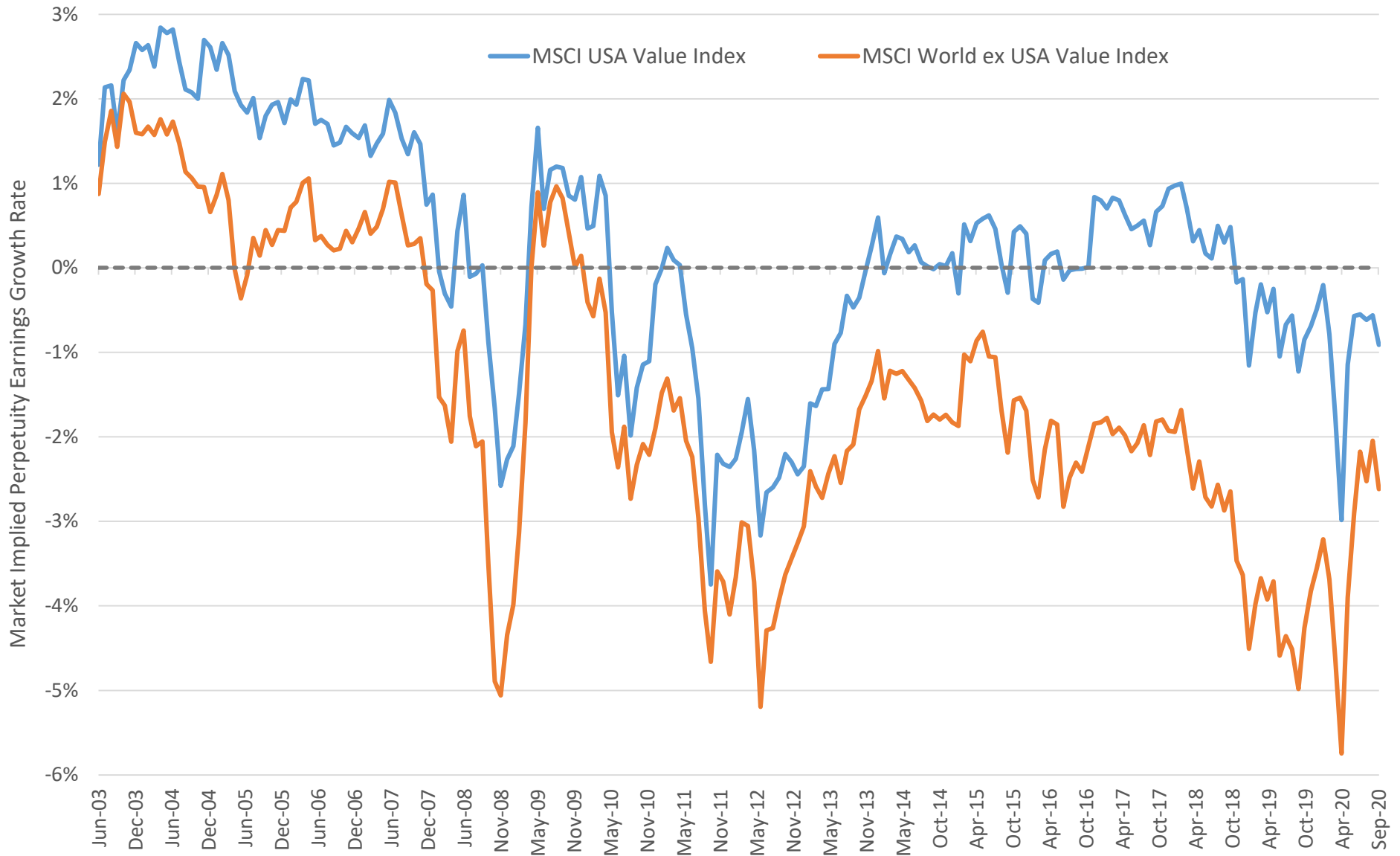


MSCI EM Index includes 1548 stocks, MSCI USA Index includes 831 stocks, and MSCI World ex USA Index includes 988 stocks.

