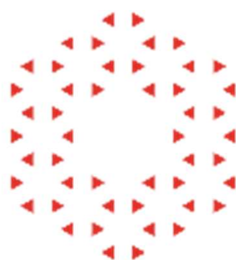

MOERUS
CAPITAL MANAGEMENT

Moerus Worldwide Value Fund

Institutional: MOWIX | Investor: MOWNX

Annual Shareholder Letter: Twelve Months Ended November 30, 2019

Dear Fellow Investors:

It is our pleasure to update you on recent developments regarding the Moerus Worldwide Value Fund (the "Fund"). In this Annual Shareholder Letter covering the twelve months ended November 30, 2019, we will discuss performance, investment activity, where the Fund is in its journey as a long-term investor, and why we believe that bodes well for the future.

We thank you very much for your support, and as always, we welcome any feedback that you might have.

Fund Performance (as of November 30, 2019)*			Since Inception**	
Fund/Index	**6-Months**	**1-year**	**Cumulative**	**Annualized**
Moerus Worldwide Value Fund - Class N	4.76%	3.49%	15.21%	4.13%
Moerus Worldwide Value Fund - Institutional Class	4.94%	3.68%	16.13%	4.37%
MSCI AC World Index Net (USD) ***	12.11%	13.68%	45.45%	11.30%

** Performance data quoted is historical, and is net of fees and expenses.*
***Inception date is May 31, 2016.*
**** The MSCI AC World Index Net (USD) captures large and mid-cap representation across 23 Developed Market and 26 Emerging Market countries. With 3,060 constituents, the index covers approximately 85% of the global investable equity opportunity set.*

Past performance does not guarantee future results. The performance data quoted represents past performance and current returns may be lower or higher. Returns are shown net of fees and expenses and assume reinvestment of dividends and other income. The investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than the original cost. Please call 1 (844) MOERUS1 or visit www.moerusfunds.com for most recent month end performance.

Investment performance reflects expense limitations in effect. In the absence of such expense limitations, total return would be reduced. The Fund's adviser has contractually agreed to reduce its fees and/or absorb expenses of the Fund, until at least March, 31, 2020, to ensure that total annual fund operating expenses after fee waiver and/or reimbursement (exclusive of any taxes, brokerage fees and commissions, borrowing costs, acquired fund fees and expenses, fees and expenses associated with investments in other collective investment vehicles or derivative instruments, or extraordinary expenses such as litigation) will not exceed 1.65% and 1.40% for Class N and Institutional Class Shares, respectively.

With regard to the table above, as always, please note that the Fund's performance data is noted simply for informational purposes for our fellow investors. The Fund seeks to invest with a long-term time horizon, of five years or more, and it is not managed with any short-term performance objectives or benchmark considerations in mind. The investment objective of the Fund is long-term capital appreciation, and we manage the Fund with the goal of achieving attractive risk-adjusted performance over the long-term. Our investment approach is predicated upon taking a long-term view and striving to take advantage of near-term uncertainty by investing in depressed and/or unpopular businesses and assets at attractive prices. Short-term market or index performance, therefore, is never a primary focus for us, except insofar as it may offer us longer-term investment opportunities.

With that said, purely for comparison purposes, we will highlight the noteworthy factors driving short-term performance during the period under review. The Fund was up 3.7% during its 2019 *Fiscal Year* – the twelve months ended November 30, 2019. By comparison, the Fund's benchmark, the MSCI All-Country World Index (ACWI, Net) was up 13.7% during the same period. For the 2019 *Calendar Year* (twelve months ended December 31, 2019), the Fund was up 15.3%, while the MSCI ACWI (Net) was up 26.6%. Although accompanied by a good deal of volatility along the way which was fueled by macroeconomic and geopolitical headlines, 2019 turned out to be quite the cheerful year for many equity markets, especially here in the U.S. This was particularly the case during the latter half of the year, as markets gathered momentum driven by perceived progress in U.S.-China trade negotiations (although specific details remain scant) as well as the Federal Reserve's October announcement that it would begin buying $60 billion in Treasury bills per month (but don't call it a return of Quantitative Easing, they said).

What Worked in 2019

Against this backdrop, the Fund's positive *absolute* performance in 2019 was driven by broad-based appreciation in a majority of holdings. The most notable positive contributions to performance on a geographical basis came from Latin America, a region that had weighed on Fund performance in past years (more on that later). Strong gains were generated by Fund holdings in Brazil (BR Properties, Telefonica Brasil and GP Investments), Colombia (most notably Almacenes Exito), and Panama (Copa Holdings). In our May 2018 Semi-Annual Shareholder Letter, we described in detail some of the Fund's Latin American investments, which had, to that point in time, been among the largest negative detractors from performance. We noted that, despite what we saw as encouraging fundamental developments at levels of the actual businesses in question, as well as compelling longer-term investment cases for each company, the stock prices of these holdings had been driven into the ground, due primarily to geopolitical and macro-related headlines and other short-term considerations. We expressed excitement that given what we viewed to be solid underlying fundamentals and attractive long-term investment theses, these stock price declines were offering us ever-cheaper, increasingly attractive long-term opportunities in plain sight.

In 2019, these very opportunities began to bear fruit. The most significant contribution was made by **BR Properties** (up 70% in U.S. dollar terms in calendar 2019), a Brazilian commercial property owner whose Triple-A office portfolio has benefited from a stabilizing economy, rising occupancy rates and declining interest rates in Brazil. The two next largest contributions from the region were made by **Almacenes Exito**, a Colombian retailer which during the year was subject to a takeover offer at a large premium to market, as well as **Copa Holdings** (up 41% in 2019), a well-financed, well-managed pan-Latin American airline which continued to experience better than expected traffic numbers as the region gradually, albeit unevenly, recovers from the deeply depressed environment of the past several years. While Latin America was the biggest story on the positive side of the ledger in 2019, other leading contributors to performance from outside of that region included **Spectrum Brands Holdings**, **Wheaton Precious Metals**, and **Jefferies Financial Group**. Looking at performance by sector, a noteworthy positive contributor during the year was the Fund's Materials holdings, driven primarily by the strong performance of our precious metals-related investments, including Wheaton Precious Metals and **Major Drilling Group International**. This strong performance came about amid increased gold and precious metals prices, as it became apparent that the Fed's hawkish tone from late 2018 might prove short-lived.

