Welling on Wall St.

www.WellingonWallSt.com

VOLUME 13

ISSUE 12

December 15, 2023

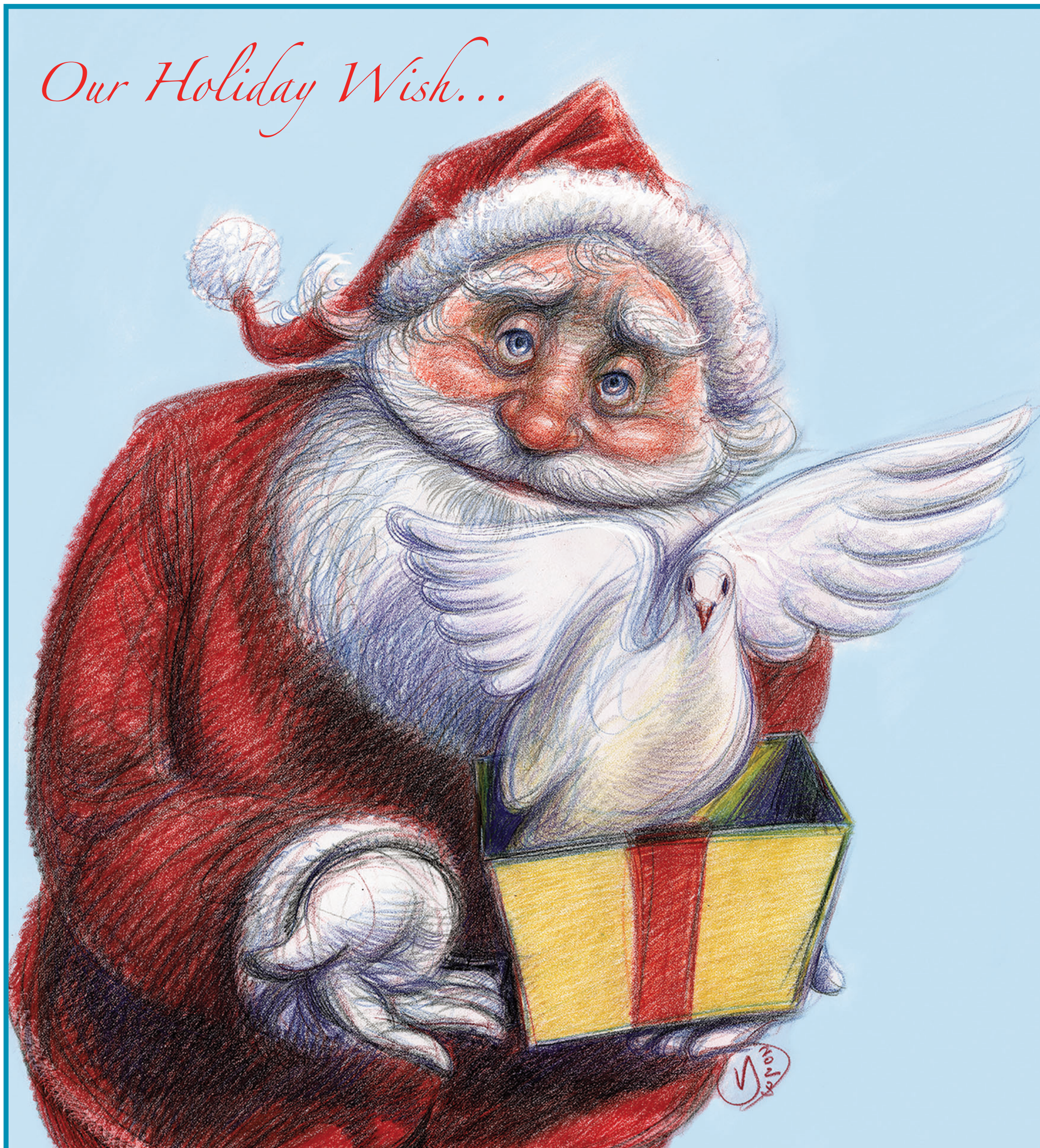
INSIDE

RESEARCH DISCLOSURES SEE PG 19

listening in Begins on page 2

Amit Wadhwaney

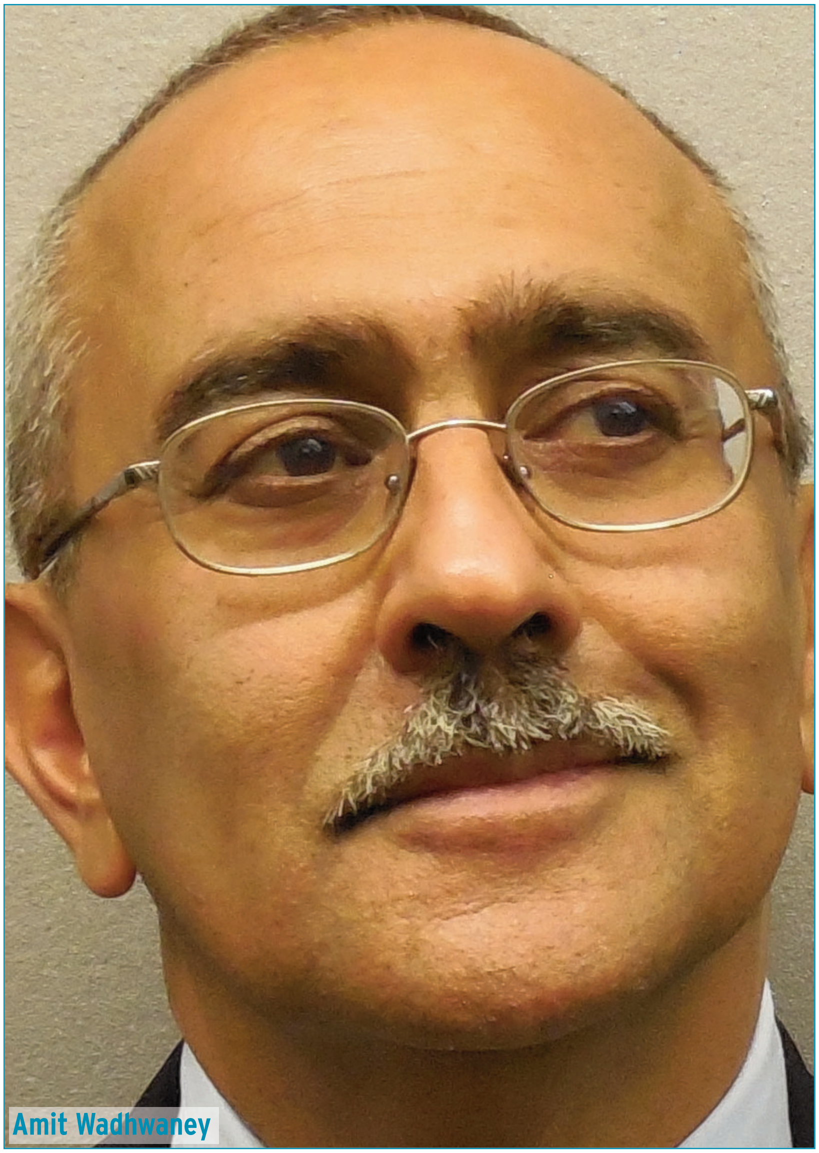
Moerus Capital Co-Founder On Turning Risk Into Opportunities



listening**in**

Selectively Embracing Adversity —

But Only When It Is Priced In, And Then Some; Moerus' Path To Excess Long-Term Returns



Amit Wadhwaney

Amit Wadhwaney is one of those legends of value investing who doesn't shout about his accomplishments — just keeps his head down, digging into the financial innards of companies, the world round, in search of seriously under-appreciated assets. Which he, sorcerer that he is, patiently transmutes into handsome long-term returns for clients. We were privileged to spend nearly a couple of hours probing his process — and what he makes of today's fraught investment climate — as well as a few ideas, in an interview for this Listening In, a week ago.

Amit, Indian by birth, internationalist by upbringing, migrated down from Canada in the mid-1990s to work with Marty Whitman. Their minds pretty much melded, and after dabbling elsewhere, Amit rejoined Marty at Third Avenue Management, where he took the lead in broadening its investment focus, incepting and founding its renowned Inter-national Value Fund in 2001 and managing Third Avenue's global team until his 2014 "retirement."

It didn't last long. In 2015, with a couple of former Third Avenue colleagues, Amit founded Manhattan-based Moerus Capital Management, which currently manages over $700 million in Amit's admittedly "peculiar" and immensely disciplined investment style. One that turns his habit of saying "no" to most investment ideas into an asset. That's despite the "delayed gratification" inherent in his highly selective and patient approach being relegated to increasingly uncool status in the Street.

The upside, as Amit sees it, is that all the risks manifesting on the global and investment stage today represent opportunities for picking up asset-laden bargains at only temporarily depressed prices. He explains —

KMW

Happy holidays and welcome to WOWS, Amit. It's nice to reconnect —

Amit Wadhwaney: Yes. It's been years — actually, decades at this point. It was in the mid-90s, the first time I was working with Third Avenue, or more pre-cisely, Martin J. Whitman. I left Marty to join Mi-chael Katz at Glen Rock Asset, before departing there for an opportunity to set up my own fund at a firm called Carl Marks. A memorable name. Then I brought that experience back to Marty at Third Ave-nue, and we launched the Third Avenue Inter-national Value Institutional Fund (TAVIX) in late 2001. I ran that fund with, I'll say, considerable suc-cess for a dozen years before "retiring" at mid-year in 2014. Moerus Capital Management debuted in early 2015, founded by a trio of former Third Avenue col-leagues, John Mauro and Michael Campagna — and me.

