Value Investor INSIGHT
The Leading Authority on Value Investing
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Attention to Detail

Causeway Capital's Harry Hartford describes why he believes today's investing environment plays to his firm's strengths, the situations, sectors and geographies where he sees more prevalent mispricing, how he's assessing the current opportunity set in China, and what he thinks the market is missing in Prudential PLC, UniCredit, Rolls-Royce and Berry Global.

INVESTOR INSIGHT

Harry Hartford
Causeway Capital

Investment Focus: Seeks out-of-favor businesses with growth potential – from secular, cyclical or self-help tailwinds – that the market isn't fully recognizing.

One benefit for value investors if we're returning to a more normal interest rate environment is that company fundamentals should again matter more than fickle investor sentiment, argues Causeway Capital co-founder Harry Hartford: "For years stocks have often seemed to move more on the prevailing macro view on an industry or market sector," he says. "If that view was bad, you didn't go near it, and if it was good you didn't care what you paid."

Making fine distinctions on company prospects and prices paid, Causeway's $29 billion (assets) International Value strategy since 2001 has earned a net annualized 6.3%, vs. 4.8% for the MSCI EAFE Index. Hartford today sees mispriced value in such areas as jet engines, plastics, insurance in Asia and banking in Europe.

Your Causeway co-founder, Sarah Ketterer, recently described today's market as "a much saner environment for making medium to long-term assessments of stocks." How so?

Harry Hartford: A byproduct of interest rates being at extraordinarily low levels for so long was that investors in increasing numbers decided they didn't really need to worry so much about valuation. They could justify paying higher and higher multiples on prospective cash flows that were further and further in the future. We believe a more normalized interest-rate environment forces investors to pay closer attention to earnings, to cash flows, to capital allocation and to the underlying strength or weakness of the balance sheet – all in the context of what price you pay. For disciplined fundamental value investors, which we'd like to believe we are, that type of environment is much more rational and should play to our strengths.

One lesson reinforced over the last ten years, however, is that a cheap valuation is not sufficient for a good investment. You want to make sure the businesses you're investing in are in some ways getting better. That could be because they're in the right part of the cycle. It could be because new management is reinvigorating the business. It could be because balance sheet challenges are being addressed. We try to be very cognizant of why any given security might be mispriced and of what has to happen for that mispricing to correct.

What are some of the more common reasons that stocks can be mispriced?

HH: In my view, we've become very impatient as investors and that impatience can often result in mispricing, in particular when negativity about the future is being overly discounted. We didn't have 7-8% of our fundamental client portfolios in energy stocks at the beginning of this year because we anticipated Russia's invasion of Ukraine, but we believed the pervasive gloom over the oil and gas business had become overdone relative to the prospective demand for traditional energy sources – relative to supply – as energy markets transition more to renewables. Value investing is all about finding stocks where you come to believe the future prospects are much better than what's priced into the stock. When investors are focused on the next three months rather than the next three years, dislocation from fundamentals and material mispricing can occur.

By the way, commodity-related dislocations can go on for some time, and also correct very quickly. Oil prices have come down somewhat, but maintaining exposure in energy companies – never mind investing new capital into them – is far less compelling when oil is at $110-120 per barrel than when oil is at $60-70 per barrel.

Let me give you some other examples showing why we think something might be mispriced. We recently took a position in Reckitt Benckiser [London: RKT], the big U.K.-based consumer-products company. Prior to the onset of Covid, the company had gone from being very highly regarded by the market to being considered somewhat of a laggard, with challenged growth prospects and ineffective management. Then the pandemic hit and for some investors that's all that mattered, which first drove the stock way up because of increased sales for disinfectant brands like Lysol, and then drove it right back down as that initial bump declined and as other company over-the-counter brands for colds and the flu suffered.

While the market only seemed to care about Covid, the company under a CEO brought in from PepsiCo in 2019 was reorganizing itself to reinvigorate product development and distribution in order to drive top-line growth. The volatility in the stock afforded us the opportunity to take a position at what we believed was an attractive valuation in a company we thought was doing the right things to drive future profitability. If we're right, cash flows should incrementally improve and the de-rating of the stock should reverse as well.

