



**MOERUS**  
CAPITAL MANAGEMENT

## Moerus Worldwide Value Fund

Institutional: MOWIX | Investor: MOWNX

*Semi-Annual Shareholder Letter: Six Months Ended May 31, 2022*

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, 2022. In this Letter, we will discuss the Fund’s performance, notable investment activity thus far in 2022, our thoughts on inflation and how it has related to the Fund’s evolution and positioning, and our outlook looking forward.

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, 2022)*	6-Months	1-year	Since Inception**	
			Cumulative	Annualized
Moerus Worldwide Value Fund - Class N	16.12%	6.01%	39.72%	5.73%
Moerus Worldwide Value Fund - Institutional Class	16.25%	6.24%	41.73%	5.99%
MSCI AC World Index Net (USD) ***	-9.35%	-6.78%	80.86%	10.38%

\* 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 24 Emerging Market countries. With 2,933 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](http://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, 2023, to ensure that total annual fund operating expenses after fee waiver and/or reimbursement (exclusive of any taxes, brokerage fees and commissions, borrowing costs, acquired fund fees and expenses, fees and expenses associated with investments in other collective investment vehicles or derivative instruments, or extraordinary expenses such as litigation) will not exceed 1.65% and 1.40% for Class N and Institutional Class Shares, respectively.

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

With that said, purely for comparison purposes, we will briefly highlight the noteworthy factors driving short-term performance during the period under review. The Fund's Institutional Class returned +16.25% during the First Half of its Fiscal 2022<sup>1</sup>. By comparison, the Fund's benchmark, the MSCI All-Country World Index Net ("MSCI ACWI (Net)") returned -9.35% during the same period<sup>2</sup>. During the six months ended May 31, 2022, against a darkening general market backdrop that saw most corners of global markets decline during the period, the Fund performed well on an *absolute* basis and meaningfully outperformed the MSCI ACWI on a *relative* basis. We will first briefly discuss the market environment, before discussing the drivers of Fund performance during the First Half.

## Market Review – First Half 2022

Needless to say, it was a challenging period on many fronts for global markets. The First Half of 2022 began with the market turning its attention back to inflation and potentially higher interest rates after Omicron variant-related fears that had arisen late in 2021 moderated in the U.S. and some other geographies. Then in late February 2022, markets were jolted by the Russian invasion of Ukraine – an event that many had previously considered an unlikely, “worst-case scenario” as tensions were rising in the preceding weeks. The Russian invasion sparked an enormous human and humanitarian catastrophe, and it also created a great deal of uncertainty across financial markets, which were left scrambling to assess risk exposures and the potential fallout and spillover effects.

In the months that followed, markets were confronted by numerous sources of uncertainty. In the U.S., persistently high recent inflation readings – exacerbated meaningfully by the crisis in Ukraine – provoked interest rate hikes as well as a much more hawkish tone from the Federal Reserve, and increased market expectations of a contraction in the Fed's balance sheet. In Europe, Russia's war on Ukraine raged on as early hopes for a negotiated peace agreement or ceasefire faded, resulting in increased fears of a more protracted, drawn-out conflict. In China, the government responded to the spread of the Omicron variant with very aggressive COVID-suppression policies that included draconian lockdowns in Shanghai and elsewhere, which have weighed on economic activity and have exacerbated an already tenuous global supply chain situation. This combination of factors has led to heightened fears of a global economic slowdown, while inflation remains stubborn amid continued supply-side challenges.

In short, the First Half 2022 was a difficult period, with most areas of global markets declining, including the U.S. (S&P 500 Index: -8.86%; NASDAQ Composite: -21.94%) and International markets (MSCI ACWI ex-USA: -7.05%), both Developed and Emerging (MSCI Emerging Markets Index: -10.11%). Rising yields and interest rate expectations seemed to weigh most heavily on higher-priced, longer-duration Growth and Technology stocks, which (in general) meaningfully underperformed Value stocks in the First Half (MSCI ACWI *Growth* Index: -19.93%; MSCI ACWI *Value* Index: +1.86%).

## First Half 2022 Performance Drivers

Yet, as noted above, despite this challenging general backdrop that saw most corners of global markets decline for the period, the Fund performed well in both an absolute sense and relative sense, returning +16.25% during the First Half; by comparison, MSCI ACWI returned -9.35%. Although the events in Ukraine and their spillover effects (e.g., higher oil & gas prices and inflation) weighed on some components of the Fund (including some of our holdings

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<sup>1</sup> Please note that “First Half” or “H1” refers to the first half of the Fund's 2022 Fiscal Year, or the six months ended May 31, 2022.

<sup>2</sup> Source for Index returns: Bloomberg.

in India and Continental Europe), those declines were more than offset by gains in other areas, including Natural Resources (Energy, Agriculture and Mining Services) and the Fund's Latin American holdings.

The Fund's performance during the First Half could be explained (albeit simplistically) by what we *have*, and what we *have not*, done in constructing the portfolio. Starting with the latter, we have often argued that the stock prices of many of the most popular names in the broader market had run well ahead of underlying fundamentals and even lofty expectations for the future. We avoided such segments of the market due to what we saw as excessive levels of long-term "price risk" (due to overextended valuations). Yet for much of the six years since the Fund's inception, this decision weighed on relative performance, as many stocks (including leading index constituents) that we saw as expensive got even more expensive, outperforming the Fund's out-of-favor holdings. But in the First Half of 2022, fears of inflation and the potential for interest rate hikes began to pressure markets in general, but especially some of those most expensive, popular pockets of the market (e.g., Technology) that we have avoided in the Fund.