That's quite a progression. It's hard not to notice that you've stuck with a very Marty Whitman-like strict asset-based fundamen-tal value discipline throughout.

Amit: Yes, it may seem a bit mad, especially with so many proclaiming "the death of value investing," while we're living through the incredibly durable bull market in growth equities that grew out of the GFC in this country. We seem to exist in an inexorably shrinking "value" corner of the investment universe. Particularly those of us who practice asset-based fundamental analysis. We tend to be — I don't want to say, "doctrinaire" — but just more traditionally grounded in asset valuation disciplines.

You haven't surrendered to the siren call of rapid growth prospects and infinite price/earnings multiples – or ETFs?

Amit: I'm certainly not saying that we're members of the Flat Earth Society. But our value discipline is something that has, over the years, worked for us. It also requires tremendous patience, and that keeps us out of trouble.

How so?

Amit: Just consider that when we started Moerus in 2015, the investment environment was already dominated by speculative growth craziness, which absolutely went on for a while — even though the broad S&P 500 was flat that year as the market continued to regroup, the index's best-performing stocks were members of the FAANG club. Since then, unthinkable things have continued to happen. Interest rates went to levels unimaginable. Oil prices, at least in the financial markets, went to extraordinary levels. And on and on.

Crypto, meme stocks, SPACs, COVID and QE infinity. It's been quite a ride.

Amit: Yet here we are, still standing.

I'd say that's modest, with your strategy AUM around $700 million, I hear, despite the bear market in value and, especially, in value-oriented mutual funds.

Amit: Well, we have just one mutual fund, with two share classes, for institutional investors based in the U.S., (MOWNX) and (MOWIX). That portfolio has about $62 million in AUM right now. We also have a Cayman Islands-based LP open to non-U.S. investors, with about $26 million. That's not a huge pool of money in funds, but it does provide us with maneuverability across the capitalization spectrum. And our investors, with considerable transparency into our management. It's definitely scalable, too.

The biggest part of our business, however, is in SMAs, or separately managed accounts, which hold the bulk of our AUM. All that put together foots to about $679 million at this juncture.

Not bad. I know it's water long-since over the dam, but Third Avenue endured quite a bit of turmoil around the time you left –

Amit: It did. But I had left before it broke into the headlines. I'll just say broadly that the firm had changed, like so many others in the industry. Became focused on asset-gathering — and ceased being a collegial meritocracy focused on research, as it was in the early years.

> ***"Our value discipline is something that has, over the years, worked for us. It also requires tremendous patience, and that keeps us out of trouble."***

An oft-told tale, the way the fund business has evolved. But also a culture you and your partners have recreated at Moerus?

Amit: Well, perhaps. Look, the choices you make depend on what you're attached to. If you're attached to doing interesting investing, there are sacrifices. At some point, there will be periods of underperformance. Value strategies did very well for a number of years earlier in my career. Of course, the dominant view today is that value then swung out of favor. We can certainly talk about that and why we persist doing what we are doing, notwithstanding all the portents of something terrible and grim happening around us.

Okay, why do you persist?

Amit: Simply put, *a lot* of money went into value investing strategies in those days. Now, you could recast the impact of that flood of money in prosaic terms, such as its impact on the production of a commodity of any other sort. But I'm quite sure that would offend many investors, because they tend to believe they engage in some noble pursuit — nothing as elemental as mining copper or uranium or even semiconductors. But, in short, when a flood of money chases any asset, a lot of capacity is developed.

But not necessarily high-quality capacity?

Welling on Wall St.

Published exclusively for professional and/or avid investors who are paid-up subscribers by Welling on Wall St. LLC
ISSN 2332-161X

Kathryn M. Welling
Editor, Publisher & Principal
Kate@WellingonWallSt.com
Office. (631)315-5076
Cell. (973)650-2722

Donald R. Boyle
Chief Financial Officer
Chief Marketing Officer
Don@WellingonWallSt.com
Office. (631)315-5077
Cell. (201)394-1548

Victor Juhasz
Cover Illustration & Web Site Annimation
www.juhaszillustration.com

Distriuted biweekly, usually on Fridays, 12 times a year, by
Welling on Wall St. LLC
PO Box 620
Mattituck, NY 11952

Office:(631)315-5076
Fax. (631)315-5077
www.wellingonwallst.com

AMIT: Well, lots of people went into value. It was a sure-fire way of making money in those markets, and people did well, for years. But as more and more people were drawn into the business, the distribution of quality across the field widened, the quality differential became pretty extreme and the resultant oversupply of value funds got huge.

Then, of course, the inevitable happened. The market pendulum swung around and value funds have done pretty terribly for quite some time.

Last year gave some value investors renewed hope, but the market certainly hasn't rewarded them this year.
AMIT: Right, despite some respite last year, the *purging* of the ranks of value investors continues to be quite spectacular, *quite substantial*. I don't want to sound morbid, but it's kind of cheering, to us, as survivors, to survey the business's shrinking ranks.

You see it as a validation of your flavor of value-investing? Maybe this is a good time to ask you about the significance of the name you gave your firm—
AMIT: Ah, Moerus. The name is derived from a Classical Latin word describing a city's defensive walls, designed to protect a city and its inhabitants from risks, both predicted and not. We believe a keen awareness of the risks facing an investment is essential to generating solid returns over the long run. And, while we are unabashed value investors, we cannot emphasize enough that cheapness alone is not sufficient to warrant an investment.

Opportunities we often find ourselves pursuing typically face near-term challenges, risks, and uncertainties. Indeed, we welcome transitory turmoil, as it can generate unusually compelling opportunities. That short-term turmoil, however, makes it critically important that we populate our portfolios with companies that have a "moerus" — strength, staying power, and wherewithal — to withstand a wide range of risks.

Essentially, a moat, then, for those who, like me, long ago forgot their high school Latin — or never took it. Your approach to valuation analysis, I take it, goes well beyond price-to-book?
AMIT: As Jean-Marie [Eveillard] always used to say, value investing is a very large tent. A strategy that encompasses many, many different occupants. At one end of the tent are the dyed in the wool Ben Graham types, who are very focused on the statistical evaluation of securities, and who attempt to mitigate risk by buying lots and lots of statistically cheap stocks — diversification is what they do — a lot of it. At the other end of the tent are the Buffett types, who buy fewer things, but *good* things. The question is about what you pay for a good thing. Do you pay a fair price for a good company, or do you pay a *really* cheap price for not-so-great-company?

The latter is often described is smoking discarded cigar butts. But that's the difference between the early Warren Buffett, the Ben Graham acolyte, and Buffett *after* he met his incomparable partner, the late, great Charlie Munger.
AMIT: Absolutely. Unfortunately, I belong to the latter category.

Unfortunately?
AMIT: What I mean is that there's no question that what price you pay for a security has immense bearing on your eventual investment return. And I have always had a certain revulsion — it just gags me to pay up for securities. But there's a certain obviousness about *good* companies. Usually, a good company is pretty broadly recognized as such. And that reality right there is, to me, a source of fear.

You aren't comfortable partying with the herd?
AMIT: It is more that I have to wonder, what do I know that is differentiated from the others' views? Why should I be willing to pay this? What if my read of this valuation is wrong? It is a quirky kind of thing. It probably stems partly from the fact that I "grew up" as an investor with Marty Whitman. He always believed in deep value, in distress investing and all that. Separately, I think there's also a demographic aspect to my aversion to paying up.

Demographic? How so?
AMIT: Let me explain with a little story about a time I was giving a talk at Google. There was a value investing club there and they had invited me to speak. It was quickly clear that they had all read lots about value investing. Also that many of the Google employees in attendance were from India — there are lots of people from India at Google. I'm sorry to pander to that stereotype, but it was obvious as I stood there.

So I said, "I am happy to talk to you about value investing, but the *odds* are that you're probably *not* going to buy anything that I talk about — nor do anything similar."

I'm not seeing a demographic reason there —

Peace Dove Wish by Gary McCoy, Shiloh, IL

Amit: Quite simply, the India that I grew up in was an India of government controls, an India of licenses and of capacity constraints, everywhere. By contrast, if we fast-forward, the India those young (mostly) engineers grew up in is a much more deregulated economy with blue skies stretching forever. And it's how you grow up that conditions what you're comfortable with. That's why I am old school to some degree.

Meaning more conservative than the younger generation?

Amit: There's no avoiding that my early conditioning affects what I am comfortable with; how I approach risk.

So how do you convince yourself something is such a good business that your investors can afford to pay up, some, for it?

Amit: It starts with some basics that underpin our approach to investing. One is, of course, that we are long-term investors. We think in terms of a three-to-five-year investment horizon — at least — at the outset, and preferably longer. I mean, if you find a company that is really good and a worthwhile investment, you should probably do well owning that business for even longer periods of time.

Meaning you like to find companies to own in which you can sit back and enjoy the compounding of value?

Amit: That's one of the best parts of the process. The front end experience in most investments is generally where all of the misery happens. Misery that's expected, because we tend to buy good things when they are terribly depressed — for a reason or for a collection of reasons, whether internal to the company or external. Something particular, or conditions that are more diffuse, in an industry, a geography, or an economy. But whatever, it has to somehow resolve itself. Maybe overcapacity works itself out, or there are mergers, liquidations. Maybe government meddling is curtailed, or a capital markets crisis abates. *Something* has to change. And it takes *time* for that to happen.

That typically isn't a pleasant wait for most investors.

