Moerus Worldwide Value Fund (Unaudited)

Annual Shareholder Letter: Twelve Months Ended November 30, 2017

Dear Fellow Investors:

It is our pleasure to update you on recent developments regarding the Moerus Worldwide Value Fund ("the Fund"). In this, our second Annual Shareholder Letter, we will touch on Fund performance, how we are currently looking at the world, new investments made since we last wrote to you, and why and how we try to avoid excessive levels of price risk that are sometimes underestimated by those reaching for growth.

We thank you very much for your support, and as always, we welcome any feedback that you might have.

Fund Performance (as of November 30, 2017)*

Fund/Index	6-Months	1-year	Since Inception** Cumulative	Since Inception** Annualized
Moerus Worldwide Value Fund - Class N	5.15%	21.82%	29.13%	18.57%
Moerus Worldwide Value Fund - Institutional Class	5.31%	22.16%	29.62%	18.86%
MSCI AC World Index Net (USD) ***	9.94%	24.64%	29.21%	18.62%

** Performance data quoted is historical, and is net of fees and expenses.*
***Inception date is May 31, 2016.*
**** The MSCI AC World Index Net (USD) captures large and mid cap representation across 23 Developed Market and 24 Emerging Market countries. With 2,499 constituents, the index covers approximately 85% of the global investable equity opportunity set.*

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. Please call 1 (844) MOERUS1 or visit www.moerusfunds.com for most recent month end performance.

Investment performance reflects expense limitations in effect. In the absence of such expense limitations, total return would be reduced. The Fund's adviser has contractually agreed to reduce its fees and/or absorb expenses of the Fund, until at least March 31, 2018, 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 1.65% and 1.40% for Class N and Institutional Class Shares, respectively.

With regard to the table above, we'd like to reiterate the same point that we make in every Shareholder Letter, but which bears repeating: the Fund's performance data is noted simply for informational purposes for our fellow investors. The Fund seeks to invest with a long-term time horizon, of five years or more, and it is not managed with any short-term performance objectives or benchmark considerations in mind. The investment objective of the Fund is long-term capital appreciation, and we manage the Fund with the goal of achieving attractive risk-adjusted performance over the long term.

In our last Shareholder Letter (for the six months ended May 31, 2017), we noted that although Fund performance had compared quite favorably to the benchmark up to that point, our short-term results are essentially incidental to our goal of achieving attractive risk-adjusted performance and outperforming relevant benchmarks over the long term, and that our investment approach can and will endure periods of relative under-performance at times. If our history is any guide, given our focus on risk mitigation and management, we believe that such periods of relative underperformance will often coincide with strong bull markets during which general market sentiment is optimistic and risk is more readily tolerated (or underestimated).

More of the Same

2017 seemed to be one of those periods for the Fund, as the "FAANG stocks[1]" and many other tech stocks zoomed to new heights, in our view without much (if any) regard to business fundamentals, intrinsic values, and most importantly, risk. Against the backdrop of an over 8½-year bull market that has seen the S&P 500 generate a total return of over 330% since its March 2009 low, well-documented megatrends such as electronic and mobile commerce that are revolutionizing business and our way of life, and talk of synchronized global growth finally arriving in earnest[2], many investors appear to have thrown caution to the wind and are increasingly reaching for growth. In some corners of the market, such investors who, in their euphoria, reach too far (or high) for growth are, in our opinion, assuming levels of risk – specifically what we call **"price risk"** – that we deem to be increasingly excessive.

At Moerus, we strive to limit price risk as much as possible by "buying right," *i.e.*, as cheaply as possible. In fact, it is our very first principle of risk mitigation (among many others). Why? Because throughout the history of financial markets, the assumption of excessive price risk has periodically resulted in massive destruction to investors' wealth, of the extent and scale that would take decades to recover from, if ever. Just what exactly is price risk, and how can it be so dangerous for investors? We will return to this topic in greater detail after discussing recent activity in the Fund, but for now, suffice to say that we are intently focused on avoiding the excessive price risk assumed by overpaying for growth, even if it means that the Fund's short-term performance may typically lag that of benchmark indexes during a go-go market.

It's not that we have anything against growth. In fact, we like growth quite a bit. We just don't like to pay for it. Fortunately, we have been able to find intriguing investment opportunities that we believe are valued cheaply based on what we know in the **here and now**, despite having what we believe are attractive long-term growth prospects. As we have discussed in the past, such counter-intuitive opportunities periodically become available, often because of what we believe is temporary, short-term adversity that scares off investors who are prone to buying ***what*** is popular ***when*** it's popular. The Fund's recent investment activity provides two examples of such opportunities.

Investment Activity in the Fund: Short-Term Pain, Long-Term Opportunity?

