Moerus Worldwide Value Fund

MOWIX - MOWNX

Q4 2021 Quarterly Review & Outlook

Market Review – 4Q 2021

The Fourth Quarter was a positive period overall for many equity markets despite recently growing inflationary pressures, the emergence of the Omicron variant that roiled markets in late-November, and comments by Federal Reserve Chair Jerome Powell that were perceived by many to indicate a more "hawkish" turn in Fed sentiment.

Major U.S. indices (S&P 500 Index: +11.0%; NASDAQ Composite: +8.5%)[1] significantly outperformed many international benchmark indices (MSCI ACWI ex-USA: +1.8%) in Q4, amid rising energy costs and increasing COVID-19 case counts in Europe earlier in the quarter, followed by the emergence of the Omicron variant later. Emerging Markets lagged meaningfully once again in Q4 (MSCI Emerging Markets Index: -1.3%). As in previous bouts of heightened COVID-related anxiety, Growth stocks outperformed relative to Value in Q4, although Value stocks regained significant ground in December as Omicron-related fears moderated and the market turned its attention back to inflation and potentially increasing interest rates (which weighed on Growth stocks in a relative sense).

Fund Performance & Attribution – 4Q 2021

The Moerus Worldwide Value Fund (Institutional Class; "the Fund") returned 3.45% during the Fourth Quarter 2021 and 18.33% for calendar year 2021. By comparison, the MSCI All Country World Index Net (MSCI ACWI) returned 6.68% during the Fourth Quarter 2021 and 18.54% in 2021. Despite the aforementioned headlines that disproportionately weighed on international markets (Developed and especially Emerging) in Q4, the Fund performed reasonably well on an absolute basis during the Fourth Quarter. By sector, Financials and Materials were the two largest positive contributors, while Energy and Consumer Staples were the two largest detractors in Q4. The largest positive contributors were Grupo de Inversiones Suramericana, Aker ASA, Emaar Properties, Osisko Mining and UniCredit. The largest detractors from performance were Despegar.com, a Brazilian Retailer (name not yet disclosed), Enerflex, Tidewater and BR Properties.

The Fund's relative underperformance in Q4 was most notably driven by the significant outperformance of the U.S. equity market over international markets, with the benchmark MSCI ACWI (61.3% invested in the U.S. as of 12/31/2021) outperforming the MSCI ACWI ex-USA (0% invested in U.S.) by roughly 4.9 percentage points in Q4. As compared to the benchmark, the Fund has significantly lower exposure to U.S. equities at present (9.23% of assets as of 12/31/2021), driven by the paucity of U.S.-based opportunities meeting our strict valuation criteria and our avoidance of what we believe are some of the most popular, expensive, and risky pockets of global markets. Our long-term views notwithstanding, U.S. markets outperformed once again in Q4, which weighed on Fund performance in a relative sense. Also, the Fund's investments related to Brazil and to Energy Services detracted from performance in Q4, even though much of this was driven, in our view, by short-term political and/or macroeconomic uncertainty. In Brazil, rising inflation, interest rates and the upcoming Presidential election later in 2022 have broadly weighed on markets, while our Energy Services holdings were negatively impacted by the emergence of the Omicron variant in late-November, which triggered a sharp (albeit brief) decline in oil prices.

As we frequently emphasize, as long-term investors, we remain much more focused on fundamental developments affecting the businesses that the Fund owns, rather than on market sentiment or stock price fluctuations from one quarter to the next. Importantly, we remain quite encouraged about company-specific developments and the longer-term investment cases supporting the Fund's investments in Brazil and in Energy Services – even more so at what we believe to be the reduced prices seen during the Fourth Quarter. More broadly, business-level developments, in our view, continue to be encouraging across many Fund holdings, though we believe *share prices* still seem to be far from fully reflecting the progress that had been made at many underlying *businesses*. We believe that the attractive valuations across the Fund are more likely than not to be recognized over the long run, either by the market or failing that, through corporate activity such as M&A or asset sales that recognize value that the stock market would not (as we have seen in a number of Fund holdings in 2021).

[1] Source: MSCI Fact Sheets for Index weightings; Bloomberg for Index returns.

Fund Outlook

Today, we continue to observe a broader market environment in which, we would argue, the stock prices of many of the popular, household names have run well ahead of underlying fundamentals and even highly optimistic expectations for the future. We have no unique insights as to how long this environment might last and cannot make any predictions on timing with any confidence. On one hand, in December 2021, and thus far in January 2022, concerns relating to inflation and the potential for increased interest rates have returned to the fore, pressuring markets in general, but especially some of what we view as the most expensive, popular pockets of the market (*e.g.*, U.S. Information Technology). In our May 2021 Semi-Annual Shareholder Letter, we discussed in detail why we believe our Fund is likely better positioned for an inflationary world in a *relative* sense, as compared to some of the most popular areas of the market that have soared ahead – seemingly regardless of valuation – in recent years. On the other hand, it is possible that, in the short-run, a resurgence in concerns about the spread of the Omicron variant, or the emergence of a new variant, may spark an additional flight to highly priced stocks that are seen as relative beneficiaries of lockdowns and a work-from-home environment. Short-term predictions are not our focus.