Amit: Very true. When you buy something good really cheaply, usually a number of things have to happen. It is unlikely that cheapness happens in isolation. Sometimes, too, the cheapness happens because of complexity. People can't be bothered to learn — to do the research to discover what makes the company tick. Maybe it has specific quirks, so it doesn't easily fall into some category or archetype. It's not something on which you can do a back-of-the-envelope analysis and quickly decide, "This is good, this is cheap, let's do it." It simply takes time for all of the things depressing the stock price, and the performance of a company, which is obviously linked to the stock price, to turnaround. So our investment strategy requires patience.

Not exactly an abundant commodity in the Street.

Amit: Exactly, which brings me to a second lynchpin of our approach. As very much bottom-up and long-term investors, grounded in our assesment of each company's intrinsic value, I am constantly asked, "But what about the macro environment?" If you hold things for long periods, a lot of stuff can happen — not just to the company, but around the company.

True that. You can't hold the world constant. Yet you don't try to hedge that risk?

Amit: Well, I certainly have opinions about macro conditions, but they definitely aren't the kind of thing it is worth hanging our investment decisions on. The probability of me being right, repeatedly, is exceedingly low. I would not, would not, *would not* invest on those odds.

Truly good track records of doing that are humanly impossible. Still, the risks exist —

Amit: The way we approach it, when we've found an investable company, is we look at all of its innards. You research how the company makes money, loses money, invests capital — all that stuff. And you think about how what goes on in the outside world impinges upon its performance.

Meaning, more specifically?

Amit: Under what circumstances will it make money; under what circumstances will it lose money? What kind of factors is it particularly susceptible to being hurt by? Remember, we are long-term investors, so a lot can happen. If you only own a stock for six months, as many traders can do, interest rates can twitch. Inflation numbers can change, as can economic indicators, but only in small increments. If you own something for three, four, five, six or seven years, however, the band of variability is much wider. Interest rates can change by many percentage points, as we've seen. If you are going to drop anchor in a security holding, own it for the long term, you have to think in terms of what would happen if interest rates go up by large amounts, or if multiple rate hikes take place and so on.

Or any other of a host of bad events —

Amit: Exactly, so we look at companies in the context of the possibility of adverse developments in macroeconomic variables. In practice, that means we basically scratch off companies from our list of investable companies if our assessment is they probably couldn't cope with a range of macro risks. We have a pretty obvious checklist of macro risks we want to avoid.

For instance?

Amit: Well, we don't want a company generating profits in dollars but saddled with interest payments in another currency, or vice versa. I mean, currency mismatches in banks have blown up entire countries. We've seen that time and again.

Yet people never seem to learn —

Amit: No, they don't. It is absolutely amazing. The first of these episodes that happened in my working life was back in 1994, the "Tequila crisis." What I remember is that nobody in the markets wanted to believe a currency mismatch crisis was coming or even possible. When I looked at it, however, I said, "It's a possibility." I questioned why anyone would want to own dollar-denominated loans in Mexico, if its currency was subject to a huge devaluation. The mismatch was horrible.

That one took a $50 billion IMF bailout and quite some time to right. But it was scarely the first or last financial crisis sparked by mismatches.

Amit: Right. Fast-forward and the next time we had the Asian crisis sweep through a whole bunch of large economies. And don't get me started on duration crises much less the GFC. These crises just happen again and again. So we've learned to eliminate situations that are particularly vulnerable to them. A certain risk-aversion develops.

Or should.

Amit: That's where our investment disciplines come in. I know this is probably a very strong statement to make, but for example, even before the GFC, one of the things that we were very averse to investing in — and continue to be — were any business models that require companies to have continuous access to capital markets, to external finance, *just to exist*. Quite simply, they are very probably not worth doing. The doors to the financial markets have a habit of closing at the most inopportune times. So what happens to those companies? Well, that was Lehman Brothers, after Bear Stearns. At that juncture, a simple downgrade did them in. You have to be very wary. They aren't the kinds of things I would want to own. Granted, that's a very big, broad statement. But we consider ourselves macro-myopic, albeit macro-aware. I can barely see the tip of my nose in that sense. But what numbers are released this week, or next, don't really matter in the context of our portfolio. Not when we buy things to own for a number of years.

Your attitude to portfolio diversification also sets you apart from many other value investors — though I haven't heard you call it "di-worse-ification."

Amit: Oh, yes. The thing about diversification — if you're going to be a *long-term* investor in a company — is that you need a greater level of understanding of a company, more conviction in its value, than does a PM who is planning to turnover the portfolio, say, 100% or more in a year. Now, obviously, a long-term oriented investor still probably isn't going to know as much as true insiders, who have a daily view into the guts of a business, know where all the soft spots are, et cetera, which are obscured from public view. But long-term investors do tend to have a fairly good grasp of their companies' fundamentals. That's where portfolio construction comes into play.

In what sense?

Amit: Well, there's a pecking order of attractiveness, ideally, if you know your portfolio companies very well. You can probably rank them in terms of your level of conviction, and most likely want to own a bit more of the ones you are, let's say, happier with, or have a greater degree of conviction about. That's how I think.

So intelligent diversification involves a lot more factors than merely buying multiple positions? For some reason I remember Marty Whitman once telling *Barron's* that mere diversification "is a damn poor surrogate for knowledge, control and price consciousness."

Amit: Sounds like Marty. Trouble is, it's hard to really know a lot of companies very well — and to continually update your analysis. So, if you're not a short-term trader and are going to drop your anchor in long-term holdings, you're going to want to take your time getting comfortable with the survivability and business attractiveness of your portfolio stocks. At least I do. I find myself taking even longer as I get older. Which obviously leads in our case to only moderately diversified portfolios, in terms of sheer numbers of positions.

That isn't to say that there's *only* one way to construct portfolios. Some legendary PMs have historically populated portfolios with many more holdings than we do. High levels of diversification *can* work. It's just not something that fits comfortably with our investment process.

Your portfolios tend to contain how many positions, then?

Amit: Well, we have about 35-36 holdings in our most diversified portfolios, the public funds. Let me stress, the way we think about diversification, it doesn't simply reside in a multiplicity of holdings, or even in cheapness. Because our public funds are mutual funds, as managers we have to also keep an eye on portfolio liquidity. You can't have a bad moment. — I won't call it "a Third Avenue moment—"

Understandably. But, for the sake of readers with short memories, you're referring to your old firm's sudden announcement in late 2015 that it was liquidating its once-high-flying Focused Credit Fund. Caught stuffed to the gills with illiquid and risky subprime debt when the bond market suddenly flipped to risk-off, Focused Credit had already taken the extremely unusual step of halting customer withdrawals. But that move had only intensified the free fall in the fund's net asset value — and brought to a head a culture clash that resulted in the long-time CEO's firing that same day.

Amit: A reasonable synopsis. But seriously, the point I am trying to make is that in running a fund portfolio, you seriously need to have unconcentrated *risk*. You have to have some sense of your holdings' liquidity, solvency, financial strength, cheapness, durations — and business attractiveness is also very important. However, that's on an individual company basis. If you instead look at risk across the portfolio, there's a sort of simple-minded way of thinking about it in terms of risk aggregation.

Explain, if you please.

Amit: When you study a lot of companies, you eventually develop a sense of what sorts of forces one is affected by. Is it affected by interest rates? Is it affected by higher oil prices? By exchange rates and so on? As a PM, what you want to be very careful about is *not* having too many holdings in any one risk category.

You don't want to find, for example, that you're holding a bunch of companies likely to be clobbered by very low interest rates. That was the case, actually, in the early days of Moerus. We experienced a period of *unusually*, *atypically* low interest rates, which of course we had thought could never happen in real life.

Zero and even negative rates really were a whole new world —

Amit: And when we thought it couldn't get worse, it did. Rates went even lower. Thanks! In that case, we owned financial institutions. We owned a life insurance company in the Netherlands. We owned a bank in Italy. We owned a bank which is nominally listed in the UK, Standard Chartered. We owned a bank in Japan. While each of these positions was affected by interest rates being low in their respective countries of operation, there *was* some diversification among them in terms of their geographies.

More specifically, two of them were sensitive to developments in EU rates — the Dutch insurance company, and the Italian bank. But Standard Chartered was mostly affected by U.S. dollar rates, notably in Hong Kong, and the Japanese bank was especially sensi-tive to interest rate changes on its home turf.

Now, I would hasten to add that moves in all of those interest rates are *not* entirely independent of each other. There is *some* interplay between the rates in Japan, for instance, and the rates elsewhere, although the Bank of Japan is trying to disabuse us of that otherwise rational idea right now. We'll see how long that folly can go on. But whatever the asset, if your portfolio is going to be interest-sensitive, you have to think in terms of some mitigators.

Like what?

Amit: Now, bear in mind that we had *not* been buying those positions just because of an interest rate outlook. The Italian bank, for example, had just gone through a massive recapitalization and was cleaning up when we initially approached. Indeed, most banks in Italy were moribund at that juncture and had — in essence — fake balance sheets. Balance sheets that were not representative of reality at that time, I mean. And then we had Standard Chartered, which was just beginning to right its ship after having gone through a period of doing some very thoughtless lending in India.

***Very* thoughtless?**

Amit: What I'm saying is that collecting on loans in India has *always* been a fraught business. Even collecting on loans where collateral has been posted is problematic, historically. Nonetheless, over the years, Standard Chartered had lent *a lot* of money to *owners* of Indian business — on an unsecured basis.

What were they thinking?

Amit: Well, when I say they lent to the "owners" of large businesses there, what I mean is they lent to people who used to own those businesses, as a way of currying favor in the Indian market. But doing that on an *unsecured* basis was completely crazy.

And of course, all the obvious things that we'd expect to happen, did happen. So of course, they had to raise a lot of capital. The Dutch insurance company was wildly over-capitalized. They never got their act together to do much of anything with it. Finally, thankfully, they picked up, shall we say, deal-making expertise and started to deploy their huge store of excess capital. They used it to buy many of the distressed life insurance companies that were in terrible trouble at that time because of asset/liability mismatches.

