



# MOERUS

CAPITAL MANAGEMENT

## Moerus Worldwide Value Fund

Institutional: MOWIX | Investor: MOWNX

*Semi-Annual Shareholder Letter: Six Months Ended May 31, 2019*

Dear Fellow Investors:

It is our pleasure to update you on recent developments regarding the Moerus Worldwide Value Fund (the “Fund”). In this Semi-Annual Shareholder Letter covering the six months ended May 31, 2019, we will discuss performance, investment activity, how we invest in a world in which value investors seem to be an endangered species, and an emerging theme in the portfolio.

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

Fund Performance (as of May 31, 2019)* Fund/Index	6-Months	1-year	Since Inception**	
			Cumulative	Annualized
Moerus Worldwide Value Fund - Class N	-1.22%	-10.41%	9.97%	3.22%
Moerus Worldwide Value Fund - Institutional Class	-1.21%	-10.26%	10.65%	3.45%
MSCI AC World Index Net (USD) ***	1.40%	-1.29%	29.74%	9.07%

\* 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 2,852 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.moerustfunds.com](http://www.moerustfunds.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.

With that said, the Fund declined slightly (-1.2%) during the First Half of its Fiscal 2019<sup>1</sup>, following a very painful 2018. By comparison, the Fund's benchmark, the MSCI All-Country World Index (ACWI, Net) was up modestly (1.4%). In some ways, these six months saw market sentiment and psychology largely pick up where they left off in 2018. We probably sound like a broken record by now – if so, our apologies – but in our view, it was yet another period in which macroeconomic and geopolitical factors seemed to trump (no pun intended) underlying value and business fundamentals in driving stock price fluctuations. Markets waxed and waned along with investor sentiment that swung wildly, sometimes from one day to the next, seemingly heavily influenced by the headlines and a wide variety of short-term considerations.

Perhaps most maddeningly, markets at times seemed to be moved most of all by whimsical presidential tweets and the (over)analysis of countless self-proclaimed Fed-watching pundits, who have endlessly dissected and interpreted everything said (and unsaid) by central bank officials in predicting future interest rate moves (apparently the be-all and end-all of investing today). While the absolute return numbers for both the Fund and the benchmark after six months were relatively close to unchanged, there was a lot of macro-fueled volatility along the way. The benchmark, for example, was down 7% in December (narrative: Fed officials sound like they are going to be more hawkish). Then it was up 7.9% in January (narrative: Fed officials signal that they will be careful and patient given the market's reaction in December; maybe they'll even cut rates). Fast forward to May: the benchmark was down 5.9% (narrative: Fed Chairman Powell sounds more ambiguous about cuts than had been hoped, and U.S. President Trump ratchets up the trade conflict with China). In June (after the close of the Fund's First Half), markets turned strongly positive again (narrative: given the escalating trade conflict, the Fed is now more likely to cut rates; perhaps the question now is how many times). Needless to say, it was the latest in a succession of difficult periods for those, like us, who strive to remain focused on long-term, fundamental, bottom-up value opportunities.

This focus on long-term, fundamental, bottom-up value opportunities is exactly what is most important. This is not uncharted territory for us, we have been here before. While the Fund's underperformance versus the benchmark over the past year and a half has been painful, we believe that the current environment has resulted in the Fund having a portfolio of holdings potentially primed for outperformance. In almost all cases where the prices of securities of the Fund's holdings have declined, fundamentals at the companies have actually been stable or improving; and in many cases actions outside of the normal "going-concern" course of business have taken place (share buybacks, asset sales, acquisitions and other corporate actions). We believe that these actions can create significant shareholder value over the long term. Importantly, with few exceptions, the makeup of the Fund is largely unchanged as our conviction in these companies remains very strong. While the recent past has been a challenging environment for the Fund, we continue to have high conviction that the value in the Fund's holdings will be realized. Markets like today's, where there is a striking divergence between the "haves" and the "have nots" (more on this later) tend to create attractive opportunities for long-term, patient investors. We believe that we have many of these such opportunities in the Fund today.

### **The Fund's "Sins" of Omission and Commission**

Despite the conviction we have in the Fund's portfolio today, our sticking to our knitting and staying true to our asset-based value investment approach has been painful, as we have found ourselves swimming against the tide in terms of short-term performance. Growth stocks continued to outshine value during the First Half of 2019, continuing a long-running trend (more on that later). In particular, Information Technology stocks (predominantly based in the U.S.) have led the charge in recent years, and that continued apace during the First Half. An equally-

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<sup>1</sup> Please note that "First Half" refers to the Fund's 2019 Fiscal Year, or the six months ended May 31, 2019.

weighted portfolio of the five FAANG stocks<sup>2</sup>, for example, would have returned 10% over the six months through May, trouncing the 0.7% and 1.4% returns generated by the S&P 500 and the MSCI ACWI, respectively. As a result of this continued trend, a “sin” of omission, or what we did *not* do – namely, invest in high-priced, growthy tech-related stocks due to our concerns on valuation – was one of the noteworthy factors driving the Fund’s relative underperformance during the First Half, and in fact, since inception. Later, we will explain why we have chosen to avoid joining that party, and why we think this discipline positions the Fund well for the future. But for now, let’s turn to the Fund’s “sins” of commission, or what we *did* do that negatively impacted Fund performance during the First Half.

By far, the three largest detractors from the Fund’s performance during these six months were **Gran Tierra Energy**, **Arcos Dorados Holdings**, and a position newly added during the period, **Hammerson plc**. The poor stock price performance of Gran Tierra, a Canada-listed oil and gas exploration and production company with assets located primarily in Colombia, was, in part, consistent with declines in a majority of the Fund’s Energy-related holdings (both resource owners and related service providers) during the period. By sector, Energy was the largest detractor from performance during the First Half, despite the fact that oil prices held up reasonably well during the six months through May (albeit with volatility throughout). Gran Tierra, however, was additionally hit by company-specific operational issues that caused recent results to miss analyst expectations, particularly on production. Specifically, production at its Acordionero field was negatively impacted by inconsistent power supply from what has proven to be an unreliable local power grid. Further production growth has also been delayed somewhat by the impending commissioning of large water handling facilities that will allow the company to increase recoveries. More recently, production at another field was hindered by a local protest (against the government, unrelated to the company) that blocked roads. To address the power supply issue, Gran Tierra is in the process of installing gas-to-power facilities (expected by mid-year) which will allow them to generate their own power and become self-sufficient. The water handling facilities are also expected to be up and running by mid-year.

