Moerus Worldwide Value Fund

MOWIX - MOWNX

Q1 2023 Quarterly Review & Outlook

MOERUS FUNDS

Market Review – Q1 2023

The First Quarter ("Q1") was, in some ways, a fascinating period. It was ultimately a positive one for most equity markets, although there was quite a bit of volatility (to put it mildly) along the way, amid wild swings in market sentiment. The year began with optimism prevailing, with renewed hopes of a deceleration in inflation and an eventual Federal Reserve pause (if not pivot) driving a strong January for markets. Such enthusiasm was then tempered somewhat in late-February after headline January 2023 CPI statistics in the U.S. came in higher than consensus estimates, temporarily dampening those hopes. But the biggest story of Q1 came in March, as fears of banking contagion swept across global markets amid the announced liquidation of California-based, crypto-focused bank Silvergate Capital, followed shortly thereafter by the failures of Silicon Valley Bank and Signature Bank as well as the arranged marriage of UBS to a teetering Credit Suisse. Yet interestingly, despite heightened fears of a potentially broader-based banking crisis spreading, most benchmark indices finished March higher, driven primarily by Growth and Technology stocks, whereas Value stocks lagged significantly by comparison. Notably, for Q1 overall, Growth stocks outperformed Value stocks by over 12.5 percentage points (MSCI ACWI *Growth* Index: +13.78%; MSCI ACWI *Value* Index: +1.24%)[i].

The extent of such bifurcation in performance is somewhat curious (ironic?) to us considering the epicenter of the banking turmoil that erupted was in Silicon Valley, one of the global centers for the Technology sector. We believe this turmoil could potentially result in tightening bank lending standards and a reduced availability of capital on attractive terms for Venture Capital investee companies and the Tech sector in general. We believe this, in turn, could potentially prove problematic for longer-duration Growth stocks that burn cash in the present in the pursuit of potential profitability at some point in the future – and therefore need access to external financing to bridge that gap. That *longer-term* fundamental issue notwithstanding, in Q1 the market's "reflex reaction" to recent events in the banking sector seems to have included meaningfully reduced interest rate expectations and hopes that this crisis moves up the timeline of an eventual Fed pause and pivot. Implicit in this reaction is the assumption among some investors/speculators that lower interest rates and/or loosening monetary conditions will favor Growth stocks over Value *going forward*, as they have in the recent past. On that point, we remain unconvinced; this is a topic we will return to shortly.

Fund Performance & Attribution – Q1 2023

Against this backdrop, the Moerus Worldwide Value Fund (Institutional Class; "the Fund") returned +2.43% in Q1. By comparison, the MSCI All Country World Index Net (MSCI ACWI) returned +7.31%. In a quarter that strongly favored Growth over Value, the Fund performed reasonably well, producing positive *absolute* performance, albeit while lagging the MSCI ACWI in Q1. The Fund's five most significant positive contributors in Q1 (in order of magnitude) were Tidewater, Despegar.com, Conduit Holdings, UniCredit and Wheaton Precious Metals. The five most significant detractors in Q1 were Canfor Pulp Products, Cromwell Property Group, International Petroleum Corp., Aker ASA and Bancolombia.