Sources: FactSet, Causeway Analytics

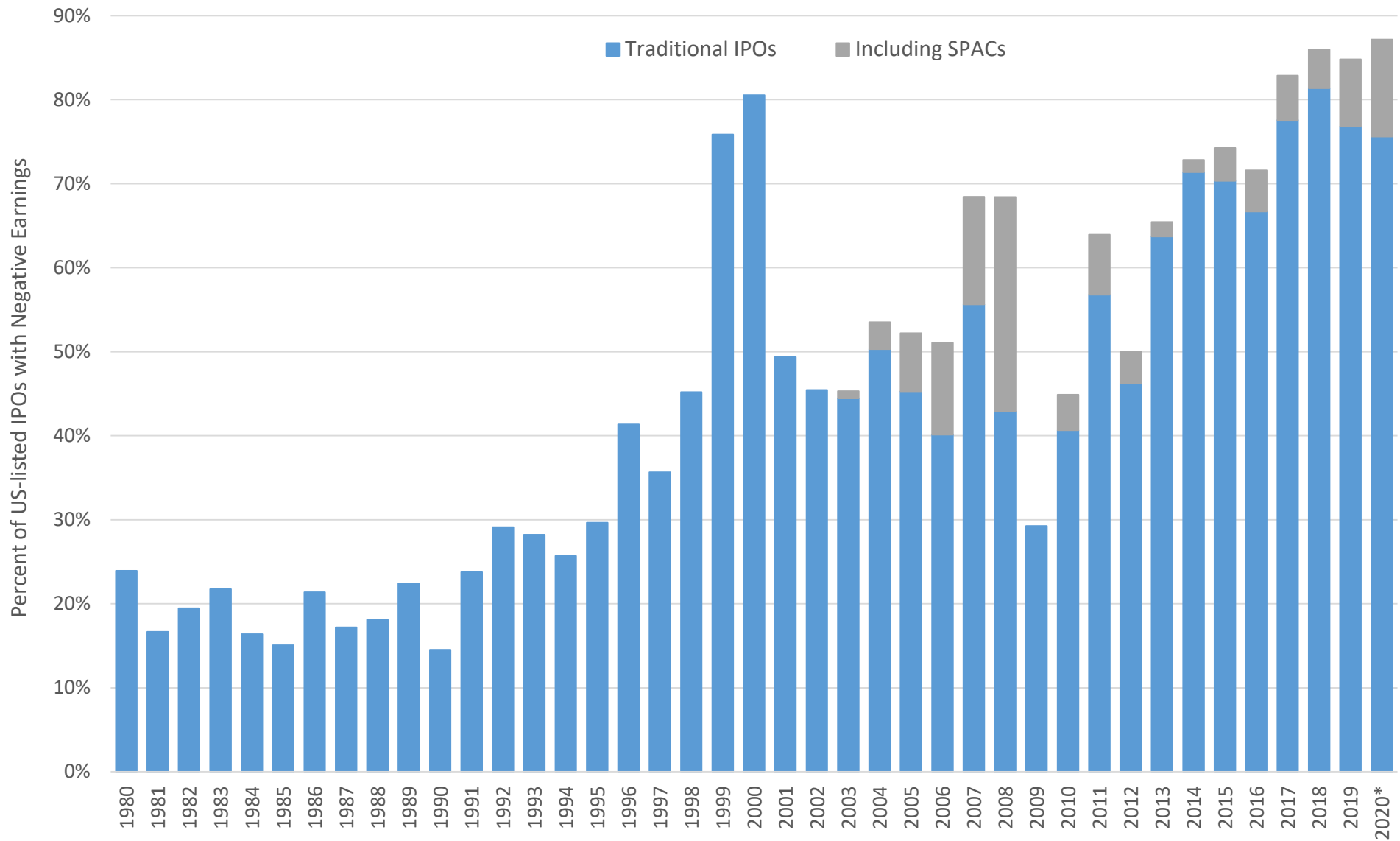


# Current Valuations Imply Negative Growth In Perpetuity For Value Companies



Sources: FactSet, Causeway Analytics

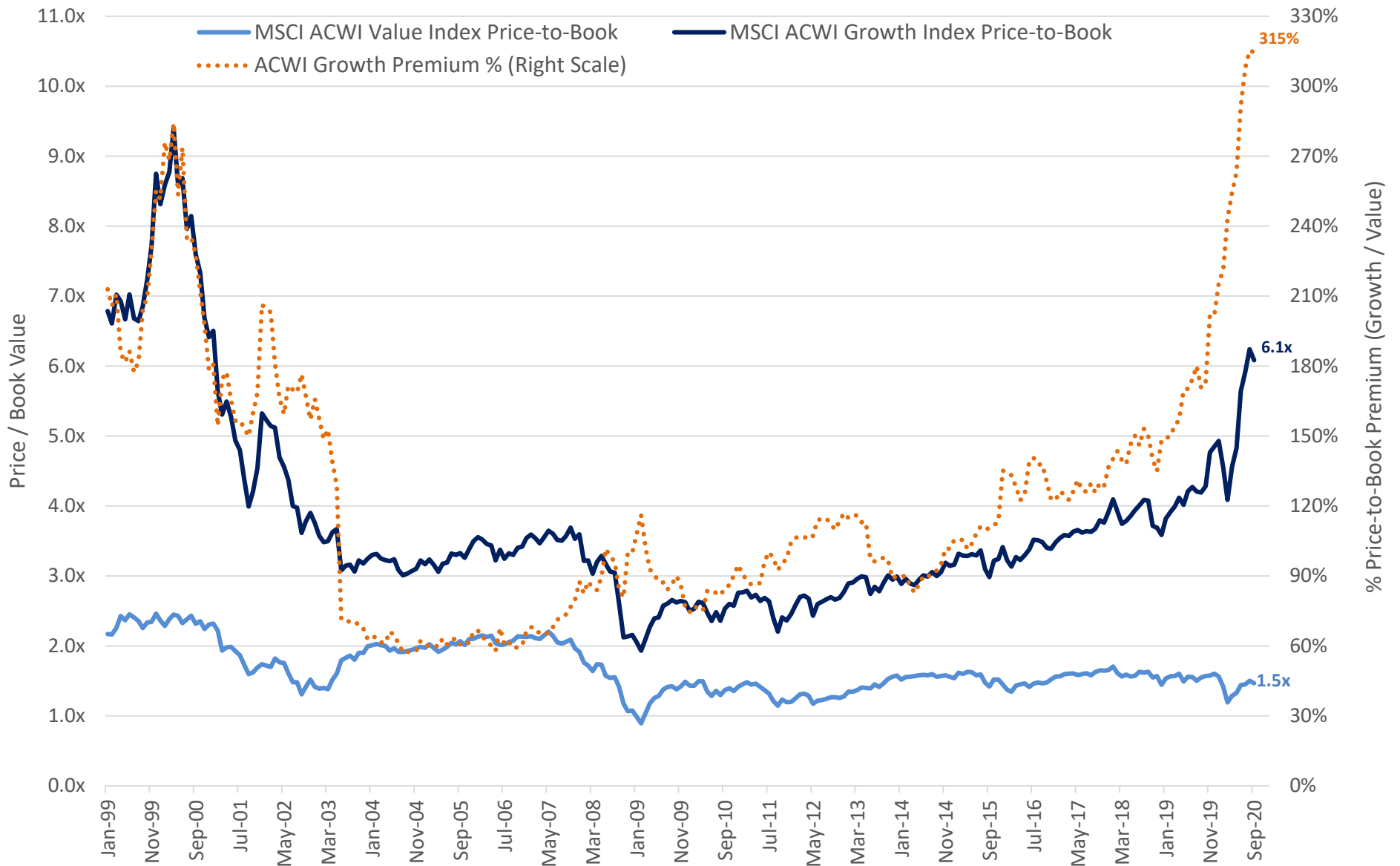
# IPOs For US-listed Companies With Negative Earnings Are At Record Highs



\*YTD 2020 data is through 10/16/2020. "SPACs" are Special Purpose Acquisition Companies.

Sources: Renaissance Capital, SPAC Insider, Warrington College of Business, University of Florida

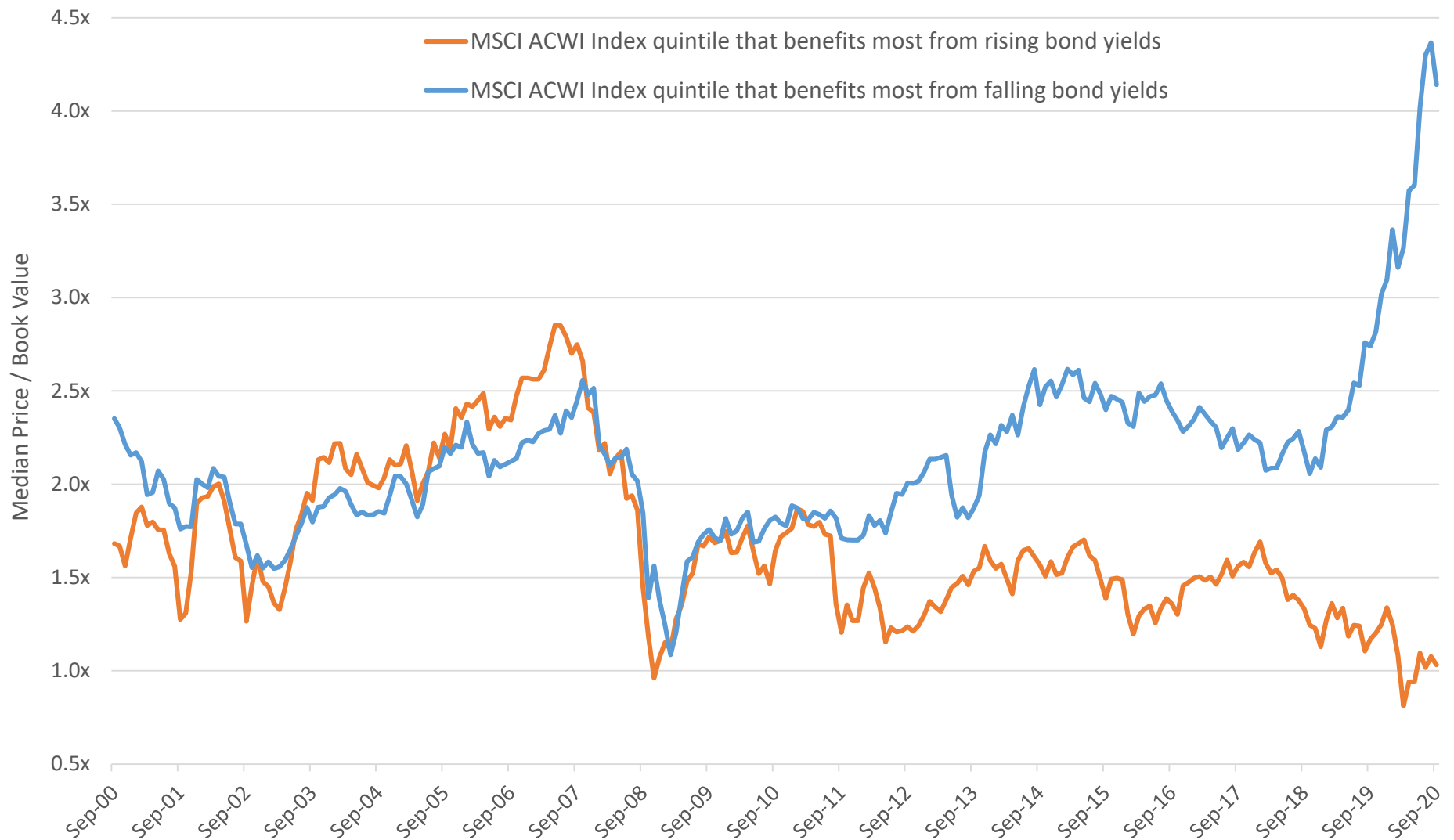
# The Growth Premium Has Reached Record Levels



