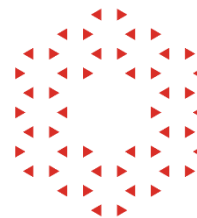


Moerus Worldwide Value Fund

Semi-Annual Shareholder Letter: Six Months Ended May 31, 2020



Dear Fellow Investors:

We hope this Semi-Annual Shareholder Letter finds you and your families well during these challenging times. We are writing to update you on recent developments regarding the Moerus Worldwide Value Fund (the “Fund”) over the six months ended May 31, 2020. In this Letter, we will discuss the COVID-19 pandemic and its impact on Fund performance during the period, the Fund’s positioning and outlook looking forward, and notable investment activity as we sought to take advantage of new opportunities made available by the market dislocation.

But first, we would like to begin with some general thoughts. The First Half of 2020 saw more than its fair share of uncertainty in the markets. We have invested in some extremely uncertain environments in the past, such as the Asian Financial Crisis in 1997-98 and the Global Financial Crisis a decade later. In terms of investing, this current crisis has been different in some ways. For one, the pandemic necessitated an extremely rapid, virtual cessation (albeit temporary) of business activity across a wide variety of sectors and countries, something not seen in recent history. Also, whereas the locus of the Asian Financial Crisis was in Southeast and North Asia, and the Global Financial Crisis, though worldwide, was disproportionately focused on the Financial sector, COVID-19 has cut across virtually all geographies and industries, rendering diversification across these groups of limited benefit during the period (at least for those who stick to a deep value discipline). All told, it was a very challenging period for the Fund, although since March we have seen the situation improve considerably.

However, in uncertain times like these, it is more important than ever to maintain proper perspective. When looking at the bigger picture over the long-term, we remain very optimistic, perhaps more so than at any point to date in the Fund’s history given the valuations that we are seeing. This optimism stems not only from what we believe is an extreme undervaluation of the portfolio, but even more importantly, from our conviction that the portfolio is built to withstand adversity. As tough as it may be look beyond the panic that prevailed at points during the First Half, we must remember that we invest not for the next six *months*, but for the next six *years* (or even longer).

The longer one holds an investment, the greater the odds that it could be subject to adversity. Hence by necessity, an inherent feature of our investment approach has always been a focus on staying power – stemming from a strong balance sheet, saleable assets, robust business model or other attributes – to make it through difficult times. Although *stock prices* may swing wildly from one day to the next due to market psychology, we have high conviction that the actual *businesses* we own in the Fund have the strength and resilience to not only navigate the current crisis, but potentially emerge on the other side in an even stronger position vis-à-vis their competitors (we will provide examples later). In our view, the combination of these two attributes (survivability and extremely depressed valuations) should position the Fund well to benefit over the long run as we work our way through and eventually past this global crisis.

Although it has certainly proven formidable, we firmly believe that COVID-19 will ultimately prove similar to the above crises in that this crisis, too, will pass; and that in retrospect, it will have proven to have made generationally attractive long-term investment opportunities

available, as the other major crises did. We had entered 2020 optimistic about the positive business-level developments across many Fund holdings. Although COVID-19 has turned the world upside down for the moment and interrupted the progress that our holdings had been making, we have recently begun to see the portfolio begin to take steps forward yet again. In the long run, we continue to believe that the attractive valuations and sound long-term fundamentals of many Fund holdings bode well for the portfolio's prospective risk-adjusted returns, especially in a world in which some broader benchmark indices trade at historically rich valuations. As an indicator of our conviction, several of us here at Moerus (including the entire investment team) have added to our holdings in the Fund during the period.

In the pages below, we will first look backward at how COVID-19 impacted the Fund during the First Half. Then we will look forward with some examples of why we are optimistic about the Fund's positioning for the long-term. Finally, we will touch on some exciting new long-term investment opportunities that are typically out of our reach as price-conscious investors, but which became available to us due to the pandemic and the market's short-term focus.

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

Fund Performance (as of May 31, 2020)*

Fund/Index	6-Months	1-year	Since Inception**	
			Cumulative	Annualized
Moerus Worldwide Value Fund - Class N	-32.14%	-28.91%	-21.82%	-5.97%
Moerus Worldwide Value Fund - Institutional Class	-31.98%	-28.62%	-21.01%	-5.72%
MSCI AC World Index Net (USD) ***	-5.96%	5.43%	36.79%	8.15%

* 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 26 Emerging Market countries. With 2,852 constituents, the index covers approximately 85% of the global investable equity opportunity set. You cannot invest directly in an index.

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.moerufunds.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, 2021, 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, as always, please note that 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.

To say that it has been a difficult First Half of 2020 for the world and for financial markets globally would be an understatement. In a matter of weeks (especially in late February/early March) news flow relating to COVID-19 went from bad, to worse, to beyond the potential “worst case” scenarios that many investors had envisioned in the preceding weeks. While it might seem difficult to imagine from where we stand today, the year began optimistically, amid skepticism regarding even the virus’ ability to be transmitted from human to human. A common early “base case” view had been that the primary direct impact of the virus might be contained within and around China. Perhaps owing to these views, U.S. benchmark indices initially held up remarkably well in January, even as areas relevant to the Fund, such as emerging markets (both equities and currencies), the Energy sector, and developed market businesses with meaningful exposure to Chinese tourism/consumer spending, were hit very hard from the beginning.

Since then, the realities on the ground quickly proved those hypotheses incorrect, as the virus began to spread to various countries outside of China in an accelerated fashion, perhaps most aggressively in Italy at first, and then throughout Europe and arriving with a vengeance in the United States before long. In March, markets descended into a state of panic, fueled by increasing clarity on the potential human toll, the need for particularly draconian containment and mitigation efforts, and on the dramatic impact that those efforts would have on global economic activity – how people would live and work in the present and immediate future.

After the lows reached in March, markets began to recover somewhat. Perhaps part of this recovery was in response to early (albeit sporadic) signs of progress in “flattening the curve” of new COVID-19 cases in some areas. However, in our view it is more likely that the stock market recovery has been driven primarily by an extraordinary expansion of the Federal Reserve’s balance sheet, promises of ongoing monetary and/or fiscal stimulus from various policymakers across the world, and some cautious steps forward by various governments in gradually reopening segments of their respective economies.

