

MarketWatch

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Manager of \$8.6 billion international fund makes bets that take guts

By Philip van Doorn

Harry W. Hartford of Causeway Capital Management looks for special opportunities in downtrodden stocks

Harry W. Hartford doesn't shy away from buying shares of companies that are in turmoil if he thinks they'll come out the other end making money for his Causeway International Value Fund.

CIVVX, The mutual fund which has \$8.6 billion in assets, has as its top holding Volkswagen AG, the German car company still mired in the so-called dieselgate scandal. The No. 2 holding is London-based cigarette maker British American Tobacco PLC. And another company he favors, Japan's Takeda Pharmaceutical Co., is "going through a significant restructuring" under a new management team, he said in an interview Feb. 7.

Hartford, unlike many average investors, is used to volatility. He says they better get used to the price swings that rocked global stocks in the past week.

After years of high returns supported by "generous" monetary policy among central banks around the world, the better-than-expected U.S. employment numbers on Feb. 2 were enough to spook investors afraid of rising interest rates.

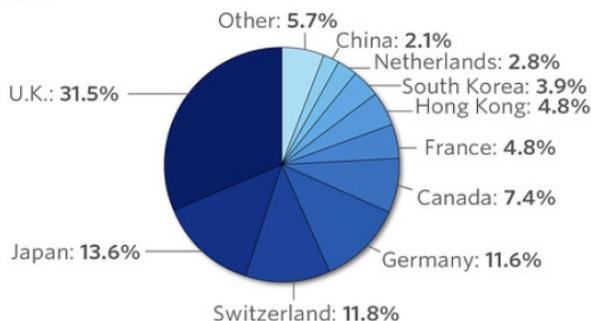
"Markets don't like surprises, [and] as we revert to more normal monetary policy, it is inevitable that you get some reversal" of low volatility, he said.

Hartford discussed his investment strategy for the Causeway International Value Fund, which has relatively low annual turnover of 35% as stocks are held for an average of three years.

Here's a chart showing the geographic concentration of the fund as of Dec. 31, based on where the companies it invests in are headquartered:

Causeway International Value Fund

As of Dec. 31



Source: Causeway Capital Management

"It would appear that we love the U.K.," Hartford said, but he pointed out that this is because "many international businesses are listed there."

He said U.K. values appear "to be depressed" because of the ongoing Brexit negotiations, yet the U.K. companies the fund invests in "tend to be well-managed."

Three international value opportunities

A three-year chart of Volkswagen tells the tale:



The stock had been staging a "pretty decent recovery" from dieselgate until the recent market downturn, Hartford said. After Volkswagen in September 2015 admitted deceiving regulators with software in its diesel cars designed to indicate reduced emissions, Hartford said he and his management and research team "decided the business was financially strong enough to absorb significant penalties, which they were subjected to."

He added that the stock is attractive because of Volkswagen's "very good free cash flow," and that the company's focus on this and profitability "has improved the underlying returns on capital, and we as shareholders have benefited."

He said the stock is still a good value at its current price of about 173 euros, but "a lot less" than it was when the shares fell below 100 euros.

VW still can't shake the scandal that has cost it \$30 billion. It was reported late last month that Volkswagen used monkeys to breathe diesel exhaust in an experiment to prove that modern-day fumes aren't as dangerous as they were decades ago.

The second-largest position of the fund at the end of 2017 was British



Harry W. Hartford, president of Causeway Capital Management.

American Tobacco PLC BATS, -1.89% which owns the Dunhill, Lucky Strike, Newport, Camel and Pall Mall brands, and is pushing into smokeless tobacco products.

When asked about the prospects for sales growth in the tobacco industry, Hartford said “you can make a lot of money on companies that may not appear to have a lot of top-line growth” because of improving efficiencies.

He pointed out that tobacco companies no longer spend a lot on advertising. Also, when governments raise taxes on cigarettes, companies “generally raise the price per stick [cigarette] by an amount greater than the tax increase.”

“It’s all about managing demand erosion and costs,” he said.

The third company Hartford talked about was Takeda Pharmaceutical Co. 4502, -2.61% which he said is “going through a significant restructuring” under a new management team.

He expects the company to improve its gross operating margin to about 25% from the current level of about 10% over the next several years. The stock trades now for about 25 times the consensus earnings estimate for fiscal 2017, which ends on March 31 of this year.

But a potential doubling of earnings can make this a winning play for committed long-term investors, Hartford said.