Inditex [Madrid: ITX], the fast-fashion retailer under the Zara brand, would be another representative example. This is a stock that has historically traded at a significant premium to peers, but it got slammed earlier this year when the company announced post the Ukraine invasion that it was withdrawing from Russia, where it had a significant and highly profitable presence. This is a well-managed company we've long admired and the stock fell 35% from where it was a few months before, due to the prospect of it losing 7-8% of its operating earnings in leaving Russia and due to heightened expectations for economic weakness globally. The news obviously wasn't good, but we didn't believe it was nearly as bad as the market's reaction indicated.

Sometimes the opportunity is less based on events and more on longer-term secular industry trends that we don't believe are being adequately recognized by the market. We own Air Liquide [Paris: AI] in fundamental client portfolios, for example, one of the few large global suppliers of industrial gases. It operates in a concentrated industry with long-term client relationships, recurring revenues and solid future demand across a wide variety of industrial and manufacturing applications. Beyond that, we think its expertise and its equipment used in the production of hydrogen will be highly sought after as countries increasingly need to convert renewable energy to a clean-burning and storable form. This should take on even greater importance as Europe works to wean itself from Russian oil and natural gas. We like the industry and then Air Liquide in particular because it trades at what we believe is an unwarranted discount to peers.

ON BIG PHARMA:

Over five years our holdings should generate free cash flows equal to 30-50% of their current market caps.

Would you say there are any geographic or sector themes around what you're finding most interesting in today's market?

HH: Relative to its MSCI ACWI global benchmark, our global strategy today is significantly overweight Europe and quite underweight the United States. That's more than anything else a function of valuation: On a price/earnings basis European stocks currently trade at a roughly 25% discount to Japanese stocks and at a 35% discount to those in the U.S. Russia and Ukraine are obviously looming large at the moment, particularly in Europe, but on a two- to three-year horizon we are generally finding European stocks to be quite cheap.

With respect to sectors, we still have a healthy exposure to travel-related stocks. Our underlying premise – which admittedly has been around for a while and playing out more slowly than we expected – is that we will return to normalcy in the travel and leisure industries and that many stocks still overly discount the long-term negative consequences of the pandemic. If we're right that most of the negative effects will prove transitory, there are several companies in the sector that have skilled management, improved competitive positions and improved cost structures that we expect to show meaningful recovery in profit and cash flow over the next couple of years.

It's a fairly broad-based list. Our fundamental portfolios hold Rolls-Royce [London: RR], a leading manufacturer of jet engines for widebody aircraft, and Ryanair [Dublin: RYA], the leading European discount airline. They also hold online travel-booking platforms such as Booking Holdings [BKNG] and Amadeus IT [Madrid: AMS]. They own airport operators, including Aena [Madrid: AENA] in Spain and Beijing Capital International Airport [Hong Kong: 694]. Our international portfolios also have a position in a western-run casino operator in Macau, Sands China [HK: 1928].

Hasn't the narrative around many of these types of stocks moved from the pandemic to the threat of recession?

HH: No question. Markets seem to be pricing in that inflation followed by severe monetary tightening leads to negative real growth in gross domestic product. But everything comes at a price. We'd argue that even if Europe, for example, tumbles into recession, many of its more cyclical stocks have gone quite some way towards discounting such an outcome. After such an enormous flood of global monetary expansion, many investors may have forgotten about cycles. Traditionally, buying cyclical stocks into a recession has often paid off as they tend to outperform when markets start to anticipate economic recovery. We'll try to position our portfolios to take advantage of that.

On the other hand, we're also finding incremental opportunity in big pharma, which is much less susceptible to the economy's overall trajectory. These are global companies, but we've found the European-based subset – including Roche [Zurich: ROG], AstraZeneca [London: AZN], Novartis [Zurich: NOVN] and GSK (formerly GlaxoSmithKline) [London: GSK] – to be particularly interesting. They're all in our view attractively priced and we believe we understand key aspects of their businesses around the exposures to patent expiry and to drug-price regulation in the U.S. Here I'd also mention the importance of dividends and share-repurchase programs, which can be especially important in down markets. Over the next five years, we forecast our current pharmaceutical holdings should generate free cash flows that amount to roughly 30-50% of their current market capitalizations. Returning even half of that to shareholders adds to total return and creates ballast to support performance.