Now, in Japan, as you well know, interest rates have been very low for quite some time, and the bank remained reluctant to do anything with its excess capital, at that point.

You're implying that while all those positions were in some way interest-sensitive, their valuations were so depressed and the businesses so solid, that other considerations overrode that rate risk, to you?

Amit: Essentially. There were company-specific reasons we held each position, even though the purely macro backdrop at that time, for each of the companies, was pretty horrible. The companies were all making money. They had all done gone through their cleanups, to the extent the cleanups were necessary. Even the Japanese bank had gone through two massive recapitalizations, and here they were. They were making money — as much as Japanese banks can, given the country's microscopic interest rates. In fact, the bank is quite profitable. And it was trading at one-third of book value, and, I think, at a low mid-single-digit multiple of earnings. The shares were exceedingly cheap. And the bank was ultimately taken over at a ridiculous price.

Your tone says it should have held out for a higher bid?

Amit: In a perfect world. But nobody fought the deal — because fighting deals there is quite difficult to do. Still, the position was good to us. Anyway, that's how we think about diversification in terms of risk aggregation. But we absolutely do worry about concentrating any kinds of risk in any risk category, market or geography.

Sure, even positions that are theoretically uncorrelated see their correlations go to one in a crisis.

Amit: To be clear, each of those interest-sensitive positions also had quirky aspects setting them apart. For instance, the "Italian bank" was not solely an Italian bank.

Come again?

Amit: What I mean is that only a third of its revenue was generated in Italy. It was generating at least as much coming out of Germany and Eastern Europe. But every time the spreads would widen between the BTPs and Bunds, then of course the stock would crater. Investors would think the end of Italy was coming, the end of the euro was coming, and so forth. You had to be willing to put up with that craziness in the trading, the quotational hiccups in the period, and there are many, to be a long-term holder.

So yes, the absence of wide diversification or some concentration of risks probably could increase the volatility of your portfolio, in aggregate. But our approach to risk is less thinking in terms of day-to-day stock price volatility or even portfolio volatility. We focus rather more on worrying about whether the business is a survivor, will it ultimately thrive, and how the business's path will unfold over time.

Which means you focus more on not permanently destroying capital over your investment horizon than on smoothing out

market volatility along the way. Instead, you try to exploit volatility to clients' advantage—

Amit: Yes. We're particularly sensitive to the probability of permanent diminution of value because of management actions, inactions, or misdeeds, or because something is peculiar in the business model or something in the industry's makeup or something in the organizational structure that works against shareholders. Anything that would impair the value of a business on a permanent or even a semi-permanent basis is worrisome to us. We try to identify those risks, but it's not always possible.

And sometimes things like handicapping government behavior is very difficult, just impossible. We've failed at that. So in certain countries, we just avoid certain businesses.

Can you share an example or two?

Amit: For example, in India, you don't want to buy pharmaceutical companies because pharmaceuticals are viewed by the Indian government as a necessary good, a necessity. Therefore the government meddles in drug pricing and other aspects of the business. Okay, fine. They do that, so I don't want to be there. On the other hand, sometimes even countries perceived as "good" for investors can do terrifying things. I mean, we had a moment like that in New Zealand, which is historically, traditionally, a very reasonable place to invest in. We did lots of investing there at our previous firm. But in the moment I'm recalling, there was a national election coming — and it looked like the incumbent government was going to lose. So the party in power was in desperate need of drumming up their popularity — and votes.

What did they do?

Amit: They took aim at Telecom New Zealand, one of our holdings, which was historically a reasonably run company that operated in what had traditionally been a reasonable regulatory environment. The company had completed all of the major capital expenditures needed to serve its market, plus, New Zealand wasn't a rapidly growing economy, so they didn't have to continually reinvest massive amounts of capital in the business. So the company was generating lots of excess cash, free cash flow. Management was paying very large dividends, doing big stock buybacks, spinoffs, all the things they should have been doing — but most of the company's shareholders were foreign investors —

Which made them an irresistible target?

Amit: Of course. The government decided in its infinite wisdom that farmers should have broadband equal in quality to the service provided to city dwellers — and at the *same price* as city dwellers paid. This was a wildly uneconomic proposal, but of course it was politically motivated. And greeted by cheers from New Zealand's farmers.

As it happened, even the government's populist ploy wasn't enough to swing the election in the ruling party's favor. But the proposal clearly caused us great fright as we watched it being debated in the run-up to the election.

Did you stick it out in that position?

Amit: No, we decided that we could not handicap the outcome of the debates down there, so we took our money and left. The point is that handicapping government, shall we say, "caprice," is hard.

An understatement, for sure. How do you approach sizing your holdings?

Amit: I suppose if I were to fault myself — my colleagues certainly remind me — I'm a bad seller. Things can keep going up for a while. I'm not going to say we keep an equal-weighted portfolio across our different holdings. Some of them appreciate faster than others, which is how you arrive at a distribution of the size of holdings across the portfolio, even if they do start out at roughly equal weights. For example, a stock that may be our most improbable holding now has the largest portfolio weight.

I'll bite. What the heck is Despegar.com Corp.?

Amit: You noticed that? Despegar.com Corp. (DESP US) is a Latin American online travel agency. The company has had a great year, so the stock has just done very well. And of course, its weighting in our portfolio has climbed, but I don't see any particularly great reason to dispose of shares. I can live with a holding having gotten larger in the short term, as this one has. This is a case where the stock had gotten very cheap, so we wound up buying a bunch, and now the stock has gone up quite materially. Something like 68% or 69%, year-to-date. It is not without volatility.

I'd say. Yet you're not booking some profits?

Amit: No. I'll grant that this isn't what most people consider a bricks and mortar company, and that's what they tend to expect from us, as self-proclaimed asset-based investors. Typical physical assets are *not* the attraction here. We don't restrict ourselves exclusively to bricks and mortar investing. We also consider asset-rich companies that, because of accounting conventions, don't list all of their assets on the traditional balance sheet — like this one.

The question is, how real, and sustainable, are the off-balance sheet assets?
Amit: Unquestionably. I'll describe Despegar in just a couple of sentences: it's been around since 1999. They've invested quite considerable capital in their IT infrastructure. Maybe $1.5 - $2 billion. It's the largest pan-Latin America online travel agency — operating in the Spanish-speaking countries as well as in Brazil — where it's gradually become the largest player. Across the entire region, in fact.

Is online travel booking much of a business in Latin America?
Amit: There are a number of peculiarities about the region, that's true, but just let me give you some interesting numbers. Despegar's equity market capitalization, even after this run-up it's had this year, is $572 million. Its balance sheet is really quite good. It has about $245 million of cash.

Half its market cap?
Amit: Right. It does have some preferred shares outstanding, with various conversion and redemption terms — but they are very soft terms, so you can almost think of them, in a pinch, as permanent equity. The numbers here are quite silly, really.

So the question is, why?
Amit: Here is some insight into how we got here. The company came public around 2016, and attracted some big institutional investors — the likes of General Atlantic, Tiger Global. The IPO was priced at $26 a share — and it is now trading around $8. But it got as low as $4 and change at the tail end of last year.

Ouch. Mostly because COVID decimated the travel industry globally?
Amit: Essentially, but several things peculiar to Latin America also are important to consider. One is that Latin America closed down virtually completely during the pandemic. It was the last place the pandemic spread into. Yet all of the countries down there still fumbled their responses. They could have responded with more alacrity, gotten better quality work done, had they learned from the mistakes across the rest of the globe. Most countries down there still argued about pandemic response; there was lots of infighting and political maneuverings. So Latin America was the last region to enter the battle against COVID. It probably wasn't the last one out of the pandemic — but only because China's response was even quirkier and less effective.

Regardless, travel got killed.
Amit: Yes, with the exception of Mexico, every LatAm country closed its borders. So travel imploded, completely, intercountry, intra-country. The airlines pretty much all went out of business — with the exception of one. Unlike in the U.S. and other developed nations, there were no government handouts to airlines.

It was a mess, as the region shut down almost completely. The airlines had to recapitalize, or file for bankruptcy if they're listed in the U.S. LATAM Airlines, the largest airline in the region, which is the combination of Chile's LAN and Brazil's TAM, filed Chapter 11 in May of 2020. Columbia's Avianca is in bankruptcy. Aeroméxico is in bankruptcy. They are all bust.

Is it a picnic for distress investors?
Amit: *You* might characterize it that way. But their forced recapitalizations in part meant that, all those large airlines had to sell off planes — some more than others. Avianca sold off most of its; their remaining fleet is quite minimal. They clearly weren't expecting any sort of recovery in travel anytime soon. Instead, they find themselves operating whatever flights they can with full passenger loads — and with no planes in reserve.

A worse nightmare for an airline than even a shutdown –
Amit: The good news is that overall, the recovery is proceeding slowly — and gathering momentum.

Another thing to note here is that LatAm airline tickets are linked in some way, shape or fashion to U.S. dollar exchange rates — because most airlines' costs are denominated in greenbacks. Things like fuel cost, airplane leases, capital expenditures, maintenance are all transacted in dollars. At the same time, across the board, every Latin American currency has collapsed, making Latin America probably one of the cheapest places in the world for dollar-based travelers to visit. Absurdly cheap.

That doesn't seem to be abating. [The day after our Monday 12/11 interview, Argentina announced a sweeping 50% devaluation of its peso.]
Amit: The currency swings have been extraordinary. The Brazilian real went from less than two per dollar to six per dollar, and similar devaluations happened in Colombia, Chile and elsewhere. The purchasing power of consumers there has been much diminished. Despite fears to the contrary, however, LatAm countries also have all been quite aggressive in raising rates and dealing with inflation — much more so than their developed-market peers.