However, longer-term, we believe the Fund is populated by well-financed, undervalued businesses that have staying power, as demonstrated during the worst of the pandemic in early-2020. If 2022 sees a continued resurgence in new COVID-19 cases, it is important to note that, in our view, there are significant mitigating factors this time around, most notably increasing numbers of people who are vaccinated and boosted, in addition to the arrival of new treatments. While the twists and turns of the ongoing pandemic make for unpredictability in terms of short-term share price fluctuations, the positive side of this is that such an environment seems likely to continue to periodically offer us opportunities to invest at what we believe to be very modest prices in businesses that have many of the attractive characteristics that we often detail in our Shareholder Letters. We believe this will serve the Fund well over the longer-term.

For context regarding valuation, it is worth noting that the positive performance of many Fund holdings in 2021 came off of extremely depressed levels. For one statistical indicator of the extent of the disparity in valuations between the Fund and the broader market, as of 12/31/2021, the Price-to-Book Value ratio (P/B) of the Portfolio was 0.77x, as compared to 3.11x for the benchmark MSCI ACWI[2]. 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.

Some of the most notable Fund examples of this dichotomy can be found in our holdings in Latin America, a laggard in terms of 2021 performance. In general, a combination of pandemic-related, political and/or macroeconomic uncertainty cast a pall over both equities and local currency values in 2021 across a wide swath of the region, including Argentina, Brazil, Chile, Colombia, and Peru. Such a backdrop of unusually heightened fear sometimes results in babies being thrown out with the bathwater, temporarily offering longer-term investors attractive opportunities that we believe will prove lucrative over the long run. We believe that is currently the case in Latin America, and that this is an exciting time to be deploying capital there. Interestingly, a few of Latin America's more knowledgeable insiders (in our opinion) seem to share that view, having recently made large strategic investments in the region (*e.g.*, Jaime Gilinski's and Itaú Unibanco's recent investments in Colombia and Chile, respectively). Importantly, whereas the uncertainty described above is out of the control of our businesses in the region, company-specific developments, in our view, have generally been quite encouraging, as our Latin American businesses continue to recover from the worst of the pandemic. In general, their management teams have been busy at work, taking actions that we believe are building business value over the long run, even if the stock prices languish in the near term due to the headlines. This, we believe, bodes well for the potential future of our Latin American investments if the dark clouds ever clear, which we believe they eventually will, as dark clouds often do.

In 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 margins of safety and bode well for the portfolio's prospective risk-adjusted returns – particularly in a world where broader benchmark indices continue to trade at historically rich valuations and are increasingly concentrated in a relatively small number of popular mega-cap companies. In our view, this extremely bifurcated market, which we have commented on often in previous updates, continues to provide us with some very attractive investment opportunities, sowing the seeds for potentially quite interesting prospective longer-term returns.

[2] Source: MSCI Fact Sheets

Trailing Returns (as of December 31, 2021):	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.)	6.67%	3.45%	18.33%	18.33%	7.05%	3.35%	4.82%
Moerus Worldwide Value Fund (Class N)	6.63%	3.40%	17.99%	17.99%	6.79%	3.10%	4.56%
MSCI All-Country World Index (Net)[2]	4.00%	6.68%	18.54%	18.54%	20.38%	14.40%	13.96%

Monthly Returns:	Jan 2021	Feb 2021	Mar 2021	Apr 2021	May 2021	Jun 2021	Jul 2021	Aug 2021	Sep 2021	Oct 2021	Nov 2021	Dec 2021
Moerus Worldwide Value Fund (Inst.)	-1.25%	10.97%	0.61%	2.00%	7.93%	-5.69%	-1.26%	-1.02%	2.23%	3.44%	-6.24%	6.67%
Moerus Worldwide Value Fund (N)	-1.25%	10.88%	0.61%	2.00%	7.86%	-5.70%	-1.26%	-1.02%	2.15%	3.45%	-6.26%	6.63%
MSCI All-Country World Index[2]	-0.45%	2.32%	2.67%	4.37%	1.56%	1.32%	0.69%	2.50%	-4.13%	5.10%	-2.41%	4.00%

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, 2022, 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 48 country indices comprised of 23 developed and 25 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 12/30/21 as a percentage of the Fund's net assets: Grupo de Inversiones Suramericana SA (4.74%), Exor NV (4.30%), Emaar Properties PJSC (3.94%), Aker ASA (3.86%), Straits Trading Co Ltd (3.74%), Tidewater Inc. (3.68%), Arcos Dorados Holdings Inc. (3.46%), UniCredit SpA (3.39%), Standard Chartered PLC (3.17%), Hammerson PLC (3.17%).

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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