COVID-19 Impact on the Fund’s Absolute Performance

The Fund has also begun to recover somewhat from March lows, though not nearly as much as benchmark indices that have significant exposure to Technology and Growth stocks, which have held up much better during this crisis, and in several cases have seen their stock prices rally (more on that shortly). All told, the Fund declined sharply (-32.0%) during the First Half of its Fiscal 2020¹. By comparison, the Fund’s benchmark, the MSCI All-Country World Index (ACWI, Net) returned -6.0%. A large majority of Fund holdings declined, many significantly, during the First Half, as few areas of the portfolio (notably our uranium and gold holdings) were immune to the adverse effects of the pandemic. The most material detractors from the Fund’s performance fell into the following four general buckets.

Holdings Impacted by Social Distancing: The two most material individual detractors from the Fund’s performance during the First Half were **Hammerson plc** and **Arcos Dorados Holdings, Inc.**, which were hit hard by the mandated closures of stores and restaurants, respectively. United Kingdom-based Retail REIT Hammerson owns high-end shopping malls, outlet malls, and strip malls in the U.K. and Continental Europe. Its share price was pressured early in the crisis due to the loss of Chinese tourists/shoppers at its outlet malls business, and

¹ Please note that “First Half” refers to the Fund’s 2020 Fiscal Year, or the six months ended May 31, 2020.

then later as the spread of the virus accelerated in Europe, resulting in lockdowns in various parts of Europe in which Hammerson owns properties. Arcos Dorados, the largest McDonald's franchisee in the world and the exclusive McDonald's franchisee throughout much of Latin America and the Caribbean, was impacted by temporary prohibitions on in-restaurant dining as a result of the pandemic. Since then, each of these companies have begun to benefit from stores reopening and their relevant markets beginning to open back up over time.

Financial Services Holdings: The most material detractor by *sector* from the Fund performance during the First Half was our Financial Services holdings. This is a heterogeneous group of companies both in terms of areas of activity, which include banking, consumer finance, insurance, and investment banking (among others), as well as by geography, as they include businesses operating across the Americas, Europe, Asia, the Middle East and Africa. Yet despite this diversification, the Fund's Financials holdings were punished along with the entire sector, which was one of the hardest hit sectors during the First Half. The pandemic sparked an unprecedented wave of lower interest rates and monetary easing from central banks which, in turn, has fanned fears of pressure on banks' net interest margins. Numerous other virus-related concerns, be it a collapse in aggregate demand, corporate defaults, trading losses, etc., weighed on the share prices of Financials.

Another key driver of recent declines for the sector was a reduced probability of capital distributions to shareholders via dividends and share buybacks in the immediate future. This was due to both concerns about the economic fallout from the virus, as well as regulatory pressure on the sector to retain capital given virus-related uncertainty. Notably, this pressure was not discriminatory, and applied even to some of the Fund's Financials holdings, all of which, in our view, are extremely well capitalized and have ample capacity to make distributions. We are long-term investors – in the grand scheme of things, whether or not one of our holdings makes a distribution today or somewhat later (after the uncertainty subsides) matters little to our investment case over the long run. In truth, all else being equal we prefer conservatism, and maintaining an overcapitalized balance sheet as an “anchor to windward” in uncertain times makes good business sense to us.

Yet the market is often dominated by short-term traders and speculators, especially in times of heightened uncertainty, and the diminished prospects for distributions in the immediate term led some (*e.g.* income-oriented investors) to sell, pressuring share prices across the Financials sector. Thus, few of the Fund's Financials stocks were spared from declines during the First Half, with holdings such as **Standard Chartered**, **Shinsei Bank** and **IDFC First Bank** declining despite what we view as quite positive company-level developments at all three, and indeed across much of the Fund's holdings in the sector in recent months (more later). Although this was “bad news” in the sense that it negatively impacted Fund performance during the First Half, as long-term investors, we consider it “good news” whenever investment opportunities that we already believe are attractive get better still due to even more discounted prices, especially when they are on sale for reasons that seem highly likely to be transitory.

Latin America: The most material detractor by *geographic region* from the Fund performance during the First Half was Latin America, most notably Brazil. This is another heterogeneous group in terms of activities, including Triple-A office real estate, telecommunications, restaurants, grocery retail, fuel distribution and private equity. But diversification by business did not benefit the Fund during the First Half. Across much of the region, stock prices and local

currencies – and as a result, the value of the Fund’s Latin American holdings in U.S. dollar terms – were hit disproportionately hard as the acceleration of new COVID-19 cases sparked risk aversion, with many investors fleeing for the *perceived* safety (real or otherwise) of U.S. markets and the U.S. dollar. In particular, the value of the Brazilian Real (BRL) declined by over 20% against the USD during the First Half (it was down nearly 30% at one point, before recovering a bit more recently). A number of factors have likely driven the decline in the BRL, including: general risk aversion and a flight to perceived safe haven currencies in the FX market amid the pandemic; historically low interest rates in Brazil, which diminished the attraction to yield-seeking investors; and political turmoil. The Fund’s two largest Brazilian holdings, **BR Properties** and **Telefonica Brasil**, were down meaningfully during the First Half despite what we believe had been strong business performance prior to COVID-19 (which has hit Brazil hard) as well as strong positioning and financial wherewithal to get through the crisis (more later). Since mid-May, the BRL has recovered somewhat as the “risk-off” mood towards the currency has moderated, and it is possible that this may continue as things return to a degree of normalcy. To the extent that some degree of normalization continues, that could potentially remove a major factor that we believe has been obscuring what have been impressive business-level developments at each of the Fund’s holdings in the country.