Sources: FactSet, Causeway Analytics



# Low Interest Rates Have Created Historic Valuation Distortions

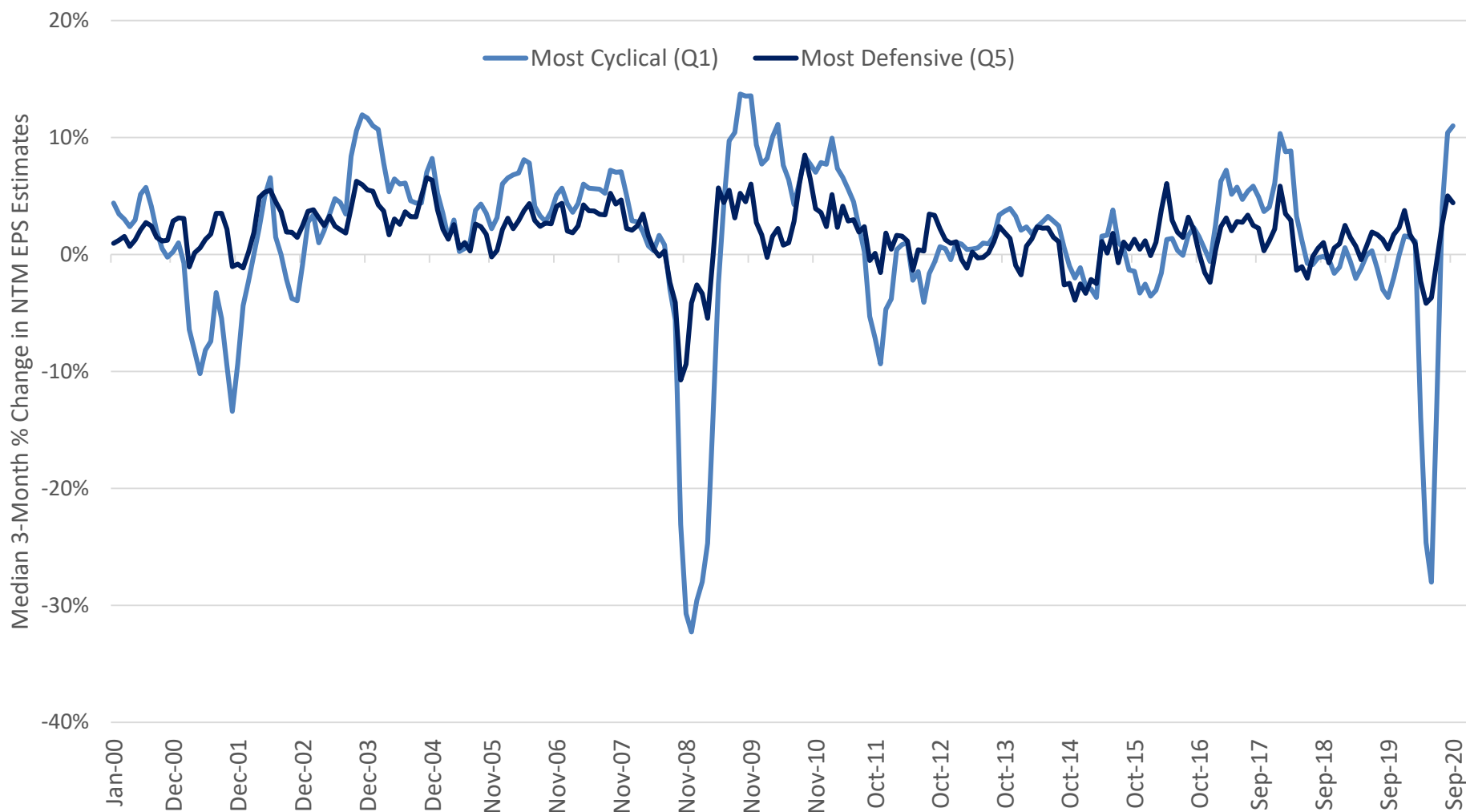


Quintiles determined based on last 60 month beta to changes in US 10-Year Treasury Note yields.

Sources: Bloomberg, FactSet, Causeway Analytics

# Cyclical Estimate Changes Have Followed A Path Similar To The GFC

OPPORTUNITIES OF THIS MAGNITUDE HAVE BEEN EXCEPTIONALLY RARE



GFC: Global Financial Crisis. NTM refers to next twelve months, and EPS refers to earnings per share. The cyclicity of a stock is calculated as its 60-month beta to the monthly performance spread between the Russell Global Dynamic and Russell Global Defensive indices. Universe consists of the constituents of the MSCI ACWI Index. Source: Factset, MSCI, Russell Investment Indices, Causeway Analytics

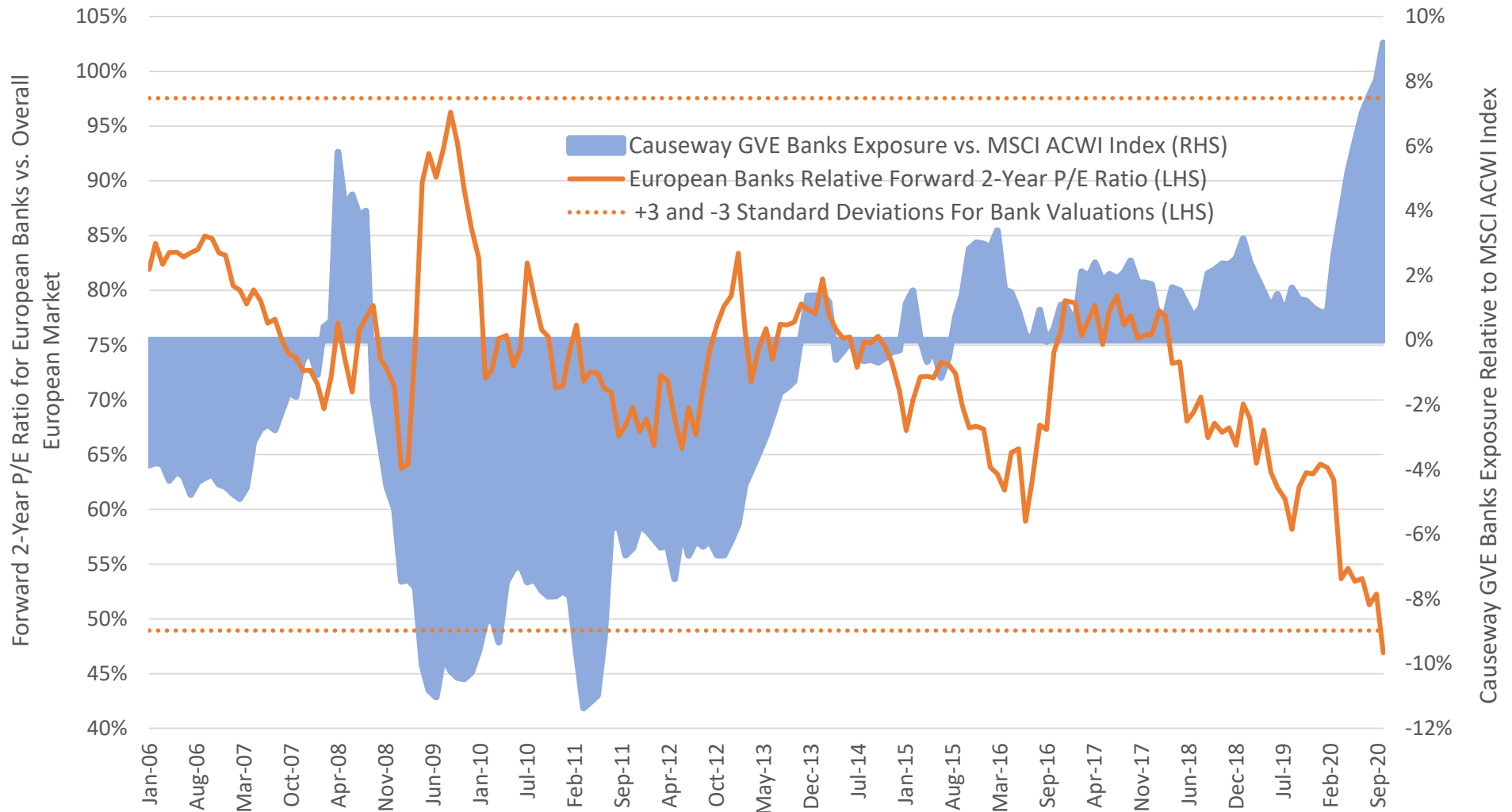
# Investors Need An Active Value Approach Now More Than Ever

AS AN ACTIVE VALUE MANAGER, WE BELIEVE THE FOLLOWING CORE TENETS ARE CRITICAL TO SUCCESS:

- Undervaluation alone is never enough
- Operational restructuring can reignite earnings growth
- In-depth fundamental research and active engagement with company management are essential
- Proprietary quantitative tools should be used to manage portfolio risk

# Case Study: European Banks Trade At Record Low Valuations

WE HAVE INCREASED BANK HOLDINGS AS VALUATIONS HAVE BECOME MORE ATTRACTIVE



Includes all banks held in Causeway Global Value Equity (GVE) strategy as of 9/30/2020. European Banks represented by the STOXX Europe 600 Banks Index and the overall European market represented by the STOXX Europe 600 Index.