On the other hand, many of what we believed to be the most attractively valued opportunities that we have found in recent years tended to reside in long-unpopular areas, starved of investor capital, with battle scars (and discounted valuations, in our view) to show for it. They include real, tangible asset-centric areas such as Natural Resources – a group long taken for granted, though that could potentially be changing in an inflationary world – as well as geographies like Latin America, a resource-rich region that had suffered through a long downturn that was further exacerbated by the pandemic. During the First Half, these same areas performed quite well in otherwise rocky waters, as evidenced by leading contributions to Fund performance coming from our Energy-related and Latin American holdings during the period.

While the Fund's strong performance during the First Half was the result of meaningful appreciation from a majority of holdings, we will discuss the most notable themes and drivers of performance, among others, below. However, as long-term investors, we are much more focused on fundamentals, company-specific developments and the longer-term investment cases supporting the Fund's investments – which, importantly, remain quite encouraging, in our opinion.

#### Energy-Related Holdings

By far, the most material contributor by *sector* to the Fund's performance during the First Half was our Energy-related (most notably, Oil & Gas-related) holdings. This was driven primarily by strong appreciation from **Tidewater** and **International Petroleum Corporation**, the largest and second-largest overall contributors to Fund performance, respectively, during the period.

Shares of **Tidewater**, a U.S.-based provider of offshore supply vessels and support services to the Offshore Energy industry, benefited in the First Half from both rising oil prices – driven, first, by Omicron-related fears easing in early 2022, and then by the Russian invasion of Ukraine – as well as from recent company results that have highlighted meaningfully improved conditions in the Offshore Energy space. Bigger picture and longer-term, industry fundamentals had already been improving significantly well before Russia's invasion of Ukraine, and company-specific developments at Tidewater have been encouraging. In our view, Tidewater's reported results over recent quarters have indicated a continued improvement in industry activity and the vessel supply/demand balance in most of the company's markets, as well as meaningful increases in pricing in select geographies and vessel classes. In fact, Tidewater has reactivated a number of its vessels – which had previously been deactivated as activity sharply declined during the earlier days of the pandemic – due to a continued improvement in market conditions. Tidewater is reaching the highest utilization levels that it has seen since the onset of the pandemic, and management seems increasingly encouraged by levels of tendering activity for projects later in 2022 and beyond.

Prior to Russia's invasion of Ukraine, oil prices had already risen significantly off of pandemic-sparked lows, driven by an improved global demand picture as vaccines and boosters were increasingly rolled out globally. In addition to a recovery in *demand*, oil prices have also been supported by the *supply* side of the market, which had, for years, been constrained by low levels of reserve replacement and reinvestment that only plunged even further at the onset of the pandemic. These forces on both the supply and demand sides drove rising oil prices, which, for Tidewater's customers (i.e., Offshore Oil & Gas Exploration & Production companies), have resulted in much improved balance

sheets and cash flow generation – attributes that, in our opinion, are likely to lead to a resumption in maintenance capital and some growth capital investments.

Most recently, the Russian invasion of Ukraine obviously drove an additional surge in oil and gas prices. But importantly, it also seems to have brought to the forefront strategic challenges that the West must address over the longer term, such as energy security, dependence on Russia for a significant proportion of energy needs (in particular, Europe's reliance on Russian natural gas), and the resultant need to seek alternative, more diversified sources of supply. To the extent that these concerns lead to efforts to increase oil and gas supply from alternative sources, including Offshore, we believe this could potentially lead to a significant increase in demand for Tidewater's services.

It is worth noting that the strong performance of Tidewater shares during the First Half (+144% in USD in H1), and indeed since vaccine-related news first came out in November 2020, came off of the extremely depressed levels reached in early 2020 at the onset of the pandemic. Investor sentiment towards the sector (particularly its smaller-cap, North American names) had been very pessimistic for quite some time and, as we saw in November 2021 with the emergence of the Omicron variant, returned quickly with negative virus-related headlines. Thus, although recent developments on both the demand and supply side have been encouraging and the oil market has strengthened meaningfully, Tidewater and the Portfolio's other Energy-related holdings remain, in our opinion, quite cheap. Although the geopolitical situation, recently increased fears about a potential recession, and/or adverse pandemic-related developments such as the recent lockdowns in China could cloud the immediate-term outlook, we believe Tidewater has the strongest balance sheet in the industry to make it through volatile periods, with a large cash pile of over US\$140 million as of March 2022, modest net debt, and no meaningful debt maturities over the next four years, providing Tidewater with the solid financial position that most/all of its peers lack. This, we believe, leaves the company well-positioned to benefit disproportionately if and as conditions continue to normalize, and it also leaves Tidewater well-positioned to continue to lead ongoing consolidation of the OSV industry.

On that latter point, Tidewater recently completed its acquisition of Swire Pacific Offshore – a business deemed non-core by its parent, Hong Kong conglomerate Swire Pacific Limited – at a price that we believe represents a deep discount to the replacement cost of its fleet. We believe that this acquisition meaningfully expands and improves Tidewater's fleet and offers attractive cost synergies given overlapping geographic operations, while retaining the strongest balance sheet in the industry. Despite Tidewater's strong performance during the First Half, we believe the stock still trades at an unusually modest valuation relative to the cash flow we believe the business could generate in a recovering and normalizing OSV market, and at a fraction of its fleet's replacement cost – which is of note particularly in a world in which replacement values for real assets are likely increasing meaningfully given the inflation being experienced.

**International Petroleum Corporation** ("IPC"), the second-largest positive contributor to Fund performance during the First Half, is a relatively recent addition to the portfolio, as we first purchased shares in the Second Half of 2021. Listed in both Canada and Sweden, IPC is an Oil & Gas Exploration & Production ("E&P") company with the bulk of its asset base located in Western Canada (with the balance coming from resources in Malaysia and France). Since we discussed the IPC investment case in greater detail in our November 2021 Annual Shareholder Letter, we will not repeat that here. But in short, we believe IPC is a well-financed, well-managed collection of assets that, perhaps because it is under-analyzed in North America (due to its European roots) is meaningfully undervalued by the market, in our view, based on various metrics, be it free cash flow generation, reserves, production, and recent comparable transactions in the area. At the time, we thought that the business could potentially generate significant excess free cash flow at well below prevailing oil prices, allowing management to either reinvest in the business or continue returning capital to shareholders.