What Didn't Work in 2019

While the Fund's performance on an *absolute* basis was positive, it nonetheless lagged that of its benchmark, the MSCI ACWI (Net), underperforming on a *relative* basis in 2019. Several noteworthy factors weighed on the Fund's short-term performance relative to the benchmark, including both the general market backdrop, as well as what we have called our "sins" of commission and omission – things we *have* and *have not* done which have not "worked" yet. It was a strong year for most assets, including stocks (U.S. and international), bonds (corporate and sovereign) and even traditional safe havens such as U.S. Treasuries and gold. The world's major asset classes collectively produced the strongest annual performance in a decade, since the 2009 market bounce back from lows reached at the depths of the Global Financial Crisis[i]. The Moerus investment style – a fundamental, long-term, risk-conscious approach based upon buying out-of-favor businesses cheaply based on intrinsic values in the here and now – in general, is apt to lag broader market indices during this type of heady, "risk-on" environment.

The tendency of our investment style to underperform during very strong, dare we say frothy, market environments is perhaps more so the case today than ever before, given the increasing weighting of Growth stocks in general, and Information Technology stocks in particular, in global benchmarks in recent years. As we discussed in the May 2019 Semi-Annual Shareholder Letter, Growth stocks' outperformance of Value has persisted (with sporadic interruptions) for the most extended period of time that we can recall. This long-running trend continued throughout much of 2019 (although there have been nascent signs of a potential shift in sentiment – more later). For one general measure of this outperformance, the MSCI ACWI Growth Index (Net) outperformed the MSCI ACWI Value Index (Net) by over 1,200 basis points (over 12 percentage points) in 2019. In short, 2019 was the latest in a succession of periods which clearly proved difficult for deep value investors like us – who strive to remain focused on long-term, fundamental, bottom-up investment opportunities – to keep up with Growth-crazed broader markets which, we believe, are trading more on "stories" than upon price, value and fundamentals.

While such an environment can surely be frustrating in the short run amid a broader market melt-up that seems, to us, to have little regard for price or risk, we will not take on what we deem to be excessive levels of longer-term price risk with your capital merely to stay close to a benchmark in an attempt to "keep up with the Joneses." The good news is that today's markets, in our view, offer a striking divergence between the fully priced "haves" and the deeply discounted "have nots." We believe that such an environment tends to create attractive opportunities for long-term, patient investors, and that the Fund owns a portfolio of investments that are potentially primed for outperformance over the longer run.

The Fund's "Sins of Omission" Revisited: Tech and U.S.

Nonetheless, along the way short-term performance waxes and wanes, driven more by prevailing market psychology and sentiment than by the underlying fundamentals of actual businesses. As noted earlier, 2019 was a year that saw Growth stocks, particularly Information Technology stocks (predominantly those based in the U.S.) remain market darlings. As a result, the most significant "sin of omission," or what we did *not* do which weighed on relative performance in 2019 and since inception, remained our avoidance of high-priced, tech-related growth stocks due to our concerns on valuation. As of the end of November 2019, Information Technology is now the single largest component in the Fund's benchmark index, the MSCI ACWI, at nearly 17%. This does not include Amazon, Facebook, and Alphabet (Google's parent company) – which we would argue generally fall into the tech/new economy bucket – because they are technically classified as belonging to other sectors. If we were to include those three companies, the collective tech allocation to the MSCI ACWI increases to over 21%. The Fund's avoidance of popular tech stocks hurt in terms of relative performance in 2019, as the sector continued its seemingly relentless march upwards during the year. An equally weighted portfolio of the five FAANG stocks[1], for example, would have returned roughly 44% in

[1] FAANG is a commonly used acronym for five of today's largest, most popular technology stocks in the market: Facebook, Apple, Amazon, Netflix, and Google (i.e., Alphabet, Inc., which is the listed holding company that owns Google).

Calendar 2019, significantly outpacing benchmark returns. Looking more broadly, the iShares Global Tech ETF returned nearly 48% during the same period.

Our May 2019 Semi-Annual Shareholder Letter included a detailed discussion of why we have avoided many new economy, high-tech stocks; namely, because we believe they are priced dangerously high, thereby incorporating levels of longer-term price risk that we find unacceptable. We will not repeat that lengthy discussion here, but would encourage anybody interested to revisit the Semi-Annual Letter. But in short, we believe that however much technology continues to change the world, the basic laws of mathematics and economics still apply, and that valuation, or how much you pay for an investment, ultimately proves to be one of the most important factors in the long-term, risk-adjusted returns yielded by that investment. In our view, the tech sector's current valuation is historically high, and fails to adequately price in a number of potential risks going forward, whether it be a recession, geopolitical crises, economic nationalism, or any kind of reversion to historical norms of currently high profit margins, low interest rates, easy access to low cost capital, low corporate taxes, reduced bargaining power of organized labor, and lenient antitrust regulation (to name a few). For a one-sentence update of this situation that we decribed six months ago: all of these potential risks still exist, and price risk has only increased further, given the continued upswing in this group of stocks. Yet for now, our avoidance of the tech sector on the grounds of risk management has weighed on relative performance.

