# Moerus Worldwide Value Fund

**MOWIX - MOWNX**

*Q1 2024 Quarterly Review & Outlook*

| Performance (%) (As of March 31, 2024) | QTR | YTD | 1 Yr | 3 Yr | 5 Yr | Since June 1, 2016 |
|---|---|---|---|---|---|---|
| Moerus Worldwide Value Fund (Inst.) | 4.09% | 4.09% | 26.82% | 14.04% | 9.27% | 7.78% |
| MSCI All-World Country Index ex USA (Net)[1] | 4.68% | 4.68% | 13.26% | 1.93% | 5.97% | 6.78% |
| MSCI All-World Country Index (Net)[2] | 8.20% | 8.20% | 23.22% | 6.96% | 10.92% | 10.84% |

*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. For performance current to the most recent month-end, please call 1-844-663-7871.*

*The gross total expense ratio of the Moerus Worldwide Value Fund Class I ("the Fund") is 1.72%. The Adviser has contractually agreed to reduce its fees and/or absorb expenses of the Fund, until at least March 31, 2025, 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 1.25% for Institutional Class Shares.*

**Fund Performance – Q1 2024**

The Moerus Worldwide Value Fund Institutional Class ("the Fund") returned +4.09% in the First Quarter ("Q1"); by comparison, the MSCI All Country World ex USA ("MSCI ACWI ex USA") Net Index returned +4.68%, and the MSCI All Country World ("MSCI ACWI") Net Index returned +8.20%. In short, in the First Quarter, the Fund generated reasonably strong returns in *absolute* terms, albeit while lagging the MSCI ACWI ex USA and the MSCI ACWI in *relative* terms. We'll return to the Fund's performance after a brief review of markets in Q1.

**Market Review – Q1 2024**

During the First Quarter, some of 2023's most notable equity market characteristics continued and were arguably even more pronounced at times in Q1. Namely, the U.S. equity market generally outperformed international markets, Growth stocks outperformed Value, and certain mega-cap Technology stocks (predominantly U.S.-based) and leading index constituents dramatically outperformed much of the broader market. On that last point, although the benchmark MSCI ACWI ex USA returned +4.68% in Q1, the Equal Weighted version of the same index was barely in positive territory for the quarter, returning only +0.25%. The MSCI ACWI (+8.20%) also trounced the Equal Weighted version of same (+1.96%) in Q1. Meanwhile, the Magnificent Seven returned roughly +16.9% on average in Q1, led by Nvidia, which surged by over 82% for the quarter. This seemed to be fueled by the exuberance surrounding Artificial Intelligence (AI) – which continued unabated in Q1 – as well as by continued confidence for much of the quarter among many market participants in the disinflation or "soft landing" narrative and the view that the Federal Reserve stands ready and willing to ease aggressively if necessary (though that began to change in March). Interestingly, the cheerful environment (at least for the stock market's most popular names) persisted even as recent economic data (including January and February CPI figures) came in somewhat hotter than consensus expectations. As "story stocks" surged in this environment, valuation criteria and price-consciousness seemed to take a back seat; for example, Nvidia's market capitalization (currently over $2.1 trillion) surpassed that of China's stock market as a whole (as defined by its Hong Kong-listed H-shares) during Q1. On the other hand, some of the less fashionable areas of equity markets – including those in which we believe the most attractively priced long-term opportunities currently reside (e.g., Natural Resource-related names, select Small/Mid-Cap and Emerging Market businesses, etc.) lagged in relative terms in Q1.

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[1]*The MSCI All-Country World ex USA Index (Net) is an unmanaged index consisting of 46 country indices comprised of 22 of 23 developed markets (excluding the US) 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.*

[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.*

It is worth noting that market sentiment seemed to begin shifting somewhat late in Q1 and into April, as the accumulation of recently released inflation indicators (higher than expected) began to meaningfully dampen expectations surrounding interest rate cuts (both the imminence of a first cut as well as their aggregate magnitude in 2024) – hopes that had previously grown significantly among market participants in late 2023 and early 2024. That late wrinkle notwithstanding, the First Quarter saw gains across most equity markets in absolute terms. On a *relative* basis, U.S. stocks (S&P 500: +10.55%; NASDAQ Composite: +9.32%) meaningfully outperformed International markets (MSCI ACWI ex-USA Index: +4.68%; MSCI Emerging Markets Index: +2.37%) and, as noted above, the MSCI ACWI ex USA and the MSCI ACWI significantly outperformed their respective equally-weighted versions, as mega-cap Growth stocks and leading index constituents (most notably U.S. Tech stocks) continued to generally outperform the broader equity market.

