Moerus Worldwide Value Fund

Institutional: MOWIX | Investor: MOWNX

Semi-Annual Shareholder Letter: Six Months Ended May 31, 2021

Dear Fellow Investors:

We hope this Semi-Annual Shareholder Letter finds you and your families well. We are writing to update you on recent developments regarding the Moerus Worldwide Value Fund (the "Fund") over the six months ended May 31, 2021. In this Letter, we will discuss the Fund's performance, positioning and outlook looking forward, notable investment activity thus far in 2021, and why we believe that the Fund is well-positioned for a potentially inflationary world.

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, 2021)*			**Average Annual Returns**		
Fund/Index	**6-Months**	**1-Year**	**3-Year**	**5-Year**	**Since Inception****
Moerus Worldwide Value Fund - Class N	29.14%	68.58%	2.40%	5.68%	5.68%
Moerus Worldwide Value Fund - Institutional Class	29.32%	68.89%	2.66%	5.94%	5.94%
MSCI AC World Index Net (USD) ***	15.99%	41.85%	13.86%	14.18%	14.18%

** Performance data quoted is historical and is net of fees and expenses. All performance percentages greater than one year are annualized.*
***Inception date is May 31, 2016.*
**** The MSCI AC World Index Net (USD) captures large and mid-cap representation across 23 Developed Market and 27 Emerging Market countries. With 2,986 constituents, the index covers approximately 85% of the global investable equity opportunity set. You cannot invest directly in an index.*

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, 2022, 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.

First Half 2021 Performance Drivers

With that said, purely for comparison purposes, we will briefly highlight the noteworthy factors driving short-term performance during the period under review. The Fund's Institutional Class was up 29.3% during the First Half of its Fiscal 2021[1]. By comparison, the Fund's benchmark, the MSCI All-Country World Index Net ("MSCI ACWI (Net)") was up 15.9% during the same period. During the six months ended May 31, 2021, the Fund performed well both in an absolute sense and relative to the benchmark, picking up where it left off during a strong Second Half of 2020 as the portfolio continued its recovery from the worst of the pandemic in the early days of 2020.

It was a generally positive six months for most markets, aided by the accelerating vaccine rollout and the passage of a USD 1.9 trillion pandemic-relief bill in the U.S., in addition to continued monetary stimulus. Notably, these developments also contributed to increased inflation expectations and rising U.S. Treasury yields, which, at times, weighed somewhat on higher-priced, longer duration Growth and Information Technology stocks, causing them to lag in a relative sense. On the other hand, Value stocks fared better in general—particularly those types of businesses that can be found in our Fund, which have been long disliked and deeply undervalued, and were hit disproportionately hard by the onset of COVID-19 (and resultant lockdowns) in early-2020.

The Fund's strong performance during the First Half was broadly-based, with significant positive contributions coming across numerous sectors and countries, as the large majority of Fund holdings appreciated meaningfully during the period. Given such a period, it is challenging to break such broad-based performance down into just a few, major buckets or themes. With that said, we will discuss a few notable drivers of performance during the First Half, among others, below. But first, an important note: the Fund's performance in the First Half clearly represents another step in the right direction. However, as long-term investors, we remain much more focused on fundamental developments affecting the businesses that the Fund owns than on stock price fluctuations from one quarter or six-month period to the next. Fortunately, on that note, business-level developments continued to be encouraging, in our view, across much of the portfolio.

Financial Services Holdings

The most material contributor by *sector* to the Fund's performance during the First Half was our allocation to Financial Services holdings. This heterogenous group of investments consists of various holdings across different geographies (North America, Europe, India, and Japan) and types of business (including Banks, Holding Companies, and Insurance Companies)—all of which, we believe, represent opportunities to invest in well-capitalized businesses with attractive long-term prospects at meaningfully discounted valuations.

In last year's Shareholder Letters, we had discussed these Financial Services holdings quite a bit. First, during the First Half of 2020, adverse economic impacts from the pandemic hit the Financials holdings hard, along with the entire sector. This extremely difficult environment resulted in ultra-low interest rates and *de facto* regulatory bans on distributions to shareholders, leading to postponed dividends and share buybacks across the sector, regardless

[1] Please note that "First Half" refers to the Fund's 2021 Fiscal Year, or the six months ended May 31, 2021.

of the financial wherewithal of the companies to make them. Then, in the Second Half of 2020, performance rebounded as vaccines arrived, economic activity continued to recover (albeit in fits and starts), and regulatory restrictions on capital distributions began to show signs of easing—with both the Dutch central bank and Bank of England dropping calls to suspend dividends (positive news for Fund holdings **NN Group** and **Standard Chartered**, respectively). We noted that, to the extent that regulatory restrictions on capital distributions continued to loosen, we believed the Fund's Financial Services holdings possessed meaningful upside potential, given their strong capital positions and significantly discounted valuations.

During the First Half of 2021, the Fund's Financial Services holdings continued their strong performance that began in the latter half of 2020, with the large majority of holdings appreciating meaningfully. Our European Financials—including Holding Company **Exor NV**, Insurer **NN Group**, and Banks **UniCredit SpA** and **Standard Chartered** (the latter of which is listed in London but operates primarily in Asia, Africa, and the Middle East)—continued to perform well. On a most recent note, the European Central Bank indicated that, in the absence of materially adverse developments, they plan to lift their cap on dividends and share buybacks at Eurozone banks by the end of the Third Quarter this year, providing a further potential benefit to Italy-based UniCredit. New York-based Financial Services Holding Company **Jefferies Financial Group** also saw its stock appreciate significantly, driven by record business results as its Investment Banking, Capital Markets, and Asset Management businesses all performed strongly amid a surge in trading and underwriting during the pandemic.