Another factor, somewhat related to the tech boom, which impacted relative performance was the continued, material outperformance of U.S. markets relative to most international markets in U.S. dollar terms. The S&P 500 (up 31% in Calendar 2019) and NASDAQ (up 37%) reached record highs late in the year, as many investors continued to prefer the perceived "safety" of the U.S. market. This perception of safety (flawed, in our view) is perhaps attributable to an assumed extrapolation of the U.S. market's strong recent performance and that of its tech sector. Notably, the Fund currently has much less exposure to the U.S. (14.5% of assets, excluding cash as of November 30) than does the benchmark MSCI ACWI (56% of assets). Wherever the Fund's assets are invested (sector or country) is simply a result of where we believe we are finding the most attractively valued, long-term opportunities at any point in time, period. As in the case of the tech sector, in general and given our contrarian, price sensitive bent, we have found relatively fewer compellingly valued opportunities in the U.S., which remains (in our opinion) a "crowded room." As we have pointed out in past letters, valuations in the broader U.S. market, as a whole, seem stretched from a historical perspective, exposing investors to what we believe is excessive price risk that has grown further with the recent market rally. Notwithstanding our concerns about what that might portend going forward, in 2019 the continued outperformance of the U.S. market had a negative impact on the Fund's relative performance during the year.

The Fund's "Sins of Commission" Revisited: Energy

Moving on to our "sins of commission," or what we *have done* which has not worked yet, the bulk of the negative impact to Fund performance during the year came from its holdings in the Energy sector, the most significant detractor from performance (by far), collectively generating a 516 basis point *negative impact* on performance during Fiscal 2019. In particular, the Portfolio's Oil and Oil and Gas Service-related holdings (Gran Tierra Energy, Tidewater Inc., Enerflex Ltd., and indirectly Aker ASA) suffered against a general backdrop in which much of the energy-related equity space was heavily punished as a result of volatile trade negotiations and poor investor sentiment. While such a reaction might very well be justified for many of the sector's riskier names, we believe that the Fund's holdings in the space represent truly compelling long-term investment opportunities, which have only gotten cheaper as a result of this broad sector shakeout that has rendered it one of, if not the most hated sector in global equity markets today.

An interesting feature of the recent oil-related equity meltdown is the magnitude of the space's underperformance relative to the broader market, and most notably, the performance of the underlying oil price itself. For a general idea of the extent of the pain, we will start with the Oil Exploration and Production (E&P) companies. Consider that while the S&P 500 Index was *up* 16.1% and the MSCI ACWI was *up* 13.7% (in USD terms) during the Fund's Fiscal 2019 (twelve months ending November 30, 2019), the S&P Oil & Gas Exploration and Production Select Industry

Index was *down* 37% during the same period. Remarkably, this steep decline occurred during the same twelve month period in which WTI and Brent crude oil benchmark prices were *up* 8% and 6%, respectively. Over longer periods, the disparity between oil-related equities and the underlying commodity is even starker. Specifically, as of November 30, 2019, WTI and Brent crude oil prices have rebounded by 110% and 124%, respectively, from their recent lows reached in early 2016. By comparison, the S&P Oil & Gas E&P Select Industry Index was *down* 11%, including dividends (assumed reinvested) over the same period. As for Oil Service companies, in general, they have fared similarly to the E&P companies over the past year, and much worse over longer periods. The Philadelphia Oil Service Sector (OSX) Index, for example, was down 34% during the Fund's Fiscal 2019, and down 44% since the early 2016 lows in oil prices. The magnitude of this disconnect between oil prices and the performance of related equities is unusual in a historical context, and we believe it may reflect a temporary dislocation in the market that is potentially indicative of unusually attractive opportunities in *select* energy-related equity investments going forward.

As you know, we do not focus much on market psychology, except insofar as it offers us opportunity. But our best guess is that the collapse in oil-related stocks in 2019 seemed to be attributable to, among other factors, concerns about the trade war's impact on oil demand, investor fatigue in the U.S. shale patch given generally insufficient cash flow generation and unsatisfactory returns on capital from many distressed, lower-quality producers, and the continued growth of renewable energy over the longer term. These concerns have allowed us to continue to add to the Fund's energy holdings, which in our view boast considerable staying power provided by strong financial positions, have used the downturn to build their businesses and accumulate assets at attractive prices, and currently trade at what we believe are extraordinarily discounted prices that, to our mind, make little sense unless oil demand permanently collapses within a short timeframe. That seems highly unlikely, we think, as oil demand continues to grow, headlines and cyclical volatility notwithstanding. This is to say nothing of potential geopolitical risks to supply (note the current escalation in U.S.-Iran hostilities) as well as the recently diminished access to investor capital (amid bankruptcies and investor fatigue) that has begun to plague U.S. shale producers, an important source of production growth that has become somewhat of a swing factor in the supply/demand balance.

As for the Fund's holdings, in our opinion the two which are owners of Oil E&P assets – **Aker ASA** and **Gran Tierra Energy** – are well financed, their oil-related businesses generate meaningful operating cash flow even at subdued oil prices, and both trade at deep discounts to conservative estimates of intrinsic value, attributing no value to assets that offer considerable potential upside "optionality." **Enerflex**, an equipment and services provider to companies which produce and transport natural gas, has a strong balance sheet, has been cash flow generative throughout the business cycle, and appears to be well-positioned to benefit from long-term trends in natural gas production and consumption (such as coal-to-gas switching in power generation), yet the stock is trading at a wide discount to what we believe is a conservative estimate of intrinsic value. As for **Tidewater**, its balance sheet strength is the envy of the Offshore Service Vessel ("OSV") space, providing the company with staying power and the potential to continue consolidating this fragmented industry of distressed players at bargain prices. Despite operating in an extremely cyclically depressed industry, Tidewater's recent results have been encouraging, as day rates have begun to tick up and operating expenses continue to come down (as synergies from the GulfMark acquisition continue to be realized). Yet Tidewater shares currently trade at a deep discount to both reported tangible book value – which in turn reflects asset values that had already been written down by roughly 70% as a result of fresh start accounting – as well as a conservative estimate of replacement cost, in addition to a low single-digit multiple (< 3x) of a conservative estimate of normalized operating cash flow.

In summary, we believe that the current dislocation in the energy equities space has swept up the good along with the bad, offering the Fund compelling long-term investment opportunities. At such beaten-down valuations and with considerable financial staying power, we believe the risk-adjusted return potential of the Fund's energy-related holdings is considerable, and indeed something to be excited about looking forward.