**Fund Attribution – Q1 2024**

Against this backdrop, the Fund performed fairly well on an *absolute* basis, albeit while lagging the benchmarks on a *relative* basis in Q1 amid a market environment in which (in general terms) Growth stocks outperformed Value stocks, U.S. markets meaningfully outperformed international, and the broader market (on average) lagged far behind the market's leading constituents. The Fund's five most significant positive contributors in Q1 were Grupo Financiero Galicia, Despegar.com, Tidewater, UniCredit, and Enerflex. The five largest detractors in Q1 were Companhia Brasileira de Distribuição ("CBD"), John Wood Group, Straits Trading, Aker ASA, and IDFC First Bank. The Fund's positive absolute performance was driven, in part, by improving fundamentals and company-specific developments within the portfolio, including holdings in North America, Europe, and Latin America. The Fund lagged the benchmarks on a relative basis in Q1 primarily due, in our view, to the outperformance of popular stocks that the Fund does *not* own – namely, mega-cap Growth and Tech stocks (mostly U.S.-based) that we have avoided due to valuations that we believe incorporate meaningful levels of potential downside price risk, given the high expectations priced in at current levels. As you know, we are long-term investors who don't focus on short-term relative performance. We will not invest the Fund's assets in high-priced stocks that we believe incorporate excessive levels of longer-term risk, merely in an effort to chase short-term performance – regardless of such securities being heavily index-owned and having performed exceptionally well of late.

But the beauty of the Fund's unconstrained investment approach is that, first, the Fund doesn't "have to be invested" in any particular area that we believe is unattractive and/or overvalued at any given moment. Second, while certain areas of equity markets arguably fall under that category today, our experience has taught us that there are almost always recessions/depressions *somewher*e, and the Fund's unconstrained approach allows us to opportunistically pursue compelling bargains wherever they are. Indeed, the Fund's history has seen a series of rolling depressions (industry, geography, or company-specific) – each at different stages of progression – that we sought to take advantage of in constructing the current portfolio at attractive prices. To that point, we submit to you the five largest drivers of the Fund's positive absolute performance in Q1, all coming from areas that have endured depressions in recent years: Argentina, Energy Services, and Financial Services. Of these three areas, the Fund's holdings in Energy Services (including leading Q1 contributors Tidewater and Enerflex) and Financial Services (including UniCredit) go back further in the Fund's history. Energy Services is an area that endured a long, deep depression from around 2014-2015 through the pandemic, as a plunge in oil & gas prices and the growing decarbonization push led to a dearth of customer capital investments and falling stock prices to draconian levels – in our view, allowing the Fund to build positions in U.S.-based Tidewater and Canada-based Enerflex at unusually depressed valuations. Fast forward to 2024: offshore supply vessel (OSV) operator Tidewater has performed very well in recent years amid a significant recovery in industry activity that is now accelerating. Natural gas infrastructure and service provider Enerflex performed well in Q1, driven by recent results that included improving margins, strong free cash flow generation and debt repayment, as the company digests the opportunistic acquisition of a competitor made in 2022 in the latter stages of the industry downturn. Moving to Financials, the Fund's position in leading Italian bank UniCredit was built following its 2017 recapitalization amid a long, unprecedented period of low/negative interest rates in the Eurozone – which led to unusually depressed profitability across the industry and a deeply discounted UniCredit stock price, despite the company's laudable efforts in disposing non-core assets, building a strong capital position, and cutting costs. However, in Q1 and indeed since mid-2022, UniCredit shares have generated strong performance, driven by a series of quarterly earnings results that meaningfully beat consensus expectations (as interest rates began to normalize) and by prolific returns of capital to shareholders (including EUR 10 billion planned in 2024).