Energy: A fourth area of the Fund that was hit very hard during the First Half was our Energy-related (specifically, Oil & Gas-related) holdings. The long-beleaguered sector, which had only just begun to show signs of life in December and early January, was first hit by a black swan-like, negative demand shock due to COVID-19 and lockdowns implemented in response. Then came a supply-side shock: the start of a Saudi-Russian oil price/production war. This difficult to imagine combination – an almost immediate, dramatic drop-off in expected short-term *demand* given the shutdown of large swathes of the global economy, combined with an expected surge in short-term *supply* given the price war between two of the world’s largest producers – led to a collapse in crude oil prices of 55% in March alone. The extent of the temporary dislocation in the oil market was so stark that at one point in April, WTI crude futures prices briefly reached a seemingly nonsensical price of -\$40 per barrel (*negative* \$40). Oil prices have since recovered to around \$40 per barrel (*positive* \$40), albeit still well below pre-pandemic prices, as of the end of June. All of the Fund’s holdings in the Oil & Gas and Energy Services sectors (**Aker ASA**, **Enerflex**, **Gran Tierra Energy** and **Tidewater**) saw their stock prices hit extremely hard during the First Half.

Again, maintaining a longer-term, bigger-picture perspective, it is worth highlighting our view that the same aforementioned drivers that made March and April such challenging months for the sector seem likely, with the passage of time, to prove transitory in nature as those forces reverse course. For example, wide segments of the global economy that were essentially shut down, triggering the collapse in oil demand, should continue to reopen (albeit in fits and starts), supporting a gradual recovery in demand. In the meantime, on the supply side, the old axiom “*The cure for low prices is low prices*” appears to have at least begun to play out somewhat, as the ongoing retrenchment of the U.S. shale industry (a key swing factor in the supply/demand balance) has gathered pace. These developments have helped the oil market begin to make up some of the ground lost during the worst of the dislocation, yet the Fund’s Energy-related holdings remain, in our opinion, remarkably cheap.

COVID-19 Impact on the Fund's Relative Performance

Moving on to the Fund's *relative* performance (versus the benchmark) during the First Half, a few factors stand out with regard to the portfolio's underperformance. While virtually nothing in the equities markets held up amid the broader market chaos during the most panicked trading days in March, over the course of the First Half long-running trends that we have written about often continued once again in a relative sense, and even accelerated dramatically. As measured by broad market benchmark indices, U.S. equity markets significantly outperformed international markets, and emerging markets fared particularly poorly, as investors fled for what they perceive to be safe havens. The MSCI ACWI *Growth* Index (*up* 3.9%) outperformed the MSCI ACWI *Value* Index (*down* 16.0%) by nearly 20% during the First Half, and the Technology-heavy NASDAQ index was *up* over 10% (a remarkable feat considering the circumstances). The high-flying FAANG stocks continued to roar to dizzying heights despite the pandemic: Amazon (up 35%) and Netflix (up 33%) led the way, while Google's parent company Alphabet (up nearly 10%) was the "laggard" of the group.

Under normal circumstances, we would *not* expect the most popular, (in our view) fully-to-overpriced Growth-stocks to outperform during a broader market meltdown. Truth be told, we would expect quite the opposite. However, the nature of this particular crisis and its results (social distancing, lockdowns, working from home) is such that in a relative sense, many "new economy" businesses – Amazon and Netflix are obvious examples but this also applies to many other Technology-centric businesses – have thus far held up much better than businesses that depend more heavily on tangible assets, or a physical presence to drive revenues (*e.g.*, restaurants, retail, real estate, etc.). Also importantly, these Growth-oriented businesses, having been very popular among investors for years, in some cases have a degree of financial flexibility as a result of years of readily available access to capital on easy terms. In any event, our avoidance of what we have long viewed as overvalued, popular stocks – due to what we see as dangerously high price risk from a longer-term perspective – continued to materially hurt the Fund's performance relative to benchmarks in the First Half. As a reminder, Information Technology is currently the largest component of the MSCI ACWI (at nearly 21%).

On the other hand, the stodgy, deeply discounted stocks that we tend to invest in are in areas that were hit the hardest during the period. The aforementioned Financials and Energy sectors, as well as Real Estate – whose sector weightings in the Fund are all considerably higher than their respective weightings in the benchmark index – were three of the hardest hit sectors during the First Half. Finally, as mentioned earlier, the Fund's *geographic* exposures – in short, more exposure to emerging markets (namely Latin America) and much less exposure to the U.S., as compared to the benchmark – once again hurt relative performance as the U.S. continued to outperform and many currencies weakened relative to the U.S. dollar during the markets' worst days in March, weighing further on the Fund's non-U.S. investments.

As you know, our investment objective is to achieve attractive risk-adjusted performance and outperform relevant benchmarks over the long term. We do not make investment decisions based on short-term market or benchmark-related considerations. Instead, we take a long-term view, looking to take advantage of near-term uncertainty by investing in depressed and/or unpopular businesses and assets at attractive prices. Short-term market and index performance, therefore, is not a primary focus for us. Our goal is *not* to stay close to a benchmark or invest in what is popular, but *is* to remain focused on constructing a portfolio of

investments that we believe have attractive risk-adjusted potential returns over the long run, whether or (more likely) not those investments are popular or heavily owned in benchmark indices.

The Good News: Fund Outlook Looking Forward

The First Half has seen some remarkably uncertain times in the markets, and it certainly has been a painful period for the Fund. Yet we believe it is as important now as it ever has been to remain focused on fundamentals and maintain a long-term perspective amid such extreme short-term uncertainty. With that in mind, let's turn to the Fund's outlook looking forward and over the long term, beginning with a note on valuation.