In our opinion, Gran Tierra’s stock price decline during the First Half provides a good example of how the market’s predominance of short-term, earnings-focused investors provide us with attractive longer-term, asset-based opportunities at bargain prices (increasingly so). These operational hiccups may very well result in Gran Tierra missing analysts’ estimates for the year, as well as the company’s own previously announced guidance on production. However, in our estimation these issues seem to be temporary, and are being actively addressed in the short-term. More importantly, we do not believe there is any material negative impact to Gran Tierra’s assets – namely, its reserves and resources in the ground – which still remain there regardless of how much of it is extracted in the third quarter versus the fourth. After recent stock price declines, we view the current valuation of the business as increasingly compelling as measured by numerous metrics, be it relative to reported tangible book value, intrinsic value, its proven reserves, and even its *current* (arguably depressed) operational cash flow. Notably, this attributes little-to-no value to future exploration, even though Gran Tierra holds 2.2 million net acres across proven, but under-explored basins (in Colombia and Ecuador). Short-term investors who are focused on the reported earnings of the next few quarters, however, do not see things that way, giving us the opportunity to add to the Fund’s existing position at reduced prices.

The second largest detractor from Fund performance during the First Half was **Arcos Dorados Holdings**, the largest McDonald’s franchisee in the world and the exclusive McDonald’s franchisee throughout much of Latin America and the Caribbean, which saw its stock price decline over 20% in U.S. dollar terms during the period. Notably, Arcos Dorados’ business has actually performed well, and the company recently reported admirable results in what remains a challenging macroeconomic environment across much of Latin America. Nonetheless, the stock seems to have been dragged through the mud primarily as a result of ongoing political uncertainty and macroeconomic adversity in Argentina, where the Argentine Peso remained under pressure and a Presidential Election looms later

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<sup>2</sup> 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).

in the year. As it has in the past, Arcos Dorados' stock, which is listed in New York and quoted in U.S. dollars, seemingly fell because of its association with Argentina, where its corporate head office is located.

Market *perception* is one thing. However, the *reality* is that Argentina makes up a relatively small portion of Arcos Dorados' overall business (less than 16% of 2018 revenues and an immaterial share of profits), and the large majority of the company's operating costs are local currency-denominated (thereby providing a natural currency hedge). The company's Brazilian (*i.e.*, not Argentine) operations generate nearly half of its overall revenues and around 80% of its operating profitability, and they have performed quite well in our view. Ironically, two of the Fund's top four performers in the First Half were Brazilian (**BR Properties** and **Telefonica Brasil**), and Arcos Dorados' business in Brazil also performed well, yet the stock was punished despite the bulk of its business being generated there. In our view, Arcos Dorados' stock price decline during the quarter is thus attributable more to the misperception that it is an "Argentine company," and to the political and economy uncertainty (and resultant bearish market sentiment) there, rather than to the fundamentals of the underlying business and long-term investment case, which we believe remain quite attractive.

In reviewing the actual business performance, Arcos Dorados' recent results continue to show encouraging trends in comparable sales growth, increased market share, and rising profit margins (which have expanded at a faster rate than the company had previously projected). While the currently challenged macroeconomic picture may continue to provide headwinds against Arcos Dorados' business momentum, we view any such impact as likely to be cyclical and temporary. The long-term investment case, in our view, remains strong (even more so at a reduced stock price). Arcos Dorados serves a region of over 600 million people, with a population of middle class consumers that is projected to grow substantially in coming decades. As a market leader, the company appears well-positioned to benefit from this demographic trend, as well as to continue to take market share from informal, mom-and-pop competitors in Latin America's quick serve restaurant market, where formal chains' penetration is quite low as compared to elsewhere in the world (but growing). Arcos benefits from the iconic McDonald's brand, its balance sheet has strengthened considerably in recent years, and the stock continues to trade at unusually wide (in our view, unjustified) discounts to comparable businesses in the region and around the world, despite what we believe in many cases to be superior growth prospects. As a further indication of its sound underlying business performance, in 2018 Arcos reinstated its dividend and began repurchasing shares. The company's controlling shareholder has also been increasing its stake in recent years. Yet the stock has gotten even cheaper for non-fundamental reasons, which in our opinion makes the investment case even more attractive.

Finally, **Hammerson plc**, the third largest detractor from performance, was a new position recently added to the Fund during the First Half, which we discuss in more depth below.

While the letter thus far has focused on the Fund's main detractors, as we want to highlight our continued conviction in the those holdings, it is also worth noting that the Fund did have some bright spots in performance during the First Half. Notably, the three largest contributors to the Fund's performance were **Wheaton Precious Metals**, **BR Properties**, and **Standard Chartered Bank plc**.

Wheaton Precious Metals benefited from the settlement of a tax appeal with the Canadian Government, strong underlying fundamental performance, and the receipt of an approval at one of its investment assets. BR Properties' stock, which in our opinion is one of the more undervalued in the Brazilian market, rebounded strongly so far in 2019 as investor sentiment towards Brazil turned more positive. Lastly, Standard Chartered Bank plc announced a substantial (\$1 billion) buyback program, approximately half of which has been completed as of the date of our writing this letter and which we believe might be the first stage of a much bigger buyback program. Standard Chartered Bank plc is a prime example of a company taking proactive steps to increase its intrinsic value over time, outside of normal "going concern" operations, which themselves have been improving.