Sources: Exane BNPP, FactSet

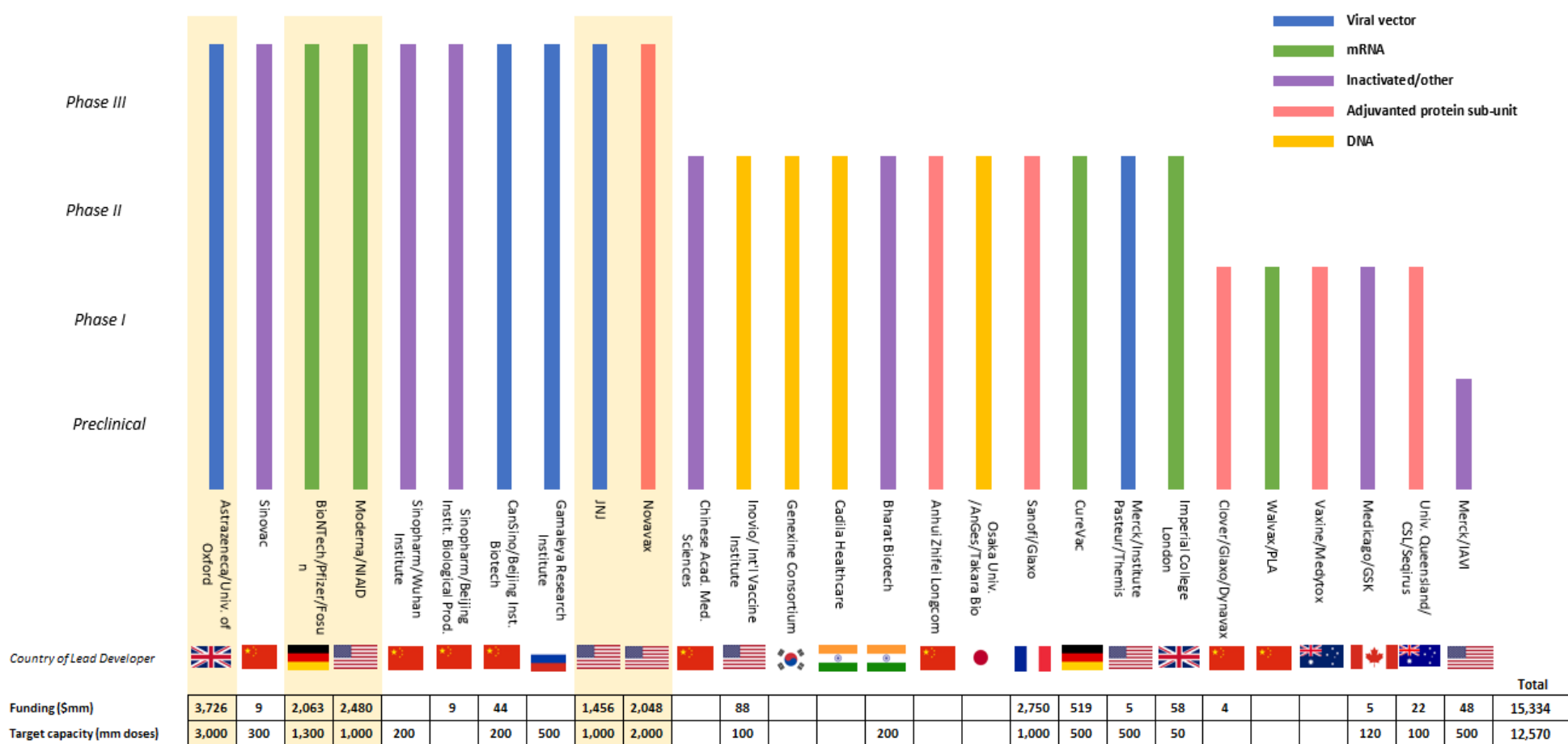
# Case Study: Investors are Bearish on Aerospace Stocks, Regardless of Fundamentals



Source: Causeway analysis

# Potential Catalyst For Value Resurgence: COVID-19 Vaccines

MULTIPLE TECHNOLOGY PLATFORMS, OVER \$15B IN FUNDING, TARGETING NEARLY 13 BILLION DOSES BY 2021



Our investment portfolios may or may not hold the securities mentioned, and the securities identified and described do not represent all of the securities purchased, sold or recommended for client accounts. The reader should not assume that an investment in the securities identified was or will be profitable. The figure shows all vaccine candidates that are currently in human clinical trials or those whose sponsors have received US government funding via the Biomedical Advanced Research and Development Authority (BARDA) as of September 30, 2020. Sources: Exane BNP Paribas, World Health Organization, and public filings.



## We Believe A Disciplined and Active Approach Is Required To Capitalize On Value Opportunities

- Undervaluation alone is never enough and engagement with company management is critical
- In our view, the COVID pandemic has presented a once in a generation opportunity for disciplined value investors
- Pricing in permanent demand destruction, well-managed cyclical companies offer significant recovery potential

# Cyclical Stocks Offer Compelling Recovery Potential

## POST-DRAWDOWN PERFORMANCE OF CYCLICAL SECTORS WITHIN THE MSCI ACWI INDEX



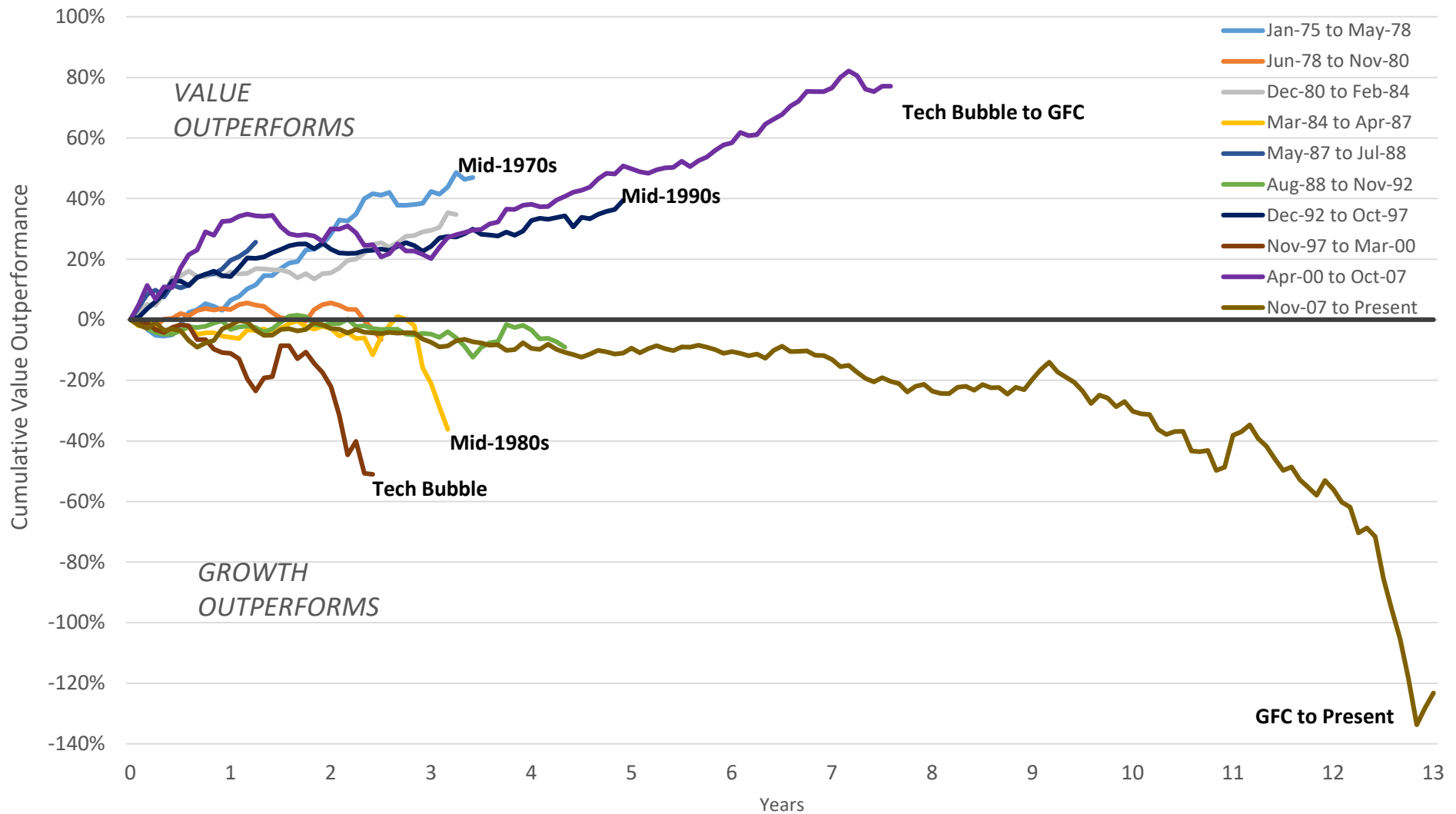
Cyclical sectors include materials, financials, industrials, consumer discretionary, and energy. Data represents a simple average (eg. equal weight across sectors).

Note: Sector performance represents USD percentage return for MSCI ACWI sector indices over the following periods: 10/9/2002-12/12/2005 for Technology Bubble, 3/9/2009-5/2/2011 for Global Financial Crisis, and 3/23/2020 – 11/13/2020 for COVID-19 (recovery to date).