However, the single most significant contribution to Fund performance during the First Half came from **IDFC First Bank**, an Indian-listed bank whose shares saw very strong price appreciation (up 62% in USD) during the period, benefitting largely from three separate factors:

- A potential recovery in economic activity in India, following a very strict nationwide lockdown in 2020.
- Recent business results that showed substantial progress in the company's transformation of its lending book and liability franchise over to more retail funding sources.
- An equity fundraising (completed in April 2021) that provides the runway for significant further growth in the bank's lending book.

Since being formed three years ago through the merger of a Bank and a Non-Bank Finance Company, IDFC First Bank has been undertaking an ambitious process of converting its lending book—which had historically been dominated by infrastructure and wholesale lending—to become a more diversified retail-led book, which management expects will be higher-yielding and less risky. At the same time, it has also been undergoing a massive expansion of its liability base by expanding its branch footprint and attracting more Current Account and Savings Account retail depositors, which are significantly lower-cost sources of funding. Early in 2021, the company released earnings that showed metrics across both the bank's loan book and its depositor base that have made considerable progress towards this conversion, thus increasing investor confidence in the company.

Even with the strong recent performance, we believe that IDFC First Bank continues to have modest valuation multiples for an Indian bank and continues to trade at a considerable discount to other private Indian banks, especially when accounting for its high-growth characteristics. The recent equity raise has brought an additional INR 30 billion (roughly USD 400 million) of capital onto the bank's balance sheet, significantly solidifying what was an already strong capital position and providing a foundation upon which the bank can further grow its lending book. As we have noted in the past, India can be a challenging market for value investors, given the generally high valuations there, making one's entry point to be of paramount importance. We had first bought shares of IDFC First Bank following a challenging period for financial institutions in India and increased the position significantly as the impact of the pandemic resulted in valuation levels that we did not expect would be around for long.

Natural Resource-Related Holdings

The most material contributor by *country* to the Fund's performance during the First Half was Canada, driven primarily by many of our Natural Resource-related holdings. In recent letters, we frequently mentioned Natural Resources as one of the most widely disliked, discounted areas of the market for some years, providing the Fund with what we believe are numerous attractive, long-term investment opportunities. In general, the prices of many commodities had been subdued—if not depressed—for the better part of the past decade, and the prices of many Natural Resource-related *stocks* were even more depressed than the underlying *commodities*.

It is worth noting that our approach to investing in Natural Resource-related companies likely differs from that of many who buy such stocks, usually based upon an underlying commodity price projection. For example, such an investor may believe the price of a given commodity will increase, so they essentially bet on the future direction of the commodity price by purchasing the stock of a company associated with that commodity. That, however, is not what we do at Moerus—we do not make particularly detailed, elaborate, macro-level projections of future commodity prices. However, there are times when we believe that commodity prices seem to be unusually low and there is considerable financial distress across the companies in the related industry; this situation suggests to us that prices may be unsustainably low and something may have to give, providing the prospect of improvement (*e.g.*, either prices eventually move upward or distressed producers are forced out, restricting supply, which could be supportive of pricing). However, the timing and magnitude of any such improvements in conditions are not known to or forecast by us with any degree of certainty.

Although we do not make projections of future commodity prices in any great detail or supposed precision, very depressed prices of commodities—and the distress among many of the companies that produce them—have frequently provided investment opportunities for us in our history. However, a couple other criteria must be met, in our view, for us to be interested:

- The valuation of the resource-related company must be unusually attractive (which typically occurs when the underlying commodity is wildly out of favor).
- More importantly, the company must have a strong financial position that provides an ability to survive protracted periods of adversity.

Again, we do not have undue confidence in knowing *exactly when* things will turn and improve, so it is of paramount importance that the company has the financial wherewithal to weather the storm until the tide turns and improved prices take hold.

In recent years, we have found numerous Natural Resource-related investments that have met these criteria. What had been a difficult number of years for many of these companies got dramatically worse at the onset of the pandemic in early-2020, which resulted in plunging demand for various commodities, in addition to disrupting the normal day-to-day operations of mines. However, from a fundamental perspective, the distress across large swathes of the resource space in recent years led to low levels of reserve replacement in some commodities, creating potential supply constraints in the future. On the other hand, the demand side of the equation for many commodities began to improve later in 2020, as economic activity began to return and unprecedented fiscal and monetary stimulus was pledged by various governments.

Against this backdrop, most of the Fund's Natural Resources-related holdings performed very strongly in the First Half of 2021, including in the areas of specialized mining services (**Major Drilling Group International**, the second-largest contributor during the period), uranium mining (**Cameco**, the fourth-largest contributor), agricultural crop inputs (**Nutrien**), and copper mining (**Lundin Mining**), among others.