Valuation: Given the current environment, the valuations at which much of the Fund's holdings are currently trading are exceptional, in our view, and a number of holdings are at or near multi-year low prices. This is particularly notable, in our opinion, given the remarkably bifurcated market we are currently seeing today, with historically rich valuations of broader market indices (primarily in the U.S.) as indicated by various metrics that we have written about at length in the past – a condition that has been driven by an unprecedented period of outperformance (both in terms of magnitude and duration) from high-priced Technology and Growth stocks. For one example of the extent of the disparity, as of June 30 the Price-to-Book Value ratio (P/B) of the Fund was 0.55x, as compared to 2.34x for the benchmark MSCI ACWI². Although the P/B ratio, like all valuation metrics, has its critics and limitations, it is nonetheless an objective statistic derived from corporate financial statements. A disparity of such magnitude is historically unique, and in our opinion, provides a statistical representation of the undervalued nature of the Fund, both on an absolute basis as well as relative to the benchmark index. Yet despite this undervaluation, during the First Half we saw price-insensitive selling persist across many holdings in the Fund. The good news is that this has created a situation that we believe represents an unusually interesting investment opportunity in a longer-term context if you believe, like us, that the price you pay for a stock relative to its underlying intrinsic value ultimately plays a key role in determining prospective risk-adjusted returns.

Survivability: Although a deeply discounted valuation is a necessary component of our investment approach at Moerus, that by itself is not enough to get us to invest. A stock may be cheap, but if it does not have the wherewithal to make it through difficult periods, it might not be around long enough for shareholders to benefit from its latent value eventually being unearthed. Because of this reality, another essential component of our approach is a focus on avoiding potential permanent impairments of capital. We strive to invest in businesses that possess the survivability (financial, competitive, etc.) to withstand protracted periods of adversity – in other words, to survive to the day when today's downside volatility hopefully turns into tomorrow's upside potential. As such, an integral part of our process *has always* included “stress testing” potential investments against a variety of plausible, adverse scenarios, be it shortfalls in demand, increased interest rates, inflation, currency mismatches, etc.

Nonetheless, as the COVID-19 pandemic developed and gathered momentum worldwide, extremely draconian, perhaps unprecedented scenarios played out, including a virtually complete shutdown of demand for some industries (*e.g.*, travel, restaurants). Our response to

² Source: Bloomberg for Fund data, MSCI for Index data.

this was to reevaluate the Fund's investments, reassess what they may be worth in this changed, extreme environment, examine their survivability under these new circumstances, and eliminate holdings that we thought could potentially suffer from a diminished margin of safety under any of these scenarios (there were very few – more on that later). Having worked through this process, our conclusion is that looking forward, we believe the Fund's current portfolio of investments is well positioned and possesses the staying power to make it through the current crisis and ultimately have its undervaluation recognized.

Moving on to actual *business*-level fundamentals (as distinct from *stock price* volatility), let's return to the four general areas of the Fund that were most negatively impacted by COVID-19 during the First Half.

Financial Services Holdings: The comment above about the exceptional valuations of the Fund's portfolio is, in our view, perhaps especially true for our aforementioned Financial Services holdings – one of the hardest hit areas during the period – notwithstanding our belief that many of them boast vastly improved balance sheets, have been profitable and given their discounted valuations, had launched meaningful stock repurchase programs prior to the pandemic. Many of these holdings are arguably well prepared for this environment, because in most cases they went through significant fundraising exercises during earlier periods of difficulty or following missteps.

For a few examples of the types of investment opportunities we are seeing in the Financial Services space, we'll begin with **Standard Chartered**, a London (and Hong Kong)-listed international banking group operating principally in Asia, Africa and the Middle East. The bank stumbled in the mid-2010s under the lax lending and compliance policies (notably in relation to the Iranian sanctions violations) of the previous management. The former resulted in sizable loan write-offs and necessitated a large rights issue in 2015, while the latter attracted a protracted period of oversight and scrutiny from the U.S. Government culminating in a large fine, the last portion of which was finally paid in April 2019.

These past missteps and slowing growth in a number of its previously rapidly growing markets, combined with a risk averse attitude on the part of the new management team that came in to clean up the mess, have resulted in Standard Chartered shares attracting a low valuation of roughly 40% of book value, notwithstanding what we see as its vastly improved capital position (with excess capital given its business activities), falling Non-Performing Loans (NPLs) and a greatly de-risked business. In light of the continued internal generation of capital, the bank had been gradually returning excess capital to shareholders via a \$1 billion share buyback during 2019 (its current market capitalization is roughly \$18 billion). An additional \$500 million share buyback had been slated for early 2020, as was a potential additional \$1 billion for the latter half of 2020, following the anticipated closure of the sale of its Indonesian bank holding. However, these planned repurchases were called off when the regulators in the U.K. recommended the termination of any buybacks or dividends by banks (given the uncertainty resulting from the pandemic). This news undoubtedly disappointed short-term and/or income-oriented investors and pressured the share price during the First Half. However, from a longer-term perspective these moves, along with the successful completion of the sale of the Indonesian bank, in our view leave the bank in a very strong capital position to weather the current adversity, emerge at the other end of the downturn, and resume capital return activities when it is permitted to do so by the regulators.

Shinsei Bank Ltd., unlike most typical Japanese City banks which have a disproportionate focus on big ticket commercial lending, is primarily a domestically focused Japanese bank that engages in consumer finance, lending to Small and Medium-Size Enterprises (SMEs), leasing and financing real estate transactions. Operating in these relatively high margin niches has allowed the company to be profitable and grow its Net Interest Margin despite the negative interest rate environment in Japan. In our view, the company is significantly overcapitalized, with an over 100% coverage of NPLs and, in addition, holds potentially redundant reserves for past “overcharging” of interest on consumer loans. As of the last reporting date, the bank’s Common Equity Tier 1 (CET1) ratio was 11.3%, indicating a reasonably well capitalized bank. As in the case of Standard Chartered, Shinsei Bank’s valuation is heavily discounted; at the time of this writing, its shares were trading at a P/B ratio of 0.33x and Price-to-Earnings ratio of less than 7x. The company completed a stock repurchase program of 23.5 million shares (of a base of 259 million shares outstanding) in the 2019 fiscal year, with an additional authorization of 20.5 million shares for the 2020 fiscal year, circumstances permitting.