By *sector*, the largest positive contribution to the Fund's performance in Q1 came from its Financial Services holdings, despite a difficult March that saw most bank stocks sell off in sympathy with the turmoil affecting some of the more vulnerable industry participants. The Fund's Financials holdings are a heterogeneous group of investments operating across different geographies (North America, Europe, India and Latin America) and types of business (including Banks, Holding Companies, and Insurance Companies) that collectively offer, in our opinion, opportunities to invest in well-capitalized businesses with attractive long-term prospects at meaningfully discounted valuations. While some of the Fund's Financials holdings saw some declines during the quarter (e.g., Bancolombia), these declines were more than amply offset by meaningful gains in select holdings in areas such as Insurance (e.g., Conduit Holdings, Westaim Corp.), Banking (e.g., UniCredit, Itaú CorpBanca) and Holding Companies (e.g., Exor). Among banks, UniCredit share price gains were driven by strong company results and a shareholder distribution plan (share buybacks and dividends) that beat consensus estimates, while Itaú CorpBanca shares rose after its parent company announced its intention to make a tender offer for Itaú CorpBanca at a premium to market. Elsewhere in the portfolio, results by sector were also somewhat mixed. Within the Fund's Energy-related holdings, Energy Services holding Tidewater continued its strong recent performance, driven by continued improvement in business activity levels, while the Fund's investments in Oil & Gas producers (International Petroleum Corp. and indirectly via Aker ASA) saw their share prices decline in March as concerns of fallout from a banking crisis briefly weighed on oil prices. Sentiment and short-term fluctuations notwithstanding, each producer, in our view, boasts strong financial positions and low-cost operations that, even at well below current commodity prices, produce healthy cash flows. Like Energy, the Fund's Materials holdings were also a mixed bag that contributed positively to Fund performance on a net basis, with gains in select precious metals related holdings (Wheaton Precious Metals and Osisko Mining) more than offsetting declines in other areas (Canfor Pulp Products).

The Fund's positive performance nonetheless lagged relative to the benchmark in Q1, but this was more due to what the Fund *does not* own (e.g., mega-cap Tech stocks) rather than what it *does* own. Also noteworthy was the remarkably concentrated nature of the strong benchmark index performance seen thus far in 2023. For example, the *Financial Times* recently reported that just 20 stocks accounted for almost 90% of the S&P 500 Index's total gains (+7.48% in Q1); ignoring gains for mega-capitalization Growth stocks, the rest of the S&P 500 rose just 1.4% during the First Quarter[ii]. The Fund's benchmark, the MSCI ACWI, was also somewhat top-heavy, with its Q1 performance (+7.31%) meaningfully outpacing an equal-weighted version of the MSCI ACWI (+4.48%). This is also related to Growth stocks' substantial outperformance in the First Quarter, as mega-cap Growth stocks – which have become increasingly significant components of benchmark indices in recent years – performed exceptionally well in Q1. For example, consider the Q1 performance of the seven largest constituents of the MSCI ACWI as of March 31: Apple (+27%), Microsoft (+20.5%), Amazon (+23%), Nvidia (+90%), Alphabet (17%), Tesla (+68%) and Meta (+76%). In Q1, these stocks seemed to benefit disproportionately from not just the reduced interest rate expectations resulting from the recent tumult in the banking industry, but also from investor flight to (perceived) safe havens. That these stocks are perceived as such is somewhat understandable, in our view, as the group is (generally speaking) comprised of great businesses that generate a lot of cash and have performed very well in recent years. Still, with valuations still not far from historically high levels (again, in general), we have avoided popular mega-cap Growth stocks due to what we believe are excessive levels of what we call "price risk" given the optimistic expectations that we think are currently being priced in (we have often written about this topic in recent years). The Fund is instead populated with what we believe to be our most compelling long-term investment opportunities at the moment, regardless of index considerations or any need to own what is in the benchmark; as such, we have eschewed such stocks on valuation grounds. Nonetheless, that group of stocks soared in Q1, driving benchmark performance.

Fund Outlook

In some ways, Q1 looked a lot *less* like 2022 and a lot *more* like most of the recent years that preceded 2022 – at least in terms of *stock price* performance. Growth stocks (especially mega-cap Tech) dramatically outperformed Value stocks despite valuations that remain, in our view, dangerously stretched by historical standards. What's more, this was despite the fact that the banking troubles that erupted in Q1 began in financial institutions whose activities are focused to various degrees on the Technology space (e.g., venture capital, crypto). Nonetheless, it seems to us that this crisis was viewed by some speculators as a "*bad news is good news*" scenario, one in which the bank failures potentially move up the timeline towards the point at which the Fed eventually blinks, pausing its rate hikes (or even cutting rates) if/when it is forced to prioritize the stability of the financial system over its efforts to rein in inflation. The market's reflex reaction (with Growth significantly outperforming in Q1) seems to imply a prevailing view that lower rates will favor Growth and Technology stocks, based on the *recent* experience from much of the post-Global Financial Crisis (GFC) era.