## Investment Activity in the Fund

It is not unusual for a newly or recently added position to be among the poorest performers, as the Fund's new investment opportunities often become available when (and because) they are extremely unpopular at the moment. In that regard, **Hammerson plc** certainly fits the bill. The stock has been hit hard by the ongoing Brexit uncertainty, which has negatively impacted many United Kingdom-listed securities. Further, its business is related to one of the most hated industries today in the U.K. (retail). Thus largely because of not one but two black eyes, Hammerson stock has declined to levels that, in our estimation, actually attribute very little value to the company's U.K. assets – even though these assets would, in our view, be interesting and valuable to potential industry acquirers.

Hammerson is a United Kingdom-listed Real Estate Investment Trust that owns a portfolio of market-dominant Shopping Malls, regional Retail Parks, and Premium Outlets throughout the United Kingdom and Europe. The U.K. retail market has been undergoing a dramatic shift, due to both cyclical events and secular changes in the way in which people shop. This has resulted in a spike in retailers seeking Company Voluntary Arrangements (akin to operating under bankruptcy protection in the U.S.), whereby they have been seeking to reduce their store footprints by exiting lease agreements and get rent reductions in situations where they do not want to exit the market. As noted, this situation has been further exacerbated by the continued uncertainty surrounding the U.K.'s exit from the European Union, which has led to a depreciating pound, weak consumer sentiment, and significant uncertainties ranging from customs issues to potential labor shortages. Further, Hammerson's management team seems to have lost the support of shareholders following its bid for a U.K. peer that was ultimately abandoned, as well as the company's two rejections of buyout offers from a large European property company at levels more than double those at which the shares trade today. As a result of all of these factors, Hammerson's share price has declined by more than half over the past year. However, we think Hammerson presents a very interesting opportunity for long-term investors.

Hammerson's principal assets consist of its collection of market-dominant shopping malls – where it owns the first or second-most dominant mall in the city – and a large investment in a private company that owns and develops Premium Outlets around the U.K. and Europe. At an over 60% discount to its EPRA NAV (a valuation based estimate of asset value in accordance with standards set forth by the European Public Real Estate Association) and a 35% discount to our (more conservative) estimate of Net Asset Value, the REIT trades at what we see as a very attractive price. While the negative noise around U.K. retail is, in short, deafening today, we believe that the dominant position of Hammerson's asset base will allow its assets to remain as some of the most sought-after and valuable assets in Europe, and that its portfolio will be able to weather the secular changes in the retail landscape and, indeed, may even benefit from some of them. Further, management is not sitting idly by, and has outlined a plan to reposition part of its portfolio to better serve customers, sell a significant amount of assets in order to raise capital and reduce debt, and selectively advance development opportunities it owns outside of retail. This could potentially result in them selling some of their assets in Continental Europe, or part of their interest in the fast-growing (and premium valued) Premium Outlets segment. In either case, this could potentially highlight the fact that while Hammerson appears to be punished for issues in the U.K., a substantial portion of its assets (56% by our estimates) lie outside of traditional U.K. retail assets. Also, at current prices, there are avenues other than market appreciation to potentially generate returns. The company's well-regarded asset base may prove to be of interest to competitors again (Klepierre, whose bids were rebuffed last year, is no longer restricted from making another bid), or, alternatively, the presence of a large activist shareholder (Elliott Associates) may prove to be a driver of change.

Lastly, it is worth noting that we have not yet built a full position in the company, as we may be presented with an opportunity to add to our position at more attractive prices in the event that the ongoing Brexit drama results in a particularly painful outcome. While we believe the initial price paid for our Hammerson shares is quite attractive, we wanted to be prepared to take advantage of any opportunities to buy more shares at even cheaper prices (because of events completely unrelated to the company), should those opportunities become available. This approach has served us well thus far, as we have been able to add to the Fund's initially acquired position at increasingly attractive prices.

We have also been able to do this over the past year-plus across much the Fund's portfolio, with a focus on our highest conviction investments. This has continued into 2019, as in addition to the new investment in Hammerson, we took advantage of short-term volatility to add to ten existing positions. In our view, the investment cases supporting many of the Fund's core positions (in particular, with regard to valuation) have become more compelling following recent stock price declines. Given that view, we eliminated five positions – **Colfax Corp.**, **Coats Group**, **Grivalia Properties**, **Melcor Developments**, and **Pason Systems** – as part of our efforts to more narrowly focus the portfolio on our highest conviction ideas, such as Hammerson and the ten existing positions that we increased. Each of the holdings sold entered 2019 among the smaller positions held in the Fund.

The most noteworthy of these sales came when we decided to eliminate the Fund's position in **Colfax** following the company's late-2018 announcement of an acquisition that we believe will substantially transform the business. For some background, Colfax was an industrial company with two core businesses: Air and Gas Handling and Fabrication Technology (welding supplies and equipment). Following several challenging years, the company's two core businesses finally began to show initial signs of exiting a cyclical depression, with improving fundamentals, margins recovering and early signs of growth in sales returning. In November, however, the company announced the acquisition of a large medical devices company, which required Colfax to issue a significant amount of debt as well as sell one of its core businesses to fund the acquisition (which would result in shareholders missing the full benefit of the recovery in that business, in our opinion). While the new business is in line with the CEO's past experience and thus potentially interesting, the full price paid (in our opinion) leaves little room for error. While the business continues to be fundamentally undervalued, we believe that the long-term attractiveness of Colfax as an investment has been negatively impacted – as management has taken on more debt than we would like and the company's strategy has changed – thus we re-evaluated the longer-term attractiveness of Colfax as an investment in the Fund. We ultimately decided to eliminate the investment from the Fund, in favor of other holdings which we believe offer a more attractive risk/return profile at this point.

As of period-end, the Fund's portfolio included 35 holdings. The Fund also held roughly 9.8% of its assets in cash, which we believe will provide us the flexibility to quickly respond if and as further market volatility provides us with attractive investment opportunities.

### **The Death of Value Investing?**

As we alluded to earlier, one theme that has negatively impacted the Fund's relative performance throughout much of the period since inception has been the outperformance of Growth stocks over Value stocks. At this point, the "Growth" style's outperformance has persisted (with sporadic interruptions) for the most extended period of time that we can recall. A recently published *New York Times* piece<sup>i</sup> highlighted a couple of points of which we, unfortunately, have borne witness to in recent years. One, Growth stocks outperformed Value stocks for seven of the ten years from 2009 through 2018 (and again, so far, in 2019). Two, as a result of this prolonged period of outperformance, the valuation gap between Growth and Value stocks, as measured by the price-to-earnings premium for Growth stocks, is greater than it has been 94% of the time over the past 25 years.