Finally, although in the short-term the Fund's relative performance has been hindered as a result of our investments in the Energy sector, as well as our exclusion of tech stocks and our "underweighting" of the U.S., late in 2019 there were some nascent signs of potentially changing winds. Indeed, there was a noticeable shift, albeit sporadic, in sentiment towards Value stocks, and Energy-related stocks began to rebound in December. Whether these

developments prove to be mere anomalies, or instead the start of something lasting that was triggered by one or more random events, remains to be seen. Perhaps, for example, the WeWork IPO debacle and the post-IPO struggles of Uber and Lyft, among others, have sparked skepticism regarding the sustainability of some new economy business models. Perhaps not. In any event, however day-to-day market sentiment shifts, we will endeavor to remain focused on constructing a portfolio of attractively valued securities that we believe offer solid fundamentals and compelling long-term, risk-adjusted return potential.

Investment Activity in the Fund

To that end, the Fund's Fiscal 2019 was a busy period, in which we continued to put capital to work by adding to 12 existing Fund positions at attractive prices, including all four currently unpopular Oil and Gas-related holdings listed above, which were left behind in an otherwise strong market. Additionally, two noteworthy new purchases were made in the Fund during the period. The first was an investment in shares of **Hammerson plc,** a United Kingdom-listed Retail Real Estate Investment Trust whose investment case we discussed in detail in our May 2019 Semi-Annual Shareholder Letter. The second was an investment in shares of **IDFC First Bank Limited**, a private sector bank listed in India. India is a market that we have followed for years and, while attractive in multiple regards, it is a market that remains challenging for most value investors – given the generous valuations accorded as a result of the country's immense potential. However, as we have discussed in previous letters, developing markets can be a very attractive source of opportunities for investors with the right approach and a lot of patience.

India tends to be a market where growth expectations are strong and, as such, valuations generally are high to reflect this. This is seen in the fact that the Indian market Index (the S&P BSE SENSEX) was valued at nearly 28x trailing earnings as of September 30, 2019, as compared to 18x for the MSCI ACWI Index. India also tends to have a reputation as a market that is challenging to operate in logistically. Because of these two factors, while the Indian market can be a very tough place to find bargains, it is also a notoriously volatile market, as international capital moves in and out quite quickly. This provides occasional opportunities for patient, long-term investors. While Indian valuations generally reflect optimistic expectations, there are periods where sentiment-driven sell-offs create entry points for value investors.

We last took advantage of one of these periods of opportunity in late 2013, following the "Taper Tantrum." This was a result of the U.S. Federal Reserve tapering its Quantitative Easing (QE) program, sending shockwaves throughout developing markets and affording long-term oriented investors a phenomenal opportunity. We believe we have a similar opportunity today, though in a much more finite portion of the Indian market. Specifically, Indian banks and Non-Banking Finance Companies ("NBFCs") – essentially shadow banks – had a particularly challenging year in 2019, stemming from general economic weakness and the September 2018 failure of IL&FS, an NBFC focused on infrastructure finance.

Within this space, the Fund acquired shares of IDFC First Bank Limited ("IDFC First"), an India-listed private sector bank. IDFC First is a unique bank in India, as it is the result of one of the very few successful mergers between a Bank and an NBFC in India – IDFC Bank Limited and Capital First Financial Limited. This merger is of particular interest because Capital First had an impressive track record of building a formidable business by focusing on borrowers underserved by India's banking sector. This business model has resulted in higher Net Interest Margins ("NIMs") and strong growth potential. However, over the past year and a half the funding side of the business for NBFCs has become significantly more challenging, resulting in higher-cost borrowings (and thus lower NIMs) and limiting the ability for the NBFCs to finance their growth. By merging with IDFC Bank – which was one of the newest banks in India and thus had very little in legacy bureaucracy costs as well as a technological edge – the combined entity is seeking to avail itself of the strengths of both business models.

IDFC First is run by the former management of Capital First. The bank seeks to drive NIM growth by transitioning the loan portfolio away from corporate and infrastructure loans over to retail loans, which have higher interest rates and are an area where we believe management has a tangible competitive advantage. It is also important to note that we have already had a positive experience with IDFC First's management team – having previously been

shareholders of one of the predecessor entities prior to the creation of Moerus. On the liabilities side of the business, the combined entity now has access to retail bank deposits, which is a lower cost and lower risk form of borrowing, and which IDFC First endeavors to grow considerably. Lastly, we also expect management to take advantage of significant opportunities to improve profitability through cost cutting and from economies of scale.

Despite this growth and profitability improvement potential, the Fund is not paying a large premium to buy the company today. At the Fund's cost, the stock was purchased at around book value, a level rarely seen in other private sector banks in India – which tend to trade at sizeable multiples of book value. This opportunity is afforded to the Fund because of the challenges facing the NBFC and Banking sectors over the past year, and in particular the challenges around infrastructure financing (the legacy business of IDFC Bank).

Ahead of the merger management undertook efforts to deal with the problem loans in the legacy portfolio, selling off the majority of its bad loans and writing down the remaining book value significantly. As a result of this, Non-Performing Loans as a percentage of the overall loan book are small today, at just 2.7% of the total loan portfolio on a gross basis and 1.2% on a net basis. The bank also has some extra cushion in the form of its strong financial position, which is reflected in its Core Tier 1 ratio of 14.5%.

Moving on to activity on the sell side, as discussed in our Semi-Annual Letter, in our opinion, the investment cases supporting many of the Fund's core positions (in particular, with regard to valuation) became more compelling following stock price declines earlier in 2019. Given that view, during the year we eliminated seven positions – **Colfax Corp.**, **Coats Group**, **Grivalia Properties**, **Hutchison Port Holdings Trust**, **Mediobanca SpA**, **Melcor Developments**, and **Pason Systems** – as part of our efforts to more narrowly focus the portfolio on our highest conviction ideas, such as Hammerson, IDFC First and the 12 existing positions that we increased. Each of the holdings sold entered 2019 among the smaller positions held in the Fund.