You mentioned a couple stocks tied to China, which in your emerging-markets strategies represents the largest country exposure. How would you characterize the opportunity set there for investors at the moment?

HH: We as a firm have made a real commitment to China, opening a subsidiary in Shanghai at the beginning of 2021 where we have a group of fundamental research analysts. The first goal was to better understand what was going on in China, which we think is critical for any global investor. Even if we didn't own any Chinese stocks, it's an important market for many of our portfolio companies and those companies go up against Chinese competitors every day around the world. If in time we think it makes sense to create our own China-only products, we'll be better prepared to explore our options.

For the most part, we believe the regulatory progression in China to implement consumer, antitrust, data privacy and environmental protections is reasonable and in line with long-standing policies in many developed economies. Consistent and transparent regulations should ultimately lower the risk of investing in China. It is also true, however, that some of the policies enacted over the past 12 to 18 months have raised concerns about China's commitment to free enterprise and its openness to foreign capital and competition. Throw on top of it all trying to figure out the impacts of zero-Covid policies and what they mean, and the situation overall is somewhat perplexing.

We believe China is and will remain extremely important to the global economy. We hope, and ultimately believe, it will continue to open its capital markets. We can imagine there will be some reconfiguration in global supply chains, especially in technology, but given China's current status as the first port of call if you're looking to produce large quantities of products, that reconfiguration is likely to happen more slowly than people think. We're big believers in free and open global trade and the wide-ranging benefits that result from it, but as investors our eyes are very much open to potential deviations from that and to the resulting winners and losers that might create.

ON NORMALCY:

Investors are being forced to pay closer attention to earnings, cash flows, capital allocation and balance sheets.

Prudential PLC [London: PRU] has gone through a significant corporate makeover. Describe the upside you see in it from here.

HH: This is a U.K.-based insurance company that is now entirely focused on Asian markets. It offers some other lines, but it primarily sells life insurance as well as fixed and variable annuities. China and Hong Kong account for about one-third of total revenue, but the company is also broadly established across the region, in Singapore, Malaysia, Indonesia, India, the Philippines and elsewhere.

Not that long ago this was a fairly typical U.K. insurance conglomerate, which in addition to the Asian operations had large insurance and asset management businesses in Europe and also owned Jackson Financial in the U.S., which sells primarily annuity-based retirement products. In early 2020, soon after Prudential had spun off its last major European division, Third Point LLC announced it had taken a large stake in the company and made the case that the market was not correctly valuing its two remaining businesses and that the solution was to split them in two. That happened in September of last year when Jackson "demerged" and started trading separately in the U.S. under the ticker symbol JXN.

Our basic case here is that life insurance, when priced and managed correctly, is an attractive business, and that the demographics for life-insurance products in emerging markets in Asia strike us as quite favorable. Rising incomes and aging populations generally increase demand for life insurance and related products used to save for retirement. We think Prudential has the management and the market presence to take full advantage of that, and that the market isn't embedding that in the current share price.

The company in May named a new CEO, Anil Wadhwani, who had been the top executive in Asia for Canadian insurer Manulife and will take over in February of next year. Is that a positive?

HH: The business has fundamentally changed and it's important that top management reflects that. We have not yet met Mr. Wadhwani, but he is very well regarded and has lived and worked extensively in Asia, based for the past five years in Hong Kong. We view his naming as CEO as a distinct positive.

How inexpensive do you consider the shares at a recent £10?

HH: The stock today trades more like a typical property/casualty insurer listed in the U.K., which isn't what the business is. To value the shares we start out by looking at the company's estimate of the present value of the current business in force. That requires a lot of assumptions – which we consider to be reasonable and fairly conservative – but it tells you if you just ran out the current book, what would the present value of the resulting cash flows be worth? That today is about £12 per share, 20% above the current price.

INVESTMENT SNAPSHOT

Prudential PLC
(London: PRU)

Business: U.K.-based but operates almost exclusively in Asia, where it sells life and health insurance products and offers investment-management products and services.