The prolonged period of outperformance by Growth stocks have led many to wonder if this time really *is* different, and whether Value investing no longer works in an increasingly technology-centric world. High-flying tech and "new economy" stocks are perhaps as popular as they ever have been. It is currently not uncommon to find them even in the portfolios of some of the most successful, highly respected Value investors. "Value," after all, is in the eyes of the beholder – it means different things to different people. As Growth's outperformance of Value has persisted for longer and longer periods of time, the importance of valuation has seemed to diminish in the eyes of many investors. In recent years, Value investing as a general discipline seems to have leaned more and more towards the growthier end of the Value spectrum, where one is willing to pay up for attributes such as "high quality" businesses and "growth at a reasonable price." These approaches have worked very well in recent years. In part due to this string of recent successes, investors increasingly seem to have extrapolated into the future in the expectation that this current trend might continue indefinitely, thereby bucking a historically cyclical record in which Growth and Value have had alternating, respective times in the limelight.

Further, the Moerus style of investing – a fundamental, long-term approach predicated on buying out-of-favor businesses cheaply based on net asset values in the here and now – seems to have grown more and more unpopular, even among fellow Value investors! Some, in our admittedly biased opinion, seem to have modified their approach and loosened their valuation requirements in response to this changing world (both real and perceived). Others, less willing to be flexible with their investment requirements, have instead thrown up their hands and given up. Numerous Value investors, including some well renowned ones with long histories, have decided to shut their funds, often citing increasing difficulty in finding discounted investments with an adequate margin of safety to drive attractive returns<sup>ii</sup>.

### **Crises, Extremes and Excesses Spawn Opportunity**

Admittedly, the landscape appears bleak (for now). But that is what makes us excited for the future. That goes both for Value investing in general, as well as, and especially for, the kind of long-term, price-conscious, asset-based Value investing approach that we have practiced for many years. Indeed, in our view it is a fascinating time to invest opportunistically in markets which seem to have drawn sharp distinctions between the “haves” and “have-nots.” On the one hand, numerous segments of the market seem, to us, to be priced for near-perfection and continued high growth rates almost indefinitely. Some of these popular corners of the market are currently priced at levels that, in our view, significantly underestimate a variety of potential risks, not the least of which is what we call *price risk*. On the other hand, we are seeing numerous attractively valued opportunities in a number of areas that are currently *not* in favor. This group includes select opportunities in emerging markets businesses, natural resources and related services, and in businesses that, in general, are not perceived to possess the exciting growth prospects that are currently in fashion – but which we, nonetheless, see as unusually attractive asset-based value propositions in the here and now.

We do not believe that “this time is different,” nor do we believe that the currently growth and momentum-crazed market environment will continue indefinitely. Short-term performance has certainly been painful and frustrating. But we believe that in times like these, it is critical to maintain a long-term perspective and base investment decisions upon our conviction (grounded in due diligence) regarding the underlying longer-term fundamentals. Importantly, we believe the long-term investment cases within the Fund remain quite strong, possess the staying power to weather difficult periods and thrive when conditions normalize, and at such depressed valuations, provide increasingly attractive margins of safety. That last point is ironic given the broader market context, in which we believe price risk is being underestimated.

Throughout our careers, extremes and areas of excess have often resulted in what, in retrospect, turned out to be some of our most interesting investment opportunities. In some ways, we are living in extreme and excessive times, and we believe that times like these bode well for our asset-based value approach and for the Fund’s portfolio in the future. Popular opinion seems to have formed a clear consensus in favor of growth and emerging technologies over fundamentals and value. Market commentators and investors alike have been busy drafting eulogies on the impending “death of Value investing.” Even long-tenured, tried and true Value investors are capitulating and leaving the industry. Against such an extreme backdrop, we believe that it is just about as important now as it ever has been, from a risk-adjusted return standpoint, to favor asset-based investment opportunities that are deeply discounted *here and now*, over *potential future* earnings-based, growth and momentum stocks that we believe require heavy doses of optimism. Why do we feel that way?

### **Tech and Assumed Growth (at a High Price)**

As noted earlier, even though it has made us look foolish so far, we have not invested in new economy, high-tech names due to valuation concerns, simply because we believe they might be priced dangerously high. Information Technology is the second-largest component in the Fund’s benchmark index, the MSCI ACWI, at nearly 16% as of the end of May. According to that Index’s Fact Sheet, that 16% figure does not even include Amazon, Facebook, and Alphabet (Google’s parent company), whose sectors are classified as either Consumer Discretionary (Amazon) or

Communication Services (Facebook and Alphabet). Whatever the most appropriate number, it is less important than the main point, which is that tech and tech-related stocks make up a sizeable component of benchmark indices.

Despite our valuation concerns, this group of stocks has continued to perform very well relative to the rest of the investment universe. While we noted earlier that the five FAANG stocks significantly outperformed benchmark indices during the First Half, this pales in comparison to their outperformance since the Fund's inception, with a hypothetical equally-weighted FAANG portfolio returning an *annualized* return of around 27% on average, compounded over the last three years through May, versus 9.1% annualized for the MSCI ACWI. Four of that benchmark's five largest components are FANNG stocks; the only one coming from outside of that group is another mega-cap tech company, Microsoft. The massive outperformance of new-economy tech stocks has therefore had a significant positive impact on the performance of many benchmark indices. Since the Fund is invested based upon where we believe the best long-term risk-adjusted value is, and not upon what is held in an index, the Fund's relative performance has suffered as a result of its exclusion of tech stocks.