Since then, as in the case of Tidewater, IPC stock benefited from rising oil prices driven by the easing of Omicron-related fears early in the year, followed by the Russian invasion of Ukraine. The company has recently accelerated its share repurchases, recently buying back roughly US\$100 million worth, or about 5.5% of outstanding shares, which is in line with management's stated capital allocation framework to materially increase returns to shareholders in a higher oil price environment. Given our belief that IPC shares are meaningfully undervalued, we

believe share repurchases (for cancellation) will, over time, increase intrinsic value per share for remaining shareholders such as the Fund. Despite its strong performance during the First Half (+116% in USD in H1), we believe that IPC stock remains meaningfully undervalued at its current stock price, as we estimate that the business could generate a mid-teens percentage free cash flow yield using assumptions for oil prices that are well below today's prices.

### Latin America

The most notable positive contribution by *geography* to the Fund's performance during the First Half was generated by the Fund's Latin American holdings – a group that had previously lagged in 2021 amid various sources of pandemic-related, macroeconomic and political uncertainty that weighed on equity markets and on Latin American currencies. In our November 2021 Annual Shareholder Letter, we discussed in greater detail how, short-term adversity notwithstanding, we believed Latin America to be a source of some of our most attractive investment opportunities looking forward. We won't repeat our case for the region here (though we would encourage anybody interested to revisit that discussion) but in short, we noted that such backdrops of unusually heightened fear sometimes result in babies being thrown out with the bathwater. We believe such moments sometimes temporarily offer longer-term investors attractive opportunities that could potentially prove quite lucrative over the long run. We believe that is currently the case in Latin America, and that this continues to be an exciting time to be deploying capital there (more on that later in the Fund activity section).

During the First Half of 2022, general market sentiment towards Latin America, at least relative to the rest of the world, seemed to improve somewhat – perhaps because the region had already been beaten up quite a bit in 2021, or perhaps because of positive second-order effects of higher commodity prices (in general, Latin America is rich in numerous Natural Resources to varying degrees depending on the country). In any event, even minor improvements in market sentiment towards Latin America seemed to benefit the share prices of our holdings in the region, which, as we have discussed at length in recent letters, are domestically focused companies that we believe have performed quite well as *businesses*, only to have those results either obscured or overshadowed by a protracted period of poor stock market sentiment and local currency weakness.

All of the Fund's Latin American holdings contributed positively to Fund performance in the First Half. Of the group, the most meaningful contribution came from **Arcos Dorados Holdings**, the third-most significant positive contributor in H1 (behind only Tidewater and IPC). Arcos Dorados is the largest McDonald's franchisee in the world and the exclusive McDonald's franchisee throughout much of Latin America and the Caribbean, whose shares were up nearly 60% in USD terms during the period. The positive start to 2022 was welcome news after challenging macroeconomic and political circumstances in Latin America, most notably in Brazil (the company's largest market) weighed on Brazilian equity market sentiment, the value of the local currency (the BRL), and indeed Arcos Dorados' *stock price* in recent years. Yet despite a difficult general backdrop, Arcos Dorados' actual *business* performance has been quite impressive, in our view, with very strong business results over the latter half of 2021 and even stronger First Quarter 2022 results that have driven positive share price performance during the First Half.

Notwithstanding a very challenging environment sparked by the pandemic and the arguably inadequate government response (notably in Brazil), Arcos Dorados' business returned to being EBITDA-positive on a consolidated basis by July 2020, almost two years ago – in our view, a remarkable achievement given the havoc that COVID-19 lockdowns have wreaked on the restaurant industry worldwide. Since then, the recovery from the pandemic and overall business performance has improved materially and even accelerated, in our view – particularly as indicated by the two most recent quarterly results. Arcos Dorados' Fourth Quarter 2021 systemwide comparable sales (excluding revenues from newly opened restaurants) were 24.2% higher on a constant currency basis than they were in the Fourth Quarter of 2019 – *before* the pandemic – with EBITDA in Q4 2021 surpassing the previous quarterly record established back in Q4 2019. Most recently, in the First Quarter of 2022, the company's systemwide comparable sales grew by 42% year-over-year, driven primarily by higher customer volume across all divisions, and the EBITDA generated by the business was a first-quarter record for the company.

Longer-term, we believe Arcos Dorados remains well-positioned to continue its impressive market share growth in Latin America's highly fragmented (but growing) Quick Serve Restaurant ("QSR") industry. Indeed, these market

share gains seemed to accelerate during the pandemic, driven by the company's unmatched free-standing restaurant footprint (a key competitive advantage in servicing Drive-Through and Delivery orders), as well as its scale, financial position, brand, and formal food safety protocols – a key pandemic-era differentiator in a Latin American QSR market that is heavily informal, populated by street stalls and mom and pop competitors. These significant advantages notwithstanding, Arcos Dorados shares continue to trade at a wide discount to regional and global peers, despite what we believe to be superior long-term growth opportunities.

We continue to find what we believe are compelling long-term investment opportunities in Latin America – a topic that we will return to in our discussion of the Fund's recent activity.