IDFC First Bank Ltd. is a domestically focused Indian bank formed as the result of a merger between a traditional bank and a Non-Bank Finance Company (NBFC) that provides loans to SMEs and consumers. We expect the growth in the bank’s deposit base over time to provide a lower cost, diverse and more stable source of funds for this entity, which will be complemented by the higher earning assets of the finance company. In our view, the attractiveness of this configuration is that unlike many of its consumer finance peers that do not have access to bank deposits and therefore must raise higher-cost funding from the wholesale market, IDFC First Bank effectively can benefit from “the best of both worlds”: access to relatively stable, low-cost bank deposits, as well as a book of relatively high-yielding assets (consumer and SME loans). The near-term earnings outlook, however, is expected to be muddled by expenses related to the expansion of the bank’s deposit gathering network, cost of integrating the two merged organizations, and the potential for writing down some of the non/under-performing legacy assets acquired as a part of the merger, especially those weakened during the period of the COVID-19 related lockdowns. As of the last reporting date, the bank’s CET1 ratio was 13.3%, indicating a reasonably well capitalized bank. At the time of this writing, these shares were trading at a P/B of approximately 0.85x, in our view an excessively discounted valuation for a company with such promising long-term growth potential, as well as compared to the premium to book value sported by most of its comparable peers.

A final, more general note on the Financials holdings in the Fund: as discussed, several of our Financials holdings have returned significant amounts of capital to shareholders in the recent past, and had planned to return more before stepping back due to COVID-19 uncertainty and regulatory recommendations. In our view, our holdings possess more than enough wherewithal to resume distributions; it is more a question of when government regulatory bodies begin to loosen their stance on temporarily restricting distributions. We have already begun to see progress on this front, as the Dutch central bank recently dropped its call for insurers to suspend dividends (a favorable development for the Fund’s holding in Dutch insurer **NN Group**). If and as these regulatory bottlenecks are resolved, we believe there is meaningful upside potential given the significantly discounted valuations of our Financial Services holdings.

Holdings Impacted by Social Distancing: Returning to the Fund’s two holdings that were most adversely impacted by social distancing measures in response to COVID-19, we’ll begin

with **Hammerson**, the U.K. Retail REIT. Although the company has been hit extremely hard by lockdowns in its various markets, we believe that this impact will gradually begin to reverse if and as those economies begin to open up. Hammerson has no material debt maturities ahead of 2022, and during the last several quarters the company has sold assets (a number of them non-core) and eliminated its dividend to shore up its financial position. Although the COVID-19 related impact to Hammerson's business has been particularly acute, a considerable portion of the currently hostile operating environment appears to be reflected in the valuation of its shares, which trade at a roughly 85% discount to the company's restated NAV and a roughly 65% discount to our more-conservatively assessed NAV.

Arcos Dorados entered the COVID-19 crisis from a position of strength, in our view, with its business performing more strongly than at any other point during our ownership of the business. The company's Fourth Quarter 2019 results highlighted another quarter of strong same store sales growth, improved margins and increased market share. In addition, management noted that February 2020 was the best month of February in the company's history. Although the business was hit hard beginning in March by the prohibition on most in-restaurant dining and temporary closure of some restaurants across its markets, the decline in revenues was partially offset through rapid growth in sales via the delivery, drive-through and take-out channels. While this growth cannot offset steep declines in revenues from the virtual cessation of in-restaurant dining in the near-term, it nonetheless provides confidence that underlying demand for the company's products and services remains strong and will continue to recover if and as full operations resume. In fact, Arcos Dorados recently released a business update noting that by the end of June: 88% of its restaurants were operating at least one sales channel; sales at many of its 1,100 free standing restaurants (*i.e.*, not mall-based) had already recovered to more than 90% of prior year levels; and that some free-standing restaurants in specific markets (particularly in the Caribbean and Northern Latin America) have already begun to generate year-over-year sales growth.

Longer-term, we believe Arcos Dorados is well-positioned to weather the storm and make it through with an improved competitive position relative to peers, given its superior in-place network of free-standing restaurants (key for drive-through/take-out sales), the support of McDonald's Corporation (with whom Arcos Dorados has had a strong, multi-decade relationship), and a financial position that entered the crisis stronger, in our view, than at any point during our ownership. In particular, Arcos Dorados' scale, known brand name and financial flexibility should allow it to continue to take market share in Latin America's Quick Serve Restaurant (QSR) industry. Notably, this is a space that is notoriously fragmented and heavily populated with street stalls and mom and pop competitors, most of whom have neither the financial wherewithal to navigate the period, nor the formal food safety/preparation protocols that customers may increasingly value in a post-pandemic world. The company entered 2020 with a reasonably strong cash position and low leverage (1.6x Net Debt/EBITDA as of the end of 2019), and its two meaningful bond maturities do not come due until 2023 and 2027. The stock's valuation seems truly compelling to us, at less than 6x 2019 EBITDA, which in turn was depressed by historically weak local currencies translated into the USD. Finally, Arcos Dorados, which owns roughly 500 of its stores, last had an appraisal of its real estate completed over a decade ago (in 2009), when it was valued at roughly \$1 billion. As of the date of this writing, the current market capitalization of the entire company is roughly \$1 billion.

Brazil: Latin America has been hit hard by COVID-19, and Brazil is perhaps suffering the worst of all in the region. That said, the Fund's Brazilian holdings performed quite well prior to the pandemic, leaving the businesses well-positioned to weather the crisis. As in the case of Arcos Dorados, **BR Properties** entered 2020 from a position of strength, with office occupancy and rental rates increasing in 2019, and with its balance sheet having been fortified significantly by well-timed, non-core asset sales and an equity issue late in 2019.

The spread of COVID-19 in the company's two principal markets (São Paulo and Rio de Janeiro) will clearly have a significant impact upon the demand for office real estate and on rental rates in the short-term, as would the resultant general economic slowdown in Brazil. But with that said, the company's portfolio is now more narrowly focused than ever on high-quality, Triple-A assets in good locations (with a quality tenant base) in Brazil's two largest cities. Further, the company's balance sheet at present is significantly stronger than it had been throughout any time during our ownership. This is particularly interesting, given our view that BR Properties' management team and controlling shareholder have demonstrated a track record of well-timed, well-priced office property purchases and sales. We believe that the company is well-positioned to potentially take advantage of the current crisis via value-accretive acquisitions, to the extent that such opportunities are made available by distressed/motivated sellers. In our view, the longer-term investment case remains very strong, even as the stock prices declined to near recent lows during the First Half as a result of the crisis. Shares are currently priced at an over 30% discount to tangible book value, which, in turn, reflects depressed conditions in the Brazilian office real estate market over the past five years.