### **Why Not Join the Party?**

To be clear, in case we've convinced you otherwise, it's not that we are small-minded Luddites who have our heads firmly buried in the sand, oblivious to technological change. Of course, the world is evolving by the moment. E-commerce and digital advertising will continue to grow and take market share from traditional competition. Ride-sharing, fintech, and artificial intelligence will continue to radically alter the ways in which we live, work, and get around in ways that we can and cannot imagine. However, despite how much the world is changing, we believe that the basic laws of mathematics and economics will remain true and never become obsolete. In short, we believe that valuation, or how much you pay for something, ultimately proves to be a vital factor in the long-term risk-adjusted returns generated by that investment.

That reality can sometimes be deferred for one reason or another – for example, due to irrational investor exuberance, or due to continued central bank intervention – but an investor's entry price has ultimately proven to matter tremendously to risk-adjusted performance in the long run, time and time again, throughout history. Looking only at the past century or so, pricing and valuation proved to matter (dramatically so) to those buying overpriced stocks at or near market peaks before the Crash of 1929, during the Nifty Fifty craze in the U.S. in the early 1970s, in Japan during the late 1980s, during the tech and dot-com bubble in the late 1990s, and again during the housing bubble that ultimately collapsed in the late 2000s. Buying indiscriminately, regardless of valuation, exposed investors to declines that would take many years, in some cases decades, to recover from. If valuation does not matter this time around, it will be the first time we're aware of in which it hasn't. We're not buying it.

In the Fund's 2017 Annual Shareholder Letter, we wrote at length about the concept of *price risk* and the danger of overpaying for growth. We won't rehash that very detailed discussion here, but would encourage anybody interested to revisit it. But one point that we will reiterate here is that, in buying expensive tech and other growth *stocks* regardless of valuation, we believe investors are taking on levels of price risk that could leave them very vulnerable to potentially poor risk-adjusted returns over the long run, even if the results of the underlying *businesses* in the future are sound. This is because, in our view, if you pay an extraordinarily high price for a *stock*, you need the actual *business* to perform not merely well, but extraordinarily well in order to earn commensurate returns, given the unusually high expectations that had been baked into that high original purchase price.

As we examined in detail in the aforementioned 2017 Annual Letter, this very situation played out in the aftermath of the dot-com boom and bust. Even those businesses which survived and ultimately thrived (in some cases spectacularly so) in the years that have since followed, nevertheless turned out to be material losers for those who had bought their *stocks* at excessive prices during the bubble. This list of stocks includes Microsoft, Cisco, Intel, Oracle, Qualcomm, and yes, even Amazon – all suffered sharp declines that took many years (in most cases, well over a decade) from which to recover original capital invested at or near the peak<sup>iii</sup>. Again, these are the *success stories* from the era. Needless to say, the stocks of countless tech-related businesses that ultimately proved to be also-rans or losers in the 20 years since have fared much worse, including many near-total wipeouts for investors. Importantly,



this happened *despite* the proliferation of the Internet and a technological revolution, which have proven to be transformative to our way of life, to some extent as promised during the dot-com bubble. But even though “the story” played out to varying degrees, it could not offset the damage inflicted upon investors as a result of buying at nonsensical prices.

Turning back to the present, based on numerous metrics, markets (broadly speaking) seem to be priced at expensive levels. For example, the S&P 500 Index currently trades at a Cyclically Adjusted Price-Earnings Ratio of around 30x, a level surpassed only in 1929 and again during the late 1990s/early 2000s dot-com bubble<sup>iv</sup>. For another example, the Market Cap-to-GDP Ratio, an alternative measure of stock market valuation that has been often cited by Warren Buffett himself, is also currently higher than it has ever been in nearly 50 years of available data, with the sole exception of, again, the dot-com bubble<sup>v</sup>. We won’t go through other examples, many of which seem to draw similar conclusions. To be clear, all of these measures of valuation are fraught with their own limitations and therefore fall far short of telling the whole story. But they nonetheless seem to support our general feeling that certain pockets of the market, particularly popular tech-related stocks which have led markets in recent years, are priced for near-perfection, or for a very optimistic future to say the least.

### **With Tech Priced for Perfection, What Can Possibly Go Wrong?**

We cannot deny that the Amazons and Facebooks and Googles of the world have been spectacular success stories that have achieved remarkable business results. And importantly, we aren’t even suggesting that these businesses and their ilk will not continue to be spectacularly successful in the decades to come. But the currently rich valuations of many of these companies’ stocks seem, to us, to price in an extremely rosy future, again, merely in order to earn commensurate risk-adjusted returns. We believe that investing in these popular Growth stocks at currently elevated prices, in expectation of a continuation of a blue sky scenario that has admittedly persisted for a long time, is asking a bit much at this point. Things might well play out that way. But in our view, at these prices the potential upside is limited relative to the potential downside, should obstacles get in the way of such continued prosperity.

What potential obstacles could be lurking? To start, simple math, which suggests that it will become increasingly difficult for these fastest growing companies to continue to grow at consistently fast rates as they become larger and larger components of the overall economy. Beyond that, what if the U.S. economy, which is about to break a record for its longest expansion on record<sup>vi</sup>, begins to slow or even go into recession, threatening future growth? Further, even if this expansion (long in the tooth as it is) does not peter out on its own accord, perhaps it might be led to its end as a result of any of numerous potential geopolitical ructions, be it an escalating trade war, conflict with Iran, unintended consequences of a disorganized Brexit, conflict with China, Venezuela, North Korea, *et al.*

Other potential obstacles? U.S. corporate profit margins have surged over the last two decades, rising for the better part of 25 years. Why? Over that period, virtually every driver of profit margins has improved<sup>vii</sup>. Interest rates, corporate taxes, tariffs, antitrust enforcement, and organized labor’s bargaining power have all declined, while globalization has increased and technological advancement has allowed for productivity gains and resulted in muted inflation. In many segments of the market, current valuations seem to be pricing in at least stable margins, if not anticipating further improvement. Could that persist? Sure. But if current margins prove to be above-average from a historical standpoint and normalize (downward), then that means that not only is the market’s P/E ratio elevated from a historical perspective, but the denominator in that ratio (earnings itself) is also elevated. The upshot in that scenario is that the currently popular end of the market might prove even more expensive than the statistics suggest.