Share Information
(@7/29/22, Exchange Rate: $1 = £0.82):

Price	**£10.06**
52-Week Range	£8.81 – £15.66
Dividend Yield	1.3%
Market Cap	£26.85 billion

Financials (TTM):

Revenue	£26.50 billion
Operating Profit Margin	11.4%
Net Profit Margin	(-7.7%)

Valuation Metrics
(@7/29/22):

	PRU	S&P 500
P/E (TTM)	14.4	22.2
Forward P/E (Est.)	9.2	18.0

Largest Institutional Owners
(@3/31/22 or latest filing):

Company	% Owned
Third Point LLC	5.0%
Capital Research & Mgmt	4.2%
Baillie Gifford	3.0%
Vanguard Group	3.0%
Norges Bank Inv Mgmt	2.8%

Short Interest (as of 7/15/22):

Shares Short/Float	n/a

PRU PRICE HISTORY

THE BOTTOM LINE

The company has the management and market presence to take full advantage of positive demographics for its life-insurance, annuity and asset-management products sold in Asian markets, says Harry Hartford. Valuing its insurance and asset-management businesses separately, he arrives at a fair value estimate for the shares of around £18.

Sources: Company reports, other publicly available information

To ascribe additional value to the new underwriting they'll do, we forecast new business growth through the end of the decade, assume a terminal growth rate beyond that and then discount the resulting free cash flows back to the present. There's also an asset management business in Asia, to which we ascribe a multiple to our estimate of 2024 after-tax income. Putting those two values together and subtracting holding company net debt, we arrive at an additional £6 per share in value, bringing our estimate of fair value to £18.

Is the activist play here over?

HH: Third Point as of the end of June was still the largest institutional shareholder, but all of the arguments that activist investors made have largely been addressed at this point. Now it's up to the company to make it all work.

You've written about finding opportunity in European banks. Why is Italy's UniCredit [Milan: UCG] a good representative example?

HH: There are a number of what we believe are attractively valued banks located in Europe. Concerns about inflation and recession have been weighing heavily on their outlooks, and risks stemming from the war have pushed valuations to prior-crisis lows. UniCredit, a typical European universal bank, is maybe even more in the eye of the storm than others given that it primarily operates in industrial Italy, Germany, Central and Eastern Europe and also has some exposure to Russia.

European banks may not have grown their balance sheets much in 10 years, but we don't think investors overall are recognizing the extent to which firms like UniCredit have rebuilt their capital bases and should be well positioned to ride out any economic turbulence. We consider the capital ratios high and the credit quality good, and extra loan-loss provisions required by regulators at the onset of the pandemic have yet to be reversed – unlike in the U.S., by the way. Even in a not-great year, UniCredit's pre-loan-loss-provision profits in 2021 were around €9 billion, which should provide significant protection to the underlying equity if loss provisions have to go up or even if it has to fully write off the Russian business.

What's your general economic outlook for Europe?

HH: We are modeling a slowdown, but we generally don't expect a severe recession and believe going forward there should be healthy country-by-country investment in things like domestic manufacturing, defense and energy infrastructure. Even in a recession, as I said, we think UniCredit is more than able to handle it without threatening its equity base. The market, however, seems to be pricing in much worse – the shares go for only 0.4x tangible book value, almost as if the company is going out of business.

How are you looking at valuation with the stock priced now at €9.60?

HH: The shares currently trade at just over 5x our 2024 earnings estimate of €3.6 billion. Assuming a normalized return on equity for the company of around 8%, we believe the shares deserve at least a 0.65x

INVESTMENT SNAPSHOT

UniCredit
(Milan: UCG)

Business: Holding company providing commercial and retail banking services primarily through 13 banks in its home market of Italy, Germany and Central and Eastern Europe.

Share Information
(@7/29/22, Exchange Rate: $1 = €0.98):

Price	**€9.58**
52-Week Range	€7.75 – €15.93
Dividend Yield	5.6%
Market Cap	€18.64 billion

Financials (TTM):

Revenue	€13.11 billion
Operating Profit Margin	21.3%
Net Profit Margin	6.9%

Valuation Metrics
(@7/29/22):

	UCG	S&P 500
P/E (TTM)	14.3	22.2
Forward P/E (Est.)	4.8	18.0

Largest Institutional Owners
(@3/31/22 or latest filing):

Company	% Owned
Capital Research & Mgmt	13.1%
Parvus Asset Mgmt	5.1%
BlackRock	3.0%
Eleva Capital	0.7%
UBS Asset Mgmt	0.5%

Short Interest (as of 7/15/22):

Shares Short/Float	n/a

UCG PRICE HISTORY

THE BOTTOM LINE

Investors aren't recognizing the extent to which the company has rebuilt its capital base and earnings power, says Harry Hartford, positioning it to better ride out economic turbulence. Assuming a normalized ROE of 8%, he thinks the shares can trade at 0.65x tangible book value, which on his 2024 estimates would yield a share price of €17.50.