During the Fund's Fiscal 2017 (twelve months ended November 30, 2017), we initiated five new positions and added to many of our existing positions in the Fund, while one position was eliminated. It was an active year for the Fund on the investment front, as we continued to deploy the Fund's capital into what we believe are quite attractive, undervalued opportunities.

[1] FAANG is a commonly used acronym for five of today's largest, most popular technology stocks in the market: Facebook, Apple, Amazon, Netflix, and Google (*i.e.*, Alphabet, Inc., which is the listed holding company that owns Google).
[2] "Synchronized Global Growth May Have Arrived," Frank Holmes, *Forbes.com*, 11/20/2017

As a result, the Fund's cash position declined from roughly 21.3% at the end of November 2016 to around 9.2% by the end of November 2017. As of November 30, 2017, the Fund's portfolio included 38 holdings, consisting of what we believe are attractive investments in businesses operating in various industries around the world, including in North America, Europe, Asia, Latin America, and Africa.

In our last Shareholder Letter (for the six months ended May 31, 2017) we discussed, at length, our thinking behind the three new investments made in the Fund during the first half of its year: **Franklin Resources**, **NN Group NV** and **UniCredit SpA**. As for the two new positions acquired during the second half of the Fund's year, they share a few attributes. They both operate in regions which in the past have been well-liked by investors – understandably so because of their long-term potential – but which more recently have fallen upon hard times due primarily to difficult economic conditions. In a world where capital increasingly pours into index funds, which in turn invest in the largest, most well-known companies regardless of fundamentals, these two investments offer examples of opportunities that we were able to find by being willing to travel further afield in search of value. Finally, both investments came about after quite some time researching and learning about the companies in advance, allowing us to act quickly following what we believe to be transformative events. These two are examples of the kind of investment ideas that are generated by research and accumulated knowledge, situations in which such potentially value-creating events might go unnoticed by less labor-intensive forms of analysis such as statistical, quantitative screening.

Atlas Mara Limited is a London-listed banking group which focuses on financial services businesses in Sub-Saharan Africa. Founded in 2013 by former Barclays CEO Bob Diamond, Atlas Mara raised capital by going public at $10 per share in December 2013 and conducting a follow-on offering in 2014 at $11 per share. The company's vision was to create an African banking group consisting of a network of high-quality commercial banks across Sub-Saharan Africa, a region with ample long-term growth potential and an underpenetrated, fragmented banking market. To execute on this vision, management used most of the $625 million in proceeds from the two equity offerings to make five major acquisitions, entering seven African markets: Nigeria, Botswana, Zambia, Rwanda, Mozambique, Tanzania and Zimbabwe.

Unfortunately, even the best-laid plans sometimes go awry. After raising capital in 2013-2014, Atlas Mara found itself confronted by extremely challenging conditions facing much of Sub-Saharan Africa's economy, including lower oil and other commodity prices, a drought in southern Africa, and meaningful depreciation in the value of many African currencies relative to the U.S. dollar. Atlas Mara stock, which had originally been offered at $10-11, was laid low against this dire backdrop, plunging to around $2 per share by the end of 2016.

Naturally, such a share price decline caught our attention as it often does, and upon further review we concluded that given the circumstances, the company's *underlying business* actually performed much better than its *stock*. Impressively, despite extreme adversity on the economic front, Atlas Mara's underlying business actually produced profits in 2015 and 2016. Furthermore, unlike in most developed markets, where banks are plagued by low or even negative interest rates and tiny net interest margins[3], the banking sector in Africa currently possesses some attractive fundamentals, with mid-to-high single-digit net interest margins and

[3] Net interest margin is the difference between a bank's cost of funds and the interest rate at which it lends to customers.

healthy demand for loans, suggesting meaningful potential for profitable loan growth going forward. Last but certainly not least, Atlas Mara, to date, seems to have done a reasonable job at the all-important task of managing credit risk in a difficult environment.

Despite the attractive combination of solid business fundamentals and a heavily discounted stock price, we initially passed on a potential investment in Atlas Mara, primarily because the company's Nigerian investment, which consisted of a 31% stake in publicly traded Union Bank of Nigeria ("UBN"), needed additional capital. At that point, it was unclear to us how Atlas Mara would be able to participate in any capital raise at UBN and avoid having its stake diluted, seeing as the company had minimal liquidity at the parent company level.

But then in June 2017, the company announced that Fairfax Africa – an investment fund set up by the Canadian insurance holding company Fairfax Financial – planned on making an investment in Atlas Mara and backstopping a rights issue. This capital infusion from a well-respected, long-term investor enabled Atlas Mara to not only maintain but also increase its stake in UBN at a depressed valuation, accelerating its strategy to build its banking business in Nigeria on attractive terms. Having resolved our chief concern, we purchased shares of Atlas Mara in the Fund and then subscribed and, in fact, successfully over-subscribed to its rights issue, establishing our position at about 10 times earnings and a 35% discount to pro-forma tangible book value, which in turn reflects meaningfully depressed local currency values. As of November 30, 2017, Atlas Mara was a 3.1% position in the Fund.