#### Notable Detractors: India

As noted earlier, the positive contributions to Fund performance in the First Half were driven by appreciation in a majority of holdings. Among the minority of Fund holdings that declined during the period, there was not much in the way of common themes; for example, there were no material detractors to performance by *sector*. As for *geography*, the Fund's most notable laggards during the First Half were our holdings in India, primarily Financial Services Companies **IDFC First Bank Ltd.** and **Edelweiss Financial Services Ltd.** We believe the shares of both companies were negatively impacted primarily by non-company specific, macroeconomic issues during the period – namely, heightened fears of higher interest rates and tightening monetary conditions in India in an effort to tackle inflation in the country – a situation that has been exacerbated by Russia's invasion of Ukraine (India is a net importer of oil).

But importantly, near-term macroeconomic adversity notwithstanding, company-specific developments at both IDFC First Bank and Edelweiss Financial Services have been quite encouraging, in our view, since we built our positions in the Fund in the First Half of 2020. From a longer-term perspective, India is the world's fifth-largest economy and has the second-largest population on Earth, which also happens to be amongst the youngest demographically, with more than 50% of the population under the age of 25. Albeit with fits and starts, India has experienced some impressive economic growth over the long-term and we believe there is little reason to think that this will not resume, albeit with some challenging periods along the way. As we previously noted when we initiated these positions in the Fund, the valuations of stocks in India generally reflect these positive factors and, as value investors, the opportunities for us to invest in the country at prices that we find attractive tend to come about only during times of uncertainty. We believe that the current situation is one such time, and that the positive fundamental-level developments at each of our holdings bode well for the long-term investment opportunity (as we believe they do in the case of Latin America).

#### **Notable Investment Activity in the Fund**

During the Fund's First Half of 2022, we strove to take advantage of short-term volatility and attractive pricing to add to numerous existing positions in the Fund at what we believed to be opportune times, in addition to initiating three new positions in the portfolio: **Bancolombia S.A.**, **Conduit Holdings Ltd.** and **Itaú CorpBanca**.

#### Bancolombia S.A.

In January 2022, we initiated a new position in the Common shares of **Bancolombia S.A.**, a Colombian bank which is 46% owned by Holding Company **Grupo de Inversiones Suramericana S.A.** ("GrupoSura"), a holding we had added to the Fund in the Second Half of 2021 and which we discussed in our November 2021 Annual Shareholder Letter. We had followed GrupoSura and its constituent investments, including Bancolombia, for many years. However, until recently, we never had the opportunity to invest at an attractive price, given the ample valuations that these companies typically traded at, reflecting their dominant respective business positions. That changed in 2021, as a number of factors – perhaps most notably, the impact that the pandemic has had on the Colombian economy, equity market, and local currency – led to both GrupoSura and a number of its holdings, particularly Bancolombia, trading at unusually depressed valuations.

Bancolombia is Colombia's largest bank, with operations also in proximate countries, including Panama and various Central American nations. The company includes a leading bank in the traditional sense, with a large banking footprint and operations including retail and commercial lending, as well as other financial services, including asset

management, insurance, and capital markets businesses. In addition, Bancolombia owns two digital banking subsidiaries that collectively possess a footprint of over 17 million digital users<sup>3</sup>; for some perspective, Colombia's total population is roughly 52 million<sup>4</sup>. In our view, Bancolombia shares currently trade at a deep discount to historic transactions in the Colombian banking industry, despite the bank's leading footprint and market share, which we believe should command a premium valuation. This is to say nothing of the digital banking subsidiaries, which we believe potentially hold considerable additional value over and above that of the traditional bank if they were, for example, separated out into a standalone, listed stock. On that point, Bancolombia's Board of Directors recently authorized the establishment of one of these subsidiaries (Nequi) as a separate legal entity, possibly as the precursor to a spin-off (this is merely conjecture on our part).

Because of GrupoSura's large ownership stake in Bancolombia, a potential change in control and/or the arrival of an activist shareholder had historically seemed highly unlikely, even at a valuation as deeply discounted as the one we believe we are seeing today. However, we believe this changed with the tender offer made by the Gilinski Group for shares of GrupoSura (more on that later) and two of its other holdings – Nutresa and most recently Grupo Argos, the cement and infrastructure group for which Gilinski announced a tender offer in May 2022. Given that Gilinski already owns a bank in Colombia (GNB Sudameris), we believe that it is possible that the ultimate purpose of Gilinski's tender offer for GrupoSura might be to obtain control of Bancolombia. If an "activist" shareholder (i.e., Gilinski) is ultimately successful in taking control of GrupoSura, we believe it is possible that Bancolombia could, at some point, either be put in play and/or have some of its latent value unlocked – for example, by a separation of the digital bank. Of course, this is total conjecture. Putting that possibility aside, the main thrust of our investment thesis is that we believe that we currently have the opportunity to invest in a high-quality, attractive collection of leading banking businesses at an unusually discounted valuation by historic standards and in an absolute sense, largely reflecting the depressant (but, in our opinion, waning) impact of the pandemic and the current bout of risk aversion being experienced worldwide.

#### Conduit Holdings Ltd.

During the First Half, the Fund also bought shares in Conduit Holdings Ltd. ("Conduit"), which is the London-listed parent of a Bermuda-domiciled reinsurance entity (Conduit Re) that came public in late-2020. Conduit's initial fundraising followed several years of depressed industry earnings stemming from a succession of losses due to large insured events (e.g., Hurricanes Irma, Harvey and Maria in 2017; and COVID-19 related losses in 2020). This, in our opinion, has set the stage for an improved reinsurance pricing environment in which Conduit would be able to profitably underwrite reinsurance, taking advantage of a balance sheet unencumbered by legacy catastrophe losses, pandemic claims and social inflation affecting its reserves.

As a young company, Conduit operates with new systems and leaner processes, which we believe should allow for more efficient operating expense at a smaller scale. The youth of Conduit notwithstanding, it is led, in our view, by two experienced reinsurance executives with credible track records in managing reinsurance startups and building them into successful operations. That said, the short-term noise in Conduit's reported earnings as the entity builds its book of business on the way to a "steady state" (potentially in 2023-2024) presented us with what we believe is an attractive opportunity to buy shares at a discount to stated book value.