Source: MSCI, FactSet

# Appendix

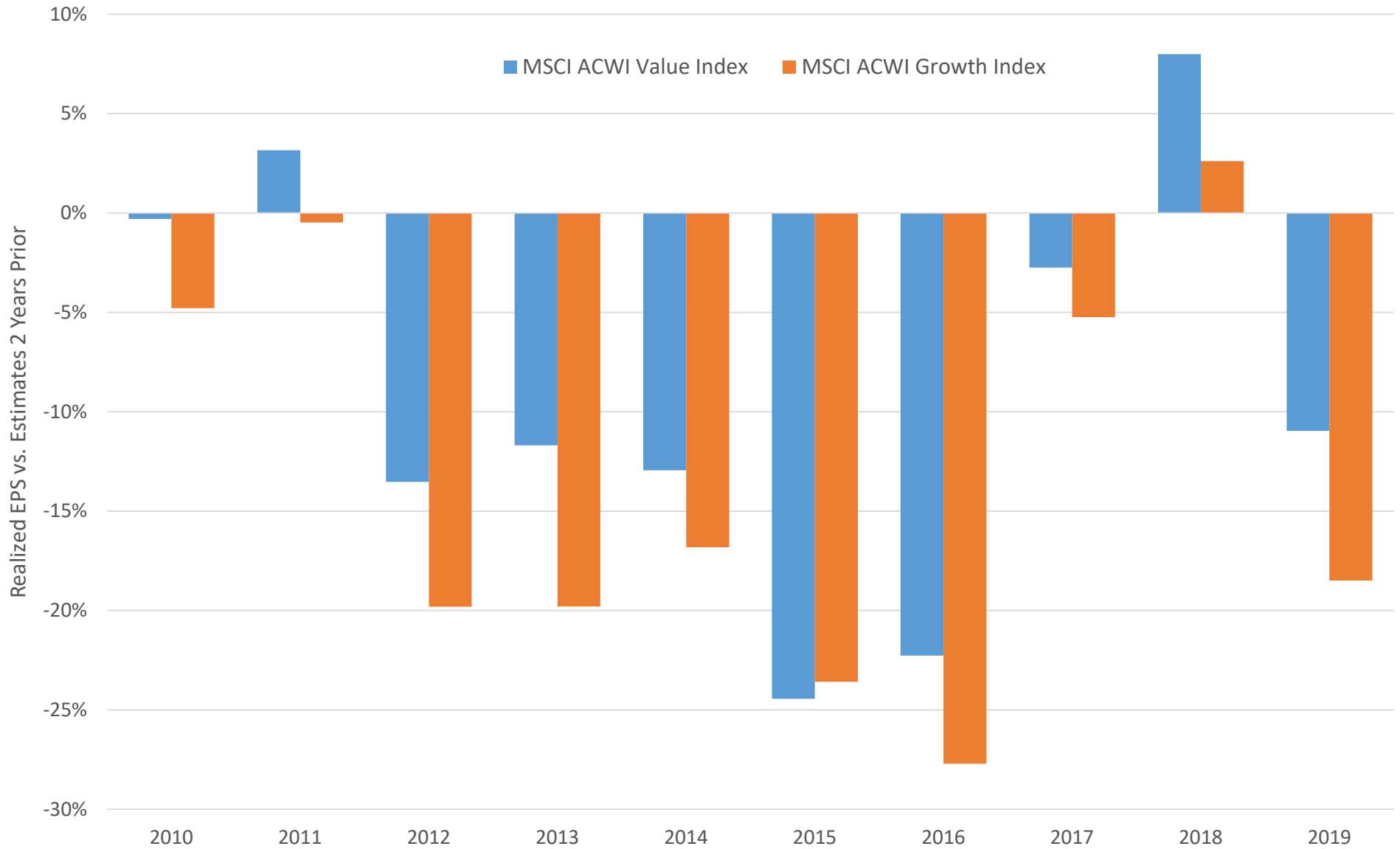
# The Current Value Cycle Of Underperformance Has Been Extreme



Note: Lines represent the cumulative total return differentials between the MSCI World Value Index and the MSCI World Growth Index for each respective period from December 31, 1974 – October 31, 2020. The MSCI World Value Index and MSCI World Growth Index launched in 1997, however data for these indices is available from MSCI beginning December 31, 1974. Accordingly, the chart depicts all periods beginning from when data is available. Data prior to the launch of the indices is backfilled by MSCI.

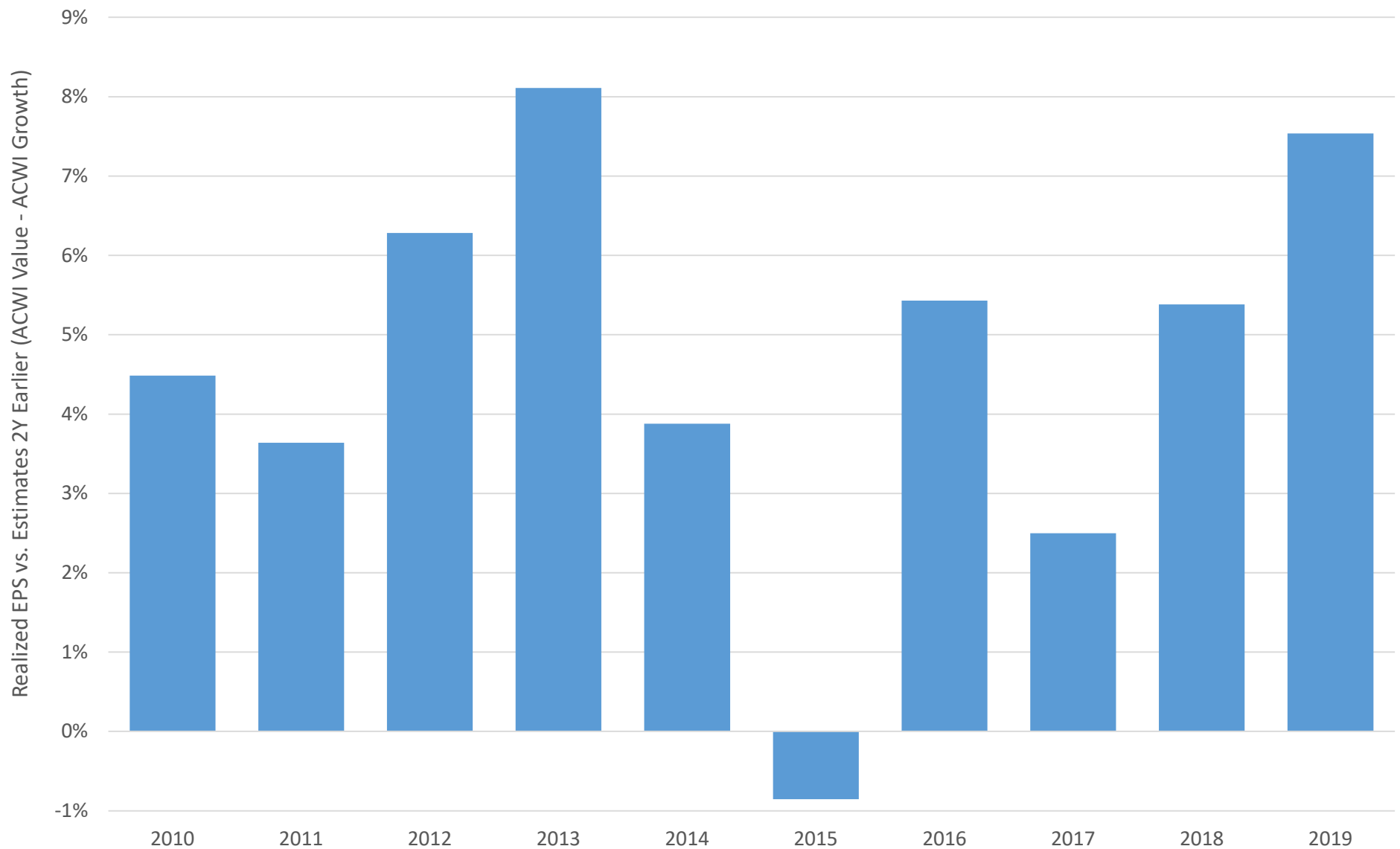
Sources: MSCI, FactSet, Causeway Analytics