BR Properties S.A. is a leading Brazilian owner of commercial real estate. The company's portfolio currently consists of 46 properties making up over 7.3 million square feet of GLA (Gross Leasable Area), the large majority of which are office buildings in Brazil's two largest cities, São Paulo and Rio de Janeiro. The company's focus is on high quality, Triple-A office buildings in prime, strategic locations in each city.

Not very long ago, Brazil was a darling of the emerging market and broader investing world, the "B" in the (formerly) trendy "BRICs" markets alongside Russia, India and China, and even the subject of its own laudatory cover story in *The Economist*[4]. But over the past three to four years, in part due to the commodity downturn as well as many mistakes of its own making, Brazil has suffered a rapid reversal in fortunes. Its economy endured its worst recession in decades, perhaps dating as far back as the 1930s, with Gross Domestic Product (GDP) falling by nearly 7% since the start of 2014. Unemployment soared from below 5% back in 2014 to a recent peak of over 13%. Its currency, the Brazilian Real, declined by about 33% against the U.S. dollar in 2015 alone, which sparked rising inflation and the need to raise interest rates, depressing the economy even further. As if economic conditions weren't bad enough, Brazil also saw the impeachment of President Dilma Rousseff, an ongoing corruption scandal involving the state-run oil company that has ensnared officials at the highest levels of government, and the Zika outbreak. It has, in all, been a perfect storm that has punished the Brazilian economy and put its promising longer-term fundamentals and growth prospects on hold.

Given all the lowlights noted above, the *demand* for office space in Brazil has obviously been depressed considerably. But to make matters worse, the *supply* of office space in São Paulo and Rio de Janeiro has surged in recent years. Investment decisions made during better days led to

[4] "Brazil takes off," *The Economist*, 11/12/2009

significant amounts of capital being deployed in office projects, resulting in overbuilding and excess supply just as demand started to come under pressure. The result? Vacancy rates reached all-time highs, and office rents in many parts of Brazil's two largest cities have fallen anywhere from 25-40% in real terms over the past four to five years.

Needless to say, the past few years have been very challenging for Brazil and for its commercial property market in particular. BR Properties' stock has not been immune – it declined from nearly BRL 28 per share in October 2012 to below BRL 8 per share in late 2016/early 2017. But such bleak conditions could sometimes prove, in retrospect, to have been interesting buying opportunities. One example that comes to mind (with the benefit of hindsight, of course!) is New York City commercial real estate in the 1970s. To that point, BR Properties has a strong record of acquiring properties at attractive yields, and has indeed recently acquired a number of properties at what seem to be modest prices, using conservative rental rate assumptions that reflect the depressed environment. The company seems well positioned to continue to opportunistically source attractive deals in what is a fragmented commercial property market. Meanwhile, its existing, high quality portfolio stands to benefit if and when Brazil's recovery takes shape and historically poor occupancy and rental rates begin to normalize.

As was the case with Atlas Mara, we had already been intrigued by BR Properties' depressed valuation and interesting long-term prospects, but two transformational events further strengthened the investment case for us. First, in 2016, backed by Abu Dhabi's sovereign wealth fund, GP Investments took control of BR Properties (with a 70% stake) when the latter's previous control group ran into trouble and essentially became a forced seller. GP Investments has a solid, 24-year track record of private equity investing in Brazil. In fact, GP actually co-founded BR Properties back in 2006, built it into the largest commercial property owner in Brazil, took it public, and sold in 2012 (at what turned out to be a good time to sell). We view GP's involvement as a positive in that we believe they know the market and industry well, and their network could potentially provide access to deal-flow and potential off-market property deals that others might not have. Then in June 2017, BR Properties raised roughly BRL 950 million ($290 million) in an equity offer, thereby strengthening its balance sheet significantly and providing added flexibility to pursue property acquisitions from distressed, motivated sellers if further opportunities arise. We purchased shares of BR Properties in the Fund at a roughly 25% discount to pro-forma tangible book value, which in turn we believe to be cyclically depressed. As of November 30, 2017, BR Properties was a 3.5% position in the Fund.

The Fund's First Exit

The Fund's Fiscal 2017 saw the first exit from an investment in the portfolio: **Global Logistic Properties Limited ("GLP"),** which we discussed in our First Shareholder Letter (for the period ended November 30, 2016). GLP, a Singapore-listed owner and operator of logistic properties, has the largest market share in the industry in China, Japan, and Brazil, and is the second largest in the U.S. We have followed GLP since its IPO in 2010 and we had always liked its unique business model, which essentially entails using other people's money to leverage their tenant relationships to build a global top-tier network of logistic properties. In doing so, the company was (and is, we believe) well-positioned to benefit from the rapid growth of e-commerce.

