Moerus Worldwide Value Fund

MOWIX - MOWNX

Q4 2022 Quarterly Review & Outlook

MOERUS FUNDS

Market Review – Q4 2022

The Fourth Quarter ("Q4") was a positive period for most equity markets, which recovered in October and November from September's sharp sell-off. Headline October CPI statistics in the U.S. came in below consensus estimates, adding to renewed hopes of peaking inflation and a Federal Reserve pause (if not pivot), while China's strict COVID-suppression policies showed some signs of easing. The seemingly relentless strengthening of the U.S. dollar experienced throughout much of 2022 came to a halt in November, with the USD weakening relative to most major currencies over the rest of the quarter. International equity markets generally outperformed U.S. stocks in Q4 on a *relative* basis as measured by benchmark index performance[1] and performance across most markets was generally strong. Value stocks generally outperformed Growth stocks in the Fourth Quarter[2].

Fund Performance & Attribution – Q4 2022

Against this backdrop, the Moerus Worldwide Value Fund (Institutional Class; "the Fund") returned +16.57% in Q4. By comparison, the MSCI All Country World Index Net (MSCI ACWI) returned +9.76% in Q4[3]. The Fund performed well both on an *absolute* basis as well as on a *relative* basis, meaningfully outperforming the MSCI ACWI. Likewise, Q4 wrapped up a solid year for the Fund, as it produced positive *absolute* performance and significantly outperformed the benchmark for calendar year 2022, a challenging period that saw most global markets decline (the Fund: +6.40%; MSCI ACWI: -18.36% in 2022). The five most significant positive contributors in Q4 (in order of magnitude) were Tidewater, Enerflex, Hammerson, Spectrum Brands and International Petroleum Corp. The five most significant detractors in Q4 were Companhia Brasileira de Distribuição, Cameco, Bajaj Holdings & Investment, Canfor Pulp Products and Despegar.com.

While the Fund's strong performance in Q4 was driven by appreciation across most holdings, by far the two largest contributors by *sector* were Financials and Energy, collectively contributing to the majority of the Fund's positive absolute performance for the quarter. In recent Shareholder Letters, we have highlighted the Fund's holdings in both areas as examples of why we believe the Fund is well-positioned for a changing investment landscape – one in which inflation and interest rates might be higher *in general and on average* than the unusually benign levels that have prevailed since the Global Financial Crisis (GFC) of 2008-2009. Regarding Financials, we believe the Fund's holdings in areas such as Banking (e.g. Standard Chartered, UniCredit) and Insurance are well-capitalized, undervalued, significant players in their respective markets that stand to benefit to varying degrees from a higher interest rate environment. The Fund's Energy-related holdings, the largest contributor by sector to performance over 2022, continued their strong recent performance in Q4 despite oil and gas prices that declined for much of the quarter. This deeply depressed area was starved of investor capital for years, and the extent (and consequences) of the underinvestment and inadequate reserve replacement of recent years started to become apparent even before the Russian invasion of Ukraine – which exacerbated the situation and shined a spotlight on the West's potential vulnerabilities in energy security. As 2022 wore on, the Fund's Energy Services holdings (Tidewater and Enerflex) began to benefit increasingly from meaningful improvements in business activity that could potentially be approaching an inflection point after a long industry-wide depression and prolonged significant capital investment shortfalls. Outside of Energy Services, the Fund's investments in Oil & Gas producers (International Petroleum Corp. and indirectly via Aker ASA), in our view, boast strong financial positions and low-cost operations that, even at well below current commodity prices, produce healthy free cash flow.

While the Fund's holdings in these two sectors endured a long period of adverse market conditions, most companies took the opportunity to make significant progress, in our opinion, in other ways: opportunistically acquiring assets at discounted prices and/or utilizing their strong capital positions to repurchase their own discounted shares, sowing the seeds of long-term value creation that we believe will eventually be recognized.

[1] The MSCI ACWI ex-USA returned + 14.3%, while the S&P 500 Index returned +7.6%.