# Expectations vs. Reality: Analyst Earnings Forecasts Have Often Been Overly Optimistic



Sources: FactSet, Causeway Analytics

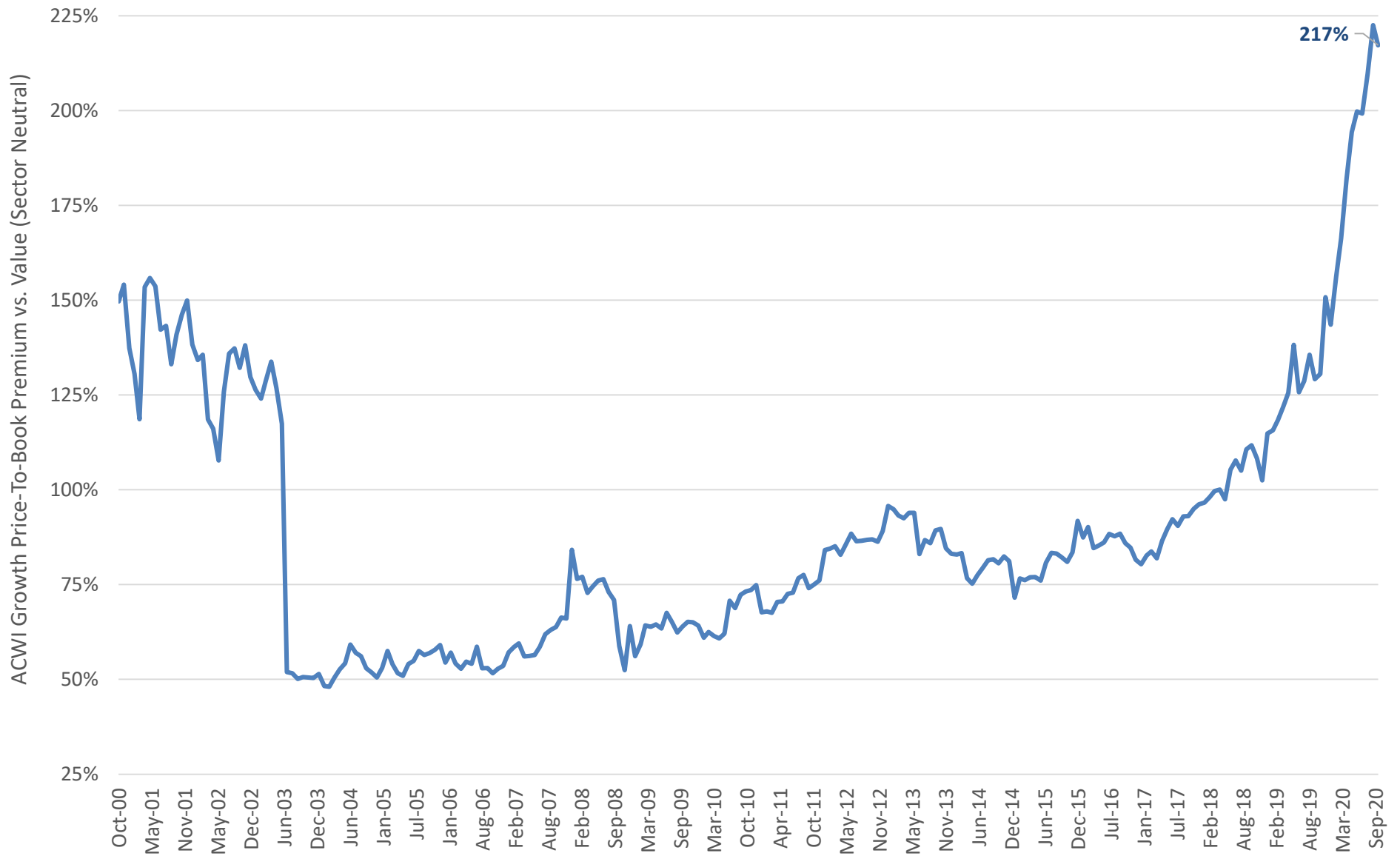
## Expectations vs. Reality: EPS Expectations For Growth Companies Have Often Disappointed