<u>Energy-Related Holdings</u>

Staying within Natural Resources, let us move more specifically to the Fund's Energy-related holdings: another area of the portfolio that was a meaningful contributor to Fund performance during the First Half. Our Energy-related (specifically, Oil & Gas-related) holdings represent another bucket of the portfolio that had been hit extremely hard in the early days of the pandemic. The long-beleaguered sector, which had only just begun to show signs of life in December 2019 and early-January 2020, was hit by a succession of black swan-like, extremely adverse shocks: first to demand (due to COVID-19 and resultant lockdowns worldwide), then, shortly thereafter, to supply (a Saudi-Russian oil price/production war). This one-two punch led to a collapse in crude oil prices of 55% in March 2020 alone. The extent of the temporary dislocation in the oil market was so stark that, at one point in April 2020, WTI crude futures briefly reached a seemingly nonsensical price of -$40 per barrel (*negative* $40).

The plunge in oil prices and, by extension, in the share prices of the Fund's Oil & Gas-related holdings (**Aker ASA**, **Enerflex** and **Tidewater**) was clearly very painful in the short-term. However, at the time, we noted that we remained confident that these holdings were well-positioned to weather the downturn, given their strong financial positions, and that they offered attractive investment opportunities (at deeply discounted valuations) over the longer-term. Trying to maintain a bigger-picture perspective, our view was that the same aforementioned drivers that made early-2020 such a horrific period for the sector seemed likely, with the passage of time, to prove transitory in nature as those forces reversed course. For example, wide segments of the global economy that were essentially shut down at the time, triggering the collapse in oil demand, seemed likely to begin reopening *at some point* (albeit slowly and varying greatly by geography), supporting a gradual recovery in demand. In the meantime, on the supply side, the old axiom "*The cure for low prices is low prices*" appeared likely to begin playing out to some extent, as the ongoing retrenchment of the U.S. shale industry (a key swing factor in the supply/demand balance over the past decade) gathered steam.

To some extent, the situation has generally played out that way in the year-plus since the worst of the dislocation, with oil demand continuing to recover over time, supply-side forces remaining relatively subdued (especially outside of OPEC+), and oil prices consequently recovering and surpassing pre-pandemic levels, with prices in the mid-$70s per barrel at the time of this writing. **Aker ASA**, **Enerflex**, and **Tidewater** have all performed very strongly since then—up between 25% and 45% in USD terms in the First Half and between 67% and 188% in USD over the twelve months ended May 31, 2021—contributing significantly to the Fund's strong performance over the past six and twelve-month periods. Yet, such had been the extent of the sector-wide distress and extremely negative investor sentiment towards the space (for years *even before* the pandemic, which only exacerbated the despair) that, even despite the strong recent performance, we believe the Fund's Energy-related holdings continue to trade at unusually discounted valuations, providing the portfolio with compelling upside potential looking forward.

<u>*Other Performance Drivers*</u>
A couple of the most significant individual contributors to performance during the First Half do not fall neatly into any of the notable areas listed above. For example, **Hammerson**, the United Kingdom-based Retail REIT that we highlighted in our November 2020 Shareholder Letter, was the third-largest contributor to Fund performance in the First Half. Hammerson shares continued to recover from pandemic-sparked lows as the vaccination campaign in the United Kingdom progressed successfully, offering a potential path towards eventual loosening of restrictions, which will benefit the business significantly. Meanwhile, the company bolstered its financial position considerably with a rights issue in late-2020 and several asset sales in 2021, as well as recently hiring both a new Chairman and a new CEO, completing a management transition that we feel will be a significant positive for the company.

The Straits Trading Co. Ltd., a Singapore-based Holding Company with financial interests in various areas, including property, hospitality, and resources (tin smelting), was the fifth-largest contributor to Fund performance in the First Half. We have known Straits Trading well for many years and have been happy shareholders, given what, in our view, has been a compelling valuation and a solid management team that has taken numerous steps to build value in recent years. However, for a long time, it seemed this highly attractive value proposition, by and large, went unrecognized by the market, as Straits Trading has long been a lightly followed company that flew under the radar of most investors and analysts. That changed somewhat during the First Half when a sell-side analyst for a local bank launched research coverage of Straits Trading. In doing so, the analyst pointed out the massive discount to Net Asset Value that Straits Trading shares were offering, in addition to significant "hidden asset" value (hidden from the perspective of the broader market) within the Holding Company structure. During the First Half, Straits Trading shares appreciated meaningfully, beginning to reflect at least some of the value that we have seen created for years, although shares continue to trade at a significant discount to Net Asset Value and continue to offer what we believe is compelling upside potential looking forward.

As noted earlier, the positive contributions to Fund performance during the First Half were broadly-based. A large majority of holdings were up (most significantly so), and there was not much in regard to material detractors to performance during the six months ended May 31, 2021. However, if we had to point to an area of the portfolio that has lagged in a *relative* sense, we would point to the Fund's holdings in Latin America: a region that began to be adversely impacted by the pandemic fairly late relative to the rest of the world, and where the public health response (notably in terms of the vaccine roll-out) has been relatively slow to take hold. We have written often in recent Shareholder Letters about the attractive characteristics of our Latin American investments, including **Arcos Dorados Holdings**, **BR Properties**, **Copa Holdings**, and **Despegar.com**, among others. As with other areas of the portfolio that were hit hardest earlier in the pandemic-era, we remain excited looking forward, as we look past what we believe is temporary adversity and remain focused on the long-term fundamentals of each of these businesses, which we believe are quite strong and indeed, improving. Combined with what we see as strong financial positions and exceptionally discounted valuations across the Latin American subset of the portfolio (made available because of current pandemic-related challenges), we remain quite encouraged by the upside potential of this group of holdings.