[2] The MSCI ACWI Value Index returned +14.2%, while the MSCI ACWI Growth Index returned +5.3%.

[3] Source for Index returns: Bloomberg

Fund Outlook

Given the challenging year that was 2022, the Fund's positive absolute and strong relative performance has admittedly been gratifying. A lot of recent market commentary has focused on the regime change that took place in 2022; namely, the long, multi-year run of benign inflation rates and extremely low interest rates came to an end, weighing on markets in general and disproportionately hitting the prices of many of the biggest market winners of the past several years (e.g., Big Tech, Growth stocks) as well as arguably more speculative instruments (e.g. SPACs, crypto, etc.). While true, we believe that the groundwork for such a regime change was being laid well before 2022. In our Shareholder Letters over the past few years, we often wrote about a remarkably bifurcated market of "haves" and "have nots," arguing that the "haves" (i.e. Growth, Technology) were priced for near-perfection and a seemingly indefinite continuation of the benign environment (low interest rates, low inflation, etc.) – thereby incorporating significant downside risk in the event the future proved less benign and supportive of valuations. On the contrary, we made the case that, as a result of our conservative valuation methodology that seeks attractive value on an *as-is* basis, here and now, the Fund was populated by the "have nots" – out-of-favor assets in areas that had been shunned under long-prevailing Goldilocks economic conditions. We believed the Fund was well-positioned (in a relative sense) for a potentially higher inflation environment. Indeed, in 2022 the emergence of inflation resulted in higher interest rates that weighed on markets in general, but especially the areas where the wildest excesses had taken place. Rate hikes began to impose higher costs of capital on businesses, and suddenly more risk-averse capital markets became less forgiving of extended valuations and business models that are overly reliant on easy money to fund money-losing operations today in the hopes of future profits.

Looking forward, there is much uncertainty and numerous possible paths the global economy could take. If recent rate hikes contribute to a meaningful slowdown or recession, inflation rates could very well slow from recent levels. If so, this could potentially allow for the Federal Reserve to "pause" and "pivot," for which market pundits have been impatiently waiting. On the other hand, it is unclear whether some of the primary factors that we believe drove the initial surges in inflation – for example, years of underinvestment in Natural Resources (Energy, Agriculture, Metals, etc.) critical to supporting long-term economic growth – have been addressed adequately enough in terms of long-term solutions on the supply-side. Thus, if a Federal Reserve pause or pivot does indeed come and the economy begins to recover or even heat back up, it is possible that inflation in some of those same areas could reemerge if supply once again struggles to keep up with an eventual recovery in demand. Alternatively, stagflation is yet another possible scenario. Simply put, we do not know if inflation will go up or down from here, nor will we base investment decisions on our ability to predict which path the economy will take. With that said, we 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. In addition to massive monetary and fiscal stimulus, another development that we have observed has been increased ructions in international trade and, in some cases, explicit barriers coming into play, with many governments seemingly becoming increasingly interventionist in matters of trade and economic policy. In Europe, an energy crisis was sparked by the Russian invasion of Ukraine, another development that seems likely to result in more government intervention, not less. We believe that these factors, taken in combination, point to an increased probability of a period ahead with variable, volatile changes in inflation rates, but one in which, in general, inflation seems likely to remain higher than it had been in the recent past.

As a result. we believe that, perhaps more so today than at any point in the recent past, security selection and the fundamentals behind it (e.g. valuations, financial positions, and long-term prospects) are beginning to matter more in determining investment outcomes in the current context, with inflation, geopolitical risks rising and the cost of capital increasing from artificially low levels. Although there will certainly be volatility along the way, we believe this bodes well for the Fund longer-term because our investment approach has always remained focused on valuation and long-term fundamentals. We believe a number of attributes that we seek in a given investment, some of which seemed near-irrelevant in determining investment outcomes in recent years, began to matter more in 2022 and, in our view, are apt to continue to do so going forward. These attributes include:

- *Valuation*: In a world in which higher inflation and interest rates result in a higher cost of capital (if capital is available at all in times of distress), we believe an attractive valuation is vital in potentially mitigating price risk on the downside as well as offering upside potential (because pessimism tends to already be priced into an undervalued security). For one statistical indicator of the disparity in valuations between the Fund and the broader market, as of December 31, 2022, the Price-to-Book Value ratio (P/B) of the Fund was 0.84x, as compared to 2.47x for the benchmark MSCI ACWI[4].