Sources: FactSet, Causeway Analytics

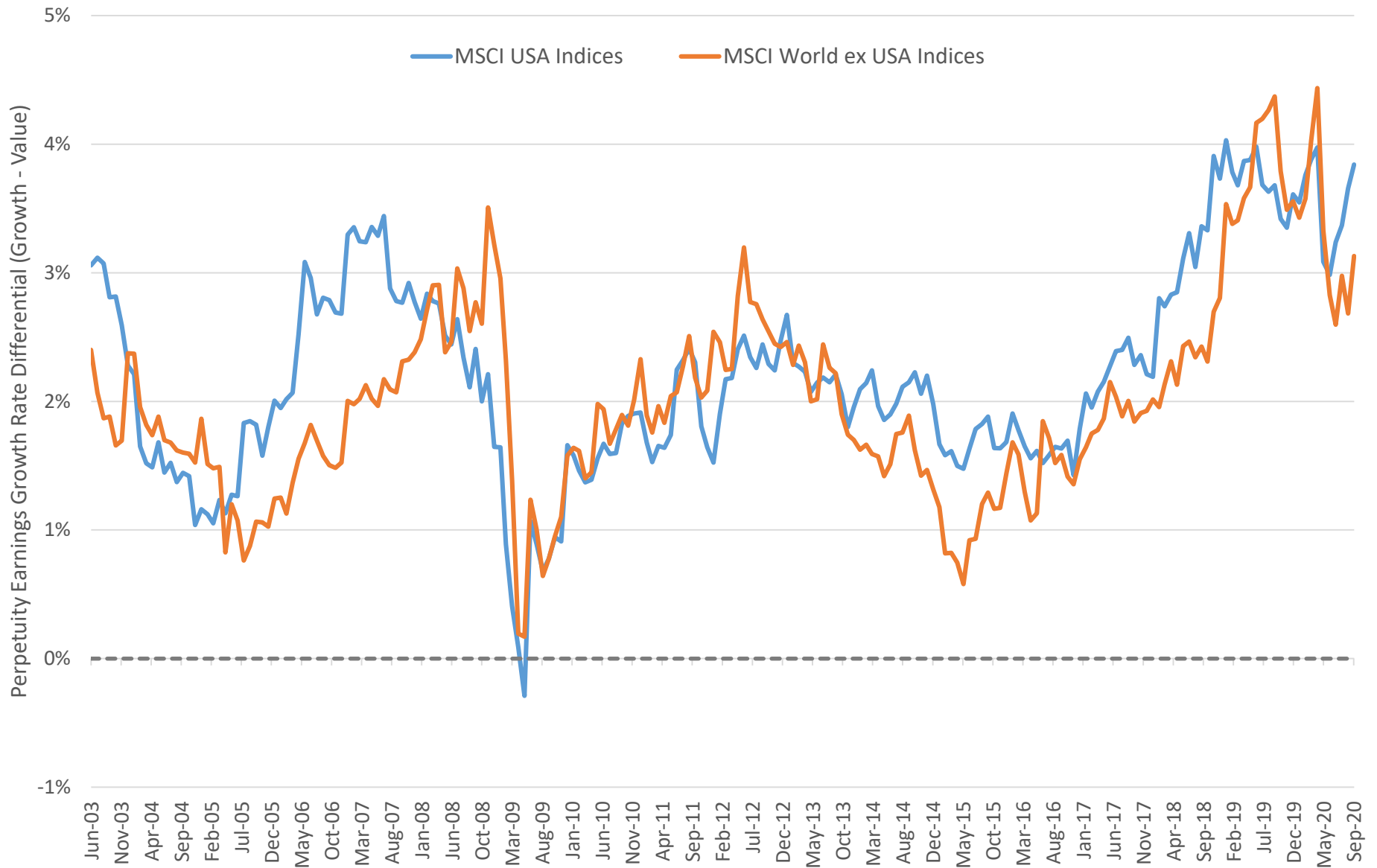


# On A Sector Neutral Basis, The Growth Premium Has Reached Record Levels



Sources: FactSet, Causeway Analytics

# The Perpetuity Growth Differential Between Value and Growth Stocks Is Significant

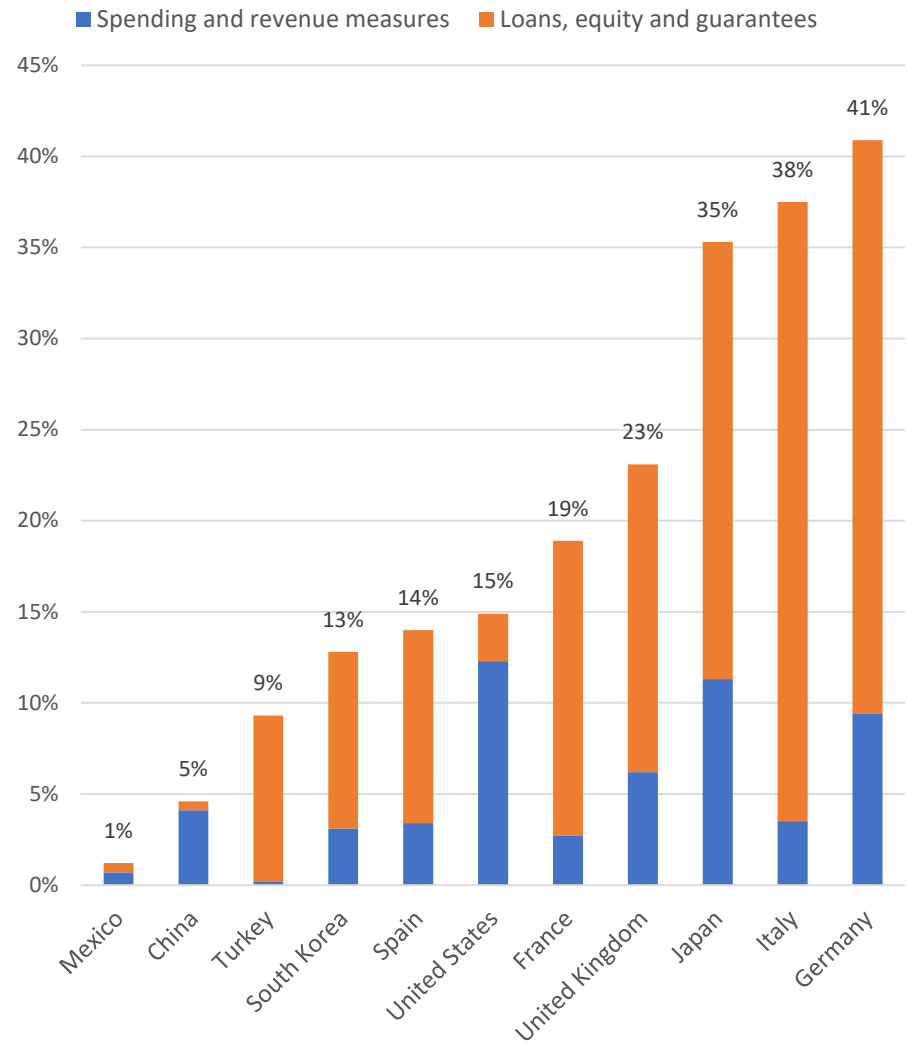
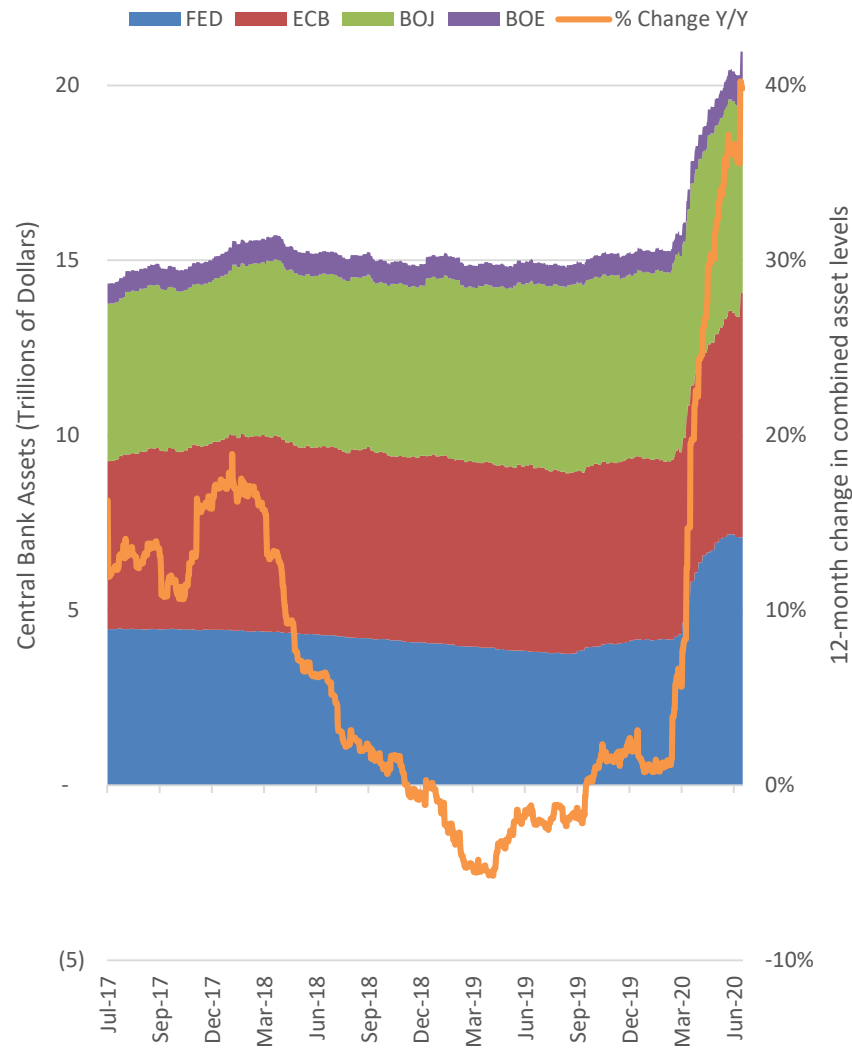


Sources: FactSet, Causeway Analytics

# Policy Makers Are “All In”

CENTRAL BANKS ASSETS GREW OVER \$5T IN 1H2020

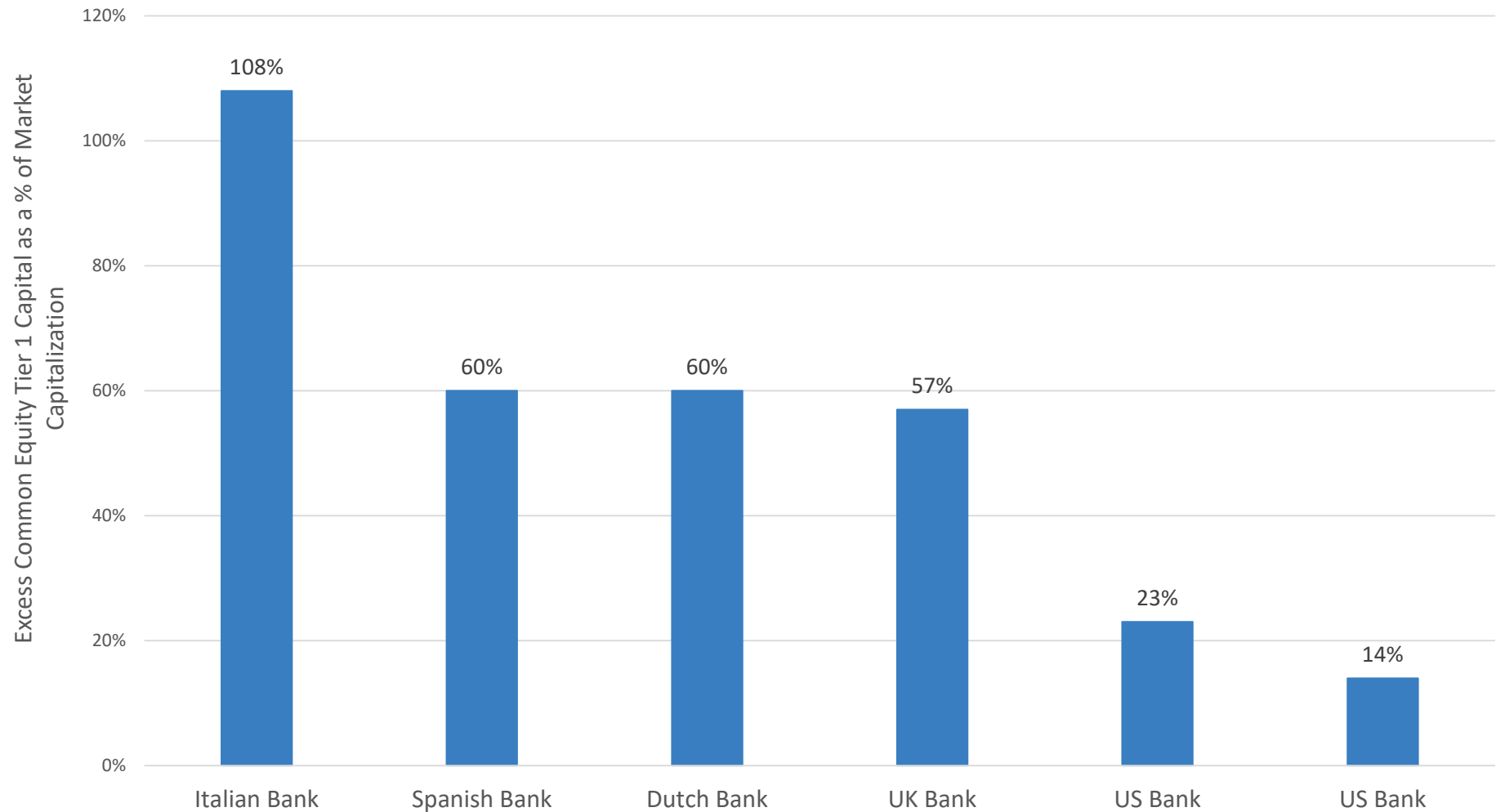
FISCAL RESPONSE AS A PERCENTAGE OF ESTIMATED 2020 GDP



US Federal Reserve (Fed), European Central Bank (ECB), Bank of Japan (BOJ), Bank of England (BOE). Sources: Evercore ISI, BOJ, Factset, IMF, Causeway Analytics.