As for **Telefonica Brasil**, a leading telecommunications operator providing mobile and fixed line telecom services across Brazil, we do not expect a meaningful lasting impact on the business as a result of the virus, although the general decline in Brazilian economic activity will clearly present a meaningful headwind in the short-term. Longer-term, we believe Telefonica Brasil is well-positioned to benefit from considerable long-term growth potential, driven by factors including increased demand for connectivity and data given the continued growth of e-commerce, mobile banking, social media, etc., as well as low internet and broadband penetration rates in Brazil relative to developed markets despite a younger, faster-growing population of enthusiastic internet users. Other factors that we believe have the potential to positively impact the returns from this investment include the settlement of remaining double taxation suits in the company's favor, the transfer of ownership of legacy assets from the government (including real estate) to the company, the potential exit of Oi S.A. from the competitive landscape, and possibly increased revenues from an eventually recovering Brazilian economy. In our view, the company possesses a strong financial position, has historically been profitable and cash generative even in difficult periods, and trades at a very modest valuation.

Energy: As noted earlier, the sudden, dramatic collapse in crude oil demand due to pandemic-driven lockdowns, coupled with a surge in supply from feuding producers Russia and Saudi Arabia, provided a surefire recipe for a plunge in oil prices and in the profitability of oil-related businesses. Although the incredibly rapid collapse in oil prices prompted us to dispose of one of our Energy-related investments (**Gran Tierra Energy**, more later), we remain confident that the Fund's remaining Oil & Gas-related holdings (Aker ASA, Enerflex and Tidewater) are well-

positioned to weather this transitory downturn and offer attractive investment opportunities over the longer-term.

For one example of this, we highlight **Aker ASA**, a Norwegian investment company with holdings, *inter alia*, in oil exploration & production, oil services, shipping and fisheries, via both publicly listed and private companies. The company is an active investor in the companies where it has ownership stakes, which combined with its available liquidity, has allowed it to opportunistically build value via acquisitions, divestitures, mergers and recapitalizations of weaker players. This has allowed the company to build its NAV at impressive rates over time, achieving a 22% compound average growth rate over the five years through December 2019, albeit with some volatility mirroring the market values of the underlying businesses. Aker's successful track record of exploiting opportunities to acquire discounted assets in difficult environments should serve the company well in today's uncertain environment. It currently trades at a roughly 15-20% discount to the value of its underlying holdings, the prices of which were impacted during the recent oil price decline notwithstanding the low-cost nature of its investee company's oil production in the North Sea (roughly \$10-12 per barrel).

In summary, we remain encouraged that the Fund's long-term investment cases are quite strong, possess staying power, and at heavily discounted prices offer attractive margins of safety. We know that this is a very unsettling time, but we remain confident that the current environment, in retrospect, will in the long run prove to have offered some very attractive investment opportunities. Times of great adversity and uncertainty have a tendency to provide interesting prospective longer-term returns. We believe that this is one of those times.

Investment Activity in the Fund

With that in mind, during the First Half we strove to make the most of the market dislocation resulting from COVID-19, taking advantage of short-term volatility and attractive pricing to add to several existing positions in the Fund, in addition to initiating three new positions in the portfolio. Although located on three different continents (South America, Asia and Europe) and operating in various industries, these three new investments share one common theme. Given their unique attractions, these investments have rarely been priced attractively enough for strict value investors like ourselves, but the disruptions caused by COVID-19 have presented us with opportunities that historically have, more often than not, been out of our reach.

Despegar.com

Despegar.com ("Despegar") is the largest online travel agency ("OTA") in Latin America. The company has a presence across 20 countries in the region and is the leader in key markets including Brazil and Argentina. Although the company is somewhat akin to Expedia or Hotwire here in the U.S., it's important to note that the OTA business in Latin America is, in our opinion, far more attractive than the business in North America for several reasons. First, growth prospects are better; as standards of living in the region improve, one of the fastest-growing areas of spending is on travel, both domestically and internationally. Second, the travel business is still mostly offline, with only 40% of travel booked online, providing opportunity for OTAs to drive growth by taking market share. Third, the suppliers of travel products in the region are much more fragmented than in other markets, with the largest hotel chains controlling just 7% of supply (versus 50% in the U.S.) and 67 airlines operating across the region. This results in higher added value from the OTAs and thus a stronger competitive positioning – the

fragmented suppliers compete for customers, and one of the ways they do this is by paying the likes of Despegar to acquire the customers for them. Finally, credit card penetration in the region is well behind other markets, which provides the OTAs the ability to provide other ancillary services (such as financing) which generate more fees per transaction.

We have followed the company for some years, but because of its strong business model, consistent topline growth, and “new economy” status, the stock has historically been valued at a level that we felt was a premium. However, following two years of currency-induced volatility in their two largest markets and now the near total drop-off in travel resulting from lockdowns and travel restrictions associated with COVID-19, a situation has presented itself where the near-term outlook for the business is very challenging and the stock price has repriced to a level that even we find attractive. This has provided long-term investors like us with the opportunity to buy shares in a very attractive business at what we think is a discounted valuation of about 5x Average EBITDA (Earnings Before Interest Taxes Depreciation and Amortization) over the past three years.

As noted above, the near-term fundamentals of Despegar’s business are likely to be very challenging. The company saw a 95% drop-off in travel in the second half of March and while things seem to have improved since then, the business is far from recovering. We believe that the company has no survivability risk though, as they currently have no net debt and more than \$200 million of net cash on hand. Following the onset of COVID-19 restrictions, the company has taken significant steps to reduce its cost base – both temporary steps such as curtailing advertising and development spending and permanent steps such as headcount rationalizations. In addition to providing for survivability through this challenging period (the company estimates that it has more than a year of runway with zero revenues), Despegar management also expects that this will result in a stronger business with improved margins when we exit the current challenging period. In addition, Despegar’s smaller, less well-capitalized competitors are apt to have a tougher time surviving the current downturn – especially the longer it drags on – leaving Despegar to take even greater market share when we eventually emerge from this.

