Emerging Markets

Fourth Quarter 2019

COMMENTARY

GLOBAL VALUE ADVISORS
A Division of Moody Aldrich Partners

Global Value Advisors is an investment boutique specializing in long-only international and global equities. We are value investors and our research shows that companies that generate positive Free Cash Flow and return capital to shareholders outperform the market. We use a disciplined methodology to isolate an advantaged subset of the universe and then apply fundamental research to identify companies with sustainable Free Cash Flows to maintain their assets, finance their growth and return capital to shareholders.

Total Returns (Net of Fees)	Q4
GVA Emerging Markets	**15.73%**
MSCI Emerging Markets Index	11.84%
Value Added	**3.89%**

Emerging Market Regional Indices	Q4
MSCI China	14.71%
MSCI Korea	13.40%
MSCI Taiwan	17.94%
MSCI India	5.32%
MSCI Emerging Markets Small Cap	9.52%

The GVA Emerging Markets strategy was launched May 13, 2019. Since its inception, the strategy has returned +14.35% compared to +10.12% for its benchmark, the MSCI Emerging Markets Index. This return ranks in the top decile of our eVestment peer group[1].

From its inception date until the end of the year 2019, the MSCI Emerging Markets Value Index returned +7.4% versus +12.8% for the MSCI Emerging Markets Growth Index; over the same period, emerging small caps underperformed larger caps. These market dynamics have been headwinds to our strict value approach that tends to favor small and medium size companies in our investment universe.

Strong selectivity was the dominant driver of our returns as we focus on an exclusive club of businesses that have a structural edge. Companies we own share the following attributes: **they rely on internal financing sources to run their operations, they return the unused cash to their shareholders, and they do not carry significant levels of debt on their balance sheets. The combination of high cash generation with disciplined capital allocation creates superior businesses that outperform the others, especially when combined with cheap valuations.**

During 2019, companies that generate positive free cash flow and positive shareholder yield significantly outperformed the rest of the universe. Even though value companies in general did poorly our emphasis on value companies within this superior pool of companies still did better than the rest of the universe and our benchmark.
Our bottom-up disciplined value process positioned the portfolio in countries that delivered strong returns over the period: positive allocation effect was generated by our overweighting in Brazil, Greece, Russia and Turkey. These markets were the top performers in the emerging region in 2019. Underweighting India and China was also beneficial, as these two markets trailed in the benchmark.

We are optimistic about the current portfolio positioning in very cheap, highly profitable, unlevered companies. We know that these attributes provide natural tailwinds to our portfolio and they contribute to its staying power. We also think it is worthwhile reiterating that our portfolio positioning is very different from our peers'. The following charts capture the essence of the difference:

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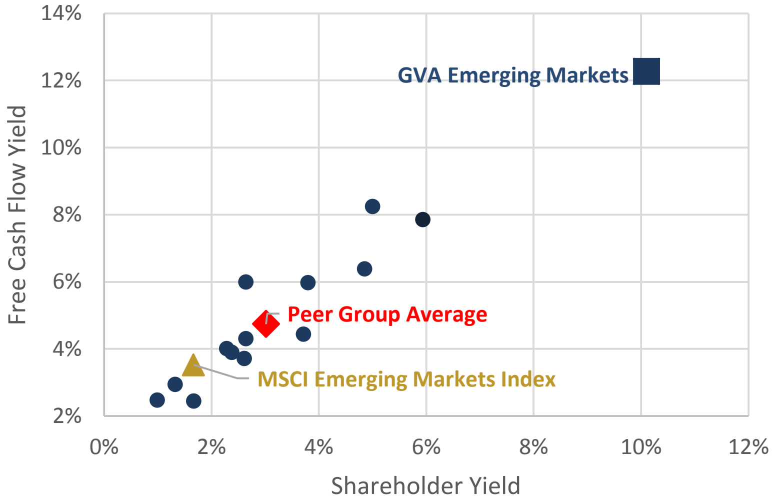

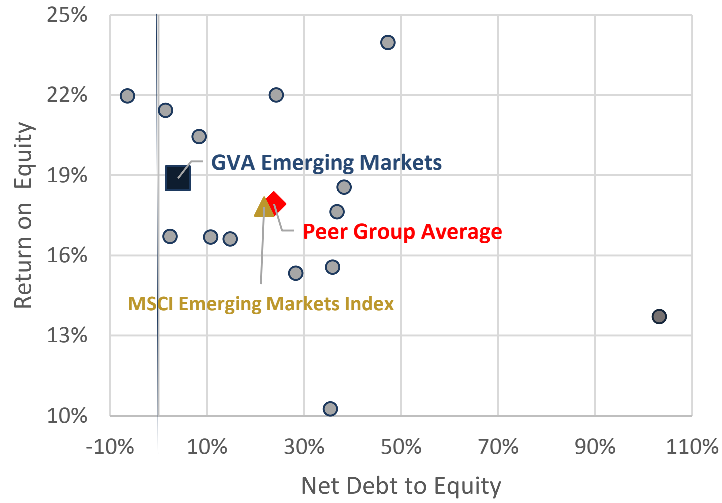

*Source: eV*estment universe is the Global Emerging Markets All Cap Value Equity universe (mutual funds only, 15 constituents) as of Dec 31, 2019. Aggregate metrics are derived from the most recent quarterly reported holdings ex-financials and analyzed in Factset.