Inflation numbers across the region have tumbled. They actually have positive *real* rates. Brazil has been running 8% - 9% real rates and its currency, the real, has appreciated in the foreign exchange market; it is at 4 and change now to the dollar, down from 6. The Colombian peso, the Chilean peso and some others have also appreciated of late. So purchasing power in Latin America is starting to creep back up, which is a wonderful thing.

After all, don't forget, as long as there's not something crazy going on, *a la* Argentina or Venezuela, there's an element of mean reversion to exchange rates — as low prices cure low prices, over time.

You're implying things are looking up for Despegar's business prospects?
Amit: Yes, we have actually started to see business pick up for Despegar. Another factor working for it is that in the past the company's business was largely a function of the demand for air travel, but now they've expanded into booking hotel and air packages as well.

Isn't that business as cutthroat there as it is the U.S.?
Amit: No. The hotel space in Latin America is very fragmented, unlike here. So, for instance, the hotels *pay* Despegar to, shall we say, promote them and roll them into travel packages.

That was a very long-winded response. But it's why we very much like a holding with assets that aren't predominantly bricks. All the capital they poured into IT infrastructure has been expensed. It is producing revenues and earnings, so it's an economic asset, albeit not an accounting asset.

Still, you're tempted to take some profits off the table—
Amit: We tend not to do a lot of trading, per se. I'm a terrible trader. Look, if Despegar became a 7% or 8% position, *maybe* I'd be tempted to take some money off the table on a permanent basis; redeploy it elsewhere. Our trading pattern, typically, is that we initiate an investment with a small position, then something unfavorable happens and the stock drops. So we typically buy more and then sit some more and so on.

Then you actually don't expect holdings to head to the moon soon after you buy —
Amit: If that happens, it's generally a surprise and I get a stab of paranoia. Is the idea so obvious, that it's being bid up? Usually, it isn't, and when the stock does correct, we can peck away at it as it declines. That is pretty much what happened with Despegar. But of course that means that if something happens and a stock runs up a lot, our accumulated position suddenly gets *a lot* larger.

Okay, would you buy Despegar *here*?
Amit: Is it expensive after its big year? I would argue not. I mean, even though analyst usually make earnings estimates with no shame, there is still a tremendous amount of underestimation, even in the short term, of Despegar's ability to generate profits.

What is the Street missing?
Amit: Analysts aren't recognizing just how drastically the company slashed its continuing operating costs amid the pandemic, for one. Another thing being overlooked is that Despegar took advantage of the shutdown to make some very attractive bolt-on acquisitions. For instance, they did one in Mexico — the one market that didn't entirely close down —

Do tell.
Amit: Right before the pandemic, they had signed an agreement to takeover Best Day, a very large Mexican travel agency that operated both online and offline. That pact fell apart, thankfully, when the crisis hit — and its terms were entirely renegotiated. Instead of paying $130-odd million, in cash, Despegar ended up putting *no cash* down. They reached a new deal where they paid the former ownership $20 or $30 million, but didn't have to pay the first cash portion until three years after the closing of the transaction, based on linked performance metrics. Best of all, the deal gave Despegar access to the Mexican travel market, which actually boomed during the pandemic, because Mexico allowed people to come and go relatively freely. What's more, if you were a traveler trying to come to the U.S. from many countries — from the EU or, say, India — pandemic rules didn't permit you to come straight into the United States. You had to quarantine in a country that was sort of okay first. That resulted in lots of Indians, for example, spending at least two weeks quarantining in Mexico City before coming into the U.S.

There was a fair amount of that sort of pandemic travel traffic — then Mexico became one of the first countries to sharply exceed its pre-pandemic airline passenger numbers — a year or two ago.

But aren't Despegar's operating costs surging higher now as they have to reopen other markets? Rehire staff?
Amit: No, their costs haven't risen much. What has happened, instead, is that what internet-based service providers like Despegar refer to as their "take rate" has shot up. It's the percentage of their gross revenues that they can actually keep; that don't get

passed along to the airlines and hotels they're booking clients with. An 11% number, traditionally, has turned into 13%.

Because?

Amit: Their underlying gross revenues are rising quite nicely, post-pandemic, and their costs haven't risen nearly as much. Now, the take rate probably cannot persist at 13%. But their costs now are being spread across the new higher-margined hotel booking business, for one thing, as well as the company's recent opportunistic bolt-on acquisitions — one in Brazil, one in Chile. Now, in Brazil, they picked up a bricks and mortars business, which could, perhaps, add to costs in time. But the idea is to use those physical assets to complement their online business. It is basically an experiment to see if they can use the offices as marketing tools; use them to introduce clients to their online offerings and assuage any concerns about making large cash transactions with them. That's another quirky aspect of business in Latin America. Credit card usage there is very much lower than in the U.S. and most developed nations. A much larger proportion of business is transacted in cash or in "buy now, pay later" deals, usually facilitated by banks.

You're mentioning quirks a lot. Is the diversification and much larger opportunity set of your global mandate enough to offset all the complexity — as well as the quirks — it imposes on your invest process?

Amit: In a word, yes.

Why and how? What's Moerus' edge?

Amit: There are a couple of threads in my reasoning. First of all, I grew up outside the U.S., that's part of it. We are all creatures of our baggage. In my case, that involves growing up in India but also with longstanding relationships in Latin America. Then I got undergrad degrees in Minnesota before moving up to Canada and spending a number of years getting still more education and also beginning to work — first teaching college economics then moving into the forest products industry as an analyst, before finally moving into finance on Bay Street. Eventually, I got my MBA at U of Chicago and started working in finance down here. In any event, when you move around like that, you tend to become comfortable with the differences in the financial infrastructures that exist around the globe.

Okay, but I doubt your cofounders at Moerus were as peripatetic in their youth —

Amit: No, but the two other members of our founding team, John Mauro and Michael Campagna, had both worked with me a long time on Third Avenue's international team, which I incepted and built. John has nearly 20 years of global investment research experience; like me, he was at Third Avenue, where we worked together for about 10 years. Michael, who has over 15 years of global research experience, worked with us at Third Avenue for more than four years as a research analyst and consultant, but had worked at Marty's firm for almost eight years. Our fourth colleague is our youngest; we've been mentoring him — on how we approach risk, how we approach valuation — since he joined us in 2018. What we do isn't exactly off-the-shelf, but he's coming along well.

Anyway, now our principal activity is reading financials — reading about businesses and companies. The thing is, the more you learn about businesses, about business models, about the peculiar things that affect businesses in different countries, the more you gain in accumulated knowledge about business — about people, actually. That is generally underappreciated. And we've done that with many, many global companies over the years.

It comes in handy, you're implying?

Amit: Well, in the old days, it used to be a rite of passage for everybody who worked with me to go to India. But India is a very large, very diverse market. Historically, it also has been an extremely expensive place to invest. It generally does not fit any of my valuation parameters — as many other places don't. Yet, there are times investments there *are* interesting. We could talk about gold on that same score, it's a similar kind of thing.

You sent analysts there just to prepare for those rare occasions?

Amit: Not really. Every time we go there, we have a bunch of companies we want to look at, to analyze the pros and cons of their valuations. Yet over the years, we bought very little or nothing in India until 2013. Remember what happened in 2013? Ben Bernanke said the was going to cut back on the Fed's debt purchases and sparked the "Taper Tantrum," ??? the market responded by raising interest rates.

For India that fallout happened at the worst moment possible, because its bureaucrats — who are a thing unto themselves (they've refined the English way of governing via regulation into supreme tools for torturing investors) — were in the midst of slapping all sorts of new back taxes and other costs onto foreign direct investors in India. Especially the ones investing in telecom companies and infrastructure.

So foreign investors, who had been pouring into India, turned tail. Fled in droves. The stock market crashed, along with the currency. Most portfolio investing is done by institutional investors, who are very fleet of foot. If they smell trouble, they run.

It created opportunity for you, I suspect.

Amit: We were, so to speak, in pig heaven. The valuations got absurd, and we bought a whole bunch of positions in India at that point — all our accumulated knowledge proved invaluable in that process. More recently, the pandemic served up opportunities for us to buy other companies in India that we'd long admired from afar, but that were always way too expensive for us, until all hell broke loose, courtesy of the virus. In that instance our accumulated knowledge was absolutely essential. Nobody could get on a plane and go there, but we could act with confidence because of it.

Brazil offers a somewhat similar example. Our team at Third Avenue spent a lot of time studying interesting companies there, but very little actually clicked as an investment while we were at that firm. However, by the time we were starting Moerus, Brazil was under the gun for any number of reasons. Little things like the "Lava Jato" scandal, which started in 2014 as a money laundering probe of a seemingly innocuous car wash in the nation's capital, and ended up ranking as the world's largest bribery and corruption scandal, ever. It ended up knocking out of office multiple Brazilian presidents, sitting and former, including the current incumbent, President Luiz Inacio Lula da Silva — who went to prison but later succeeded in having his conviction annulled after a finding of bias in the judiciary. So he ran last year and was re-elected. The scandal tainted or ended the careers of numerous presidents and other high officials in countries across much of Latin America.

The car wash investigators also traced much of corruption they unearthed to the LatAm corporate sector, as I recall.

Amit: Yes, among the "little" companies deeply involved in the bribes were the state-owned oil giant, Petroleo Brasileiro, or Petrobras, and construction powerhouse, Odebrecht, which has changed its name to Novonor.