During the past 20 years, Despegar has invested \$1.5 billion in building its brand through technological development and advertising. Today it is reaping the benefits of its first-mover status, with 69% of the traffic coming to its website coming through unpaid sources – as opposed to paid ads and referrals. This brand recognition is a massively valuable asset that contributes directly to the success and profitability of Despegar but is not reflected on the company’s balance sheet. At today’s valuation, we believe that we are paying very little for this massive asset, which although considered an intangible asset in traditional accounting terms, is very real in defining its competitive strength. We also expect that as Latin America emerges from the other side of its COVID-19 lockdowns, shareholders will benefit as the company is shifting from investing to build this brand into harvesting the value of this asset, which could lead to improving profitability and continued topline growth.

Edelweiss Financial Services

Edelweiss Financial Services (“Edelweiss”) is a diversified Non-Bank Financial Company (NBFC) listed in India. As we wrote in our last letter, the market environment in India has been challenging for the Financial Services companies in general, and for the NBFCs in particular.

Since then, the onset of COVID-19 and the lockdown India implemented to halt the spread of the virus have only made the situation tougher for these companies. Accordingly, the entire sector has seen significant declines in valuations, creating attractive opportunities for long-term investors to buy companies that had previously been priced at premium valuations due to their attractive long-term growth potential.

Edelweiss is a leading Financial Services company in India that operates across three core businesses: Credit, which lends money to retail and commercial borrowers; Investment & Advisory, which provides wealth management, asset management, capital markets services, and distressed debt resolution; and Insurance, which provides life insurance and general insurance.

Edelweiss has spent the past decade growing beyond its original business of capital markets (now part of its Investment & Advisory business) and investing in new areas to improve stability and access new lines of business and a larger share of customers' wealth. After launching the Credit business in 2007, the segment grew from nothing to become the largest business for the company today. In addition to the Credit business, Edelweiss has also invested in insurance, first launching a life insurance business with Tokio Marine Holdings of Japan in 2011 and then a Property & Casualty insurance business in 2018. In addition to the Insurance and Credit businesses, Edelweiss has reinvested in and expanded its legacy business, which now encompasses one of the largest distressed debt resolution companies in India and a leading wealth management and investment management platform.

As Edelweiss builds this diversified platform, it is realizing benefits in addition to diversification. For instance, the company lends through its Credit business in partnership with the funds it manages. This lowers overall risk for the company (as lending exposures are shared amongst other fund investors) and increases returns (as Edelweiss charges fees for managing the funds on behalf of other investors). This range of businesses also allows the company to service clients across multiple stages of their business – creating wealth through the Credit segment, growing wealth through the Investment & Advisory segment and protecting wealth through the Insurance segment.

Despite being diversified across different business lines, Edelweiss has not been immune to the tightening funding situation in India. However, the company has been able to continue to finance itself and appears to be on solid financial footing with strong capital adequacy ratios across its subsidiaries and substantial available liquidity. The company has also attracted some large, well-respected foreign investors who have made direct investments into some of its various underlying businesses – allowing them to improve liquidity, fund further growth, and endorsing the strength of the overall business – while also providing increased independence amongst each of the subsidiary businesses – which may be individually listed at some point.

Lastly, it is important to note that Edelweiss' dominant shareholder, Rashesh Shah, owns 32.9% of the company's shares outstanding. In addition to his stake, management and employees own a further 12.5% of the company. In our opinion, the 45% ownership position by Edelweiss management and employees is a positive as it aligns them with minority shareholders as a significant component of their wealth is tied to the stock price, incentivizing management to focus on building value over the long term as opposed to taking excessive risks for short-term personal gains. These dominant shareholders have also been increasing their ownership

position in the company, taking advantage of the attractive valuation of the stock earlier this year by buying more.

This is the Fund's second investment in India, and it warrants talking about the broader opportunity in the country. India is the world's fifth-largest economy and has the second-largest population on Earth, which also happens to be amongst the youngest demographically, with more than 50% of the population under the age of 25. With fits and starts, India has experienced some impressive growth in GDP over the long-term and there is little reason to think that this will not resume, albeit with some challenging periods along the way. As we have previously noted, the valuations of stocks in India generally reflect these positive factors and, as value investors, the opportunities for us to invest in the country at prices that we find attractive tend to come about only during times of stress. We believe that the current situation is one such time.

Exor NV

Exor NV ("Exor") is a Milan-listed diversified holding company with its principal investments in Fiat Chrysler Automobiles NV (automobiles); CNH Industrial NV (trucks/commercial vehicles; agricultural/construction equipment; engines and powertrains); Ferrari NV (sports cars); GEDI Gruppo Editoriale SpA (publishing & broadcasting); Juventus Football Club SpA (professional soccer club); and Partner Re (reinsurance). All but the last of these are publicly listed companies. In addition, it has smaller investments in a number of entities including *The Economist*, Perella Weinberg, and a portfolio of listed and unlisted investments.

A first order, mechanical analysis of the security indicated that Exor trades at a discount to an as-is net asset value ("NAV"), with the valuations of its various constituents being impacted by COVID-19, as arguably being depressed. A discounted valuation combined with inexpensive underlying holdings is generally a necessary, but not sufficient, condition for considering purchase. The next step was to ascertain whether the underlying holdings and their oversight are credible enough to warrant committing capital to such an investment. On that point, the history of stewardship by the current generation of family controlling Exor, the Agnellis – notably under the watch of John Elkann, who is currently the Chairman and the Chief Executive Officer of the company – has in our view been nothing short of remarkable, though arguably still a work in progress. We believe the structural changes underway are likely to continue to build and surface value among the underlying holdings.