For our part, we remain unconvinced that lower interest rates are *always* a good thing for Growth stocks – particularly if such a lower rate environment is brought about by a banking crisis that could potentially result in tighter lending standards among banks and reduced availability of capital for those same Growth-oriented businesses. Many such companies have business models that are not yet generating positive cash flow. They therefore must depend upon recurring access to external capital on favorable terms to finance those growth aspirations, in order to bridge the gap to profitability (hopefully) in the future. As for investors fleeing to perceived safe havens Big Tech and mega-cap Growth in Q1, we acknowledge that clearly some (if not most) of these businesses are highly profitable, cash generative, and possess formidable market positions. Nonetheless, as great as some of them are, it is unclear to us that these businesses would be immune to the fallout from a banking industry retrenchment, considering the headwinds that could potentially confront their less robust customers in the tech sector that are more reliant on access to external capital on forgiving terms. Again, we'd emphasize that many of the popular mega-cap Growth stocks are, in our view, still trading at historically expensive valuations that are (in our opinion) priced for near perfection, not adversity. Therein lies the rub, in our view.

Looking forward, there is much uncertainty and numerous possible paths the global economy could take. The Fed's rate hikes could very well contribute to a meaningful slowdown/recession, leading to a cyclical slowdown in inflation rates – thereby allowing for a potential Fed pause/pivot. Yet, we remain unconvinced that some of the primary drivers of the recent surge in inflation – for example, years of underinvestment in Natural Resources needed to support long-term economic growth – have been adequately addressed in terms of long-term, supply-side solutions. In other words, a *cyclical* reduction in inflation that allows for a Fed pause/pivot, absent sufficiently meaningful solutions to some of the *structural* causes of recent inflationary pressures, could potentially reverse course, with inflation seeing a resurgence if/when economic activity begins to regain momentum. Alternatively, stagflation remains yet another possibility. Simply put, uncertainty abounds, with numerous paths the economy might take in the months ahead.

With that said, we continue to believe it is reasonably likely that inflation in the future, while subject to cyclical volatility, might generally remain higher than it had been throughout much of the recent past. Drivers of this include the massive monetary and fiscal stimulus in recent years; on the latter, significant U.S. spending on infrastructure and clean energy initiatives (pursuant to legislation passed in 2021-22) will be making its way through the economy. We have also observed many governments seemingly becoming increasingly interventionist in matters of international trade and economic policy (with explicit trade barriers coming into play in some cases). In Europe, an energy crisis sparked by the Russian invasion of Ukraine also seems to have resulted in more government intervention, not less. Increased geopolitical tensions have begun to reverse momentum away from globalization and the increased global economic collaboration seen over the past 30-plus years – long-running trends that we believe had played a meaningful role in the relatively benign rates of inflation experienced over that timeframe. We believe that these factors, taken in combination and in aggregate, point to an increased probability of a period ahead with variable, volatile changes in inflation rates – but one in which, in general and on average, inflation seems likely to remain higher than it had been in the recent past.

As a result, we continue to believe that security selection and the fundamentals behind it (e.g., valuations, financial positions, and long-term prospects) will ultimately matter more in determining investment outcomes going forward than they have at any other point in the post-GFC world, given the current context of higher inflation, increasing geopolitical risk and the cost of capital rising from artificially low levels. We believe this environment bodes well for the Fund longer-term because, as you know, our investment approach has always remained focused on valuation and long-term fundamentals, in an effort to uncover potentially compelling *longer-term* bargains that become available as a result of *short-term* volatility. We believe a number of stock-specific attributes, which had seemed near-irrelevant in determining investment outcomes in recent years due to seemingly endless waves of liquidity, began to matter more in 2022 and are apt to continue to do so in 2023 and beyond.