With that said, the stock had never been cheap enough for us until an opportunity presented itself in early 2016, as concerns grew around slower growth in Chinese consumer spending and what we believed to be the market misunderstanding GLP's business model following a U.S. acquisition on the fund management side of the business. GLP was one of the positions that we bought at the inception of the Fund in June 2016 – it was trading at around S$1.80 per share at that time – and we continued to periodically build the Fund's position throughout that year.

In December 2016, GLP announced that it was undertaking a strategic review at the request of its largest shareholder, GIC (a Singaporean sovereign wealth fund). This process, which attracted several bidders, resulted in an announcement in July 2017 that a consortium led by GLP's management team made an offer to take the company private for S$3.38 per share. We sold our shares into the market immediately following the announcement, as GLP's stock price approached the price offered in the proposed going-private transaction. In all, our holding period of roughly 13½ months was much shorter than we would normally expect, and we would have preferred to continue to own the shares and benefit from compounding of business value over the long-term. That said, with the consummation of the transaction seemingly a *fait accompli* and the stock trading as such, we couldn't argue with the prospect of a takeout at a 25% premium to the stock price on the day before the announcement, and so we sold our position. GLP has been one of the top contributors to the Fund's performance since inception.

Price Risk and The Danger of (Over)Reaching for Growth

Risk is one of investing's squishier, trickier concepts. Although it is always present to some degree whenever you invest – unfortunately there's no such thing as a truly risk-free investment – risk does not always (or even often) materialize in the form of a negative outcome. For example, suppose you bought a high-flying tech stock at 100 times earnings or participated in an equity issue of a recently-formed cryptocurrency mining company, and you generated a 50% return on your money. Does that mean that you did not assume substantial risk when you made that investment in the first place? Of course not. But in this case, although significant risk was present, it was not acutely felt or experienced through a painful loss. Instead, there was a successful outcome, despite the fact there was significant risk involved.

Over time, if this type of situation recurs, and risk-taking continues to be rewarded handsomely rather than punished through losses, it becomes increasingly tempting for investors to underestimate risk going forward and reach for similar returns. This, we believe, is because (as has been demonstrated countless times over the years) many investors and financial market commentators have a tendency to extrapolate current trends and recent experiences into the future. That's why, for example, analyst forecasts of economic growth, interest rates, commodity prices, *et al.*, rarely stray far from what current trends might suggest.

And when more and more investors – emboldened by their recently favorable experiences – give less and less credence to risk, they find themselves increasingly willing to bid up the prices of assets, often in search of growth that will replicate or surpass recent performance. In growing increasingly cavalier about risk and becoming willing or even eager to pay more and more for prospective growth, we believe that investors expose their portfolios to increasingly dangerous levels of what we call "price risk," or the risk taken on by buying too expensively.

Buyer Beware

2017 was the latest in a string of frustrating years for many value investors, particularly in the U.S. The S&P 500 and other indices seemed to hit new records daily. Many of the largest tech stocks, most of which make up some of the largest components of equity indices, continued to perform very strongly in 2017, with all but one of the FAANG stocks providing year-to-date total returns of over 50% through November 30 (Alphabet, the exception, returned over 30%[5]). In general, significant pockets of global stock markets currently seem to be valued quite richly and priced, if not for perfection, for an extremely optimistic future to say the least.

Is risk in general, and price risk in particular, being underestimated in the current environment? While it is impossible to tell for sure, the following are just a few of many data points – both *quantitative* and *qualitative* – that in our view warrant heightened wariness:

- As we've noted before, only in 1929 and again during the late 1990s/early 2000s dot-com bubble has the S&P 500 Index traded at a higher Cyclically Adjusted Price-Earnings Ratio than it does today[6]. While the CAPE Ratio certainly has plenty of limitations and does not tell the whole story (or much of it), the levels at which the broader market is currently trading do not place it in great historical company.

- The Market Cap-to-GDP Ratio – an alternative measure of stock market valuation sometimes dubbed the "Buffett indicator" because of the well-known value investor's stated affinity for it – is also currently higher than it has ever been in over 60 years of available data, with the sole exception of the late 1990s during the dot-com bubble[7].

- Individual investors, in general, do not have much unspent money remaining in their brokerage accounts, having seemingly already deployed much of their "dry powder": according to one study, cash levels (as a percentage of assets) among Charles Schwab client accounts have fallen to their lowest levels since at least 1995[8]. When were the previous lows over that timeframe? The first quarter of 2000 (at the tail-end of the dot-com bubble) and in 2005-2007 (before the housing bust and Global Financial Crisis).