The starting point for the Elkann era was a pair of highly leveraged holding companies, which in turn controlled Fiat SpA, yet another leveraged entity. Over a decade, a succession of transactions resulted in a single holding company with modest financial gearing (Exor), which controlled Fiat SpA. Fiat SpA spun off Fiat Industrial SpA, which became the precursor to today's CNH Industrial NV. Thereafter, Fiat SpA opportunistically acquired Chrysler, spun off Ferrari NV (the luxury car manufacturer), and sold off Magneti Marelli SpA (an auto parts company), resulting in what is today's Fiat Chrysler Automobiles NV – in our view, a far better financed company than it was in the earlier years, and with a much improved product offering in the various geographies in which it operates.

Wholly owned PartnerRe, which provides life and non-life reinsurance, was acquired by Exor in March 2016 for \$6.7 billion. PartnerRe has returned roughly \$661 million in distributions to the

parent during the three years following its purchase, notwithstanding a relatively indifferent pricing environment in reinsurance markets over this time period.

The opportunity to invest in the common shares of Exor arose from a number of COVID-19 related disruptions, principal amongst these were:

- Exor received an unsolicited \$9 billion bid for Partner Re in early March 2020. Subsequently, the purchaser attempted to renegotiate the price in the light of the generalized uncertainty stemming from COVID-19 outbreaks in various countries. Given the minimal exposure to liabilities from the pandemic, there was a reluctance on the part of Exor to change the transaction terms, leading to the cancellation of the transaction in May. As a result, Exor continues to own PartnerRe as the industry heads into an arguably better pricing environment for reinsurers.
- Last December, Fiat Chrysler Automobiles NV announced a merger of equals with Peugeot SA, which would allow the pooling of resources in the development of electric and autonomous vehicles and tremendous scope for cost savings, be it in reduced duplication of capital investment, or the reduction in the purchasing costs or reduction in the number of production platforms. The virus-related disruptions to both companies' operations, combined with the uncertainty stemming from the outcome of antitrust review in the various jurisdictions – notably Europe – have continued to be an overhang for these shares. While it is hard to handicap the outcome of the antitrust review currently underway, the commercial logic behind the merger is quite compelling, and we believe that the incentives are considerable for the merging firms to arrive at some form of accommodation with the authorities to address their concerns.
- Separately, CNH Industrial NV had announced its intention to separate into two listed entities: one with the trucking business, principally Iveco; and the other being the off-the-road business, principally agricultural and construction machinery. While the intended restructuring has been continuing largely as planned, there have inevitably been pandemic-related delays in the execution of the various steps necessary for this split, *e.g.*, recruitment of some members for the separate management teams and the like.

We are of the view that the impact of each of these events, while disruptive in the short term, will fade with the passage of time and Exor will be able to realize the benefits of the various actions noted above. In short, we believe that the fallout from COVID-19 offered us what we see as an unusual opportunity to invest in this collection of assets at a meaningful discount to NAV, despite the company's impressive track record of creating value over time.

Moving on to activity on the sell side, as discussed in our past two Shareholder Letters, in our opinion the investment cases supporting many of the Fund's core positions (in particular, with regard to valuation) have become increasingly compelling following stock price declines. Given that view, during the First Half we eliminated seven positions: **Atlas Mara, Bolsa de Valores de Colombia, Copa Holdings, Franklin Resources, Gran Tierra Energy, Hellenic Exchanges, and Royal Gold**. Almost all of the holdings sold entered 2020 among the smaller positions held in the Fund, and in general, were sold primarily as part of our continued effort over the past year-plus to more narrowly focus the portfolio on our highest conviction ideas, such as Despegar, Edelweiss, Exor and the several existing core positions that we added to this year.

Two notable exceptions to this were our sales of **Franklin Resources** and **Gran Tierra Energy**, both of which, in our view, have seen their margin of safety diminished by recent developments. The decision to sell Franklin Resources was made after its announced purchase of Legg Mason – a transaction that, although not without its theoretical attractions, will deplete the company’s sizeable cash balance, thereby reducing its margin of safety in our view, in addition to increasing risks of management distraction, client redemptions, and potential key personnel departures from the merged entity. As for Gran Tierra, we decided to eliminate the position following the rapid decline in oil prices as a result of COVID-19 lockdowns and the oil price war. Although the company’s historically reasonable balance sheet and the ability to reduce its growth (as opposed to maintenance) capital expenditure in relation to falling revenues has historically acted as a safety valve for the business, the fall in the price of crude oil has resulted in the company sharply reducing its discretionary capital expenditure plans, so as to meet its other requirements, both operational and financial. Given the narrowing in the margin of safety in this holding because of the fall in oil prices, we decided to sell. Although we believe Franklin and Gran Tierra shares remain quite cheap, our focus on risk mitigation took higher priority, and we decided to sell, redeploying the proceeds into what we believe are more compelling opportunities at this point, some of which are discussed above.

A Parting Note

Looking forward, it is important to note that the *stock prices* of the Fund’s holdings seem likely to continue to be volatile in the coming months in both directions, as markets react to news flow on virus cases and on government actions in response, in real-time, likely without much regard to valuation and underlying, longer-term business strength and fundamentals. The direction and magnitude of such day-to-day volatility is difficult (likely impossible) to predict with any reasonable level of accuracy and consistency. But we believe this is a good thing for the Fund, as such volatility would likely continue to periodically offer us opportunities to invest at very modest prices in businesses that have many of the attractive characteristics discussed, which we believe augurs well for the Fund’s return potential over the longer-term. As in many past crises, we believe that the current turmoil will eventually prove, in retrospect, to have offered some unusually lucrative long-term investment opportunities. We continue to remain focused on staying the course, maintaining a long-term focus, and taking advantage of buying opportunities made available by the COVID-19 crisis.

As always, many thanks for your continued support, interest, and curiosity. We look forward to writing you again after the close of the Fund’s Fiscal Year.

Best wishes to you and your loved ones during these challenging times. Please stay safe.

Sincerely,

Amit Wadhwaney

Portfolio Manager

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