Moerus Worldwide Value Fund

MOWIX - MOWNX

Q2 2022 Quarterly Review & Outlook

Market Review – 2Q 2022

The Second Quarter was a challenging period on many fronts for global markets, which were confronted by numerous sources of uncertainty. In the U.S., persistently high (and increasing) recent inflation readings – exacerbated meaningfully by the crisis in Ukraine – provoked interest rate hikes and a much more hawkish tone from the Federal Reserve, which began to reduce the size of its balance sheet. In Europe, an energy crisis continued to develop and 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, which have weighed on economic activity and have exacerbated an already tenuous global supply chain situation. This combination of factors led to heightened fears of a global economic slowdown, while inflation remains stubborn amid continued supply-side challenges.

Most areas of global markets declined in Q2, including the U.S. (S&P 500 Index: -16.1%; NASDAQ Composite: -22.3%) and International markets (MSCI ACWI ex-USA Index: -13.7%), both Developed and Emerging (MSCI Emerging Markets Index: -11.5%)[1]. 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 Second Quarter. Nonetheless, Value stocks were hit hard in June 2022, as accelerating inflation resulted in increased market expectations for a more aggressive tightening by the Fed and led to heightened fears of a recession or stagflation. Natural Resource-related equities, which had performed well in recent months, were hit particularly hard in June, as commodity prices generally softened amid concerns of a slowdown in economic activity and potential demand destruction. There were few areas of global markets that were spared from declines in Q2, especially in June as the general market backdrop darkened.

Fund Performance & Attribution – 2Q 2022

Against such a challenging general backdrop, it was a difficult quarter for the Moerus Worldwide Value Fund (Institutional Class; "the Fund"), which returned -14.80% in Q2. By comparison, the MSCI All Country World Index Net (MSCI ACWI) returned -15.66% in Q2. Thus, the Fund declined meaningfully on an *absolute* basis in Q2, which is always an unpleasant experience for us. With that said, on a *relative* basis the Fund outperformed the MSCI ACWI in Q2 and significantly outperformed year-to-date through June 2022 (the Fund: -5.47%; MSCI ACWI: -20.18%). That fact notwithstanding, the Fund's negative absolute performance in Q2 – reflecting the gloomy overarching market environment – was broad-based, driven by declines in all but two Fund holdings (Standard Chartered and Sino Land) which bucked the trend and rose during the quarter. The five most significant detractors from performance in Q2 (in order of magnitude) were Hammerson, Companhia Brasileira de Distribuição (CBD), Despegar.com, Bancolombia and Major Drilling Group International (MDI).

Relative outperformance aside, much of the Fund's negative absolute performance in Q2 was driven not, in our estimation, by the underlying long-term fundamentals and company-specific developments at the level of the Fund's holdings, which we generally continue to find encouraging. Rather, we believe the Q2 declines across many holdings were driven primarily by an assortment of macroeconomic and geopolitical ructions that sparked broad-based risk aversion (especially late in Q2). A toxic cocktail of persistent inflation, increasing interest rates/monetary tightening by the Fed, an energy crisis in Europe, COVID lockdowns in China, relatively high oil & gas prices, and a strong U.S. dollar has led to heightened fears of an economic slowdown (if not outright recession) or of a stagflationary environment. This backdrop, in turn, weighed on numerous Fund holdings (particularly in June) exposed to various market concerns, be they about consumer spending (e.g. Hammerson), commodity prices (e.g. Natural Resource-related holdings such as MDI or our Energy-related holdings), or Emerging Markets (e.g. our Latin American holdings such as CBD, Despegar and Bancolombia) that tend to suffer during times of generally heightened risk aversion and USD strength (among others). You may have noticed that Q2 performance, while frustrating, was driven by some of the very same areas of the portfolio that we are most excited about longer-term, and which we have written about at length in recent updates. The positive side of this, in our view, is that the near-term macroeconomic and geopolitical uncertainty, the bad headlines, and all of the dark clouds about which we are constantly reminded nowadays, create opportunities and allow us, over time, to selectively pick our spots as we look to uncover and/or add to what we believe are some of the Fund's most compelling investment opportunities for the long run.

[1] Source: Bloomberg for Index returns.

Fund Outlook

Numerous sources of uncertainty across global markets resulted in meaningful market volatility in Q2, which could potentially continue in the near-term. Future developments in Ukraine remain unpredictable and could potentially fluctuate rapidly, either for the better (e.g., a cease-fire or negotiated settlement) or for the worse (e.g., a larger, more global conflict). Russia's invasion of Ukraine and the West's actions in response, have had and will continue to have investment-related implications that impact the availability and/or prices of various commodities, perhaps most notably affecting food and energy. The crisis has, in turn, exacerbated pre-existing inflation and supply chain bottlenecks. Central banks have begun to respond to rising inflation by raising interest rates and tightening monetary conditions in attempts to contain it. Thus far, the response to rising inflation has varied by geography. In the U.S., the Fed announced its first rate hike since 2018 followed by another 75 basis point (0.75%) increase, as it also begins to reduce the size of its balance sheet. Central Banks in Latin America have, in general, been more aggressive in increasing interest rates (e.g. Brazil), whereas others, while less proactive, have recently begun to move ahead with increases (e.g., in Australia and the Euro Zone). The Bank of Japan, however, has (to date) resisted calls to raise rates despite rising inflation and a rapidly depreciating yen. The combination of inflation, monetary tightening by central banks, higher energy prices, a relatively strong USD, and Chinese COVID lockdowns has sparked increased fears of recession or stagflation.