Fund Outlook Looking Forward

As we noted last year, in early-2020, the onset of COVID-19 interrupted the encouraging business-level developments that had been occurring across many Fund holdings in late-2019 and into 2020. Thereafter, with the initial market shock of COVID-19 behind us, the Fund's portfolio of businesses resumed taking meaningful steps forward over the past twelve months. Yet, for appropriate context, it is important to point out that the strong recent performance of many Fund holdings was off of extremely depressed levels and our portfolio, which consists of investments in what were some of the most disliked, discounted areas in markets for years (Financials, Natural Resources, Emerging Markets) remains, in our view, remarkably undervalued relative to its longer-term fundamentals, with *stock price* performance still lagging far behind underlying *business* performance and prospects. For one statistical indicator of the extent of the disparity in valuations between the Fund and the broader market, as of May 31, 2021, the Price-to-Book Value ratio (P/B) of the Fund was 0.85x, as compared to 2.98x for the benchmark MSCI ACWI.

Today, we continue to observe a broader market environment in which, we would argue, the stock prices of many of the popular, household names have run well ahead of underlying fundamentals and even highly optimistic expectations for the future. We have no unique insights as to how long this environment might last and cannot make any predictions on timing with any confidence; indeed, it is possible that, in the short-run, recent increasing concerns about the spread of the COVID-19 Delta variant may spark an additional flight to highly priced stocks that are seen as relative beneficiaries of lockdowns and a work-from-home environment. However, in early-2020, the holdings across our portfolio survived what, in our view, was a real-world, real-time, stress test of all stress tests—one in which, in the case of some businesses, a large majority of revenue evaporated virtually overnight! If the Second Half of 2021 sees a resurgence in new cases, it is important to note that, in our view, there are significant mitigating factors that, unfortunately, were not in play in early-2020—namely, a much improved level of preparedness, especially in terms of increasing numbers of people who are vaccinated, healthcare infrastructure, established protocols for preventing or reducing the spread of the virus, new procedures that may allow businesses to operate more fully during shutdowns, etc.

Thus, we stand ready, willing, and happy to take advantage of any additional opportunities (both new to the portfolio and already existing) made available by any future bouts of short-term, pandemic-related volatility. In the long run, we continue to believe that the unusually attractive valuations, sound long-term fundamentals, and staying power of many Fund holdings offer attractive margins of safety and bode well for the portfolio's prospective risk-adjusted returns—particularly in a world where broader benchmark indices trade at historically rich valuations and are increasingly concentrated in a relatively small number of popular mega-cap companies. In our view, this extremely bifurcated market, which we have commented on often in previous letters, continues to provide us with some very attractive investment opportunities, sowing the seeds for potentially quite interesting prospective longer-term returns.

Notable Investment Activity in the Fund

During the Fund's First Half of 2021, we strove to take advantage of short-term volatility and attractive pricing to add to several existing positions in the Fund, in addition to initiating two new positions in the portfolio: **Canfor Pulp Products** and **Emaar Properties**.

Canfor Pulp Products, Inc.

Canfor Pulp Products, Inc. is a major Canadian producer of Northern Bleached Softwood Kraft ("NBSK") pulp, which is used as an input for a variety of products including a gamut of printing and writing papers, toilet paper, tissues, hygiene products, and the like. It also produces other grades of pulp and kraft paper (for use in recyclable brown paper bags, for example). The business possesses a number of interesting characteristics that, in our view, make for a potentially interesting investment opportunity:

- The mills that produce pulp are incredibly expensive and capital-intensive, running in the mid-to-high hundreds of millions of dollars, thus representing a big-ticket item for any new, would-be competitors.
- The pulp mills also need access to a reliable, high-quality wood fiber basket (*i.e.*, abundant trees that are available to be turned into lumber and the by-product wood chips, which, in turn, are turned into pulp), which is another requirement that presents a barrier to entry.
- The mills must also be situated near transportation infrastructure, be it roads or sometimes even deep-water ports.
- The mills need access to an economical source of power; in fact, this attribute (ample access to low-cost power) has resulted in more than one pulp mill's power source being repurposed in order to transition from making pulp to mining bitcoin!
- Some of these pulp mills have been converted into mills which produce what is called "fluff pulp," which is used in sanitary products such as diapers and the like.

As a result of these characteristics, the supply/capacity side of the NBSK pulp business has not grown significantly over time. With demand being cyclical and supply being relatively static, the pricing environment has tended to mirror the demand picture at any given point in time. In periods of low demand, prices do not do terribly well, which is an example of what happened in 2020. Conversely, as demand for these products has been rising from the depressed levels of the pandemic, so has the pricing of NBSK pulp.