Sources: Company reports, other publicly available information

multiple to tangible book value. Even on our conservative €27-per-share estimate of tangible book value for 2024 – which doesn't include excess capital – that would translate into a stock price of around €17.50. That, by the way, doesn't include any upside for higher interest rates, which for a company like UniCredit that earns 70% of its profit from net interest income would be significant.

Another way we look at it: The company's market cap today is around €18.6 billion. It announced in the fourth quarter of last year that it planned to return at least €16 billion in dividends and share buybacks to shareholders over the next three years. If they get even close to that, that would be a pretty fair return on our money regardless of any re-rating in the shares.

You've suffered as a shareholder in Rolls-Royce. Describe the potential you still see in it from today.

HH: This is an idea we spoke about not long after we had gotten back into the stock in early 2020 [*VII*, April 30, 2020]. We thought the company was getting past the operational problems it had had in the production of its Trent 1000 engine for the Boeing 787, and in our view was looking at significantly improved profitability in a global jet-engine market that showed secular growth, where it was a duopoly player, where it benefitted from significant barriers to entry, and that was characterized by highly recurring and long-lived maintenance and repair revenues. Then Covid hit and threw all of that out the window.

Our view today is that the thesis is still basically intact. We believe long-distance air travel will eventually come back and that aircraft demand will return to the trajectory it was on. We're not prepared to say business travel is structurally impaired going forward, but even if it is to a certain extent, we believe airlines will adapt and get their planes in the air. That's how the company really makes its money, from ongoing payments tied to the flying hours of planes with its engines, as well as from regular servicing necessary on the installed engine base.

With a return to some semblance of normalcy in air travel, the cash generating capacity of the business should be higher than it was before. The company has reduced headcount from pre-pandemic levels by some 10,000, cut out around £1.3 billion in annualized costs, and has bolstered its balance sheet with a dilutive capital raise and the sale of non-core assets. Increased volume will entail higher costs, but we expect profitability to remain at an incrementally higher level. Post the expected disposal of its ITP Aero unit in Spain, debt also does not appear to be a big issue – we estimate net debt to EBITDA of 1.6x by 2024.

While the jet-engine business captures the headlines, the company has a number of other decent-sized divisions. Are any of them important to your thesis?

HH: There are other businesses, in power generation, energy infrastructure and defense. These businesses are not insignificant, but we think the upside here comes

INVESTMENT SNAPSHOT

Rolls-Royce
(London: RR)

Business: Develops, manufactures and services commercial aircraft engines, a range of defense-related systems and equipment, and plants and equipment for power generation.

Share Information
(@7/29/22, Exchange Rate: $1 = £0.82):

Price	**£0.89**
52-Week Range	£0.78 – £1.62
Dividend Yield	0.0%
Market Cap	£7.23 billion

Financials (TTM):

Revenue	£11.22 billion
Operating Profit Margin	4.1%
Net Profit Margin	1.1%

Valuation Metrics
(@7/29/22):

	RR	S&P 500
P/E (TTM)	46.7	22.2
Forward P/E (Est.)	n/a	18.0

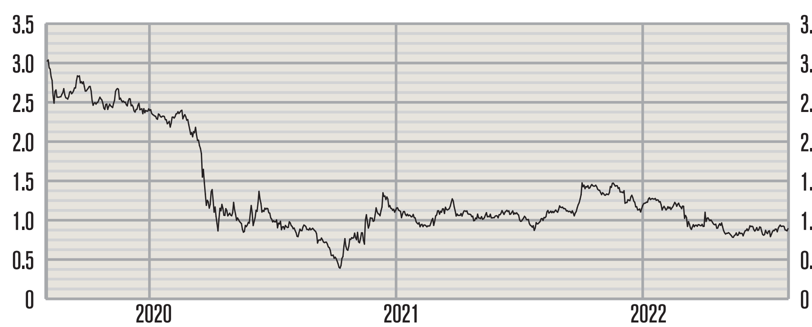
Largest Institutional Owners
(@3/31/22 or latest filing):