[4] Source: MSCI Fact Sheet – as of December 31, 2022

- *Financial Position Strength*: We have always believed that strong balance sheets and a business model that does not rely on recurring access to capital markets are critical attributes in providing a business with survivability. It also can often provide management with the flexibility to take advantage of financially weaker competitors during such times by opportunistically acquiring assets at bargain prices. 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.

- *Long-Term Value Creation*: In our view, the timing of value realization is unpredictable, and trying to prove otherwise is a fool's errand (at least for us). Because a given stock may remain out of favor in the market for an indeterminate period of time (for those who insist on deeply discounted valuations, this often does not end overnight) we believe it is important that long-term value creation is occurring at the underlying businesses over time. The leading contributors to the Fund's Q4 performance provide numerous examples of ways in which we believe company management teams can generate long-term value creation, including by acquiring assets cheaply, selling assets at attractive prices, or repurchasing shares at discounted prices. We believe these transactions, if well executed, can be major contributors in 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.

In conclusion, while the regime change that took place across the investment world in 2022 may have represented something new and challenging for many in the markets, to us, it represented the early stages of a process in which valuation and fundamentals seem to be reasserting their critical role in determining long-term, risk-adjusted investment returns. While this may very well continue to result in a bumpy road for markets, in 2023 we intend to remain focused on the long run, for which we continue to 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 the current market environment.

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. To the extent that markets continue to rediscover the importance of valuation and fundamentals in 2023 and beyond, we believe the Fund is well positioned to benefit in such an environment. 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. Best wishes for a healthy, happy and prosperous 2023.

FUND PERFORMANCE

Trailing Returns (as of December 31, 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.)	-0.09%	16.57%	6.40%	6.40%	4.23%	1.01%	5.06%
Moerus Worldwide Value Fund (Class N)	-0.08%	16.54%	6.16%	6.16%	3.98%	0.76%	4.80%
MSCI All-Country World Index (Net)[2]	-3.94%	9.76%	-18.37%	-18.37%	4.00%	5.23%	8.33%

Monthly Returns:	Jan 2022	Feb 2022	Mar 2022	Apr 2022	May 2022	Jun 2022	Jul 2022	Aug 2022	Sep 2022	Oct 2022	Nov 2022	Dec 2022
Moerus Worldwide Value Fund (Inst.)	1.80%	0.92%	7.99%	-4.09%	2.41%	-13.27%	5.16%	-0.34%	-7.86%	6.28%	9.79%	-0.09%
Moerus Worldwide Value Fund (N)	1.80%	0.93%	7.92%	-4.09%	2.42%	-13.36%	5.26%	-0.43%	-7.88%	6.30%	9.73%	-0.08%
MSCI All-Country World Index[2]	-4.91%	-2.58%	2.17%	-8.00%	0.12%	-8.43%	6.98%	-3.68%	-9.57%	6.03%	7.76%	-3.94%

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 1.65% 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.

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

Top ten holdings as of 12/31/22 as a % of the Fund's net assets: Tidewater Inc. (4.81%), Hammerson PLC (3.66%), Enerflex Ltd. (3.64%), Despegar.com (3.62%), Conduit Holdings Ltd (3.55%), Exor NV (3.44%), Yamana Gold Inc. (3.27%), Straits Trading Co Ltd (3.24%), Cromwell Property Group (3.21%), and Arcos Dorados Holdings Inc. (3.16%).

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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