- Capitalizing on the recent Bitcoin and cryptocurrency frenzy, microcap company LongFin Corp., which had just started trading on December 13, surged by as much as 2,600% just a few days later after issuing a press release saying that it acquired "a blockchain-empowered global micro-lending solutions provider[9]." LongFin, whose market cap reached nearly $5 billion almost literally overnight by simply announcing its participation in the digital currency craze, is only one of many recent examples that have conjured up memories of the microcap ghosts of the dot-com bubble.

- "Story stocks" continue to roar onward and upward regardless of, and in some cases, in spite of the actual fundamentals and economics of the business. For example, Tesla,

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[5] Source: Bloomberg
[6] "Shiller P/E – A Better Measurement of Market Valuation," *Guru Focus*: https://www.gurufocus.com/shiller-PE.php
[7] "Market Cap to GDP: An Updated Look at the Buffett Valuation Indicator," Jill Mislinski, *Advisor Perspectives*, 12/6/2017.
[8] "Nasdaq Surges Past 7,000 Thanks to Brokerage Cash, Hedge Fund Leverage and Euphoria," Lu Wang, *Bloomberg*, 12/18/2017.
[9] "Fintech Microcap Surges 2,600% After Touting Crypto Link," Jeremy Herron and Camila Russo, *Bloomberg*, 12/18/2017.

whose stock was up roughly 45% in 2017, has been burning money, by some estimates, at a rate of around $8,000 ***per minute***[10]. No matter, it seems: it is the future!

- A portfolio manager of two successful funds, with collectively over $4 billion in assets under management, recently summed up his approach – and perhaps the prevailing sentiment of the market – as follows: "I don't believe in Warren Buffett. I care about new things, things that are innovative, that are growing, that are changing the world. Valuation is an immaterial part of the process for me[11]."

Again, the data points noted above are just a few of many indications that in general, valuations and business fundamentals currently seem to be of little relevance for many investors in the market. In particular, the quote from the portfolio manager on Buffett was somewhat reminiscent, again, of the late 1990s. Tech stocks had been soaring regardless of valuation and the fundamentals of the underlying businesses, and market followers pondered whether or not the world of investing in the new, high-tech age had passed value investors by. In fact, *Barron's* published a feature entitled "What's Wrong, Warren?" in December 1999 – just a couple of months before the peak of the dot-com bubble.

The problem with this line of thinking is that, simply put, we believe that valuation does matter for long-term investors. The current environment is neither unique nor representative of some "new era" of investing. Over history, there have been numerous periods when the market values of certain stocks have been very different from their underlying, intrinsic values. This disparity can exist for several years, but, over time, intrinsic value and market value usually converge. Eventually, over the long run valuation imbalances get corrected. Remember, valuations ultimately proved quite relevant, to devastating effect, in the wake of the Nifty Fifty growth stock craze of the early 1970s, after Japan's wild bull market run of the late 1980s, in the aftermath of the dot-com bubble in the late 1990s, and again in the bull market and excessive risk-taking frenzy in the run-up to the Global Financial Crisis beginning in late 2007. We believe that this time is *not* different, and that valuations will ultimately matter to investors' long run returns once again. **It's therefore important, in our view, for long-term investors to remain focused on downside protection and on conservative valuations that are backed by actual business fundamentals rather than highly optimistic forecasts of the future**.

This is not to say that it's impossible to make money by paying up for popular growth stocks regardless of valuation and underlying business fundamentals; this has clearly worked for those who have been able to successfully play this game over the past couple of years. But doing so requires eventually finding a willing buyer for your shares at even higher prices than what you had paid for the shares. This might not seem difficult to do today, in a roaring bull market where the popular stocks remain in fashion. But over time, it becomes akin to a tricky game of musical chairs, where downside potential is significant if you are caught unaware when the music stops, and when the actual economics of the underlying businesses become important again. **This is not a game that we are willing to play with your capital or our own**.

The many bits of information that we've observed, which seem to suggest that people have been "lulled to sleep" by strong recent stock price performance and are taking valuation lightly –

[10] "Short Seller Jim Chanos Says Tesla Headed for 'Brick Wall'," David Welch, *Bloomberg*, 12/13/2017.
[11] "Fidelity Manager Rips Up Buffett Playbook, Bets on Crypto," Kristine Owram, *Bloomberg*, 12/14/2017.

given our view that market values and intrinsic values eventually converge – lead us to believe that what we call price risk is elevated in some corners of the market. **In our opinion, one particularly dangerous attribute of price risk is that it can leave you extremely vulnerable even if your analysis of the business turns out to be sound**. It's important to keep in mind that *stocks* are ownership interests in underlying *businesses*, and if you pay an extraordinarily high price for a *stock*, you could earn sub-par returns even if the underlying *business* performs reasonably well, but not extraordinarily well, in the future. Further, if something unforeseen occurs and the business does not even perform reasonably well, you could be exposed to significant downside risk, because paying up for the prospects of future growth provides less of a margin of safety to cushion the blows from adverse developments.