#### Itaú CorpBanca

During the First Half, the Fund also bought shares in Santiago, Chile-listed **Itaú CorpBanca** ("ITCB"). ITCB's principal market is Chile, where it is one of the country's four largest banks. It also operates in Colombia where it is among the top 10 banks. The company's operating performance has struggled in recent years due to a series of negative events, starting first with the 2019 civil unrest in Chile, followed by a period of pandemic-induced economic stress starting in 2020. The relatively elevated credit-related costs were exacerbated by loose risk controls, ultimately resulting in a significant loss in 2020 that prompted a sizable rights issue in late 2021 for the bank to bolster its capital position. We believe this fundraising, along with internally generated capital, will allow the bank to withstand periods of adversity that will no doubt be encountered during our ownership of ITCB shares.

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<sup>3</sup> Source: Bancolombia Investor Presentation.

<sup>4</sup> Source: <https://worldpopulationreview.com/countries/colombia-population>

From our perspective, not only did this rights issue solidify ITCB's capital position, but it also allowed Itaú Unibanco Holding S.A. – the largest Brazilian bank, and a particularly well-run one, in our view – to consolidate its majority ownership in ITCB. We believe this will allow ITCB to adopt best operating practices from its Brazilian parent, while importing the digital banking knowhow from the more developed Brazilian market.

An important by-product of ITCB's fundraising was to simultaneously dilute the other major shareholder (ultimately eliminated through its own bankruptcy process unrelated to ITCB), who was unable to subscribe to its rights entitlement because of its own financial constraints. In our view, this removed a significant potential governance overhang presented by the demands of this shareholder's other financial interests.

In the wake of this capital raising, which was sizable in relation to ITCB's pre-existing market capitalization, we were able to purchase shares at a price that we believe was cheap in both absolute and relative terms in relation to its tangible book value and recent earnings.

#### Notable Selling Activity

The most noteworthy selling activity that took place in the Fund during the First Half involved the eventual elimination of two holdings – **Grupo de Inversiones Suramericana** (GrupoSura) and **Shinsei Bank** – each of which was precipitated by tender offers made at substantial premiums to their respective share prices. In the case of Colombian Holding Company **GrupoSura**, the Gilinski Group made a first tender offer at a roughly 27% premium to GrupoSura's prior closing price, followed by a second tender offer at a roughly 23% premium to the first tender offer price. In the case of **Shinsei Bank**, a public tender offer for the Japanese bank's shares was made by SBI Holdings, Japan's largest online brokerage, at a nearly 40% premium to Shinsei Bank's previous closing price. GrupoSura and Shinsei Bank are two recent examples of event-related value realization in the Fund, a topic that we discussed in detail in our November 2021 Annual Shareholder Letter.

#### **Inflation and the Evolution of the Fund: A Historical Perspective**

A year ago, as part of our May 2021 Semi-Annual Shareholder Letter, we included a discussion entitled "*Fund Positioning in a Potentially Inflationary World*." At the time, our motivation for tackling this topic was that inflation had just begun to enter the public consciousness after decades of relative dormancy (at least in the U.S.) and, as a result, we had been receiving numerous questions on the subject and on how the Fund might fare in a more inflationary environment. Although we will draw from some of those ideas below, we would encourage anybody interested to revisit the fully detailed discussion. But in summary, we expressed our belief that the Fund was well-positioned in the event that the increases in inflation that had just begun to crop up became a longer-lasting, more significant issue—both in an *absolute* sense, given meaningful pockets of the portfolio which stood to benefit from inflation, as well as *relative* to broader benchmark indices that did not appear to us to be as well-suited for meaningful inflation at the time (nor do they at present).

Over the twelve months that followed, that thesis has borne out to some degree, with the Fund generating positive absolute performance and outperforming the MSCI ACWI, which declined during the period. The Fund's recent performance, along with the fact that high inflation has persisted and even accelerated since then, seem to have elicited increased curiosity and inquiries as to our thoughts on inflation, interest rates and implications for the Fund. Did we construct the Fund's portfolio specifically with inflation in mind? Are we making some kind of "call" on inflation, higher interest rates, or various other macroeconomic variables?

The answer to each of those questions is an emphatic, "No." At Moerus, our approach to stock selection and portfolio construction has always been resolutely bottom-up in nature, with limited recourse to macroeconomic forecasting. 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, as we said last year and still say today, when it comes to inflation looking forward, we cannot emphasize enough that, in short, we do not know how much higher



(or lower) 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.

### Macro-Myopic, but Macro-Aware

However, we always strive to be acutely aware of the interplay between macroeconomic factors and the businesses or holdings owned by our investee companies. In other words, we like to characterize ourselves as macro-myopic, but at the same time macro-aware. What do we mean by that? Imagine you are considering traveling to an unfamiliar or even potentially rough neighborhood. Merely predicting whether you might get lost or run into some kind of trouble is probably not of much added value (although it might be morbidly entertaining for the more adventurous among us). However, trying to gather knowledge and gaining an awareness of the area ahead of time, before you decide whether to go there, potentially could be helpful in preparing for potential pitfalls and mitigating the risks, even though that obviously cannot guarantee a positive ultimate outcome.

Along similar lines, although we do not make macro forecasts that drive investment decisions, we focus our efforts on trying to be as “macro-aware” as we can, by striving to mentally 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. So, 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 persists.