We believe the valuation of Canfor Pulp Products stock is quite modest. Specifically, it trades at a greater than 60% discount to recent transactions in the space, on a per-unit of capacity basis. Looking at multiples of profitability (albeit a less preferred metric, given the cyclical volatility in earnings) we estimate the stock is trading at roughly 2-3x current EBITDA. We believe it is unlikely that demand has peaked—on the contrary, we believe we may still be in the relatively early stages of a recovery—so, in our view, the stock is potentially quite undervalued. We believe the company is very strongly capitalized (there is modest net debt), and the bulk of its capital expenditures, in terms of upgrades and capacity-expansion and renewal, were completed in late-2020 and early this year. Thus, the company entered the year with a modest amount of debt, which, given the current cash flow generation of the business, will likely soon transition into a net cash balance sheet (if it has not already done so). Looking forward, with the bulk of capital expenditures largely behind it and operations generating healthy cash flows, the stock, in our view, will look increasingly attractive based on another favorite metric many investors use (free cash flow yield), which could lead to what we believe is the stock's mispricing and undervaluation being recognized by the broader market. In addition to this, as the business generates cash, we believe that various attractive alternatives abound, including dividends, share repurchases, or a takeout by the controlling shareholder (Canfor Corp., which owns 55% of Canfor Pulp Products). However, all of that is conjecture, merely providing potential upside on top of the core of our investment thesis: our view that Canfor Pulp Products is unusually undervalued, despite it potentially being on the cusp of meaningfully improved profitability.

Emaar Properties PJSC

Emaar Properties PJSC is a Dubai-based company that develops, owns, and manages real estate. Emaar Properties is the leading property development company in the United Arab Emirates ("UAE") and a significant player in several other markets. The company operates across four main segments:

- Property Development, where it is a leading master-planned developer with more than 20 projects underway and a land bank of over 1.7 billion square feet in the UAE and abroad.
- Property Investment, where the company owns and manages a 6.6 million square foot portfolio of mostly retail assets, including the Dubai Mall, the largest mall in the world.
- Hospitality, where it operates hotels encompassing more than 5,000 rooms.
- Entertainment, where the company owns and operates several large tourist attractions in the UAE.

The company has faced significant challenges across all its businesses as of late. Prior to the onset of the pandemic, the domestic development business had already been challenged primarily as a result of an oversupply of residential real estate being developed in Dubai. Its international development business has also seen challenges in some of its main markets, specifically India. With the onset of the pandemic in 2020, the development businesses were further impacted as demand from buyers disappeared and construction progress was impeded by local lockdowns. In addition, the outbreak of COVID-19 created a significantly worse environment for Emaar Properties' other businesses, which have historically seen more stable cash flows than the development business. The company's Malls, Hospitality, and Entertainment Businesses have all seen significant declines in revenues as tourist and business traveler arrivals in Dubai have fallen significantly.

Dubai has made significant progress in diversifying and growing its economy in recent years, becoming both an attractive hub for global and local businesses in the region, as well as becoming a large tourism destination. Both industries (as well as many others in Dubai) are reliant on the ability of foreigners to visit for both business and pleasure—something which was significantly impacted by the pandemic and its resultant lockdowns. Longer-term, the emirate continues to take positive steps in cementing its position as a leading destination for foreigners, including the normalization of relations with Israel, changes to domestic laws that are more welcoming for expats, and continued long-term investments in initiatives to grow the city and attract more businesses.

However, these near-term challenges resulted in Emaar Properties suspending its dividend in 2020 and the stock declining almost 75% from its 2017 peak at the height of the COVID-induced selloff. While the near-term impacts of the pandemic on Emaar Properties' businesses are very real, the long-term attractiveness of the business remains very strong, in our opinion. At current prices, the stock is trading near levels last seen following the Global Financial Crisis, which reflects a nearly 50% discount to the company's disclosed Tangible Book Value Per Share (which does not include a benefit from adjusting property prices upwards from cost to fair value, given accounting standards in Dubai) and a nearly 40% discount to our estimate of Net Asset Value. Emaar Properties has a strong financial position with modest consolidated levels of debt and a portfolio of income-producing assets in Dubai that generates recurring cash flows. In addition, the property development business utilizes a measured construction model, which mitigates required construction funding from Emaar Properties, as this is partially funded by customer deposits.

We believe this is a very attractive entry point for a company that has a well-earned reputation for delivering some of the highest-quality properties globally (including the world's tallest building, the Burj Khalifa), owns market-dominant retail assets (including the world's largest shopping mall), operates a well-established hospitality brand, and appears to be extremely well-positioned to benefit from the continued long-term emergence of Dubai as a global financial, business and tourism destination.

Selling Activity

Selling activity during the First Half was fairly limited, primarily involving trimming some existing positions (many of which have appreciated significantly in recent months) in order to rebalance position sizes within the portfolio. The one position which was eliminated entirely from the Fund was **Lundin Mining**, a copper mining company which we had been reducing in size for valuation reasons following a significant run (up 135% in USD over the twelve months ended May 31, 2021).

Fund Positioning in a Potentially Inflationary World

In recent conversations with our fellow investors, one of the topics that has come up fairly often is the potential for increased inflation and our thoughts on the Fund's positioning in a potentially inflationary world. Indeed inflation, which, for the most part, had been relatively dormant in the U.S. since it was tamed in the early 1980s (in no small part due to aggressive tightening of monetary conditions under then-Chair of the Federal Reserve, Paul Volcker) has shown some signs of revival in recent months. Various logistical bottlenecks and challenges, increased commodities prices, wage pressures, and shortages of various supplies have pressured manufacturers and contributed to increased prices for a variety of products. Most recently, the Institute for Supply Management (ISM) released data for May 2021, in which the ISM's index of prices paid for raw materials increased to levels not seen since the 1979 Iranian revolution and oil crisis[2]. Given current events and the questions that we have received on the topic, we thought it worthwhile to briefly discuss how we think about inflation and how the Fund might potentially fare in an inflationary environment.