In addition to the complete sales noted above, the most notable partial sale was in the Fund's existing position in **Almacenes Exito** ("Exito"), a Colombian retailer, as a result of a tender offer made for its shares. Exito's controlling shareholder, Casino Guichard-Perrachon ("Casino"), announced that it was effecting a two-part transaction to streamline its ownership of assets in various Latin American countries. For some background, Casino (a French retailer) had owned a controlling shareholding in Exito, which in turn owned a controlling shareholding in Grupo Pão de Açúcar ("GPA," a leading Brazilian retailer). In the first transaction, Casino acquired the interest in Grupo Pão de Açúcar that was held by Exito. After the completion of that transaction, Grupo Pão de Açúcar then made a tender offer for all shares of Exito outstanding. The offer was priced at 18,000 COP per Exito share, a 24% premium to the pre-announcement stock price.

We evaluated the tender offer after it was announced. On the one hand, despite the meaningful premium to the pre-announcement stock price, we believed the offer did not fully reflect the true value of the company. Further, as a result of the completion of the first transaction (Exito's sale of GPA to Casino), Exito stood to boast a significantly improved financial position, and we believed that this would leave the company well-positioned to improve the returns on its remaining businesses going forward. On the other hand, as the tender offer period progressed, it became clear that a large percentage of shares would ultimately elect to accept the offer. This meant that those who did *not* accept the tender would continue to hold Exito shares – an attractive proposition, in our view, given its still discounted valuation and a vastly strengthened capitalization – albeit with significantly diminished public float (and thus reduced trading liquidity). In consideration of the reduced liquidity of Exito shares after the completion of the tender offer, we reluctantly decided to tender a majority of the Fund's shares of Exito, realizing the meaningful premium to its pre-announcement stock price, while reducing the holding's weighting in the Fund considerably, to 1.2% as of November 30, 2019.

Our thinking behind continuing as a shareholder (albeit a much smaller one) is based upon the deep discount to intrinsic value at which we believe Exito shares continue to trade, its improving recent business results, and the enhanced ability of the company to reinvest proactively in improving its operations, potentially growing intrinsic value over time going forward. Further, for Casino or GPA to buy out the remaining Exito shares, an Extraordinary

General Meeting must be called to present the results of an external valuation, which we we believe could be considerably higher than the COP 18,000 tender offer price. While the timing of this is an imponderable, there seem to be numerous incentives for this to be done sooner rather than later. First, the benefits of complete ownership of Exito are clear, especially from the elimination of the redundant operating and listing costs, improved tax planning possibilities as one entity, and greater ease of funds flowing from a more cash rich entity (Exito) to the more leveraged entity (GPA). Further, if the purchasers drag their feet and Exito's improving results become more visible over time, the valuation exercise could potentially yield a higher price that the acquirer would have to pay. Finally, since there are relatively few shares outstanding (roughly 3.5%), the incremental costs of mopping those up in the foreseeable future, even at a greater premium, would be relatively low. Hence, in view of what we believe to be considerable upside potential, we decided to maintain a reduced position in Exito shares in the Fund.

Where We Are in the Fund's Journey

At Moerus we employ a long-term, asset based value investment approach, which seeks to buy soundly capitalized businesses and assets that are available at deeply discounted prices. In particular, we believe our emphasis on *assets* stands in contrast to the approach of many other value investors who look for stocks that they consider cheap on an *earnings*-related basis. Our focus on analyzing what a company's assets are worth, rather than what current earnings are or what future earnings are forecast to be, is grounded in a few principles. To start, in our view earnings tend to be more volatile, subject to gaming, and less enduring than asset values. Further, forecasts of future earnings and cash flows are notoriously difficult (if not impossible) to conduct accurately, consistently. In short, we do not own a crystal ball, and we do not believe anybody else does either. Financial and economic history is replete with poor forecasting, erroneous extrapolation of the recent past and failure to quickly recognize changing conditions.

Perhaps this is a minority view in today's world, where there seems to be unbridled faith in the wisdom and skill of central bankers. Nonetheless, rather than putting our faith in forecasting, our approach seeks to buy businesses at deep discounts to the value of their net assets, based upon what we know *here and now*. Based upon our experience, we believe that in the long run this approach generates appealing risk-adjusted return potential. This is because, in simplistic terms, if our analysis is sound and we buy well (cheaply, and with a margin of safety), we believe that this not only provides attractive upside potential, but also downside protection, because the market's expectations for deeply discounted investments are typically quite low. That latter point, about downside protection (from a longer-term perspective) is most important. Indeed, we believe that focusing on downside protection via deeply discounted, asset-based investments is perhaps as important today as it ever has been. We say this amid a melt-up across many asset classes which has seen as much as $17 trillion in bonds trading at negative yields globally at one point in 2019, and with the *S&P 500* currently trading at levels that, as Robert Shiller pointed out in a recent *New York Times* piece[ii], have only been reached in 1929 and 1999 (two points in time, neither of which augured well for the years that followed).

Now to be clear, deeply discounted asset-based investments that provide downside protection are not easy to find, especially in today's environment in which wide swathes of many markets are, in our view, fully- or over-valued. Nonetheless, the preponderance of shorter-term, earnings-based traders or investors in the markets sometimes offers these opportunities up. But for an opportunity to be visibly cheap utilizing the asset-based approach that we have described, there typically must be a "catch" or something "wrong with it," at least in the eyes of those short-term earnings-based investors. There might, for example, be threats to revenue or earnings in the near-term, brought about by a company-specific misstep, a cyclical industry downturn, or a country in economic or political turmoil. Or the investment might simply involve analytical complexity or quirkiness that renders it underanalyzed and under the radar of the investment community. Whatever the case may be, the market's focus on earnings and on the short-term sometimes obscures the value of, and often undervalues, the longer-term investment case. This disconnect can create opportunities that, put together on a portfolio basis, have the potential to generate an attractive risk-adjusted return profile over the long run.