That pessimistic scenario does not seem entirely implausible to us. The eruption of a full-blown trade war, for example, could threaten to potentially impair corporate supply chains as well as consumers’ purchasing power. Increased costs might be borne mostly by businesses; for example, Amazon, Apple, *et al.*, could take the brunt of the hit in the form of increased operating costs and lower margins. Alternatively, they might pass on some or most of the hit to consumers in the form of increased prices, thereby reducing consumers’ purchasing power (and presumably demand). Either way (or some combination of both) threatens the validity of any extrapolation of the recently impressive growth, which is currently priced into many high-priced growth stocks. The question of *who* wins and

loses as a result of globalization, and whether that result is optimal for society, is the subject of much debate. However, regardless of where one comes out on that issue, it seems fairly clear that globalization has been supportive of economic growth *in aggregate*, which in turn, has been supportive of not just corporate profit margins but of the future growth potential for many businesses. To the extent that globalization comes under threat from populism and economic nationalism, we would suspect that those very stocks that most richly price in future growth expectations, would therefore be most at risk of significant declines in the event that those expectations prove overly optimistic.

Numerous other drivers of corporate profit margins that have improved markedly in recent years could also plausibly experience some sort of mean reversion. Corporate taxes in the U.S. were cut, are low by historical standards, and could potentially increase in the future. Regarding wages, calls for workers to get a larger slice of the pie have gathered strength in the U.S., where almost 40% of Americans would struggle to cover a \$400 financial emergency<sup>viii</sup>, and elsewhere. There is also the potential for mean-reversion in antitrust and other regulatory enforcement after years of a relatively *laissez-faire* attitude towards government regulation of Silicon Valley, with reports of the Department of Justice and Federal Trade Commission meeting to discuss jurisdiction in the event of a potential antitrust probe of companies including Amazon, Apple, Facebook and Google<sup>ix</sup>. This is one of seemingly few issues today that is seeing at least some degree of bipartisan interest (saying nothing of growing scrutiny of tech's role in the areas of privacy and political-related content).

Regarding interest rates, while Federal Reserve officials seem to be signaling that cuts are more likely than hikes in the near term, is it really impossible to imagine that at some point in the future, the Fed's hand might be forced by unexpected inflation driven, perhaps, by supply-side shocks in the form of increased tariffs or a geopolitical crisis? Notably, these various risks to profit margins say nothing of the many high-priced businesses that do not generate profits at all, even in the *current* environment – for examples, the recent IPOs of Lyft, Uber and Chewy all apply – and therefore presumably depend on continued access to capital markets at easy terms to continue their growth stories. What if capital markets, at some point, get more demanding?

Again, we are not predicting that any of these scenarios will play out, and we do not forecast macroeconomic outcomes. Our point is that on a fundamental, bottom-up level, the current valuations of many of these businesses occupying the most popular, growthy segments of the market are pricing in a continuation of the benign environment that we have seen for the better part of the past decade, in spite of all of the potential obstacles listed above and more. We think this is risky, and disappointments in any of these areas could prove painful for investors. We understand that this might come across as a case of sour grapes. Paying up for popular growth stocks, despite our protests regarding valuation, has clearly worked incredibly well in recent years. But in our opinion and at these prices, success going forward will require not skillful investment analysis, but speculation that a willing buyer will come along at higher prices. Such buyers have not been difficult to find in recent years in the midst of a now ten-plus year economic recovery. But as we have noted in the past, over time this becomes an increasingly tricky game of musical chairs, one in which risk of potential loss is significant for those caught unaware when the music stops, and underlying value and fundamentals regain importance from growth and momentum. We remain unwilling to play that game with your capital or our own, even if it results in relative underperformance if the current environment persists.

### **The Good News: Value in the Have-Nots**

The good news is that, as mentioned earlier, this is not a market that we see as universally expensive. On the contrary, we believe there are pockets of opportunity that are currently valued unusually cheaply because they are out of favor for one reason or another. Whereas the “haves” discussed above are seemingly priced for continued blue skies indefinitely, we believe that the “have nots,” many of which are held in the Fund, are priced as if the currently turbulent skies above them will never calm. At currently discounted valuations, we believe that these holdings are pricing in continued pessimism, which in our view helps provide downside protection, an adequate margin of safety (over the long run), as well as attractive upside potential in the event that the surrounding negativity proves excessive. In that sense, we remain quite encouraged by what we see as an attractive risk/reward profile for the

Fund's portfolio, one which, in our biased eyes, seems vastly superior to that which can be found in the many fully or overpriced corners of today's markets discussed earlier.

### **Timing Uncertain**

With that said, these opportunities usually come cheaply because they are not in demand at that moment for any number of reasons, be it a company-specific misstep (see Gran Tierra), an industry or geography in recession, thereby depressing *current* earnings (see Hammerson), analytical complexity or proneness to misunderstanding (see Arcos Dorados), etc. Importantly, these investments are intended to be longer-term in nature – at least three years, more often five years or longer – because such characteristics usually do not improve or get resolved overnight. Based upon our experience, as a result of these attributes, these types of investments tend to have little to show in terms of short-term performance until the latter portion of the holding period, when the envisioned improvements are expected to surface and become apparent to the previously skeptical market. Having just reached three years, the Fund is still early in its life, given our investment approach's typical time horizon. Often some of what we believe are our most intriguing long-term opportunities at any point in time, also happen to be some of the poorest short-term performers. This is perhaps even more so the case today, since many of the Fund's holdings are still in the early stages of their investment life cycle. Finally, we believe this effect has been magnified by the current market environment, in which momentum in reported metrics such as earnings – or lacking that, revenues, subscribers, downloads, eyeballs, *et al.* – is disproportionately rewarded over the kind of underlying, here and now asset-based value propositions (albeit with depressed current outlooks) held in the Fund.