A Look Back: The Dot-Com Bubble

We've mentioned the dot-com bubble – the internet/technology bubble in the late 1990s – a number of times because at a very high level at least, there seem to be some similarities between then and now. It was a heady time, with many companies touting technology that would revolutionize how the world works and plays. It may be instructive to look back at that period because many investors lost a lot of money chasing growth that either did not materialize, or did materialize, but not to the extent that would justify what had been egregiously rich purchase prices. Many companies went public with no earnings and in some cases, even no revenues. It was very difficult to predict who would be the ultimate winners and losers, but the market afforded rich valuations to the stocks of virtually all technology companies that appeared to offer meaningful growth potential.

Of course, many of these technology companies turned out to be abject busts, resulting in near total wipeouts for investors who bought into their growth stories. One of the more infamous dot-com flops was Pets.com, the pet food supplier with the high-profile marketing campaign and popular mascot who made appearances in a Super Bowl commercial and in the 1999 Macy's Thanksgiving Day Parade. The company went public in February 2000 to much fanfare and the stock initially rose from $11 to $14. There was, however, one not-so-minor problem: the company didn't make money (sound familiar?). In fact, the company lost nearly $150 million in the first nine months of 2000, and when sources of venture capital dried up as the dot-com bubble burst, Pets.com folded in November 2000, just nine months after going public.

Here's to the "Winners"?

Pets.com was just one of many cases in which "story stocks" that were not backed by fundamentals ended disastrously for investors. But it was a train wreck that could have been avoided by level-headed, diligent business analysis, which might have determined the company's economics and business model to be woefully shaky and reliant on access to capital markets. This, we'd argue, was more a case of business risk and simply bad analysis blowing up an investment rather than price risk in itself (although anybody who bought into the stock obviously overpaid for it).

But we believe it's important to emphasize that price risk, when it rises to excessive levels, can result in lasting damage to your capital even if your analysis of the underlying *business* is sound and the business turns out to be a success over the long term. Even the companies from the dot-com era which have stood the test of time and have become profitable, highly successful businesses nevertheless proved to be dismal investments for many years for those who bought during the bubble, regardless of valuation. Microsoft's *business*, for example, has grown its revenues from $23 billion in 2000 to around $94 billion currently, or roughly 8.5% per year on average over that period – respectable performance, at the very least, over such a long period of time. Yet those who invested in Microsoft *stock* at the start of the year 2000 would have suffered a loss of 63% the following year, and would not have recouped their original investment until around July 2014, some 14½ years later.

Back in January 2000, it probably would have also been quite difficult to predict that Cisco Systems would emerge as the only survivor among telecommunications equipment heavyweights Lucent, Nortel and Alcatel, all of which also had rich, multi-billion dollar valuations at the time. Like Microsoft, Cisco as a *business* has stood the test of time, growing its revenues from roughly $19 billion in 2000 to around $48 billion currently. Yet even those who were good enough business analysts (or simply lucky enough) to correctly predict such a future, if they invested in Cisco *stock* at the beginning of 2000, would have suffered a cumulative loss of over 75% over the following three years, and would not have gotten back their original capital even today, some 18 years later. Other darlings from the dot-com era, such as Intel, Oracle, and Qualcomm, which also turned out to be "winners" from that time, surviving and thriving as *businesses* that have grown quite well, have nevertheless had similarly poor (read: terrible) long-term results for investors who bought the *stock* regardless of valuation in 1999-2000.

We are not willing to overpay for exciting growth potential – even though our short-term performance may very well underperform that of an index amid frothier market conditions – because **in our opinion, buying too expensively exposes investors to the potential risk of permanent, insurmountable damage to their ability to compound their wealth over time**. Compounding, which Einstein purportedly called the eighth wonder of the world, is one of the most powerful tools that we have at our disposal in our efforts to save and grow our nest eggs for the future. But in the cases above, accepting excessive levels of price risk resulted in losses that would take many years to recover from, if ever. Perhaps some of these unfortunate investors back in 1999 were hoping to save for their children's college education, or for their eventual retirement. These are risks that many investors cannot afford to take, yet **in our view, price risk is particularly pernicious because we believe that it is often veiled by exciting growth prospects and a cheerful market environment whose recent history has been long on rewards and short on discipline and risk awareness. Price risk therefore tends to be less obviously visible to many just when, in our opinion, it is at elevated levels that call for greater prudence**.