### A Look Back: How (Low) Inflation Helped Shape the Fund

With that in mind, we thought it might be worth sharing our thoughts on the emergence of inflation (or lack thereof) in relation to how the Fund has been (and is currently) positioned – in short, the evolution of the portfolio and the impact of the recent inflationary environment upon various of our holdings. Again, we have no forecasts of rates of inflation in the future, or whether they will be higher or lower, as this is, in our view, an imponderable and lies well outside our circle of competence. Instead, we focus on the impacts that high (or low) inflation might potentially have on our holdings.

Three years ago, before the pandemic, one rarely heard the term “inflation” over the past many years. Now, it is ubiquitous. This has accompanied a transition in mindset from what was effectively a state of denial (remember inflation being “transitory” on the lips of many central bankers?) to the present times, in which virtually everyone seems to be a believer, or a so-called *inflationista*.

Perhaps beginning by examining how we got here – the recent history that led to this period of rising inflation – might help provide some valuable historical perspective. And in turn, that history also provides a window into the construction of various parts of the Fund's portfolio and its recent experience as inflation rose.

The Global Financial Crisis in 2008-2009 ushered in a period of unusually low interest rates, which after staying low during the 2009-2015 period, drifted up (albeit modestly) during the 2016-2019 timeframe. This latter period, which roughly coincided with the inception of the Fund (May 31, 2016), was nonetheless a period of relatively quiescent inflation. The recovery from the crisis that erupted in 2008 was painfully slow, especially in Europe. Despite a huge expansion in central bank balance sheets, inflation remained well below the central bank upper limit of 2%. In Europe, inflationary expectations kept threatening to slide into negative territory, arousing fears of Japan-style, long-term deflation and stagnation. The risk was not that prices and wages would surge, but rather that investment would be insufficient to sustain economic growth. Without artificial stimulus from the central bank, in the form of ultra-low interest rates and monetary stimulus, it was believed that the economy would slide into a slump.

After 2013 and before the 2020 COVID-19 shock, central banks talked repeatedly about the “normalization” of monetary policy, trying to remove the stimulus they had created, but every time they did so, they risked upsetting financial markets and tipping the economy into recession. Meanwhile, rather than launching irresponsible spending plans, as they were accused of doing in the standard inflationary 1970s scenario, politicians, at least in Europe, systematically opted for tight fiscal policy. Wage and price pressure was muted at best.

It was during this period (2016-2019) that the Fund’s portfolio started to take shape, reflecting the nature of the opportunities that we encountered at that time, mirroring both company specific circumstances as well as the economic backdrop.

### Financial Services

By way of example, the low interest rates in the Eurozone provided us the opportunities to buy the insurance company, **NN Group NV** in the Netherlands, and the bank, **UniCredit SpA** in Italy, both of which, in our view, are exceptionally well-capitalized and significant players in their respective markets – at fractions of their respective tangible book value and at low multiples of earnings. The catch? Both were performing well below their potential, in our opinion, reflecting the depressed interest rate environment in which they were operating.

We encountered a similar opportunity in **Standard Chartered plc**, which we also believe to be an overcapitalized bank, operating across Asia in addition to the Middle East and Africa. Here too, the persistence of low U.S. dollar interest rates depressed the company’s margins and its valuation. We believed that because of their over-capitalized balance sheets and profitability, each of these three companies were well-positioned to return excess capital to their shareholders via dividends and share repurchases while waiting for more “normal” profitability to be restored.

### Natural Resources

It was this same environment of slow growth, combined with firm-specific, idiosyncratic factors that presented opportunities across a number of primary industries (notably Natural Resources) which led to a protracted period of underinvestment in new capacity (or in expansions of existing capacity) while depletion of reserves continued unabated. This phenomenon was visible in industries as disparate as Uranium, where demand had yet to recover to levels before the Fukushima disaster (relevant to Fund holding **Cameco Corp.**), or Potash fertilizers where prices (and profitability) had plunged because of irrational price competition between the large Belarusian and Russian producers (relevant to Fund holding **Nutrien Ltd.**). A similar opportunity presented itself in the case of Oil & Gas-related businesses (producers and service providers) where the industry had yet to recover from the oil price crash in 2014, combined with the paucity in funding for new projects and ever tightening environmental constraints (relevant to Fund holdings **Aker ASA**, **Tidewater Inc.**, *inter alia*). In each of these cases, the absence of replenishment of the underlying resource was, in our view, sowing the seeds of an eventual upturn. Given the broad unpopularity of these industries, shares in exceptionally well capitalized investee companies were available at what we believed to be very attractive valuations.

### Latin America

This phenomenon was not limited to industry groups, like Financial Services or Natural Resources; the environment had also depressed valuations in select Emerging Markets (such as Brazil and Colombia, at the time) where resources (e.g. agricultural, energy, etc.) constituted a meaningful part of the countries’ export mix. In our view, the attractive valuations of our investment opportunities in Emerging Markets were further enhanced by the depressed foreign exchange rates at that time that reflected the depressed terms of trade for their exports.

### A Sea Change

Then, a sea change took place in the economic environment, in 2020, in the form of the COVID-19 shock, which threatened not inflation, but a gigantic global recession (or worse), when both the European Central Bank (ECB) and the Federal Reserve adopted novel and permissive monetary policies alongside massive government fiscal stimulus programs in many countries globally. This coincided with prodigious amounts of debt issuance, some of it at negative

nominal interest rates, and a meaningful loosening of the fiscal purse strings on both sides of the Atlantic and other parts of the world.

The *initial* trigger to the current bout of inflation, it is commonly agreed, was the dislocation created by the COVID-19 shutdowns. With the various preconditions for an eventual crisis already in place and developing for several years – for example, gradually developing supply-side issues involving various commodities such as Oil & Gas, Uranium, Potash and other agricultural products, among others – the enormous disruptions triggered by the pandemic essentially served as a flaming torch applied to dry kindling, resulting in a massive conflagration. Supply chains were disrupted and demand and supply thrown out of balance. Nevertheless, a number of similarities to the 1970s are undeniable. As was the case then, energy prices are driving the surge in the inflation indices. Also as was the case then, a war is disrupting supply. In 2021, fiscal and monetary policy helped stoke demand, as fiscal and monetary policy did in the early 1970s. In addition, the prices of a number of agricultural commodities are rising, mirroring supply disruptions along with the sharp escalation in the input prices of various products (e.g., fertilizers, pesticides, etc.).