Caveats

But with that, we must offer a few important caveats. First, this investment approach requires patience and a long-term investment horizon, because it often involves investing in businesses whose near-term outlooks seem quite negative. Further, there is often no obvious light at the end or the tunnel, or visible "catalyst" to trigger near-term gains, that has been identified by the market; if that were the case, after all, the opportunity likely would not be available at bargain prices. As a result of this, the duration of each individual investment is, *ex ante*, imponderable. In other words it is impossible, at the time we first decide to invest, to know or predict with any degree of accuracy, the timing of that investment's ultimate payoff, or when it works out.

When we invest, we obviously *believe* the investment opportunity is attractive and will pay off in the long run, either by eventual market recognition of its value, or via events such as takeovers or asset sales. But we do not *know* the timing of any potential payoff in advance. Now, our analysis may include a rough expected timeframe, during which we *think* the potential payoff is more likely than not to occur, but we do not *know* and cannot predict the precise timing with any certainty. The payoff could potentially come earlier than we expect, or it could come later. It is unlikely to come in the immediate future, because again, the depressed pricing that provides the deep value opportunity usually reflects its poor current or near-term outlook, and because there is usually no visible, determinant, value crystallizing event. If there were, the market would bid up the price of that stock to fair value to reflect that event. Yet however unlikely, we occasionally have been surprised by events – for example, a takeover or quicker-than-expected turnaround – that results in a very short holding period. Indeed, in the Fund's brief history, takeover offers have cut short the Fund's holding period (albeit profitably) in three cases: Global Logistic Properties, Aspen Insurance, and Guoco Group, not to mention the recent Exito tender. This speaks to the considerable unpredictability of the timing of payoff.

Because the duration of each investment is imponderable, with each investment case going down its own path and developing at its own pace, we would expect, and have often observed, the various payoffs to occur at different points in time. As a result, on a portfolio basis, at any given point in time, different components of the portfolio will be at different stages of their "life," which, in turn, have different implications for returns. However, one thing that most of our investments have in common is that given the deeply depressed environment in which we typically find longer-term opportunities, and the poor sentiment surrounding them – traits that are not apt to turn around and improve overnight – the early days of our ownership are typically accompanied by flat or declining stock prices, reflecting continued negative news flow and the absence of visible rays of light to improve sentiment.

A Tipping Point?

Because the life of the Fund is still relatively young as compared to the long-term time horizon that our investment approach requires, the Fund's collection of investments, on a portfolio basis, is of a *younger* vintage than it would typically be with the passage of more time. Conceptually, that means that to date, the short-term adversity that usually negatively impacts the returns generated by Fund investments which are in the *earlier* stages of their lives have, generally speaking, outnumbered the longer-term payoffs and harvesting of value from further developed investments which have moved to the *latter* stages of their lives as a Fund holding.

Therefore in a sense, we have lived through a period in which the Fund's investments were, on average, younger "works in progress" which, as we have written about at length in past letters, have encouraged us with actions that we believe are growing, and will continue to grow, intrinsic value over time. Yet these holdings have relatively little to show for it in terms of share price performance thus far in the earlier phase of their lives as Fund holdings, despite this progress. Hence our ever increasing conviction in the Fund's core holdings, as noted earlier. While have lived through a bit of a fallow period, at least in terms of returns relative to that of the roaring broader market, our holdings have been busy planting the seeds that we believe are beginning to germinate in the form of payoffs. We have recently seen these begin to appear with a vengeance in some pockets of the portfolio, while there are also encouraging signs that the Fund's "later bloomers" are potentially moving down that same path towards payoffs. As we move ahead and portfolio holdings continue to progress through their respective investment lives, albeit each at its own pace, we

believe we are reaching a tipping point in which many Fund holdings are moving closer to the harvesting phase. If this indeed turns out to be the case, we believe the Fund is well-positioned for attractive risk-adjusted returns moving forward.

For illustrative examples of where the Fund is in its journey at present, and where various pockets of the portfolio stand in their lives as Fund holdings, we turn to the previously discussed key drivers of both positive and negative performance in 2019. Interestingly, we'd argue that both the Fund's Latin American investments, which made the most significant *positive* contribution to performance during the year, as well as our Energy-related holdings, which were the most material *negative* driver of Fund performance, actually tell the same story – it's just that they are currently reading different chapters. Put another way, when we look at the carnage and negative investor sentiment that dogged the Fund's Energy-related holdings in 2019, it in some ways bears close resemblance to the dark place in which our Latin American holdings resided as recently as 2018.

Latin America

A couple of years ago, the *perceived* prospects for each of the Fund's Latin American holdings seemed abysmal in many investors' minds' eyes. In Brazil, the economy ground to a near halt amid a deep recession of historic proportions, the country was beset with meaningful scandal and upheaval on the political front (including the impeachment and removal of a sitting President from office), there was the near-paralysis of one of the largest companies in the Brazilian market (Petrobras), the local currency collapsed, etc. In short, the Brazilian investment landscape was overwhelmed by serious turmoil and discomfort. In our 2017 Annual Shareholder Letter, we described all of these attributes that short-term traders may have feared, but which we saw as the ingredients of a longer-term opportunity: Brazil, once a darling of the emerging market and broader investing world for its considerable long-term growth potential, had fallen far out of investors' good graces.

It was in this environment that we actually began to find increasingly attractive bargains. The sell-side analysts, by and large, had cooled on these companies, and in some cases there were determined (if not forced) sellers who pushed share prices lower, but to us, valuations were exceptionally attractive. With gritted teeth, we began to accumulate shares and await a passage of time that would inevitably begin to part the clouds. In mid-2017, we first purchased shares of BR Properties at a deep discount to intrinsic value, reasoning that its high-quality office property portfolio, sound financial position, solid management team and shrewd controlling shareholder would weather the storm and take advantage of the distressed situation by continuing to acquire assets on the cheap. Likewise, we added to other Fund holdings with exposure not only to Brazil but across Latin America, whose countries were in various degrees of economic pain (Arcos Dorados, Exito, and Telefonica Brasil, among others). We believed that these holdings were poised to benefit from an eventual recovery.