There is currently a debate underway among economic and financial pundits about what to make of the recent revival of inflation in various areas of the economy. One group believes that the inflation being experienced recently is transitory, driven in part by pandemic-related challenges that caused substantial global supply chain disruptions and a virtually unprecedented collapse in economic activity that is now, as it recovers, stimulating demand that is running up against ongoing supply constraints—temporary challenges that are likely to ease as conditions normalize. However, on the other side of the debate, there are others who believe that inflation could potentially spiral out of control and become a protracted problem, driven by years of overly aggressive monetary stimulus, money printing, and record deficit spending by various governments in response to the pandemic.

For our part at Moerus, while it is interesting to hear different opinions and forecasts, we do not participate in this debate. We are long-term, bottom-up investors who strive to construct a portfolio of deeply discounted investments that have the wherewithal (financial and otherwise) to survive prolonged periods of adversity in order to make it to the potential payoff when conditions normalize. We certainly do ***not*** base investment decisions upon overarching macroeconomic forecasts, simply because we are not confident in our ability (or anybody else's, for that matter) to correctly forecast future economic variables consistently enough. Thus, in regard to the current topic of inflation, we cannot emphasize enough that, in short, we do not know how high (or low) inflation may get or how long those conditions might persist in the future. We do not make bets on future rates of inflation (or on any other macroeconomic variable) in the selection of the Fund's investments—not today, not ever.

Instead, what we focus very intently on doing, as best we can, is seek to stress test any prospective investment (*before investing*) under various adverse macroeconomic scenarios, be it adverse shifts in interest rates, inflation rates, foreign exchange rates, etc. In other words, although we absolutely do not forecast whether or not inflation will occur, at what rates it might occur, or for how long it might occur, we are very interested in analyzing how resilient our portfolio would potentially be in the event that meaningful inflation were to eventuate and persist. As a result of going through this process and looking at the Fund's constitution today, it is our view that the Fund is well-positioned in the event that recent increases in inflation become a longer-lasting, more significant issue—both in an absolute sense, given meaningful pockets of the portfolio that could benefit from inflation, as well as relative to broader benchmark indices that do not appear to us to be as well-suited for meaningful inflation at the present time.

Why do we say this? A good place to start is our investment approach, which focuses on investing in companies that we believe have good financial and business positions from a *long-term* perspective but which trade at deeply discounted prices in the *present*. This frequently requires us to invest in areas that are out of favor *today*, due to some conditions prevailing *today* that adversely impact those businesses, be it macroeconomic conditions, industry conditions, or company-specific missteps, among others. After all, when an attractive long-term investment

[2] Source: Bloomberg

opportunity is available at a discounted price today, there typically is some reason for that, whether real or perceived. As mentioned above, until recently, we have lived in a long period characterized by relatively low inflation rates, low interest rates, relatively low rates of economic growth, low commodity prices, etc. The areas of the market that we believe have offered compelling opportunities and have thus found their way into the Fund's portfolio in recent years are, by and large, those that have been out of favor and have seen their stock prices excessively punished in the environment described above.

Said another way, many Fund holdings had been deemed "have nots" under the long-prevailing economic backdrop that included low inflation and low interest rates. Many of the businesses in our portfolio became cheap, in our view, in part due to low inflation, low interest rates, and low growth rates. Therefore, in our opinion, if there is, indeed, a sea change underway in terms of macroeconomic conditions, it stands to reason that our portfolio of out-of-favor names, which have been punished by the long-prevailing economic backdrop, stand better positioned for a directional change in those conditions. So, looking at things from a high-level, our portfolio, depressed for a long time under the status quo, seems likely, in our view, to benefit from a macroeconomic "regime change."

Digging more deeply, there are a number of specific areas of the portfolio that we believe are likely to benefit somewhat from a scenario that includes protracted periods of moderate or high inflation:

- *Commodities*: It is not entirely clear to us whether recently increased commodity pricing is a *cause* or *effect* of recently increased inflation (we will let the pundits debate that). Either way, as highlighted earlier in our discussion of the recent drivers of Fund performance, a variety of our holdings in the Fund have operations related to the exploration and/or production of commodities, be it uranium (**Cameco**), fertilizers (**Nutrien**), or our energy-related holdings (**Aker ASA**, **Enerflex**, and **Tidewater**), among others, and are likely, we believe, to benefit from improved commodity pricing.

