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INSIDE

Listening In
*Fundamental,
Asset-Based
Analysis, Much
Patience Required*

Guest Perspectives

DAVID ROSENBERG
*Bonds Will Have
More Fun In '24!
Add Duration*

JOE SALUZZI
*A Stock Market
Or A Casino?*

DAVID KOTOK
*Senate Panel
Prods DeSantis To
Address
Insurance Crisis,
As Providers Flee*

Chart Sightings
BLAZE TANKERSLEY
Goldilocks Decision

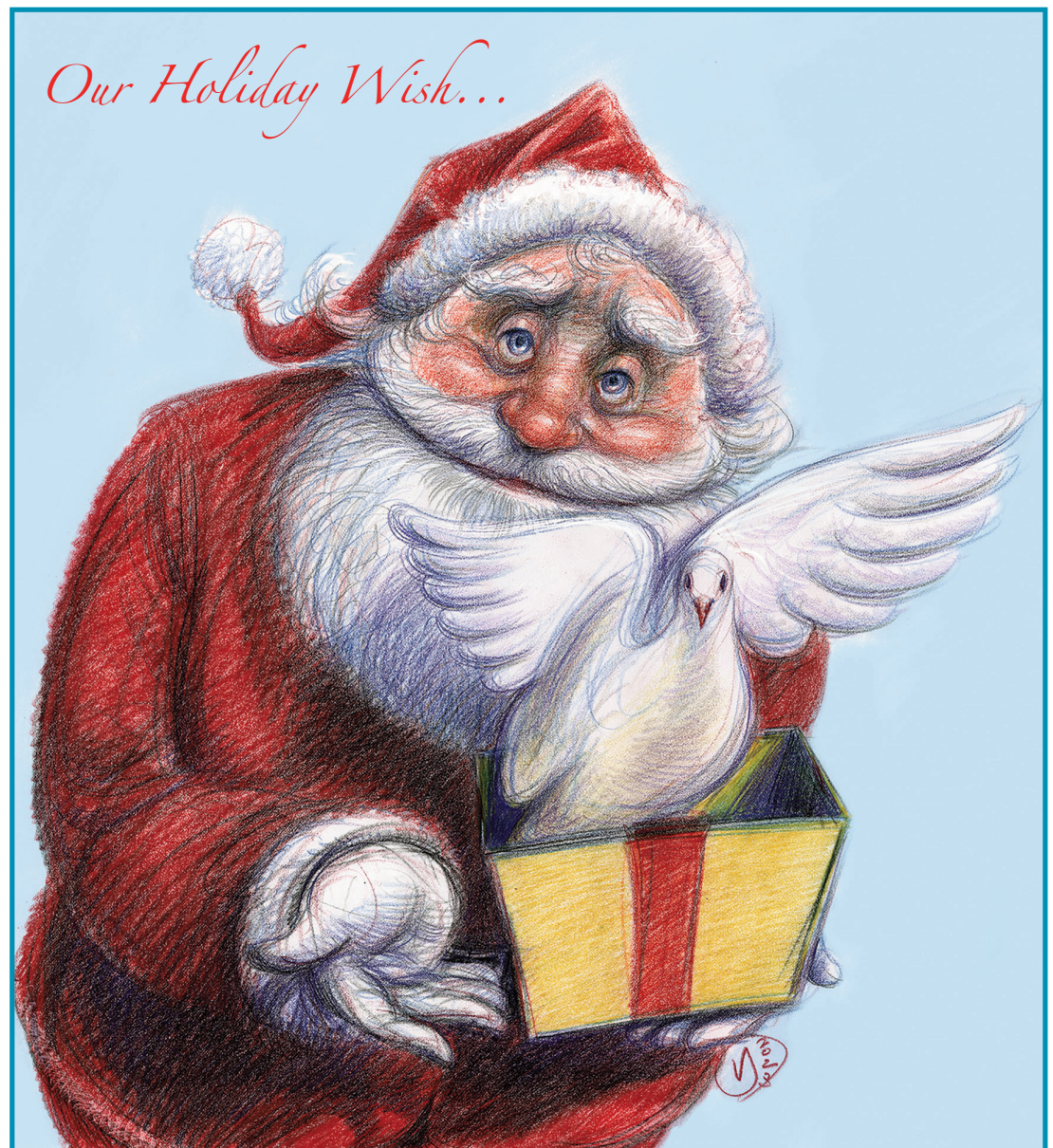
Comics Skews
**rump Planner,
Clueless GOP,
Ukraine, Post-Roe
Woe, AntiSemitism,
Peace*

ALL ON WEBSITE

listening_{in} BEGINS ON PAGE 2

Amit Wadhwaney

Moerus Capital Co-Founder On Turning Risk Into Opportunities



RESEARCH SEE PG
DISCLOSURES **19**

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 as 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 –

its currency was subject to a huge devaluation. The mismatch was horrible.

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

AMRT: 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?

AMT: 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

That one took a \$50 billion IMF bailout and quite some time to right. But it was scarcely 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 "divorse-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?

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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.

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.

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.

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.

AMIT: Essentially. There were company-specific reasons we held each position, even though the purely

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

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

Come again?

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

AMT: 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.

Can you share an example or two?

What did they do?

Which made them an irresistible target?

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.

Did you stick it out in that position?

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

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

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

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.

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.

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.

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.

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.

AMIT: Yes, with the exception of Mexico, every

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.

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.*

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.

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.

WELLINGONWALLST. December 15, 2023 Page 10

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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.

AMIT: In a word, yes.

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.

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 inter-

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.

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.

AMT: 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 he was going to cut back on the Fed's debt purchases and sparked the "Taper Tantrum," **BOB** the market responded by raising interest rates.

So foreign investors, who had been pouring into India, turned tail. Fled in droves. The stock market crashed, along with the currency. Most portfolio in-

vesting 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 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?

AMT: 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

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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.



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Trailing Returns (as of June 30, 2025)	Year to Date	One Year	Three Years	Five Years	Since Inception ¹
Moerus Worldwide Value Fund (Inst.)	20.21%	29.20%	25.11%	23.56%	10.16%
MSCI All Country World Index ex USA (Net) ²	17.90%	17.72%	13.99%	10.13%	7.86%
MSCI All Country World Index (Net) ³	10.05%	16.17%	17.35%	13.65%	11.45%

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.
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