### **Value Creation While You Wait**

At times, the disparity between a stock's market price and its intrinsic value can persist for long periods of time. But based on our experience, market price and intrinsic value usually tend to converge at some point – eventually, inefficiencies and valuation imbalances tend to get corrected in the long run. Hence the attraction of owning a portfolio of investments trading at deep discounts to intrinsic value. This convergence, for example, could result from new-found appreciation in the securities markets (perhaps a depressed earnings outlook begins to improve). Or, failing that, value could eventually be crystallized through private market transactions; for example, perhaps the company gets taken over at a premium to market, or sells some of its assets at or above intrinsic value. Either way, over time market inefficiencies usually get corrected. However, the timing of these corrective events is uncertain. So what could a company's management team whose stock is depressed do to add value in the interim period?

Obviously, an improving business environment for a company's operations would help, but to varying degrees this is often beyond management's control. But at Moerus, our asset-based value investing approach historically has tended to uncover investment opportunities in the form of companies that create value by means other than recurring earnings from continuing operations. These types of opportunities, at times, tend to be neglected in an earnings-focused world (hence the discounted pricing). Ideally, the management teams of these types of companies are not just competent operators, but can also demonstrate a willingness and ability to take actions that are unrelated to their companies' going concern operations, but which also increase intrinsic value per share over the long run. To the extent that management proves adept at making shrewd investment and financing decisions that result in increases in intrinsic value per share, these events seem likely, over time, to prove favorable for the stock price, even if the pre-existing discount to intrinsic value does not narrow. In simple terms, suppose that for whatever reason (*e.g.*, a "conglomerate discount"), the market "knowingly" applies a 30% discount to a company's intrinsic value. If intrinsic value increases over time through smart investment and financial deal-making, the stock price would need to run up with it in order to keep the 30% discount constant instead of widening. On top of that, in such a scenario, the discount could plausibly even narrow, in recognition of the value created (and in expectation of more).

We believe that there are numerous examples within the Fund's portfolio of companies adding value through non-operating activities in recent years, by various means. Some have taken advantage of the depressed environments in which they operate to *acquire* assets cheaply, thereby strengthening their position to benefit if and when conditions improve. Notable examples include **BR Properties** acquiring high-quality Triple-A office properties in

São Paulo and Rio de Janeiro at discounts to estimated replacement cost, as well as **Tidewater** upgrading its fleet and enhancing its geographic reach by acquiring GulfMark Offshore at a depressed price. Conversely, other companies have *sold* assets or businesses at what we view as rich prices, at steep premiums to the discounted valuations at which the companies in their entirety trade on the market. Notable examples include **Jefferies Financial Group** selling its Garcadia auto dealership business as well as a stake in beef processor National Beef at healthy *premiums* to book value (by comparison, Jefferies stock trades at a roughly 40% *discount* to book), in addition to **Spectrum Brands** selling two of its businesses (Global Auto Care and Battery & Lighting) at what we would argue were very attractive prices.

## Share Repurchases

Another way of *potentially* increasing intrinsic value per share over time – through share repurchases – has become an increasingly prominent feature across a meaningful proportion of the Fund’s portfolio. The list of Fund holdings that are buying back shares (currently or recently) has grown significantly, both in number of companies as well as in size and magnitude of many of their respective buyouts. It includes Arcos Dorados, Atlas Mara, Franklin Resources, Jefferies Financial Group, NN Group, Nutrien, Shinsei Bank, Spectrum Brands, and Standard Chartered.

In general, we view share repurchases among Fund holdings favorably, as long as two very important conditions are satisfied. First, the share buybacks must be done at attractive prices, preferably at significant discounts to intrinsic value. Second, buybacks should only be conducted by companies with excess capital, and not at the expense of adequate balance sheet strength. If these two conditions are met – a big “if,” because often they are not – then share repurchases are, in our opinion, generally a good way not only to increase the intrinsic value per share of the company, but to also effectively increase our ownership stake in the company without having to lay out cash to do so. Why? Without getting too much into the exact arithmetic of it, consider a company whose intrinsic value (its true worth) is \$10 per share, but its stock is selling in the market at \$6 per share, or 40% less than what it is really worth. If that company buys back its shares at that 40% discount, it would, over time, increase its wealth per share, in much the same way that we would get richer if we were able to repeatedly purchase \$1 bills for 60 cents each. Further, as long as the company subsequently cancels, or in any event never reissues the shares that it has bought back from selling shareholders, remaining shareholders stand to own more of the business because they continue to hold the same amount of the shares, while the total shares outstanding shrinks.

Another positive attribute of share repurchases – again, provided our two conditions are met – is that conceptually, they are akin to making an acquisition, but without many of the common and sometimes disastrous risks that come with M&A. Acquisitions are notoriously difficult to execute economically and integrate successfully. They contend with a litany of issues, including the price paid (often a steep premium is required to gain control), cultural issues (bringing together two organizations of different people and philosophies is often challenging), personnel defections, and hidden liabilities or other unpleasant surprises that can pop up years later. On the other hand, well-priced share buybacks come at a discount to intrinsic value, without the cultural and personnel issues, and without the potential for skeletons in the closet. In fact, share repurchases could be thought of as management making an acquisition, with near-perfect information on the target in advance. As compared to dividends, buybacks are a more tax-efficient way to “return capital to shareholders,” although as an aside, we view that phrase as a bit of a misnomer because repurchasing shares, more accurately, involves business owners buying out fellow, exiting co-owners (which party benefits more depends on the price paid). Also, overcapitalized companies can utilize buybacks to achieve a more efficient capital structure that is more likely to be rewarded with a higher stock price by the earnings-focused market. For example, Fund holdings Shinsei Bank and Standard Chartered seem well-positioned to generate increasing Returns on Equity (ROE) by doing just that.

## Caveat Emptor: Let the Repurchaser Beware

However, we cannot possibly emphasize the following enough: not all share repurchases are created equal. In fact, share buybacks can, and often have been, tremendously value-destructive for remaining shareholders, usually when they are misused and abused, done for all the wrong reasons. The most direct cause of the damage, not surprisingly,

is often paying too rich of a price for the shares. Not surprisingly, buying back shares at a *premium* to their intrinsic value has the opposite effect from what we described above; in this case, it enriches the exiting shareholder while reducing wealth per share for the shareholders who remain. Paying too high a price, in turn, is often a consequence of the existence of management incentives for buying back shares which have nothing to do with an attractive price.