These developments have had the predictable impact upon the businesses of the investee companies described earlier. The resource-producing companies and the resource-exporting countries are performing materially better. Years of underinvestment and under-replenishment are beginning to have an effect, with the recent developments in Eastern Europe serving to magnify these shortfalls.

As we speak about this in mid-2022, the Fed has embarked upon a series of rate hikes to contain the inflationary outburst, and the Bank of England and many others, such as The Reserve Bank of Australia, have also started down this path. The ECB is likely to do so soon as well. The magnitudes of rate hikes and timing are varying from country to country. We believe that this will, in turn, benefit the aforementioned financial institutions that were suffering margin compression in the ultra-low interest rate environment that existed earlier.

### *In Summary*

As noted before, the portfolio was not constructed with any overarching macroeconomic assumptions underpinning security selection. It was a creature of opportunistic security selection, with the bare minimum criteria requiring what we believe to be meaningful undervaluation of the security as well as the financial strength to cope with the possibility of a period of potential adversity over the long holding period that we normally envision. Perhaps in hindsight, it might be unsurprising that the securities which were particularly attractively valued and found their way into the portfolio turned out to be inflation hedges, because they were bought during a protracted period of quiescence where the return of inflation seemed inconceivable to investors.

Said another way, the areas of the market that we believe have offered compelling opportunities and 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 economic environment that persisted for over a decade until recently. 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, given the sea change underway over the past year in terms of macroeconomic conditions, it stands to reason that our portfolio of out-of-favor names, which had been punished by the long-prevailing economic backdrop, stands 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 what had been the status quo, in our view seems likely to benefit from a macroeconomic "regime change."

To sum up the above, the Fund's portfolio is not the result of any macroeconomic call on our part. Rather, our long-term, price-conscious approach—which tends to attract us to 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. Put another way, we have spent the past several years buying straw hats that were on sale in the dead of a seemingly unending winter. To the extent that a thaw has taken place, those straw hats, which have long been collecting dust, might prove handier over the next decade than they had over

the previous one – notwithstanding, of course, the more normal fluctuations in weather that will inevitably occur as seasons come and go.

## **Fund Outlook Looking Forward**

In our view, there are currently numerous sources of uncertainty across global markets, which, in turn, have resulted in meaningful market volatility subsequent to the end of the First Half (in June 2022), and which could potentially continue to result in volatility over the short-term. Some of these uncertainties, and their potential implications, include the following:

- **Geopolitical Risks (Russian Invasion of Ukraine)**: Developments regarding the war in Ukraine remain extremely unpredictable and could potentially fluctuate rapidly, either for the better (e.g., if diplomatic efforts succeed at securing a cease-fire or negotiated settlement) or for the worse (e.g., if this war sparks an even larger, more global conflict). While future developments are impossible to predict, Russia's invasion of Ukraine, and the West's sanctions on Russia in response, have had and continue to have numerous potential implications, including reduced availability and/or increased cost of certain Natural Resources (e.g., oil, natural gas, grains, uranium, metals). Sanctions, lack of working capital financing, restrictions on trade, et al., have, in some cases, reduced the supply of key natural resources to global markets, resulting in increased costs for those resources. Conversely, if peace were to unexpectedly break out in Eastern Europe, some of the aforementioned effects could reverse.

- **Exacerbated Inflationary Pressures and Supply Chain Issues**: The crisis in Ukraine and its impacts on the availability/cost of various commodities (see above) has, in turn, exacerbated inflation and supply chain bottlenecks that had already been an issue prior to the war. It is unclear whether any incremental inflation caused by the current conflict will prove to be a temporary shift (e.g., a jump in oil prices that moderates thereafter), or whether higher resource prices and/or reduced resource availability will ripple through the value chain (e.g., by translating into higher labor costs) and have spillover effects that could result in a protracted period of inflation. The situation is unpredictable.

- **Inflation is Beginning to Result in Higher Interest Rates**: Central banks have begun to respond to higher rates of inflation by increasing interest rates and tightening monetary conditions in attempts to contain it. Thus far, the response to rising inflation has varied by geography. The Federal Reserve in the U.S. announced its first interest rate increase since 2018 and recently hiked rates another 75 basis points (0.75%), and the Fed is beginning to reduce the size of its balance sheet. Central Banks in Latin America have, in general, been more aggressive in increasing interest rates, with Brazil being a notable example. On the other hand, others, such as the Central Banks of Australia and the Euro Zone, for example, have been less proactive, despite increased inflation and low unemployment. This has begun to change, with the Reserve Bank of Australia now beginning to increase rates and the European Central Bank (ECB) recently confirming its intention to begin to raise rates in July 2022 (albeit only by 25 basis points). However, in Japan, the Central Bank has (to date) resisted calls to increase interest rates despite rising inflation and a rapidly depreciating currency.

- **Risk of Recession and/or Stagflation**: In the U.S., a combination of persistent inflation, increasing interest rates/monetary tightening by the Fed, higher oil & gas prices (relative to recent years), and a relatively strong U.S. dollar (which, all else equal, is generally negative for the price-competitiveness of U.S. exports) has led to heightened fears of an economic slowdown (if not outright recession) or of a stagflationary environment (with little to no economic growth, even as inflation remains higher than normal).