Arguably earlier in their progression are the two largest positive contributors to the Fund's Q1 performance: Grupo Financiero Galicia (GGAL) and Despegar.com, both of which are based in Argentina. Our experience investing in Argentina predates Moerus, going back over two decades to a dramatic economic collapse that included a December 2001 sovereign debt default. Due in large part to decades of irresponsible policies that led to extreme economic volatility, chaos and dysfunction, Argentina has been a market best avoided *most of the time*; however, on occasion, it also offers potential for

exceptional profits for those who can tolerate short-term volatility. We believe the past year or so has been one of those rare occasions in Argentina, as was that disorderly early-2000s period that offered us very attractive opportunities back then. This time around, an unraveling Argentine economy saw a massive currency devaluation and soaring inflation that surged past 200% late in 2023. In 2023, we built a position in GGAL, a Financial Holding Company that owns one of Argentina's largest banks, at what we view as an unusually discounted price that reflected the extreme pessimism caused by the macro chaos. We believe GGAL is strongly-capitalized and well-positioned in an Argentine banking industry that is relatively concentrated and consolidating further as international players exit the market; GGAL recently announced the acquisition of HSBC's Argentine banking operations at what we believe is an exceptional price. We believe this deal materially increases GGAL's potential earnings power if economic conditions ever improve. Indeed, we've seen nascent signs of improvement of late, as the newly elected Milei administration achieved fiscal surpluses the first two months of 2024 (a first in over a decade), while monthly inflation (though still high) has decelerated for three straight months. Given the rock-bottom expectations that had been baked into its price, GGAL shares surged in Q1 amid these developments. Meanwhile Despegar.com, the largest Online Travel Agency in Latin America, continued its strong recent performance in Q1, driven by recent record results amid an accelerating recovery in travel-based activity from pandemic-era depths.

On the negative side, there were no notable themes that particularly stood out; by *sector*, relative laggards included Materials and Real Estate, though neither was dramatic. The two largest individual performance detractors in Q1 – grocery retailer CBD and consulting & engineering services provider Wood Group – were likely impacted somewhat by poor equity market sentiment (particularly towards small-caps) in Brazil and the U.K., respectively. We believe both businesses are taking commendable actions (e.g., cost cutting programs, asset sales, etc.) likely to add to *long-term* earnings power and shareholder value (our focus), though the market's focus instead seemed to be on *immediate-term* cash flow in Q1.

**Fund Outlook**

The near-term future for the economy, inflation and interest rates remains uncertain and subject to much debate. Markets entered last year with many pundits talking of the recession that would await in 2023 – only for such talk to morph from that of the coming hard landing, to a soft landing, to perhaps no landing at all as the year wore on. Late in 2023 and into 2024, slowing inflation rates led to increased expectations for Federal Reserve interest rate cuts (both in terms of their imminence and ultimate magnitude) to be priced into markets – only for more recent inflation data to come in hotter than expected, dampening those expectations just a few months after they had begun gaining steam. All told, the past 18 months or so have offered numerous reminders of why we do not risk capital or make investment decisions that are reliant on accurately forecasting near-term macroeconomic variables. Looking forward, various plausible scenarios could conceivably play out: recession or no recession; hard landing, soft, or none at all; or 1970s-style stagflation, among others. From our perspective, we do not expect the forecasters to be any more accurate over the next twelve months than they were over the previous twelve, and the short-term future for the economy is anybody's guess, in our view.