Things did not improve overnight. On the contrary, they got much worse. You may recall that in our May 2018 Semi-Annual Letter, we described our frustration that geopolitical and macroeconomic headlines overshadowed positive business developments at the level of our Latin American holdings. There was a disruptive trucker strike and looming elections in Brazil, the Argentine peso collapsed, and heightened concerns of a trade war collectively hit Latin American stocks and currencies quite hard. The Fund's Latin American investments were the largest detractor from Fund performance at the time. Yet at the level of the actual businesses that the Fund owned, developments were favorable, the companies' management teams were taking value-accretive actions, and therefore the longer-term investment cases were getting even more compelling, in our view, at reduced prices. We added to our positions.

In the time since those difficult early days, the expected process of recovery has begun to take hold, albeit gradually and unevenly depending on the various economies. With an improvement in business conditions, investors (collectively, the market) seemed to begin to consider the possibility that the adversity of yesteryear perhaps was not "the end of the world," that there have been some good businesses which have been plugging away, building value during their time in the market's purgatory, and that perhaps those businesses should not be valued at such deep discounts to any reasonable measure of intrinsic value. And, in 2019, we began to see these investments become

material, positive contributors to the Fund's performance. But the process took some time, is still in progress, and was not without some misery along the way.

Energy

Moving to the other end of the 2019 performance spectrum, we turn to Energy, far and away the most material detractor from Fund performance during the year. While clearly there are plenty of differences between an oil producer or an offshore service boat provider, on the one hand, and Latin American real estate, telecom, retail and fast food restaurant businesses on the other, the plotline nonetheless seems to be unfolding similarly. The apocalyptic sentiment surrounding the Energy sector in 2019 seems to rhyme with the sentiment that surrounded Latin America for a few years until recently. As described earlier, there is currently a significant dislocation between the price of oil (which has held up and even increased of late) – which presumably is determined in part by *actual* supply and demand in the commodities market – and the plunging prices of Energy-related stocks. The latter has in some cases brought Energy-related equity valuations down to draconian levels that, in our view, seem to reflect fears of a *perceived* "demise of oil" that comes much sooner than actual developments on the ground seem to be indicating, and indeed, much sooner than even the most enthusiastic electric vehicle industry participants might suggest. Indeed, sentiment surrounding Energy has been so poor that a recent cover story in *The Economist*[iii] contemplated "the end of oil."

As we noted earlier, it is against this extremely pessimistic backdrop that we believe we have invested in some exciting opportunities. The strategy was and is similar to that which was employed in Latin America: invest in what we believe to be visibly cheap, well capitalized stocks in an industry that is gripped by a deep downturn. We highlighted some of the attractive attributes of our Energy-related holdings earlier, traits which we believe position these companies well to benefit from considerable upside potential in the event that the dark clouds surrounding the industry eventually lift. Alternatively, we think each of these companies would make an attractive acquisition candidate for their larger peers if their deeply discounted valuations fail to be appreciated in the market. Although the Fund's Energy-related holdings have began to rebound a bit in value in December 2019, this was from extremely depressed levels, and we believe we are in the very early stages in this group's investment life cycle.

Financials

Many other Fund holdings currently reside somewhere in between Latin America, which as a group is probably in the middle-to-later stages of its life as a Fund holding (although some holdings are further along than others), and Energy, which we believe is in the early stages. As a group, it is probably fair to say that the Fund's Financials holdings fall somewhere in between – still early in that much of the upside potential is, in our view, ahead of them – but beginning to move forward and show results. In our May 2017 Semi-Annual Shareholder Letter, we wrote extensively about low interest rates and the negative effects that they were having on many Financials stocks, potentially providing opportunities for longer-term investors. Two years later, in 2019, Financials holdings such as **Jefferies Financial Group, Standard Chartered**, **UniCredit SpA** and **Shinsei Bank**, among others, began to take meaningful steps forward in terms of contributing to Fund performance, after the typical rough patches of the early years.

Importantly, while low interest rates played a key role in depressing business conditions and the stock prices of many of the Fund's Financials holdings, providing an opportunity for us to initially make our entry, it hasn't been a meaningful increase in rates which has caused these investments to recently begin to bear fruit. On the contrary, we'd argue that much of this group's step forward can be attributable not to external factors, but to its ability to execute value-building transactions and engage in self-help. UniCredit, for example, has continued to implement the multi-year turnaround plan of its management team, selling stakes in non-core assets, disposing of non-performing loans, making substantial progress in lowering operating costs, and looking forward, returning freed-up capital to shareholders through dividends and buybacks. Likewise Standard Chartered has sold off non-core assets and returned capital to shareholders through a $1 billion buyback program. Large buybacks at steep discounts to

intrinsic value were also a feature of Shinsei Bank and Jefferies Financial, the latter of which also realized substantial profits on the sale of a number of its merchant banking investments.

Building Value During the Lean Years

This leads us to another very important feature of our long-term, asset-based investment approach: the ability of the Fund's holdings to build shareholder value during this earlier period of their lives as investments, when they are still underappreciated by the market and therefore are typically still seeing flat or declining stock prices. One obvious opportunity that this affords companies with meaningful on-balance sheet liquidity and inexpensive stock valuations, is a stock buyback at discounts to intrinsic value per share – which in turn is apt to grow intrinsic value per share going forward (as discussed in the Fund's May 2019 letter). Indeed, we have seen a number of our companies do just that: Arcos Dorados, Atlas Mara, Franklin Resources, Gran Tierra Energy, Jefferies Financial, NN Group, Nutrien, Shinsei Bank, Spectrum Brands, and Standard Chartered, among others.