Of course, Brazil was thrown into such a funk as the immense scandal emerged. It suffered its first recession in a few decades, and investors in Brazil, who mostly had no experience in economic downturns, dumped shares wholesale. Making Brazil a suddenly cheap place to invest. Which we could do quickly at Moerus, because our homework was already done. Then, when the pandemic hit, that basically broadened the scope of the opportunity for us in Brazil. The takeaway is that accumulated experience matters. It totally matters.

So you've said. You do have a bit of a reputation for being *very* picky about what you put in your portfolios.

Amit: You must have heard about a video my colleagues at Third Avenue made to spoof me — and played at the firm's annual party years ago. It was set against the tune of "Another one bites the dust," [Queen's 1980 rock hit] and the only action consisted of me looking at research report after research report and saying, "No!"

Not very subtle, but funny, I'm sure —

Amit: The thing is, we do spend a lot of time looking at different possible investments, all the time. And, I have to admit, very few make the cut and go into our portfolios. Most of the time, we're not buying much of anything. Selectivity is an another important part of our process. But we also accumulate a lot of knowledge that way. We learn what to do and what not to do. Argentina provides another example. While we *have* made portfolio investments there, I'd say that, over the years we've been investing globally, for at least 95% - 97% of that time, it has made *zero sense* to have a position there. Yet on rare occasions, it has made a great deal of sense to invest in that country.

What makes you decide it's time to dip your toes into a market like Argentina's?

Amit: Even when our deep and continuous research doesn't lead us to making purchases, it is teaching us about the protagonists in a given drama. I'm not saying that enhances our predictive abilities, but we do get a sense of the limitations companies operate under, what they can and cannot do — and that's often helpful. Especially when there's some sort of trauma, and things get absurdly cheap — and therefore interesting.

You need more than, "the stock is cheap," to move you to buy?

Amit: Precisely. Stocks we buy are necessarily cheap, but that is *not a sufficient reason* to buy. I mean, look, there are people and companies that you would *not* want to invest in, regardless of the price. One problem with value investing in general is that all-too-often asset-rich companies that are very cheap tend to attract — I'll say "crooks," for lack of a better word. What you find, when you look at the management or board or major holders or related parties, is that they are trying to extract shareholder value for themselves. They see a pot of gold. We, on the other hand, as foreign investors, outsiders, are often hamstrung by having few rights. Insiders have a much clearer path to extracting value. It doesn't have to be as gauche as dipping their hands in the till. Think paying themselves bloated fees, setting up related-party consulting agreements — there's no end to "creativity," it seems, when it comes to picking the pockets of shareholders.

Given how often we've seen that sort of thing over the years, we have a strong preference for avoiding having anything to do with a long list of people in many countries where we've observed that. The funny thing is that institutional memory sometimes can be very short in certain countries. People there who *should* know better, *based on past experience* — for instance brokers who inevitably urge us, "You should buy this; so and so is running it" — too often are forgetting how that same person screwed their clients a few year before. When I remind them, all I tend to hear is, "But it's cheap."

A wise man once taught me, "if something's cheap, there's a reason — not infrequently nefarious."

Amit: Or it deserves to be cheap, for reasons you haven't discovered. In any event, that's another way our vast store of accumulated knowledge makes the task of sifting through *a globe's worth* of potential portfolio candidates to find the few tolerable opportunities manageable for our small team. Look, people have developed all sorts of processes to filter through global opportunity sets, spreadsheets and presentation funnels and on and on. Ours is different, not only because it starts at the bottom, with our intrinsic asset valuation, but because our accumulated knowledge base gives us a head start. We know the kinds of businesses we like — and don't like; what geographies, what protagonists.

At the same time, we don't shy away from looking at new or difficult situations, from analyzing complex financials. As one of my former colleagues once told me, "You are the only person I know who goes running *into* a burning building, as opposed to away from it." But *a survivor* in an attractive business, although momentarily in the grip of trauma, is probably going to emerge stronger. That could be an attractive investment, if you can pick it up cheaply because of the noise and ambient drama in their current environment.

You clearly place a lot a lot of trust in your accumulated knowledge. It's not easy to pick winners amid the fray.

Amit: Well, our comfort is based on our analysis of the fundamentals; our handicapping of its survivability. Sometimes we can't. We just *don't know*. So we pass.

You're talking about judgment. But today being data-driven is supposedly the "way, the truth and the light."

Amit: The problem with spreadsheets, with statistical screening, AI, I dare say — those sorts of tools look at similar data — price/earnings, price/book, blah, blah. Or earnings momentum and outcomes, the same kinds of things. So most people look at the same ideas. There's tremendous clustering, at the end [illegible]f the day.

I'm not saying I'm trying to be different for the sake of being different, but the question is, what's my value add in this process? I mean, if a stock obviously is so mechanically cheap, is it really something we want in our portfolio? As you mentioned, it could be the market is missing a hidden reason for that cheapness and it deserves to be cheap. But sometimes, a stock can be genuinely cheap and neglected. Perhaps something about it frightens investors away. When we find that, it's actually amazing. What is obvious to us may not be obvious to others.

For instance?

Amit: As I mentioned, we've been kind of busy in Brazil recently. Historically, there hasn't been much M&A activity in Latin America, especially not in [illegible] Brazil. But lately we've seen vigor[illegible]ous activity. One of the companies involved is a large cap, widely followed, called Natura. You've probably heard of it.

A big cosmetics company, supposedly eco-conscious, natural —

Amit: That's it. Natura started out, long ago, as a door-to-door cosmetics brand, adopted a direct-selling model to distribute its beauty products line based on local Amazonian ingredients back in 1974. It proved quite succes[illegible]ul. It started in its home market, Brazil, grew the business across Latin America. But the problem with making money is that you can get the urge to spend it — and spend it, Natura did.

First, back in 2013, they bought an Australian company, called Aēsop, which sells very high-end skin-, hair-, and body- care products in duty-free shops (and now online). I'm not the expert here, cosmetics isn't my specialty, but I know it has a fabulous hand wash, which I can only dream of using because they sell a small bottle for about $50. But I thought it was the greatest hand wash ever when I sampled it. Anyway, Natura did very well with Aēsop. It just grew and grew. But then Natura went out and bought The Body Shop, paying €1 billion to L'Oréal for the company in 2017.

Warts and all —

Amit: Actually, The Body Shop's "greenwashing" scan-dal, or whatever you want to call it, had been brewing since the mid-1990s. That's when news broke that The Body Shop founder Dame Anita Roddick, who had quite a reputation as an environmental activist and human rights advocate, had greatly exaggerated claims of the company's "socially responsible prac-tices" and charitable giving. Of course, the stock cra-tered. And it wasn't until after The Body Shop struggled for several years with its tarnished rep-utation and lawsuits brought by disgruntled franchi-sees, that L'Oréal bought the company in early 2006, paying £650-odd million.

Ironically, that takeover set off a media tempest and intensified the consumer revolt, as eco-activists protested what they saw as another betrayal of The Body Shop's once-glowing image — in L'Oréal's limited use of animal testing, albeit only when required on products destined for the Chinese market. It was read as a betrayal of Dame Roddick's widely proclaimed original premise for The Body Shop — avoiding harm to animals and humans. Anyway, The Body Shop pretty much lost whatever of its cachet that had remained among its former fans, when it was perceived as just a unit of a cosmetics multinational.

You won't find that deal on any list of this century's most successful —
Amit: Not hardly. So L'Oréal ended up taking a bit of a hit in unloading The Body Shop to Natura in 2017.

It's obvious why L'Oréal sold the unit, but what did Natura see in it? It's as much of a cosmetics multinational as the French company, just with a Brazilian accent.
Amit: Good question. Basically, as I noted, Natura's existing businesses were going gangbusters and its profits were burning holes in its pockets. Still, although historically both Natura and The Body Shop had grown quite large advertising eco-conscious principles, The Body Shop's image was pretty much in tatters by the time Natura came along. What's more, The Body Shop is very much a bricks and mortar business, very different from Natura's direct-selling operations and even different than Aēsop's exclusive outlets model. Then, to compound matters, Natura went out and acquired again — it bought the non-U.S. operations of Avon Products, at the start of 2020.

Not exactly auspicious timing.
Amit: To put it mildly, though the entire globe was surprised by the pandemic. But one of the predictable consequences of an acquisition spree, is that a company uses up its cash and takes on debt — all to end up operating in areas outside of its, shall I say, core competencies. To make matters worse, then Russia attacked Ukraine, which was a big source of business for Avon, and those revenues rapidly went to zero.

So the tide went out on Natura. The company found itself with a lot of debt, sinking earnings and not terribly much earnings power, and the management sort of freaked out.

How so?
Amit: After lots of fretting and the arrival of a new CEO, they turned around and sold Aēsop, their most successful acquisition, for about $2.5 billion, to L'Oréal. That was a great sale, I thought, because in one fell swoop, Natura's *net* proceeds would make the company completely debt-free.

But in Brazil, where Natura is a leading listed company, investors were *not* pleased, asking, "How could they sell their best-performing business?" So the stock traded down, even though Natura got a very fancy price for Aēsop.

And became a bargain purchase for you?
Amit: We asked ourselves a very simple question. Okay, assume Natura continues limping along, but is now debt-free, albeit without Aēsop's profits. What are we paying for it? The conclusion our analysis led to is that, astonishingly, we were paying about *four times earnings* for the company. Sure, it still had baggage in the form of The Body Shop, and of Avon, but *four times earnings* is an interesting number. And with a great balance sheet, Natura then had the financial flexibility to starting working on those units' issues. Now, as the story has evolved, Natura is in the process of selling the The Body Shop, at a deep bargain price of not quite $260 million, to Aurelius, a European private equity shop.