But importantly, as distinct from the *short-term*, over the *longer-term*, we continue to believe it is reasonably likely that future inflation, while subject to cyclical volatility (both up and down), might generally and on average remain higher than it had been for much of post-Global Financial Crisis (GFC) era. In recent updates, we have detailed the numerous reasons why we hold this view, including years of underinvestment in Natural Resources needed to support long-term economic growth (including demand for power-intensive AI?), years of unorthodox *monetary* policy, and massive *fiscal* stimulus (heavy deficit spending) despite a fairly resilient economy and labor market. Fiscal profligacy seems likely to continue given recent infrastructure legislation, the Inflation Reduction Act, and defense spending in a conflict-filled world. In our view, even if a cyclical reduction in inflation allows for Federal Reserve rate cuts at some point in 2024, absent sufficiently meaningful solutions to some of the structural causes of recent inflationary pressures, this could potentially reverse course if/when economic activity begins to regain momentum, with inflation seeing a subsequent resurgence. Alternatively, stagflation remains yet another possibility. The geopolitical landscape unfortunately continues to provide much more bad news than good. The war in the Middle East continues to escalate, and with it the potential to spiral into an even larger regional/global conflict, with significant risks to the supply of oil and gas that the market still has not yet, in our view, adequately taken into account. Houthi attacks on commercial vessels in the Red Sea continue to disrupt shipping. Meanwhile in Europe, Russia's invasion of Ukraine continues, and with it, the potential for further disruption in the markets for oil, gas, agriculture and other commodities. In addition to hot wars, intensifying geopolitical rivalry has led to increased government intervention in matters of trade and economic policy. In sum, these factors point, in our view, towards an increased probability of a future in which inflation may remain higher than it had been in the recent past, in general and on average over the long-term (cyclical fluctuations in both directions notwithstanding).

We continue to believe that security selection and fundamentals are apt to matter more in determining investment outcomes in such a world, one of heightened geopolitical risk, higher inflation, and the cost of capital increasing from the easy money days of the past 15 years. We believe this bodes well for the Fund longer-term because our investment approach has always remained focused on valuation, fundamentals, and ideally, the ability to withstand the more adverse of the potential paths the economy might take in order to thrive over the long run. Notwithstanding a resurgence in "story stocks" in 2023 and early 2024, we continue to believe certain stock-specific attributes that we seek, many of which were overlooked in recent years amid a flood of liquidity, are likely to matter much more in determining risk-adjusted returns. These attributes include discounted valuations that price in adversity rather than perfection; consider, for example, the expectations priced into the Fund's holdings in Energy Services amid the decarbonization push, an Italian bank that needed to be recapitalized, or Argentina, versus those currently priced into Nvidia. Another is a business model that is not dependent on easy capital markets, with the financial position strength to survive and even take advantage of challenging times. Still another important attribute we seek is ample potential for event-driven value creation via corporate activity that (if done well) isn't necessarily highly correlated with, nor heavily reliant upon, the whims of stock market sentiment or top-down economic factors. Indeed, corporate activity favorably contributed to the Fund's outperformance in 2023 – a challenging year for many Value strategies *relative* to Growth strategies and benchmark indices. We believe the Fund's collection of idiosyncratic investments remain, in our view, rich with possibilities for event-driven value creation.

In conclusion, we continue to believe the Fund is well positioned in a *relative* sense for a changing world – one in which low-cost capital might be harder to come by (we may not go back to the easy money days of yesteryear). In a world in which broader benchmark indices continue to trade at what we see as rich valuations and are increasingly concentrated in what we view as highly correlated areas (e.g., mega-cap Tech), we continue to believe that the attractive valuations, sound long-term fundamentals, and staying power of many Fund holdings, as well as their potential to unlock value via corporate activity, offer attractive portfolio-level benefits and bode well for the Fund over the long run. Many thanks for your continued support, interest, and curiosity.

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

Top ten holdings as of 3/31/24 as a % of the Fund's net assets: Despegar.com Corp. (5.04%), Hammerson PLC (3.64%), Grupo Financiero Galicia SA (3.62%), International Petroleum Corp (3.56%), Natura & Co Holding SA (3.44%), Tidewater Inc. (3.19%), Conduit Holdings Ltd (3.12%), Türkiye Sigorta AS (3.05%), Teck Resources Ltd (2.99%), and LATAM Airlines Group SA (2.91%).

Click here for a current Fund factsheet
https://www.moeruscap.com/literature/

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**You should carefully consider the Moerus Worldwide Value Fund's investment objectives, risks, charges and expenses carefully before you invest. This and other important information about the Funds are contained in 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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