One such attribute is valuation. When capital is more expensive and harder to come by, we believe an attractive valuation – one that prices in skepticism and pessimism rather than optimism that the party will continue – is particularly vital in potentially mitigating price risk on the downside as well as offering upside potential. For one statistical indicator of the disparity in valuations between the Fund and the broader market, as of March 31, 2023, the Price-to-Book Value[iii] ratio (P/B) of the Fund was 0.87x, as compared to 2.61x for the benchmark MSCI ACWI[iv]. Other important attributes include financial position strength and a business model whose sustainability is not beholden to the whims of capital markets. We believe these qualities provide a business with survivability and its management team with the flexibility to take advantage of financially weaker competitors during challenging times by opportunistically acquiring assets at bargain prices or reinvesting organically in the business when others cannot. We believe these attributes take on greater importance in a world where external capital is more difficult to come by and interest costs on debt are higher. Another important quality is that independent of the stock market's daily whims, long-term value creation is taking place at the company-level through corporate activity; examples include by acquiring assets cheaply, selling assets at attractive prices, or by repurchasing shares at discounted prices. We believe such corporate activity (if done well) can drive the long-term building of value while investors "wait" for those efforts to eventually be rewarded either by the market, a takeover, or other means. Indeed, while the Fund's holdings were generally out of the market's favor in recent years, to our eye, many of their management teams were busy toiling away in obscurity, making significant progress via such corporate activity – in our opinion, sowing the seeds of long-term value creation that we believe will eventually be recognized.

In conclusion, while we may continue to see a volatile, bumpy road for markets, we intend to remain focused on the long run, for which we continue to believe the Fund is well positioned, 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 the current market environment – one in which we believe valuation and fundamentals may reassert their critical role in determining long-term, risk-adjusted investment returns. Over 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 portfolio-level benefits and bode well for the Fund's prospective risk-adjusted returns – particularly in a world where broader benchmark indices continue to trade at what we see as rich valuations. Many thanks for your continued support, interest, and curiosity.

FUND PERFORMANCE

Trailing Returns (as of March 31, 2023):	One Month	Three Months	Year-to-Date	One Year	Annualized Three Years	Annualized Five Years	Annualized Since Inception[1]
Moerus Worldwide Value Fund (Inst.)	-3.13%	2.43%	2.43%	-1.77%	24.56%	2.10%	5.24%
MSCI All-Country World Index (Net)[2]	3.08%	7.30%	7.30%	-7.44%	15.36%	6.93%	9.14%

Monthly Returns:	Apr 2022	May 2022	Jun 2022	Jul 2022	Aug 2022	Sep 2022	Oct 2022	Nov 2022	Dec 2022	Jan 2023	Feb 2023	Mar 2023
Moerus Worldwide Value Fund (Inst.)	-4.09%	2.41%	-13.27%	5.16%	-0.34%	-7.86%	6.28%	9.79%	-0.09%	9.70%	-3.61%	-3.13%
MSCI All-Country World Index (Net)[2]	-8.00%	0.12%	-8.43%	6.98%	-3.68%	-9.57%	6.03%	7.76%	-3.94%	7.17%	-2.87%	3.08%

Calendar Year Returns:	2017	2018	2019	2020	2021	2022
Moerus Worldwide Value Fund (Inst.)	19.35%	-19.46%	15.27%	-10.06%	18.33%	6.40%
MSCI All-Country World Index (Net)[2]	23.97%	-9.41%	26.60%	16.25%	18.54%	-18.37%

Institutional Share Class Performance: Gross Expense Ratio: 1.75% / Net Expense Ratio: 1.26%

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 funds advisor has contractually agreed to reduce its fees and/or absorb expenses of the fund, until at least March 31, 2024, 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 1.25% for Institutional Shares.

1. Inception date of the Moerus Worldwide Value Fund is June 1, 2016.
2. 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 3/31/23 as a % of the Fund's net assets: Tidewater Inc. (4.86%), Despegar.com (4.81%), Conduit Holdings Ltd (4.03%), Hammerson PLC (3.99%), Exor NV (3.76%), Cia. Brasileira de Distribuição (3.72%), Enerflex Ltd. (3.35%), Spectrum Brands Holdings Inc. (3.11%), Itau CorpBanca Chile SA (3.11%), Straits Trading Co Ltd (3.24%).

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

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[i] Source for Index returns: Bloomberg
[ii] https://www.ft.com/content/b01c0a46-1162-4893-8b92-d42fbf4424a0
[iii] Price/Book Value is the price of the stock divided by its book value per share
[iv] Source: MSCI Fact Sheet – as of March 31, 2023