<u>Top 3 Performers in Q4 2019</u>

Enauta Participacoes S.A. (ENAT3-BR)

Enauta Participacoes operates an oil & gas exploration business in Brazil. The company's key startup oil field, Atlanta, continues to show production progress. Management provided a trading updating in October, showing that Atlanta's production more than doubled following strong drilling results. This led to a roughly 12% increase in 2020 consensus estimates. Enauta also benefited from the 13% increase in Brent Crude Oil prices in Q4, to $68 per barrel. Free Cash Flow Yield is 8%, Shareholder Yield is 15%, and Price to book is 1.5x

Astral Foods Limited (ARL-ZA)

Astral is a leading South African integrated poultry producer. The company provided updated earnings guidance in October that was ahead of expectations. 2020 consensus earnings estimates rose by 30%, following the release. In November, actual 2019 results were reported, and while mixed, investors are expecting a material improvement in 2020. 2019 revenues grew by 4% year-over-year (YoY), but earnings per share fell 55% on the back of lower poultry pricing and higher input costs. Astral has 555m SAR in net cash on the balance sheet, or 7% of the market cap. Free Cash Flow Yield is 4%, Shareholder Yield is 6%, and Forward 1 year PE is 8x.

Holy Stone Enterprise (3026-TW)

Holy Stone is based in Taiwan and manufactures ceramic capacitors. Strong Q3 2019 results were reported in early November. Total revenue increased by 8% YoY to 4.0bn NTD. Operating profits rose by 30% to 415m NTD. The company benefited from increased capacity utilization rates and strong seasonal demand. Free Cash Flow Yield is 9%, Shareholder Yield is 9%, and Forward 1 year PE is 17x.

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<u>Bottom 3 Performers in Q4 2019</u>

PT Indo Tambangraya Megah (ITMG-ID)
ITMG is a coal mining company based in Indonesia. Q3 2019 results reported in November saw profits decline significantly on the back of lower coal prices (-20% YoY) and higher production costs. This more than offset strong production growth (+5% YoY). A combination of slower global growth and higher production trends has pressured coal prices. International coal prices were down 40% the first nine months of 2019. Note that there were some signs of coal prices stabilizing in Q4. The company's balance sheet provides downside protection, with net cash of $260m US or 25% of the market cap. Free Cash Flow Yield is 18%, Shareholder Yield is 27%, and 1 year Forward PE is 7x.

BAIC Motor Corporation (1958-HK)
BAIC Motor Corp is the 5th largest auto producer in China. In October, the company posted mixed Q3 2019 earnings. Net revenues grew 16% YoY driven by growth in Mercedes and its own-brand electric vehicles. Net profits declined 7% YoY, due to margin compression. Management has put several cost cutting initiatives in place to address the margin pressure. Net cash is $11bn HKD, or 30% of the market cap. Free Cash Flow Yield is 42%, Dividend Yield is 5%, and 1 year Forward PE is 8x.

Formosa Taffeta Co (1434-TW)
Formosa Taffeta is a Taiwanese operator of three businesses: textiles, tire cord fabric, and petroleum stations. The share price was relatively flat in the quarter, despite posting decent Q3 2019 earnings. Formosa Taffeta is on track to grow 2019 sales by 5% to $47bn NTD. EBITDA for the year is on pace to grow 4% YoY and free cash flow has been positive in 9 of the last 10 years. Free Cash Flow Yield is 5%, Shareholder Yield is 8%, and 1 year Forward PE is 15x.

We are optimistic about the current portfolio positioning in very cheap, highly profitable, unlevered companies. We know that these attributes provide natural tailwinds to our portfolio and they contribute to its staying power.

Please feel free to contact us with any questions or comments. Thank you for your interest in Global Value Advisors. We look forward to updating you again next quarter.

Sincerely,

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Endnote: 1. eVestment Global Emerging Markets All Cap Value Equity universe.

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For comparison purposes, the GVA Emerging Markets strategy performance is measured against the MSCI Emerging Markets Index.

Past performance is no guarantee of future results. Returns are presented gross and net of management fees and include the reinvestment of all income. More information about such fees and expenses applicable to a client's investment are generally available in the Form ADV Part 2A of Moody Aldrich Partners, LLC, which is publicly available and upon request and provided to every client (along with Form ADV Part 2B) prior to investment. Actual returns may vary from the performance information presented. All performance numbers are expressed in US Dollars. This product does not use leverage, derivatives or short positions in its portfolio.

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