- *Currencies of Resource-Rich Countries*: A potential second-order effect of higher commodity prices is that they sometimes have a positive impact on the currencies of countries that produce them in large quantities. For example, the Canadian dollar has been performing reasonably well as of late (up roughly 8% versus the USD during the First Half), driven in part by the buoyancy in numerous commodities produced there. But, perhaps more importantly from our perspective, one currency that people tend not to think about often but which is very much impacted positively by higher commodity prices, is the Brazilian Real (BRL). Brazil is rich in resources, with sizeable exports of agricultural products (soybeans, beef, sugar, etc.), iron ore, copper, etc. Higher prices for these exported goods are beneficial to Brazil's balance of trade, which is likely to indirectly benefit the value of the BRL. The Fund's interests in Brazil include **BR Properties**, **Telefonica Brasil**, and **Arcos Dorados** (for which Brazil is its largest market). We have written at length about each of these companies in the past—all of which, in our view, are domestically focused companies that have performed quite well as businesses, only to have those results either obscured or overshadowed by a protracted period of weakness in the BRL. If the value of the BRL were to normalize and improve (as it has in recent months), we believe the value being created by our domestic Brazilian investments would no longer be obscured by adverse local currency fluctuations. Thus, improving commodity prices are likely, in our view, to have a positive flow through impact on the currencies of producers, which are likely to benefit our Brazilian and Canadian dollar-exposed holdings.

- *Higher Interest Rates*: If the higher inflation rates that have been experienced recently prove to be sustained and continuing, increased interest rates could result as a by-product of that environment. We believe that higher interest rates could potentially be a significant benefit to a number of Fund holdings. As we have frequently discussed, the Fund's Financial Services holdings have long been depressed, in part due to historically low interest rates even before COVID-19 hit and exacerbated the situation. We believe that two of our European Financial Services investments (**NN Group** and **UniCredit**) are already benefiting from the potential for higher interest rates in the Eurozone. **Shinsei Bank** in Japan (also home to negative interest rates) also stands to potentially benefit significantly from increased rates. As for **Standard Chartered**, higher rates in the U.S. seem likely to feed through to higher rates in a number of the markets in which the bank operates, to the company's benefit. Looking beyond the Fund's Financial Services holdings, we believe that our portfolio, in general, consists of investments in companies that have strong financial positions, with a relative paucity of debt. In that sense, increased interest rates would not impinge much on our companies' financial positions; strong balance sheets provide a significant competitive advantage in such an environment. By contrast, there are many examples of companies in the broader market that have aggressively binged on cheap debt, thanks to artificially low interest rates. In these cases, higher interest rates could result in debt service requirements soaring for such highly indebted companies. Indeed, entire business models that have benefited from access to extremely cheap debt and equity capital might be called into question in the event that interest rates were to increase meaningfully.

An important caveat: none of this is to say that inflation would not have adverse impacts on our portfolio. It certainly would, for example, by reducing the purchasing power of people living in such inflationary environments. However, net-net, we believe that, all things considered, the Fund is relatively well-positioned for a higher inflation environment than what we have seen over the past many years, and, in our view, it would perform better than it would in a low inflation, low-growth environment. In short, the portfolio has been constructed during a period in which what we believe to be the most undervalued, out-of-favor investments were priced as such due in part to the effects, both direct and indirect, of *low* inflation. Conversely, *higher* inflation, in our view, seems likely to inure to the benefit of some of the Fund's holdings.

Further, at the risk of stating the obvious, given our belief that higher inflation would benefit numerous Fund holdings directly, this also would have positive implications on a portfolio-wide basis from a risk mitigation perspective, in terms of offsetting the negative impacts that inflation may have in other areas of the portfolio. We note this attribute in comparison to some of the more popular portfolios of the last several years—those with heavy allocations to Technology and Growth-stocks come to mind, including many benchmark indices and passive index trackers—which we believe are less well-suited for an inflationary environment. Again, it is somewhat intuitive that the same types of stocks that have thrived in the long-lasting macro regime that has included low inflation and low interest rates for so long would likely not fare nearly as well if there was a significant "regime change." Without dwelling on this topic too much, we had a few thoughts that are perhaps worth noting.

Future Expected (Hoped For?) Cash Flows Versus In-Place, Tangible Assets

A lot has been made of numerous new-economy Growth stocks that are trading at what we believe are nosebleed-high levels, despite the fact that many do not currently generate positive cash flows. Their "pitch," however, often is something like this: the company is not "burning cash" today, but rather, it is investing in the business, with the potentially significant payoff to come in positive cash flows in future years. There may or may not be validity to that case, depending on the specific business in question. However, without getting into the weeds regarding the mathematics behind discounting future cash flows, all else equal, far-away, *future* cash flows—even in a best-case scenario, if things work out as planned/hoped—would be worth much less *today* in a higher inflation environment than in the low inflation one that we have lived through for many years. This, we believe, has important implications in terms of significant downside risk for some pockets of the market today that trade at historically high valuations that are implicitly bolstered by low inflation expectations and discount rates.

In contrast, many holdings in the Fund own tangible, in-place assets, often marked at heavily discounted valuations *today*, which we believe are well-positioned to maintain or even increase in value under inflationary scenarios. Examples of such assets owned in the portfolio include, among others:

- In-the-ground Natural Resources, with capital-intensive mines and infrastructure necessary to produce them already in place and operating (Fund holdings: Aker ASA, Cameco, Nutrien, Osisko Mining, Straits Trading, and Wheaton Precious Metals).
- Triple-A, prime-located commercial real estate in Brazil's two largest cities (São Paulo and Rio de Janeiro), acquired at discounts to estimated replacement cost (Fund holding: BR Properties).