The risk involved in an investment in a wildcat oil explorer, for example, or a company operating in a country with heightened risk of political or civil unrest, or a biotech with no drugs yet approved on the market, is (or ought to be) readily apparent or visible to anyone who invests their hard-earned money in such an enterprise. But **when many consider an investment in a flourishing business that is successful, rapidly growing and has the potential to continue to do so going forward, we believe that it is sometimes tempting to underestimate the danger of doing nothing wrong other than simply paying too much for that growth**. After nearly nine years during which markets have mostly risen, central banks have provided ample liquidity, and household name stocks have continued to go up with little regard for underlying value, we suspect the temptation of overlooking valuation might be greater than usual.

The Weight of Great Expectations

How could such successful *businesses* be associated with such poor long-term *stock* performance? Because valuation matters, even for tech stocks! In the above cases, overly optimistic assumptions of future growth in earnings and cash flows were already priced in to the stock, leaving significant downside potential for shareholders if the eventual outcomes were to fall short of those lofty expectations. In the cases of the dot-com "winners" mentioned above, each of them were routinely valued north of 50 times earnings, in many cases upwards of 100 or even 200 times. If you are a long-term investor – rather than a short-term trader/speculator who tries to "flip" a stock to someone willing to pay a higher price – the math simply does not bode well for your downside risk if your extraordinary growth expectations fail to be met.

In addition to significant downside potential, investing based on great expectations also, we believe, hinders your long-term upside potential. This is because if you're a long-term investor who pays an extraordinarily high price for a stock, you essentially need the business to perform extraordinarily well, merely to earn commensurate returns given the *ex-ante* risk that you had assumed at the time. Even Amazon, the one most obvious and glaring exception (that we are aware of) to the dot-com bubble carnage described above, illustrates this last point. Using the same timeframe as in the cases noted above, if you invested in Amazon stock at the beginning of 2000, you would have lost roughly 80% of your capital in the following year, and it would have taken you roughly 7½ years to get back to even (by mid-2007). However, if you stayed the course and were willing and able to hold your Amazon stock through this period, you would have eventually been rewarded with an annualized return of roughly 16.4% on average in the 18 years from the start of 2000 to the end of 2017.

This is without a doubt an impressive long-term return in itself, and also relative to the S&P 500 and NASDAQ indices' annualized returns of roughly 5.4% and 4.0%, respectively, over the same period. However, a few points are worth considering. First, as noted above, you would have needed the wherewithal (financial and emotional) to have stayed the course for 7½ years just to get back to break-even. Second, Amazon has grown its revenue from about $3 billion in 2000 to over $160 billion today, or 53 times over! In light of such incredible growth in the revenue of the business, the return of the stock since then, while obviously impressive, seems less spectacular by comparison. And finally, unless your tech stock crystal ball told you to invest only in Amazon, the returns of your overall portfolio would have been diluted – perhaps significantly so – by your investments in the "winners" noted above which have produced below-market returns since then, and by the "losers" which have done much, much worse.

This is not to say that the FAANG stocks, Tesla, or other high-priced growth stocks won't turn out to be spectacular long-term investments over the next several years or decades. Maybe they will. But we believe that in many cases, their current stock prices incorporate expectations of an extremely bright future of continued growth at spectacular rates. Simple mathematics suggest that it will eventually become increasingly difficult for these tech behemoths to maintain their spectacular growth rates as they become larger and larger components of the overall economy. Over time, this could test the highly optimistic expectations that are baked into current valuations, with potentially painful implications for those who might be disappointed.

Getting What You Don't Pay For

At Moerus, we strive to avoid the excessive price risk that comes with overpaying for growth. Instead, we prefer investments that **we view as cheap on an as-is basis**, using what we believe are conservative estimates of intrinsic value here and now, not forecasts of the future that are based upon optimistic assumptions of continued prosperity. Again, we like growth a lot; solid long-term growth can often be the major driving force in compounding shareholder value over time. We just don't like to pay for it. But interestingly, our stinginess and stubbornness have not prevented us from finding opportunities in numerous holdings that we believe offer attractive long-term growth potential, even though they are valued attractively based only on the state of each business here and now. Over the years, we've found that **buying out-of-favor businesses cheaply enough based on what we know today, in our opinion, not only provides greater downside protection by contributing to a margin of safety, but also, perhaps counterintuitively to some, may offer considerable upside potential**. This is because our purchase price is intended to attribute little, if any, value to expectations of significant growth, and therefore if we do truly buy well, any "positive surprises" or even merely a return to normalcy could provide material upside to the market's valuation of the business.

For some examples, we'll begin with the Fund's position that was sold during the second half of Fiscal 2017: **Global Logistic Properties ("GLP").** GLP has long boasted readily apparent long-term growth opportunities related, most notably, to how the continued growth of e-commerce seems likely to increase demand for technologically advanced, strategically located logistics facilities. After all, GLP is essentially a logistics facilities and services provider to the Amazons of the world! Yet at the time of our purchase in the Fund, in what was a pleasant surprise for us, GLP shares had become available at a discount to our conservative estimate of intrinsic value, primarily due to concerns surrounding a slowdown in consumer spending growth in China and Brazil. Ultimately the market's short-term concerns ebbed, and an offer that more appropriately valued the company's long-term prospects was made, at a significant premium to our cost.