We continue to believe that in an environment of higher inflation rates and interest rates, all else equal, "longer duration" equities such as high-priced Technology and other Growth stocks might potentially be disproportionately vulnerable to share price declines, given their rich valuations that are dependent on projected, uncertain cash flows further out in the future. These types of stocks had benefited disproportionately from the historically low interest rate environment that we have seen in recent years. On the other hand, we believe tangible asset-centric businesses that trade at inexpensive valuations based on the here and now – including many of the types of businesses that we strive to invest the Fund's assets in – are apt to hold up better in such an environment, all else equal.

However, it is worth noting that in the short-term, if an economic slowdown/recession indeed were to occur, these tangible asset-centric businesses could potentially also be adversely affected; for example, certain commodity prices might decline in the near-term in such a scenario, potentially negatively impacting Natural Resource-related stocks in the near-term. We have seen some signs of this subsequent to the end of the First Half, as increased fears of a recession have led to some declines in commodity prices and Natural Resource-related equities.

Although a recession might very well result in a decline in commodity *demand* if economic activity slows meaningfully, we believe such a decline is more apt to be cyclical and therefore more temporary in nature (as it is likely to recover if/when activity normalizes). On the other hand, we do not believe we've seen much in the way of meaningful proposed solutions put forth, to date, for some of the longer-term issues on the *supply* side that have contributed to higher Natural Resource prices, such as relatively reduced capital investment that has led to inadequate levels of reserve replacement for many commodities over the past several years. Put another way, in the *short-term*, the Fed and other leading central banks might be able to slow down the economy, inflation, and in turn, commodity prices, by tightening monetary conditions enough; however, it is not obviously clear to us how they might collectively solve the *longer-term* problem of inadequate non-Russian sources of oil, natural gas and other commodities to Europe and the rest of the world through monetary machinations alone (without supportive, complementary governmental and regulatory policy).

This is all mere speculation on our part. All of the above is to say that it is difficult to predict what impacts rising inflation, the ongoing war in Ukraine, the COVID-19 pandemic, or any other new developments might have on the market and on the Fund in the near-term. Fortunately, attempting to predict the unpredictable is not our focus. Instead, we remain focused on the long run, for which we believe the Fund is well positioned, short-term volatility notwithstanding, given our focus on what we believe to be well-financed, deeply discounted investment opportunities in areas that are better suited in a *relative* sense for a higher inflation, higher interest rate environment. These areas include Natural Resources (Energy, Agriculture, Uranium, Precious Metals); Latin America, a long-depressed, deeply discounted region whose local currencies may benefit from higher Natural Resource prices; and Financial Services (Banks, Insurance, etc.), which could potentially benefit to varying degrees from higher interest rates.

This was not by design, *per se*; rather, it was merely the result of where we have been finding what we believe to be the most attractively priced, bottom-up investment opportunities in recent years. In the context of a broader market that we have long viewed as fully or overvalued, these opportunities, in contrast, have been available at what we believe to be discounted prices because they operate in areas that were *not* beneficiaries (and, to varying degrees, were "victims," even) of the unusually low inflation and unusually low interest rate environment we have lived through for years – a long-running regime that could potentially be changing looking forward, arguably to the Fund's benefit, in our view.

In our opinion, the stocks in the Fund are largely trading at depressed valuations and offer attractive margins of safety, positioning the Fund well to benefit over the long run. For context regarding valuation, it is worth noting that the positive recent performance of many Fund holdings has come off of extremely depressed levels, in our opinion. Our portfolio, which consists of investments in what have been some of the most disliked, discounted areas in markets for years (Value in general, Latin America, Natural Resources, Financials) remains, in our view, unusually 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 disparity in valuations between the Fund and the broader market, as of May 31, 2022, the Price-to-Book Value ratio (P/B) of the Portfolio was 0.87x, as compared to 2.69x for the benchmark MSCI ACWI<sup>5</sup>.

With that said, the stock prices of Fund holdings may continue to be volatile in the coming months in both directions, as markets continue to react to news flow on the economy, the Russian invasion and the West's response, and on pandemic-related developments, likely without much relation to underlying business strength and long-term fundamentals. However, the good news there, in our view, is that we believe such volatility will continue to periodically offer the Fund opportunities to invest at very modest prices in businesses with attractive characteristics,

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<sup>5</sup> Source: MSCI Fact Sheets – as of May 31, 2022

which we believe bodes well for the Fund's potential over the longer-term. We believe that the current market environment continues to offer some unusually attractive long-term investment opportunities. We continue to remain focused on taking advantage of such opportunities in the Fund, and on uncovering new ones that become available as a result of short-term volatility.

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 Wadhwane**

Portfolio Manager

## IMPORTANT INFORMATION

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

Date of first use of this material: August 5, 2022

Fund Performance (as of June 30, 2022)*		Average Annual Returns		
Fund/Index	1-year	3-year	5-year	Since Inception**
Moerus Worldwide Value Fund - Class N	-2.61%	1.09%	-0.29%	3.19%
Moerus Worldwide Value Fund - Institutional Class	-2.30%	1.38%	-0.03%	3.46%
MSCI AC World Index Net (USD) ***	-15.75%	6.21%	7.00%	8.65%

Gross Expense Ratios: Class Inst.: 1.68%; Class N: 1.93%

Net Expense Ratios: Class Inst.: 1.41%; Class N: 1.66%

**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, 2023, 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 06/30/22 as a percentage of the Fund's net assets: Tidewater Inc. (4.72%), Standard Chartered PLC (4.39%), Arcos Dorados Holdings Inc. (4.12%), Exor NV (3.77%), Emaar Properties (3.68%), Cromwell Property Group (3.67%), Despegar.com Corp. (3.64%), Aker ASA (3.61%), International Petroleum Corporation of Sweden (IPC) (3.60%), and Straits Trading Co. Ltd. (3.33%).

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