For example, some management teams buy back shares regardless of price in order to offset dilution from options and share-based compensation that they pay themselves. This could cause a company to buy back stock at foolishly high prices, merely to keep the pre-existing share count constant. They also may repurchase shares for financial engineering purposes. For example, a company that is struggling to produce growth in earnings (in absolute dollars) that the market or investors demand, might be able to, through the mechanics of share buybacks, “engineer” growth in earnings *per share* (EPS), which ironically is caused not by growth of any kind, but by a reduction of the share count (the denominator in EPS). Again, the primary motivation might be incentive compensation that is tied to certain metrics like EPS or simply the share price, which in the *short-term* often reacts favorably to buyback announcements, even if they ultimately prove to be value-destructive in the long run.

These incentives can result in share repurchases even among companies that have poor financial positions. Fueled by low interest rates and easy credit, management might be tempted to pile on excessive leverage to engineer results in the short-term, even while putting the long-term viability of the enterprise in danger. Not surprisingly, share repurchases have historically proven to be pro-cyclical – reaching peaks at or near market tops in 2000, 2007, and again today, while bottoming with bear markets in 2002 and 2009 – in other words, at exactly the wrong times to buy (market tops) and not buy (bottoms)<sup>x</sup>. Note that we are generalizing, and that there are overpriced and underpriced stocks within all broader markets (for example, the Fund’s portfolio of unpopular misfits who have sat out the current growth rally). But in general and in aggregate, companies tend to time share buybacks very poorly. Finally, repurchasing shares is ill-advised when there are alternatives that could generate higher returns on that capital, be it investments in capital equipment, acquisitions, research and development, or human capital. Indeed, this debate has spilled into the political arena given the upcoming election year in the U.S., with corporations being taken to task for buying back shares instead of reinvesting the spoils from the Trump tax cuts in their employees via new jobs and facilities.

### **But a Good Fit for the Fund’s Portfolio**

Putting aside the political debate, there are certainly many ways in which share repurchases can go wrong. However, from an investment perspective, in our opinion the question of whether a share repurchase program creates or destroys value ultimately is determined primarily by two factors: the price paid for the shares relative to intrinsic value, and whether or not the company is well-capitalized enough to buy back shares in a prudent manner. Fortunately, the Fund’s approach, which is to strive to invest in well-financed securities that we view as visibly cheap, at material discounts to conservative estimates of intrinsic value here and now, with limited expectations for an optimistic future, lends itself to investments in which share buybacks, in our view, tend more to be accretive rather than destructive to intrinsic value in the long run. We cannot confidently say the same, however, for vast swathes of the market at large.

As always, many thanks for your continued support, interest, and curiosity. We look forward to writing you again later after the close of the Fund’s Fiscal Year.

Sincerely,

Amit Wadhwaney, Portfolio Manager

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<sup>i</sup> “In the Stock Market, Value Again Lags Growth,” *New York Times*, April 12, 2019: <https://www.nytimes.com/2019/04/12/business/value-stocks-lag-growth.html>

<sup>ii</sup> “Value Investing Claims Another Casualty as \$5 Billion SPO Shuts,” *Bloomberg*, October 25, 2018:

<https://www.bloomberg.com/news/articles/2018-10-25/value-investing-claims-another-casualty-as-5-billion-spo-shuts>

<sup>iii</sup> Moerus Worldwide Value Fund 2017 Annual Shareholder Letter: <https://moeruscap.com/library/>

<sup>iv</sup> “Shiller P/E – A Better Measurement of Market Valuation,” *Guru Focus*: <https://www.gurufocus.com/shiller-PE.php>

<sup>v</sup> “Buffett Indicator: Where Are We with Market Valuations?” *Guru Focus*: <https://www.gurufocus.com/stock-market-valuations.php>

<sup>vi</sup> “Economy Breaks Records on Trump’s Watch. He Wants All the Credit,” *Bloomberg*: <https://www.bloomberg.com/graphics/2019-the-longest-expansion/>

<sup>vii</sup> “Peak Profit Margins? A US Perspective,” *Bridgewater Associates, LP*, February 7, 2019: <https://www.bridgewater.com/research-library/daily-observations/peak-profit-margins-a-us-perspective/>

<sup>viii</sup> “Almost 40% of Americans Would Struggle to Cover a \$400 Emergency,” *Bloomberg*, May 23, 2019:

<https://www.bloomberg.com/news/articles/2019-05-23/almost-40-of-americans-would-struggle-to-cover-a-400-emergency>

<sup>ix</sup> “Congress, Enforcement Agencies Target Tech;,” *Wall Street Journal*, June 3, 2019: <https://www.wsj.com/articles/ftc-to-examine-how-facebook-s-practices-affect-digital-competition-11559576731>

<sup>x</sup> “Share Buybacks May Be Bad — Just Not for the Reasons You Think,” *Institutional Investor*, March 7, 2019:

<https://www.institutionalinvestor.com/article/b1dfj9g9mfnqxb/Share-Buybacks-May-Be-Bad-Just-Not-for-the-Reasons-You-Think>

## **IMPORTANT INFORMATION**

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Date of first use of this material: July 29, 2019

Fund Performance (as of June 30, 2019)*	Average Annual Returns		
			Since Inception**
Fund/Index	1-year	3-year	
Moerus Worldwide Value Fund - Class N	-3.20%	4.83%	5.27%
Moerus Worldwide Value Fund - Institutional Class	-3.00%	5.08%	5.51%
MSCI AC World Index Net (USD) ***	5.74%	11.62%	11.08%

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 06/30/19 as a percentage of the Fund's net assets: BR Properties SA (5.05%), Almacenes Exito SA (4.73%), Standard Chartered PLC (4.09%), Tidewater Inc. (3.75%), Copa Holdings S.A. (3.45%), Arcos Dorados Holdings Inc. (3.43%), Spectrum Brands Holdings Inc. (3.33%), Jefferies Financial Group Inc. (3.14%), Nutrien Ltd. (3.07%), and Westaim Corp. (3.04%).

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