Ouch, didn't you say they ponied up about $1 billion for Body Shop?
Amit: Yes, selling it for a quarter of that is a terrible price, of course — which has further aggravated its shareholders. But listen, that means the losses that The Body Shop has been "contributing" to Natura's bottom line will vanish. Natura's losses will narrow. Its own business is doing extremely well.

What investors are missing amid all this is that Natura is shrinking its business back into areas it can actually manage. Improving its balance sheet to the extent that's it's very much a survivable business. It's a company with the ability to reinvest in itself. Avon's operations in Latin America are being integrated into Natura's, and doing very well, too. Sure, it remains to be seen what they can do with the parts of non-U.S. Avon that are struggling outside of LatAm — but its current valuation of four and a half times earnings is ridiculous.

You are assuming management actually learned from their misadventures —

Amit: Natura is still effectively controlled by the three families that built it. I've dealt with them in a completely different capacity. They are very bright, very savvy, and very profit-oriented. The rationalization of the Natura and Avon businesses in LatAm is proceeding apace. They started by trying it out in some of the region's smaller markets, one at a time, and it's now being rolled out in the major ones. Results, so far, are very encouraging. Sales forces consolidated, compensation re-aligned, distribution, product line-ups, everything. Brazil itself is the big outstanding challenge. We will see. Turnarounds are always fraught, I mean. But the stock's price certainly has a fair amount of failure and problems priced in.

Okay, I see *very* few U.S. stocks in your portfolio, even for a global fund —

Amit: From·the start, we've positioned Moerus as a global investment fund, always intending to invest around the world. We'd hope that every country finds representation in the fund at some point. To that end — I'm just cuffing numbers — I don't think our weighting in the U.S. has ever exceeded about 15%. It's around 9% now, and has been much lower. To the point that Morningstar has categorized it as a foreign small-, -mid-cap value fund.

Well you definitely aren't index-trackers.

Amit: Now, that said, we certainly think — at some point — something will happen in this market and there'll be lots of stuff for us to do in the U.S. But even then, I don't know *how much* we will do here. Because that sort of market event here will certainly also have repercussions in markets elsewhere. Markets are not without correlations. And in bad times, they spike. Oh, do they spike.

Another understatement.

Amit: The U.S.-based equities we currently hold are Jefferies Group (JEF), which we've held for some time and which continues to return meaningful capital to shareholders via buybacks and dividends; also Spectrum Brands Holdings (SPB), which I like because it's a collection of businesses that are slowly being split up and sold off to realize higher valuations. Yet the Street tends to value it foolishly low, as just a conglomeration of rather uninspiring businesses.

Why are you convinced otherwise?

Amit: They are *doing it*, amazingly. Last summer, they finally closed on the sale of their hardware business — which makes Kwikset locks, Pfister faucets and Baldwin door and cabinet hardware — for net proceeds of $3.8 billion. The buyer was Sweden's ASSA ABLOY AB, which owns market leader, Yale Locks. Spectrum Brands negotiated just a fantastic price for its hardware operation, I thought. But the Justice Department was not a fan of the deal and fought it for over a year and a half. Yet the sale finally happened, after DOJ got ASSA to agree to divest some of its U.S. assets to another rival, Fortune Brands Innovations.

Opportunities like that periodically appear in the markets. You never know, maybe some will emerge out of the detritus of the SPAC boom here, which is thankfully now history. Many of those companies had no choice but to come public as SPACs, they never would have withstood the IPO process. More often than not they were horrible companies, with no profits and no prospects of making money — just hurling themselves at gullible investors to create paydays for their promoters.

Agreed. So that's fertile ground for you?

Amit: No, but SPAC rules require the capital raised to be invested in *something*, relatively quickly, or returned to investors. So just by chance, a few of them may have used their offering proceeds for real assets. If those businesses actually start generating profits, they *might* be interesting in time. We entertained that hope here for a while, but it has been slender pickings. We've also kicked around looking for areas where excesses have already been purged, but have not found much. Patience is required. In the past, we have found nice opportunities in the distressed debt of some oil companies, for instance, after oil crashed. Also in the post-reorganization equity of a business like Tidewater (TDW), which emerged from a prepackaged bankruptcy with an absolutely great balance sheet.

Clearly, you do go into situations where other investors fear to tread —

Amit: Sometimes you just grit your teeth for a while and wait. It's not necessarily fun. Certainly not when position valuations *shrink* after you buy. But when you buy for the right reasons, interesting things usually emerge from the other end of the tunnel.

We think of our portfolios as a collection of rare securities, each with its own vintage. You buy something at a particular point in time and price. Now, the front end of our equities ' holding periods are typically full of anguish, if you will. The securities often flatline, or drop, as the unpleasant circumstances under which we tend to buy get worked out. Then, as the portfolio matures, various holdings begin to rise out of the gutter, each in its own time.

For example, when we bought Tidewater, the stock was in the low double-digits, at 10 or 12, amid the pandemic. Then it crashed to 4, after oil crashed. But now it's in the 60s, as its offshore support vessel market — a space left for dead by investors after a multi-year depression in activity and a series of restructurings — appears to be tightening meaningfully. Our journey with this holding is well on its way. But the portfolios, as a whole, contain stocks in multiple different stages of maturity — of different vintages. And with the passage of time we just keep seeding them with new opportunities.

The classic issue for long-term value investors, though, is that today's culture, to put the best possible face on it, lives in the moment. Has little tolerance for long-term holdings, especially for any downside, or for putting up with lumpy performance as opportunities ripen. So the temptation for "value" PMs to stray from their professed discipline is obviously strong.

Amit: That was quite obvious when some of the "value" managers, who did quite well amid the pandemic in 2020 — because they'd found ways to justify to themselves holding some of the "go-go," for lack of a better word, online companies everyone wanted a piece of amid the crisis — later saw their performance crater in 2022, as rising inflation and interest rates disproportionately hit market favorites that long had been priced to perfection, regardless of fundamentals.

By contrast, this year, in our semiannual letter, we wrote about the number of our portfolio companies that are engaging in actions, or are subject to actions, which will add value in terms of very sizable stock buybacks or spin offs. That sort of financial activity has actually been a very big contributor to portfolio performance for us during the last twelve months.

That's all a long way of responding, yes, our portfolio performance can appear lumpy on a year-to-year basis. I can happily say, for instance, that we didn't have a disaster then, but the pandemic year of 2020 was a rough one — in terms of the kinds of things that happened; economic activity just stopped. Yet our portfolio companies *survived*, for the long term, despite the noise of short-term volatility —

Those companies had probably frightened other investors when we initially bought the stocks. But we bought them at very conservative valuations and they have, so far, turned out to have emerged essentially, unscathed. That was a test. We represent ourselves as trying to buy solid companies with strong business models, and we passed that test.

But when you look at our reported annual performance, there's no question the numbers can swing. Our fund was down 10% in 2020, up 18.3% in 2021, up 6.4% in 2022. And, as of Friday, 12/8, were are up 18.67% in our current year, a big swing in the numbers. I mean, that is lumpy, no question, but I'll take that to compound over the long haul.

Then you're convinced, that what now looks like last year's head fake, when value briefly outperformed growth for a stretch, was really a preview of coming attractions?

Amit: Yes, in part because we continue to believe it is reasonably likely that future inflation, while subject to cyclical volatility (both up and down), might *on average* remain higher than it has been for much of the recent past.

Why?

Amit: For many reasons, starting with the dramatic increase in money supply resulting from many years of monetary stimulus — and then vaulted into uncharted territory in response to the pandemic — and the massive wave of fiscal stimulus on top of that, which I'm not seeing many signs of ending. Especially with defense spending inexorably rising in this conflict-filled world. Risks are multiplying geopolitically all around us, and, in our view, many of the potential risks for disruptions in markets for oil, gas, agriculture and other commodities are not being sufficiently taken into account.

That sounds pretty grim.

Amit: The good news, if that's what you want, is that means that our forte — security selection and the fundamentals behind it — are apt to matter more in determining investment outcomes in a world of fraught geopolitical risk, higher inflation, and a rising cost of capital — after being held artificially low for so long. Sure, there will be volatility along the way, but that environment should favor Moerus over the long haul.

At the risk of repeating myself, Why?

Amit: We've always stayed focused on the ability to thrive even under adverse conditions, as well as valuation and fundamentals. The stock-specific attributes we seek in investments — which tended to be overlooked when easy money and liquidity were flooding the market — are likely to *matter more,* for investment outcomes down the road.

The "little things" I've mentioned, like discounted valuations *that price in adversity* rather than optimism, strong financial positions and business models not dependent on regularly relying on the capital markets for funding. Companies built to take advantage of challenging times. But we also like to see companies wisely using things like well-priced acquisitions and sales of assets, miserly share repurchases, and spin-offs to drive long-term value creation — while investors "wait" for those actions to be rewarded, whether by the market, or via takeovers and such.

In fact, we believe this is an exciting time for the Fund's collection of idiosyncratic investments. Many are rich, we think, with possibilities for event-driven value creation — which *could* boost Fund performance in ways that might not necessarily be highly correlated with, nor heavily reliant upon, the whims of market sentiment or top-down economic factors.

Indeed, I'd say that corporate activity has favored the Fund's performance thus far in 2023, despite what has, in general, been a quite challenging period for many Value strategies relative to Growth strategies and benchmark indices. I wouldn't be surprised to see that continue. Moerus is well-positioned in solidly financed, deeply discounted investment opportunities in areas we see as better-suited, in a *relative* sense, for a dangerous, changing world. The choice is simple for us, with the broad benchmark indices trading at exceedingly rich valuations as they become ever-more concentrated in risky highly correlated market sectors — like mega-cap techs. We absolutely expect superior long-term investment returns.