- Offshore Supply Vessels, currently valued at less than 25% of construction cost, which provide services related to the exploration and production of oil, a commodity that could potentially hold up relatively well in an inflationary environment (Fund holding: Tidewater).

On Benchmark Indices and Diversification

One final note on the potential impacts of inflation on various portfolios from a risk management perspective: in the Asset Management industry, the ongoing growth of passive management at the expense of active management has been well-documented. It seems intuitive that passively managed, index-linked portfolios provide substantial diversification benefits across numerous risks by definition because they hold large swathes of the entire market. It is difficult to argue that is not the case in practice. With that said, because high inflation has not been an issue for so long, those businesses which would do *relatively* well in inflationary environments have seen their weightings in various benchmark indices shrivel up at the expense of Technology and other higher-priced Growth-stocks that, conversely, have done exceptionally well over the past decade. As a result, if we look at some of the areas that we noted earlier as having the potential to hold up better in an inflationary environment, those areas tend to have benchmark weightings that are modest, if not at or near historical lows:

- *Energy*: Weighting is 3.3% in our benchmark, the MSCI ACWI, as of May 31, 2021. By contrast, Energy (including Aker ASA) makes up 12.8% of the Fund's assets.
- *Materials (Resources)*: Weighting is 5.2% in the MSCI ACWI, versus 17.2% of Fund assets.
- *Financial Services*: Weighting is 14.8% in the MSCI ACWI, versus 35.1% of Fund assets.

On the other hand, Information Technology (20.9% of the MSCI ACWI versus 0% in the Fund) and other Growth stocks (which tend to be highly priced after outperforming significantly in recent years amid the long-prevailing low inflation, low interest rate environment) have become increasingly important index constituents. As noted earlier, in a scenario in which higher inflation expectations translate into increased interest rates, we believe the downside price risk in some of the more expensive components of benchmark indices could be significant.

In Conclusion

To summarize, we not do not rely upon forecasts of future rates of inflation. However, our long-term, price-conscious approach—which tends to attract us to some of the most undervalued, out-of-favor areas at any given time—has led us, in recent years, to neglected corners of the market that have suffered, either directly or indirectly, from a low inflation, low interest rate environment. As a result, in the event that higher inflation proves to be not transitory, but sustained, we believe the Fund is well-positioned for that environment, both in an absolute sense due to portions of the portfolio which we believe will benefit, as well as relative to benchmark indices, which we suspect might not be as well-constructed for such an environment.

A Parting Note

In closing, we would like to reiterate some points that we made in the previous couple of letters: looking forward, it is important to note that the *stock prices* of the Fund's holdings seem likely to continue to be volatile in the coming months in both directions as markets react to news flow on virus cases, the spread of new variants, government actions in response, and the success and timing of the vaccine roll-out effort in real-time—likely without much regard to valuation and underlying, longer-term business strength and fundamentals. While this makes for unpredictability in terms of short-term share price fluctuations, the positive effect of this is that such an environment seems likely to continue to periodically offer us opportunities to invest at very modest prices in businesses that have many of the attractive characteristics discussed herein. We believe this will serve the Fund's portfolio well over the longer-term.

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

Sincerely,

Amit Wadhwaney, Portfolio Manager

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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: August 9, 2021

Fund Performance (as of June 30, 2021)* Fund/Index	1-year	Average Annual Returns 3-year	5-year	Since Inception**
Moerus Worldwide Value Fund - Class N	50.20%	0.89%	4.09%	4.37%
Moerus Worldwide Value Fund - Institutional Class	50.51%	1.13%	4.35%	4.62%
MSCI AC World Index Net (USD) ***	39.26%	14.55%	14.61%	14.22%

Gross Expense Ratios: Class Inst.: 1.97%; Class N: 2.22%   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, 2022, 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.*

Investing involves risk, including possible loss of principal. Equity securities are subject to market, economic and business risks that may cause their prices to fluctuate. Investments made in small and mid-capitalization companies may be more volatile and less liquid due to limited resources or product lines and more sensitive to economic factors. Fund investments may be concentrated in a particular country geographic region, sector, industry, or group of industries, and the value of Fund shares may rise and fall more than more diversified funds. Foreign investing involves social and political instability, market illiquidity, exchange-rate fluctuation, high volatility, and limited regulation risks. Emerging markets involve different and greater risks, as they are smaller, less liquid, and more volatile than more developed countries. Frontier market countries generally have smaller economies and less developed capital markets than even traditional emerging markets, and, as a result, the risks of investing in emerging market countries are magnified in frontier market countries. Currency risk is the risk that the values of foreign investments may be affected by changes in the currency rates or exchange control regulations. Significant investments in cash or cash equivalents may run the risk that the value of the cash account, including interest, will not keep pace with inflation. Please see the prospectus for details of these and other risks.

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

Top ten holdings as of 06/30/21 as a percentage of the Fund's net assets: IDFC First Bank Ltd. (4.20%), Tidewater Inc. (4.14%), Exor NV (4.11%), Straits Trading Co. Ltd. (3.79%), Arcos Dorados Holdings Inc. (3.77%), Major Drilling Group Intl. (3.57%), Despegar.com Corp. (3.51%), Emaar Properties (3.50%), Hammerson PLC (3.47%), and BR Properties SA (3.46%).

The Moerus Worldwide Value Fund is distributed by Foreside Fund Services.

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