Let's turn again to the Fund's two new positions. **Atlas Mara** is building a network of banks in Sub-Saharan Africa, a severely underbanked region that boasts a population of over 1 billion people. This population is younger than most, entrepreneurial, and given favorable demographics, seems poised to become the largest labor force in the world within the next couple of decades. The region also has only really just begun scratching the surface in developing regional integration and intra-Africa trade, suggesting significant room for long-term growth and development that could become the envy of growth investors the world over. **BR Properties**, leveraging the local expertise and the financial firepower of controlling shareholder GP Investments (backed by the deep pockets of Abu Dhabi Investment Authority), seems well positioned to take advantage of a grinding recession and opportunistically acquire prime commercial property at cheap prices in Brazil. Despite having fallen on very hard times in recent years, Brazil – with its 200 million-strong population, 4,500 mile Atlantic coastline, and a rich endowment of various natural resources – is the same country that, not too long ago, was among the most sought-after destinations for growth potential in the world, for good reason. Yet in each of these two cases, primarily due to what we believe is temporary, surmountable adversity, we were able to invest in the business at what we believe is a material discount to intrinsic value.

Numerous existing Fund holdings likewise possess interesting growth potential that we believe is being undervalued by the market at current prices. **Arcos Dorados Holdings**, the largest McDonald's franchisee in the world, is the exclusive McDonald's franchisee throughout much of Latin America and the Caribbean, a region of roughly 600 million people that offers considerable potential for consumer spending growth and a quick serve restaurant market whose penetration is very low compared to elsewhere in the world, suggesting plenty of room for potential growth. In a market environment in which investors are happily paying steep premiums for brand and franchise value, Arcos Dorados, which benefits from an iconic, globally recognized brand as well its ability to leverage McDonald's expertise (marketing, menu libraries, best practices, etc.), is trading at what we see as a material, unjustifiable discount to its much larger peers elsewhere in the world (including McDonald's itself), despite what we believe are Arcos' favorable growth opportunities.

Aker ASA and **Gran Tierra Energy**, which own significant oil exploration and production interests in the North Sea and Colombia, respectively, took advantage of the collapse in oil prices to opportunistically acquire assets at what we believe are attractive prices, positioning themselves with significant potential for reserve and production growth for years to come. Shares of each of these companies became available at significant discounts to our estimates of intrinsic value due primarily to depressed oil prices and investors temporarily fleeing the energy sector, but we think both businesses are well-positioned to benefit from a continued recovery in crude prices. As outlined in our prior Shareholder Letter, **Organizacion Terpel S.A**., Colombia's dominant fuel distributor with over 40% market share, should have the winds of favorable trends in demographics, increasing car ownership, and road network construction blowing in its favor for years to come, yet trades at what we believe is an unjustifiably low valuation relative to the operating cash flow that the business generates.

We similarly see attractive growth prospects in many other Fund holdings. As such, we believe that the portfolio is well-positioned to benefit from the contributions that growth makes to long-term compounding of value, without taking on excessive levels of price risk that often come with overpaying for it. We will continue to strive to accomplish this by focusing on businesses that we see as undervalued based on conservative estimates of today's reality, rather than upon optimistic hopes and dreams of the future. Finding these opportunities is never easy, particularly today when much of the market seems willing to (over)pay for great expectations. But we'll vigorously pursue them wherever and whenever they exist, with a continued focus on the following areas that have, over time, proven to be fertile grounds on which to bargain-hunt:

- Where others ***can't*** go (businesses that are not large enough to be deemed "investable" by behemoth funds which can only invest meaningfully in large/mega-large cap stocks);

- Where others ***won't*** go (countries or regions where many investors don't have the inclination, mandate, and/or experience to confidently go); and

- All other places ***when others won't go*** (during times of considerable, though temporary adversity or even unpopularity for an industry, country, or specific business).

As always, many thanks for your continued support, interest, and curiosity. We look forward to writing you again later in the year. Best wishes for a happy, healthy, safe, and prosperous 2018!

Sincerely,

Amit Wadhwaney

Portfolio Manager

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Investors should carefully consider the Fund's investment objectives, risks, charges and expenses carefully before investing. This and other important information about the Fund is contained in the prospectus, which can be obtained by calling 1-844-MOERUS1 or by visiting www.moerusfunds.com. The prospectus should be read carefully before investing. The Moerus Worldwide Value Fund is distributed by Foreside Fund Services, LLC, Member FINRA.