Your commitment is clear. It will be fun to watch it play out. Thanks, Amit. Happy holidays and best wishes for the New Year – to you, and to everyone reading WOWS.

Welling on Wall St. Interviewee disclosure: Amit Wadhwaney is the Portfolio Manager and Co-Founding Partner of Manhattan-based Moerus Capital Partners — leader of a trio of long-time international investment professionals with Martin J. Whitman's Third Avenue Partners — until they to left to continue doing value their way, They started Moerus in 2015 to just that. Which is to employ a a highly disciplined bottom-up quest to buy valuable and solidly financed businesses when they're trading at a steep discount to intrinsic value — for virtually any reason Moerus deems temporary — and to hold them in a portfolio of similar bargains for the long term, as their under-appreciated value is made manifest. Amit has over thiry years of experience in researching and analyzing investment opportunitiees in developed, emerging and frontier markets worldwide. He has managed global investment portfolios since 1996 and is the founding manager of the Moerus Worldwide Value Fund. Before starting Moerus, Amit was a Portfolio Manager and Partner at Third Avenue Management LLC, where he worked alongside his Moerus co-founding partners. Amit had founded the international business at Third Avenue and was the founding manager of the Third Avenue Global Value Fund, LP, the Third Avenue Emerging Markets Fund, LP, and the Third Avenue International Value Fund, an open-end mutual fund. (The Third Avenue Global Value Fund, LP, Third Avenue Emerging Markets Fund, LP, and the Third Avenue International Value Fund are ***not*** offered by Moerus Funds).

Earlier in his career, Amit worked at M.J. Whitman LLC, the New York-based broker-dealer. Prior to joining M.J. Whitman, Amit worked as a paper and forest products analyst at Bunting Warburg, a Canadian brokerage firm. He began his career in finance at Domtar, a Canadian forest products company.

Amit holds an MBA in Finance from The University of Chicago. He also holds a BA with honors and an MA in Economics from Concordia University; at Concordia, he was awarded the Sun Life Prize and the Concordia University Fellowship in Economics, and he subsequently taught economics classes at Concordia University. A man of many degrees, Amit also earned BS degrees in Chemical Engineering and Mathematics from the University of Minnesota.

All material presented in this interview has been drawn from sources believed to be reliable and current, but the timeliness and accuracy cannot be guaranteed. Past performance is not an assurance of 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. **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 aparticular 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, at** www.Moeruscap.com

This interview is for informational purposes only and should not be construed as an offer to buy or sell any financial instruments, products, or services. Such an offer or solicitation may only be made by delivery to a prospective investor of formal offering materials, including subscription or account documents or forms, which include detailed discussions of the terms of the respective product, vehicle, service or instrument, including the principal risk factors that might impact such a purchase or investment, and which should be reviewed carefully by any such investor before making the decision to invest. International investments may be subject to risks not associated with domestic investments. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product made reference to directly or indirectly in this interview, will be profitable or equal any corresponding indicated historical performance level(s). Diversification cannot eliminate the risk of investment loss All investments involve a degree of risk, including the risk of capital loss. Investors should not assume that any discussion or information contained herein serves as the receipt of, or as a substitute for, personalized investment advice.

This interview was initiated by Welling on Wall St. and contains the current opinions of the interviewee but not necessarily those of Moerus Capital Management. Such opinions are subject to change without notice. This interview should not be considered as investment advice of any sort. Information contained herein has been obtained from sources believed to be reliable, but is not guaranteed. Certain information contained herein may be based upon proprietary research and should not, in any way shape or form, be considered an offer or solicitation for the purchase or sale of any financial instrument. You should note that the materials are provided "as is" without any express or implied warranties.The price and value of investments may rise or fall. There are no guarantees in investment, in economics, iin research, or in life.

Welling on Wall St.

Research Disclosure

Welling on Wall St. LLC believes that its reputation for journalistic enterprise, intellectual independence and absolute integrity are essential to its mission. Our readers must be able to assume that we have no hidden agendas; that our facts are thoroughly researched and fairly presented and that when published our analyses and opinions reflect our best judgments - and not the vested pocketbook interests of our sources, our colleagues, our clients or ourselves.

WOWS's mission is to provide our readers with thoroughly independent research, trenchant analysis and opinions that are as considered as they are provocative. We work tirelessly to fulfill that mission. That said, you must also consider that no one, and no organization is perfect, and be assured that our lawyers advise that we tell you so. So here it is, in plain language, not the usual lawyer-ese.

All the material in this publication is based on data from sources that we have every reason to believe are accurate and reliable. But we can't (nor can anyone else) *guarantee* it to be utterly accurate. And there's always a chance, though we strive to avoid it, that we've missed something. So we make no claim that it is complete; the end-all and be-all. Opinions and projections found in this report reflect either our opinion or that of our interviewees or guest authors (all of whom are clearly identified) *as of the original interview/publication date* and are subject to change without notice. When an unaffiliated interviewee's opinions and projections are reported, ***WOWS*** is relying on the accuracy and completeness of that individual/firm's own research and research disclosures and assumes no liability for that research or those disclosures, beyond summarizing their disclosures in an adjacent box.

This report is the product of journalistic enterprise and research. It is NOT a sales tool. It is not intended to be - and should NOT be mistaken for - an offer to sell anything. It is NOT a solicitation for any sort of Investment or speculation. It should NOT form the basis for any decision to enter into any contract or to purchase any security or financial product. It is entirely beyond the scope and, bluntly, competence of this publication to determine if any particular security is suitable for any specific subscriber. In other words, we don't give investment advice. Don't mistake anything you read in ***WOWS*** for investment advice. This publication does not provide sufficient information upon which to base an investment decision. ***WOWS*** does advise all readers to consult their brokers or other financial advisors or professionals as appropriate to verify pricing and all other information. ***WOWS***, its affiliates, officers, owners and associates do not assume any liability for losses that may result if anyone, despite our warnings, relies on any information, analysis, or opinions in the publication. And, of course, past performance of securities or any financial instruments is not indicative of future performance.

Confidentiality and Trading Disclosure: All information gathered by ***WOWS*** staff or affiliates in connection with her/his job is strictly the property of ***WOWS*** It is never to be disclosed prior to publication to anyone outside of ***WOWS*** and is never to be used, prior to publication-and for two week thereafter-as the basis for any personal investment decision by staff, affiliates and/or members of their immediate households. All staff and affiliates of ***WOWS*** will avoid not only speculation but the appearance of speculation and may not engage in short-term trading, the short selling of securities, or the purchase or sale of options, futures, or other derivatives, including ETFs reliant on derivatives. Any equity or fixed-income investments entered into by ***WOWS*** staff or affiliates will be held for a minimum of six months unless dispensation is received, under extraordinary circumstances, from ***WOWS***'s legal counsel. Any pre-existing direct investment interest in any stock, mutual fund, ETF or partnership portfolio covered in an issue of ***WOWS*** will be specifically disclosed in that edition and that position will be frozen for at least a month. Internet disclosure:

Electronic Communications Disclosure: The websites and WOWS' electronic communications can, alas, fall prey of all manner of malicious activity. While ***WOWS*** takes reasonable and prudent steps to try to prevent its website, journals and communications from interception, corruption, infection, contamination and other electronic malefactors, there are even fewer guarantees in the realms of software and the web than in finance—where there are none. ***WOWS*** disclaims and cannot accept liability for any damages to computer systems as a result of downloading or opening contaminated versions its website, journals or communications.

Trailing Returns (as of December 31, 2025)	Year to Date	One Year	Three Years	Five Years	Since Inception[1]
Moerus Worldwide Value Fund (Inst.)	40.36%	40.36%	26.65%	20.66%	11.39%
MSCI All Country World Index ex USA (Net)[2]	32.38%	32.38%	17.33%	7.91%	8.73%
MSCI All Country World Index (Net)[3]	22.34%	22.34%	20.66%	11.19%	12.05%

Gross Expense Ratios: Class Inst.: 1.56%; Class N: 1.81%   Net Total Expense Ratios*: Class Inst.: 1.26%; Class N: 1.51%

1. *Inception date of the Moerus Worldwide Value Fund is June 1, 2016.*
2. *The MSCI All Country World Index ex USA (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.*
3. *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.*

**Moerus Capital Management ("Moerus"), as registered investment adviser of the Moerus Worldwide Value Fund, has contractually agreed to reduce its fees and/or absorb expenses of the Fund, until at least March 31, 2026, 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. Acquired fund fees are estimated to be 0.01% and are included in the net total expense ratio. Please see the current prospectus for additional information.*

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-MOERUS1.

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

Top ten holdings as of 12/31/25 as a % of the Fund's net assets: Valterra Platinum Ltd (4.90%), Dundee Corp (4.74%), Midland Holdings Ltd (3.58%), Cromwell Property Group (3.04%), LATAM Airlines Group SA (2.76%), Valaris Ltd (2.76%), Jefferies Financial Group Inc (2.75%), Travis Perkins PLC (2.69%), Exor NV (2.68%), and JSE Ltd (2.67%).

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

Risk Disclosure:
Investing in Mutual Funds involves risks including the possible loss of principal and there can be no assurance that any investment will achieve its objectives. International and, in particular, emerging country and frontier market investing involves increased risk and volatility due to currency fluctuations, economic and political conditions, and differences in financial reporting standards. Value investing involves the risk that an investment made in undervalued securities may not appreciate in value as anticipated or remain undervalued for long periods of time.

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.

The Moerus Worldwide Value Fund is distributed by Foreside Fund Services, LLC, Member FINRA.