If inflation persists and rate hikes continue, we believe that "longer duration" equities such as high-priced Technology and other Growth stocks, which had disproportionately *benefited* from the historically low interest rate environment in recent years, might conversely be particularly *vulnerable* to share price declines longer-term, given their rich valuations that are dependent on projected, uncertain cash flows further out in the future. On the other hand, we believe tangible asset-centric businesses that trade at inexpensive valuations, here and now, based on conservative estimates – the type we target in the Fund – are apt to hold up better in such an environment longer-term. However, if an economic slowdown/recession indeed occurs, these tangible asset-centric businesses likely will also be adversely affected in the short-term; for example, the near-term outlook for commodity prices could dim in such a scenario, potentially negatively impacting Natural Resource-related stocks. We saw this late in Q2, as increased fears of a recession led to declines in commodity prices and Natural Resource-related equities. But importantly from a longer-term perspective, although a recession might very well result in declining commodity *demand*, we believe such a decline is apt to be cyclical and temporary in nature (as demand is likely to recover if/when economic activity normalizes). On the other hand, on the *supply* side, we do not believe we have seen much in the way of meaningful solutions proposed, to date, for some of the longer-term supply-side issues 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*, 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 supply of 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, the energy crisis 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've been finding what we believe to be the most attractively priced, bottom-up opportunities in recent years, in some of the market's most out-of-favor areas (with the bargain prices that come with unpopularity).

In our opinion, the stocks in the Fund largely trade at depressed valuations and offer attractive margins of safety. For one statistical indicator of the disparity in valuations between the Fund and the broader market, as of June 30, 2022, the Price-to-Book Value ratio (P/B) of the Fund was 0.73x, as compared to 2.51x for the MSCI ACWI[2]. We believe that current market volatility will continue to periodically offer us opportunities to invest at very modest prices in attractive businesses/assets, which we believe bodes well for the Fund's potential over the long run.

[2] Source: MSCI Fact Sheets – as of June 30, 2022

FUND PERFORMANCE

Trailing Returns (as of June 30, 2022):	One Month	Three Months	Year-to-Date	One Year	Annualized Three Years	Annualized Five Years	Annualized Since Inception[1]
Moerus Worldwide Value Fund (Class Inst.)	-13.27%	-14.80%	-5.47%	-2.30%	1.38%	-0.03%	3.46%
Moerus Worldwide Value Fund (Class N)	-13.36%	-14.90%	-5.65%	-2.61%	1.09%	-0.29%	3.19%
MSCI All-Country World Index (Net)[2]	-8.43%	-15.66%	-20.18%	-15.75%	6.21%	7.00%	8.65%

Monthly Returns:	Jul 2021	Aug 2021	Sep 2021	Oct 2021	Nov 2021	Dec 2021	Jan 2022	Feb 2022	Mar 2022	Apr 2022	May 2022	Jun 2022
Moerus Worldwide Value Fund (Inst.)	-1.26%	-1.02%	2.23%	3.44%	-6.24%	6.67%	1.80%	0.92%	7.99%	-4.09%	2.41%	-13.27%
Moerus Worldwide Value Fund (N)	-1.26%	-1.02%	2.15%	3.45%	-6.26%	6.63%	1.80%	0.93%	7.92%	-4.09%	2.42%	-13.36%
MSCI All-Country World Index[2]	0.69%	2.50%	-4.13%	5.10%	-2.41%	4.00%	-4.91%	-2.58%	2.17%	-8.00%	0.12%	-8.43%

Gross Expense Ratios: Class Inst.: 1.42%; Class N: 1.67%.

Past performance does not guarantee future results. The performance data quoted represents past performance and current returns may be lower or higher. Returns are shown net of fees and expenses and assume reinvestment of dividends and other income. The investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than the original cost. Investment performance reflects expense limitations in effect. In the absence of such expense limitations, total return would be reduced.

The funds advisor 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 1.65% and 1.40% for Class N and Institutional Class Shares Respectively.

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.

Top ten holdings as of 6/30/22 as a % of the Fund's net assets: Tidewater (4.72%), Standard Chartered PLC (4.39%), Arcos Dorados Holdings Inc. (4.12%), Exor NV (3.77%), Emaar Properties PJSC (3.68%), Cromwell Properties (3.67%), Despegar.com (3.64%) Aker ASA (3.61%), International Petroleum (3.60%), Straits Trading Co Ltd (3.34%)

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.moerusfunds.com. The prospectus should be read carefully before investing.

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