Fund performance

Hartford founded Los Angeles-based Causeway Capital Management, which has about \$59 billion in assets under management, in June 2001.

The Causeway International Value Fund mainly invests outside the U.S., focusing on mid- to large-cap companies in developed countries. The fund’s Investor Class shares have a four-star rating from Morningstar, the second-highest level.

Here’s how the Investor Class shares have performed against the fund’s Morningstar category and the MSCI EAFE Index (the fund’s benchmark):

	Total return - 2018 through Feb. 6	Total return - 2017	Avg. return - 3 years	Avg. return - 5 years	Avg. return - 10 years	Avg. return - 15 years
Causeway International Value Fund - Investor Shares	-1.7%	27.1%	5.8%	6.6%	4.1%	9.2%
Morningstar Foreign Large Value category	0.0%	22.1%	6.1%	5.8%	2.6%	8.0%
MSCI EAFE Index (U.S. dollars)	-1.4%	25.6%	7.0%	7.1%	3.5%	8.8%

Sources: Morningstar, FactSet

EAFE stand for Europe, Australia and Far East. The MSCI EAFE Index is designed to track the performance of equity markets in developed countries excluding the U.S. and Canada.

Top holdings

Here are the fund’s 10 largest equity positions (out of 57) as of Dec. 31:

Company	Ticker	Share of portfolio	Total return - 2018 through Feb. 7	Total return - 2017	Total return - 3 years
Volkswagen AG	VOW, -0.72%	4.8%	-1%	25%	-19%
British American Tobacco PLC	BATS, -1.89%	3.3%	-10%	13%	40%
Barclays PLC	BARC, -0.62%	3.3%	-7%	-8%	-21%
Royal Dutch Shell PLC Class B	RDSB, -2.36%	2.9%	-7%	9%	5%
BP PLC	BP, -2.30%	2.8%	-9%	10%	29%
Schneider Electric SE	SU, -0.26%	2.8%	-1%	10%	14%
ABB Ltd.	ABBN, -1.60%	2.8%	-7%	26%	43%
BASF SE	BAS, -3.57%	2.7%	-4%	7%	21%
China Mobile Ltd.	0941, -3.37%	2.7%	-2%	3%	-16%
Linde AG	LIN, -1.65%	2.5%	-5%	19%	7%

Sources: Causeway Capital Management, Morningstar, FactSet

The fund managers prefer to buy shares in local exchanges, but the companies that made up its 10 largest equity positions as of Dec. 31 also have American depositary receipts (ADRs) listed on U.S. exchanges:

Company	Ticker for U.S. listing or ADR
Volkswagen AG ADR	VLKAY, +1.16%
British American Tobacco PLC ADR	BTI, -1.74%
Barclays PLC ADR	BCS, -0.47%
Royal Dutch Shell PLC Class B ADR	RDS.B, -1.23%
BP PLC ADR	BP, -1.75%
Schneider Electric SE ADR	SBGSY, +1.07%
ABB Ltd. ADR	ABB, -0.41%
BASF SE ADR	BASFY, -0.34%
China Mobile Ltd. ADR	CHL, -2.02%
Linde AG ADR	LNAGF, -7.39%

Sources: Causeway Capital Management, FactSet

Important Disclosures

To determine if a Fund is an 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 viewed and downloaded by visiting <http://www.causewayfunds.com/> or by calling 1-866-947-7000. Read it carefully before investing.

Investing involves risk including loss of principal. 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 typically exhibit higher volatility. Diversification does not prevent all investment losses. There is no guarantee that risk can be managed successfully or that the fund will achieve its stated objective.

For performance data current to the most recent month end, please call 1-866-947-7000 or visit <https://www.causewaycap.com/fund/international-value-fund/>

Holdings are subject to change and current and future holdings are subject to risk. The top 10 holdings for the Causeway International Value Fund may be viewed by visiting <http://www.causewaycap.com/fund/international-value-fund/>

The MSCI EAFE © Index (Gross) is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the United States and Canada. The Index is gross of withholding taxes, assumes reinvestment of dividends and capital gains, and assumes no management, custody, transaction or other expenses. The Fund's value discipline may prevent or restrict investment in major stocks in the benchmark index. It is not possible to invest directly in an index.

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The Causeway International Value Fund Investor Class was rated against 265 Foreign Large Value funds over a three-year period, 208 funds over a five-year period, and 136 funds over a ten-year period. With respect to these funds, the Causeway International Value Fund Investor Class received a rating of 3, 4 and 4 stars respectively. Past performance is no guarantee of future results.

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