Company	% Owned
Causeway Capital	8.0%
Harris Assoc	5.0%
Vanguard Group	3.2%
Massachusetts Fin Serv	3.1%
Hargreaves Lansdown	3.1%

Short Interest (as of 7/15/22):

Shares Short/Float	n/a

RR PRICE HISTORY



THE BOTTOM LINE

The company's recovery has been painfully slow in coming, says Harry Hartford, but he believes as demand for widebody jet engines normalizes that its earnings power will recover more strongly than appears to be currently priced into the stock. Assuming a free-cash-flow yield of 7.5% on his 2024 estimates, the shares would trade at about £1.60.

Sources: Company reports, other publicly available information

primarily from jet engines. Maybe there's some optionality in other areas – say modular nuclear-power generating equipment – but none of that is driving our interest in the stock.

What upside are you seeing in the shares from the current price of just under 90 British pence?

HH: Changes in the group's structure make pre-pandemic comparisons difficult, but assuming traffic recovery to 85% of pre-2019 levels, we estimate 2024 group revenue at around £14 billion. As volume and margins improve, we're expecting free cash flow to come in at around £850 million. We capitalize that free cash flow number at a yield of 7.5%, which would result in an equity value per share of just under £1.70. Haircut that for some expected currency hedging losses, and that brings our per share value estimate to about £1.60.

With oil-industry veteran turned private equity executive Tufan Erginbilgic named this past week as CEO, this is another holding where a leadership change is on the way. Is that a concern?

HH: There's always some concern around a CEO change, but we generally think a change in leadership here should be a good thing. The company needs an accomplished operator, who can look at the entire business from the ground up, zero in on what needs to be better, and then go about making it better. Given all that the business has been through, we'd argue now is actually a good time for that to happen.

Turning to a U.S.-based idea, why are you high on the investment prospects for Berry Global [BERY]?

HH: This is a large global producer of plastic packaging and related materials used in a variety of consumer food, health and hygiene products. The mix is roughly 50/50 between rigid packaging like mouthwash bottles and peanut butter jars, and flexible packaging and non-woven products found in products like diapers and disinfectant wipes. The company has 300 plants around the world and the revenue breakdown is about 50% North America, 35% western Europe and the rest in emerging markets.

Here we believe there is somewhat of a disconnect between the negative general perception of plastics from an environmental standpoint and how the company is positioning itself going forward. It has over time grown largely through acquisition, building the scale necessary to spend on process and product innovation that can reduce the environmental footprint of its products and improve their recyclability. I wouldn't go too far in touting their green credentials, but we believe they're producing highly competitive products from a cost, efficacy and environmental standpoint. We don't think the market is recognizing that.

What are the drivers of growth here?

HH: In addition to potential growth from increasing product sustainability that many customers will be willing to pay for, we think Berry is well positioned in incremental growth areas like health, hygiene and wellness. They have good potential in developing markets, where rising incomes typically translate into higher sales of packaged consumer goods. They also believe there's considerable ongoing opportunity for inorganic M&A-related growth in what is still a relatively fragmented global market.

I would add that growth will be a real proof point. The company has done a lot of M&A – and has been pretty good at it – but we think a real key to improving investor perception will be to jump-start organic growth from new products and geographic expansion.

Now at $57.60, what do you think the shares are more reasonably worth?

HH: Our estimate of free cash flow for 2024 is about $1 billion. If we capitalize that at what we believe is a reasonable free-cash-flow yield of 9%, that would result in an equity value of just over $11 billion, which comes to around $92 per share. We arrive at just about the same number on our 2024 estimates using an 8x EV/EBITDA multiple.

Acquisitive companies can have stretched balance sheets. Is that an issue here?

HH: On our EBITDA forecast for this year of just over $2 billion, the current 3.9x net debt/EBITDA ratio is at the high end of management's target range. We don't think that's unreasonable for a company with relatively stable and predictable consumer-goods-related cash flows, but we do think the valuation would benefit from that number coming down. Management appears to agree with that and has prioritized debt reduction as an important capital-allocation priority.