# Case Study: Banks Should Have Ample Capital to Navigate Near Term Challenges

WELL-CAPITALIZED BANKS ARE POSITIONED TO RETURN CAPITAL TO SHAREHOLDERS WHEN RISK NORMALIZES

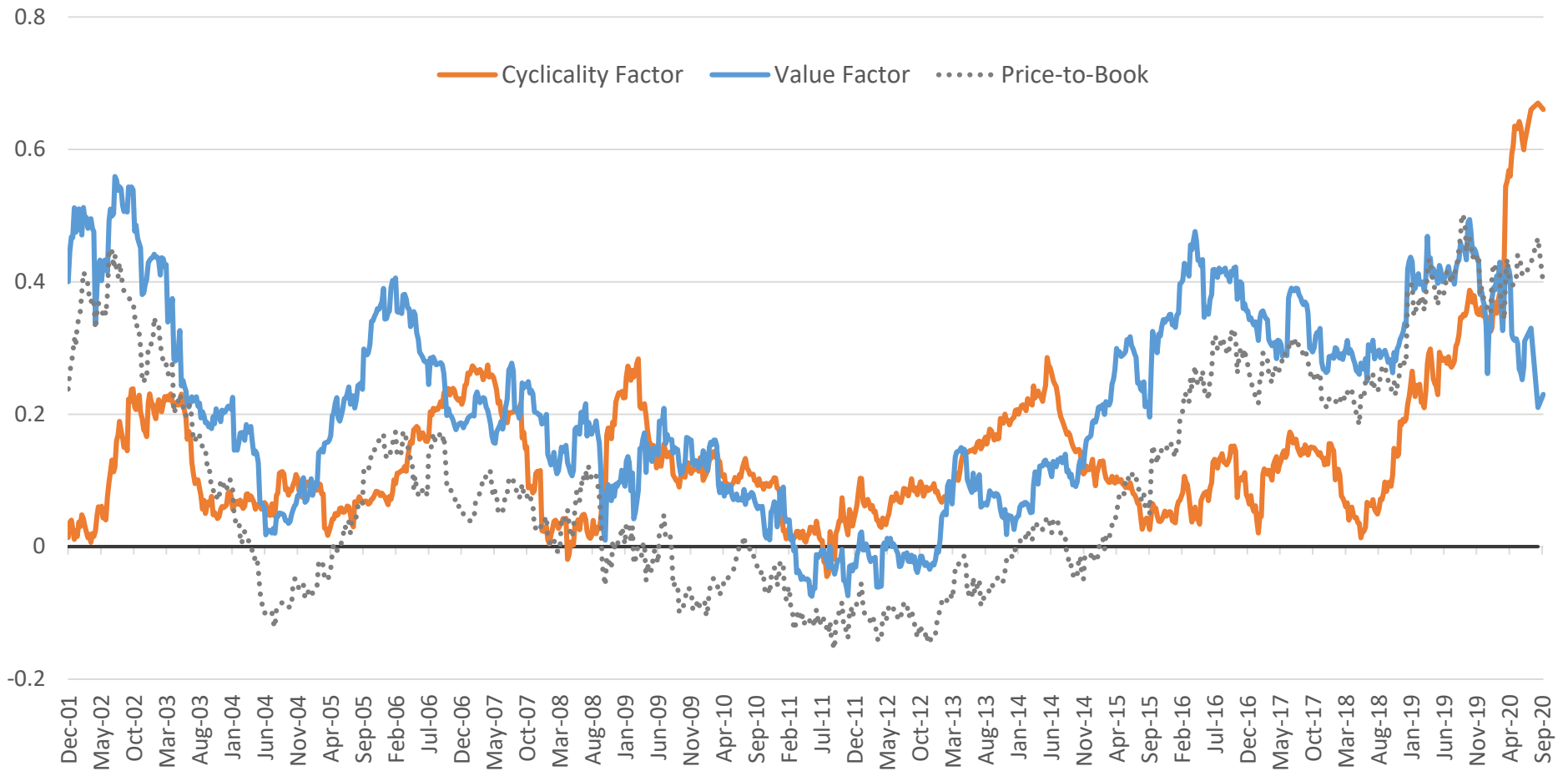


Banks listed include all banks held in Causeway Global Value Equity strategy as of 9/30/2020. Excess Common Equity Tier 1 Capital (CET1) reflects capital in excess of regulatory requirements expressed as a percent of the bank's market capitalization. Capital data as of 6/30/2020 and market capitalization data as of 9/30/2020.

Sources: FactSet, Causeway analysis

# Active Management In Practice: A Dynamic Approach To Value Investing

## CAUSEWAY INTERNATIONAL VALUE ACTIVE STYLE EXPOSURES THROUGH SEPTEMBER 2020



Note: Weighted average active style exposure relative to the MSCI EAFE Index from month-ends December 2001 – September 2020. Active Style Exposure is exposure of a representative account using the Causeway International Value Equity strategy to Causeway’s proprietary style factor category, minus the Index’s exposure to the style factor category. See “Disclosures” for further information. Source: Causeway Analytics.

# Important Disclosures

*This information should not be relied on as investment advice and is not a recommendation to buy or sell any security. It may not be reproduced without Causeway's consent. Any securities identified and described do not represent all of the securities purchased, sold or recommended for Causeway accounts. The reader should not assume that an investment in any securities identified was or will be profitable. There is no guarantee that any forecast made will come to pass. Forecasts are subject to numerous assumptions, risks and uncertainties, which change over time, and Causeway undertakes no duty to update any such forecasts. Information and data presented has been developed internally and/or obtained from sources believed to be reliable; however, Causeway does not guarantee the accuracy, adequacy or completeness of such information.*

*Past performance is no guarantee of future performance. In addition to the normal risks associated with investing, international investments may involve risk of capital loss from unfavorable fluctuation 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. Investments in smaller companies involve additional risks and typically exhibit higher volatility.*

*Style Analysis. The universe is the MSCI EAFE Investable Market Index (IMI). Every security in the universe is scored on each of 8 style dimensions. These standardized scores range from +3 to -3, with a score of 0 being equal to the weighted average score across the universe, +3 being most representative of the style, and -3 being least representative of the style. Representative account style exposures are the weighted average of the style scores of all portfolio holdings. Value style scores are calculated relative to country. Momentum style scores are calculated on a global basis. Cyclicity is based on a stock's 60-month beta to the performance spread between the FTSE Global Large Cap Dynamic and FTSE Global Large Cap Defensive Indices. Active style exposures measure the difference between the portfolio style exposures and the benchmark style exposures.*

*The MSCI EAFE Index is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the U.S. & Canada. 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 23 developed country indices and 26 emerging market country indices. The MSCI World Index is designed to measure the performance of large and mid cap companies across 23 developed market countries.*

*The MSCI Value variations of the indices are a subset of the referenced index, and target 50% coverage of the respective indices, with value investment style characteristics for index construction using three variables: book value to price, 12-month forward earnings to price, and dividend yield. The MSCI Growth variations of the indices are also a subset of the referenced index and target the remaining 50% coverage of the respective indices. The MSCI USA Index is designed to measure the performance of the large and mid cap segments of the US market. With 831 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in the US. The MSCI World ex USA Index is designed to measure the performance of large and mid cap companies across 22 of 23 developed market countries, excluding the United States. The MSCI Emerging Markets Index is a free float-adjusted market capitalization index, designed to measure equity market performance in the global emerging markets, consisting of 26 country indices.*

*The STOXX Europe 600 Index is derived from the STOXX Europe Total Market Index and is a subset of the STOXX Global 1800 Index. With a fixed number of 600 components, the STOXX Europe 600 Index represents large, mid and small capitalization companies across 17 countries of the European region. The STOXX Europe 600 Banks Index tracks the supersector Banks of the relevant benchmark index.*

*The Russell Global Large Cap Stability Indexes measure a portion of the market based on the sensitivity to economic cycles, credit cycles, and market volatility, referred to as stability. Stability is measured at the company level in terms of volatility (price and earnings), leverage, and return on assets. The more stable half of the index is called the Russell Global Large Cap Defensive Index and the less stable half is called the Russell Global Large Cap Dynamic Index.*

*The performance of the indices is gross of withholding taxes, assumes reinvestment of dividends and capital gains, and assumes no management, custody, transaction or other expenses. It is not possible to invest directly in an index.*

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