Other, even more proactive variants of building value over the lean years include, for example, selling constituent businesses at higher valuations, in order to buyback one's own stock at lower valuations. This has been done to good effect by Spectrum Brands and Jefferies Financial. This, also, is best done during that period in which the stock price is still depressed, allowing the company to build value which, ideally, will subsequently be recognized in the future. On the other hand, depressed, lean years for a given company's industry often offer opportunities – if that company has the balance sheet strength to do so – to opportunistically acquire assets or businesses from competitors that are financially distressed and are apt to be highly motivated, if not forced sellers at discounted prices. In fact, each of the Fund's Oil and Gas-related holdings – Aker ASA, Enerflex, Gran Tierra, and Tidewater – have utilized their balance sheet strength during the energy sector recession of the last several years to acquire assets at what appear to be attractive prices, which we believe could potentially add considerable value if industry conditions normalize.

This ability and willingness to proactively build value through the early, lean years is a vital component of our asset-based investment approach, and potentially a meaningful contributor to enhanced compounding of value over the long run. We do not want our management teams sitting on their hands during difficult times, waiting passively for a rising tide that lifts all boats in their industry or geographic markets. We want them to be willing and able to use the rough seas to their advantage, and to have the financial resources to do so, in a longer-term context.

Implications for Fund Positioning Looking Forward

In summary, looking at where these three buckets of Fund holdings are in their respective life cycles (again, at a very general level), the Energy holdings are in the earliest stage, in which they, to date, have been generating material negative returns (although that appears to have begun to change recently). Our Financials seem to be in the early stages of moving forward and beginning to generate payoffs, and our Latin American holdings are now well advanced, have begun to generate meaningful payoffs to Fund performance, and appear to be in the middle-to-later stage of their life cycle. In terms of the positioning of the portfolio in the future, this implies that, all else equal, if the Latin American holdings continue to appreciate and eventually realize what we believe to be a fair representation of their true potential, it is reasonable to expect that we will slowly begin to trim said positions and harvest gains, with the proceeds to be recycled into investments in other areas (country and/or industry) that are hopefully hated by the markets as much as Latin America had been a few years ago (and priced accordingly) – like Oil-related companies today.

In summary, while in the Fund's young life to date the individual payoffs have been relatively limited given our longer time horizon, we are very encouraged by the steps that the Fund's holdings have been taking along that journey of (investment) life, and we are confident that they are getting closer to reaching those payoffs. This, we believe, bodes well for the Fund's potential going forward. Again, all of this is to say that this style of investing is intended to be long-term. While the patient capital that it requires can be maddening at times, in our experience we have seen that the potential payoffs for such patience can be meaningful.

As always, many thanks for your continued support, interest, and curiosity. We look forward to writing you again later in the year. Best wishes for a happy, healthy, safe, and prosperous 2020!

Sincerely,

Amit Wadhwaney, Portfolio Manager

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[i] "The World Is Days Away From the Best Asset Returns in a Decade," *Bloomberg*, December 20, 2019: https://www.bloomberg.com/news/articles/2019-12-20/the-world-is-days-away-from-the-best-asset-returns-in-a-decade

[ii] "'Gut Feelings' Are Driving the Markets," *New York Times*, January 2, 2020: https://www.nytimes.com/2020/01/02/business/gut-feelings-are-driving-the-markets.html

[iii] "To the Last Drop: Saudi Arabia's Strategy to Survive the End of Oil," *The Economist*, November 2, 2019.

IMPORTANT INFORMATION

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Investors should carefully consider the Moerus Worldwide Value Fund's (Fund) investment objectives, risks, charges, and expenses before investing. This and other important information about the Fund are contained within the prospectus, which can be obtained by calling 1-844-MOERUS1, or visiting www.moeruscap.com. The prospectus should be read carefully before investing.

Date of first use of this material: February 6, 2020

Fund Performance (as of December 31, 2019)* Fund/Index	1-year	Average Annual Returns 3-year	Since Inception**
Moerus Worldwide Value Fund - Class N	15.01%	3.23%	5.50%
Moerus Worldwide Value Fund - Institutional Class	15.27%	3.47%	5.75%
MSCI AC World Index Net (USD) ***	26.60%	12.44%	12.09%

Gross Expense Ratios: Class Inst.: 1.64%; Class N: 1.89%

Nets Expense Ratios: Class Inst.: 1.42%; Class N: 1.67%

Past performance does not guarantee future results. The performance data quoted represents past performance and current returns may be lower or higher. Returns are shown net of fees and expenses and assume reinvestment of dividends and other income. The investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than the original cost. Investment performance reflects expense limitations in effect. In the absence of such expense limitations, total return would be reduced.

The Fund's adviser has contractually agreed to reduce its fees and/or absorb expenses of the fund, until at least March 31, 2020, to ensure that total annual fund operating expenses after fee waiver and/or reimbursement (exclusive of any taxes, brokerage fees, commission fees, borrowing costs, acquired fund fees and expenses, fees and expenses associated with investments in other collective investment vehicles or derivative instruments, or extraordinary expenses such litigation) will not exceed 1.40% and 1.65% for the Institutional Class and Class N shares respectively.

** Performance data quoted is historical and is net of fees and expenses. All performance percentages greater than one year are annualized.*
*** Inception date of the Moerus Worldwide Value Fund is June 1, 2016.*
**** The MSCI All-Country World Index (Net) is an unmanaged index consisting of 47 country indices comprised of 23 developed and 24 emerging market country indices and is calculated with dividends reinvested after deduction of withholding tax. The Index is shown solely for comparison purposes and the underlying holdings of the Index may differ significantly from the portfolio. The Index is a trademark of MSCI Inc. and is not available for direct investment.*

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Current and future portfolio holdings are subject to change and risk.

Top ten holdings as of 12/31/19 as a percentage of the Fund's net assets: BR Properties SA (5.10%), Arcos Dorados Holdings Inc. (4.89%), Standard Chartered PLC (4.50%), Spectrum Brands Holdings Inc. (4.48%), Shinsei Bank Ltd. (3.77%), Jefferies Financial Group Inc. (3.69%), Major Drilling Group Intl. (3.69%), Copa Holdings S.A. (3.67%), Tidewater Inc. (3.65%), and Hammerson PLC (3.64%).

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