Describe some positions you've sold recently and why.

HH: We have a long-term perspective, but that doesn't mean we don't at times consider shorter-term impacts in deciding when to sell – or in timing when to buy, for that matter. We recently sold our position in airline Air Canada [Toronto: AC], in part because its valuation relative to other airlines became less attractive to us, but also because rising fuel-cost environments generally aren't positive for airlines. We still owned Ryanair in client portfolios and preferred to consolidate our airline exposure in it.

We also in the first quarter of this year exited our position in BASF [Frankfurt: BAS], the big German chemical company. It's hard to argue that a stock trading at a trailing P/E of less than 8x is expensive, but with natural-gas supply into Germany threatened by the war and with the company's industrial customer base more sensitive to an economic downturn, we decided that given the resulting threat to earnings we could put capital more productively to use elsewhere.

You've been one of many long-suffering shareholders in Credit Suisse [Zurich: CSGN]. Are you still in it?

HH: This has been a weak investment on our part, in a company that definitely appears to be very accident-prone. Wirecard. Archegos. Greensill. Internal spying. CEOs that come and go. A Chairman who was supposed to clean things up leaves under a cloud. Now there's even an issue related

INVESTMENT SNAPSHOT

Berry Global
(NYSE: BERY)

Business: Development, manufacture and sale of plastic-based products through Consumer Packaging, Health & Hygiene and Engineered Materials operating segments.

Share Information (@7/29/22):

Price	**57.65**
52-Week Range	50.10 – 74.73
Dividend Yield	0.0%
Market Cap	$7.48 billion

Financials (TTM):

Revenue	$14.69 billion
Operating Profit Margin	8.6%
Net Profit Margin	5.1%

Valuation Metrics
(@7/29/22):

	BERY	S&P 500
P/E (TTM)	10.6	22.2
Forward P/E (Est.)	7.0	18.0

Largest Institutional Owners
(@3/31/22 or latest filing):

Company	% Owned
Edgepoint Inv Group	11.7%
Vanguard Group	9.0%
Turtle Creek Asset Mgmt	4.9%
Ontario Teachers' Pension	3.8%
LSV Asset Mgmt	3.4%

Short Interest (as of 7/15/22):

Shares Short/Float	2.2%

BERY PRICE HISTORY

THE BOTTOM LINE

Harry Hartford believes the company produces highly competitive products from a cost, efficacy and environmental standpoint, and that it is well positioned in emerging markets and in growth areas like health, hygiene and wellness. Capitalizing his $1 billion estimate in 2024 free cash flow at a yield of 9% would translate into a share price above $90.

Sources: Company reports, other publicly available information to capital adequacy in Switzerland that is impacting their ability to return capital to shareholders.

We still think the shares are very cheap on a five-year horizon, but due to some selling and the stock performing poorly, we're down to a modest position. At least until they fill the capital hole at the parent company, I wouldn't expect much about that to change.

When you make mistakes, are there any typical reasons?

HH: As in the case of Credit Suisse, mistakes can result from management missteps, but in many stocks that have underperformed for us it's often been a function of our overestimating the earnings profile of the business and then, related to that, assuming too high of a normalized valuation. This generally occurs in more cyclical companies, may I add.

We try to minimize the risk of that in a couple of important ways. One is that whenever we start to research a new idea, we put two analysts on it working together. Given all that's involved in researching and analyzing a company there is a considerable amount of subjectivity in valuation. We don't want to solely rely on one person projecting the future, and have found that two people challenging each other on the inputs to the valuation work improves the likelihood we get closer to right.

This is also an area where Sarah and I should add value. It's easy when you become enthusiastic about an idea to build more optimism into your outlook for a company than is maybe warranted. Those of us who have been at it longer and have been through many more industry and market cycles can maybe see that enthusiasm and temper it a bit more easily. Value investors in many ways are ultimately optimists, but all within reason. VII

To determine if a Fund is appropriate investment for you, carefully consider the Fund's investment objectives, risk factors, charges and expenses before investing. This and other information can be found in the Fund's full or summary prospectus, which may be obtained by calling 1-866-947-7000. Read it carefully before investing.

Risk Disclosure

Investing involves risk including loss of principal. There is no guarantee that the Causeway Funds will meet their stated objectives. In additional 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.

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