Emerging Markets

Third Quarter 2021

COMMENTARY

GLOBAL VALUE ADVISORS
A Division of Moody Aldrich Partners

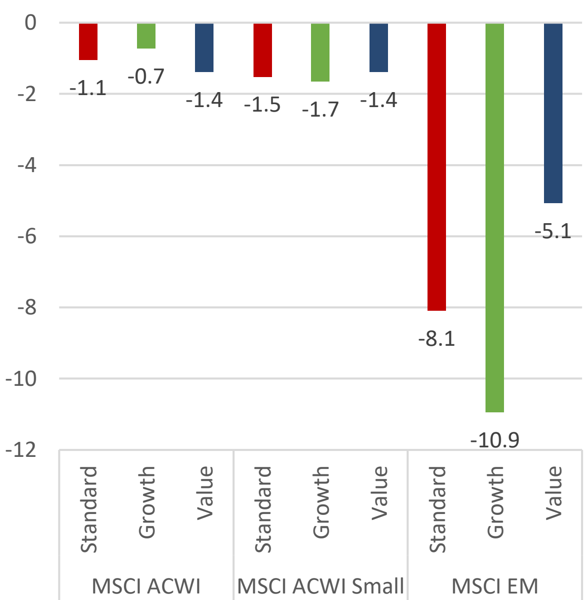
Global Value Advisors is an investment boutique specializing in long-only international and global equities. GVA is a value investor and its research shows that companies that generate positive Free Cash Flow and return capital to shareholders outperform the market. GVA uses a disciplined methodology to isolate an advantaged subset of the universe and then applies 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)	Q3
GVA Emerging Markets	**-3.4%**
MSCI Emerging Markets Index	-8.1%
MSCI Emerging Markets Value Index	-5.1%
MSCI Emerging Markets Growth Index	-11.0%

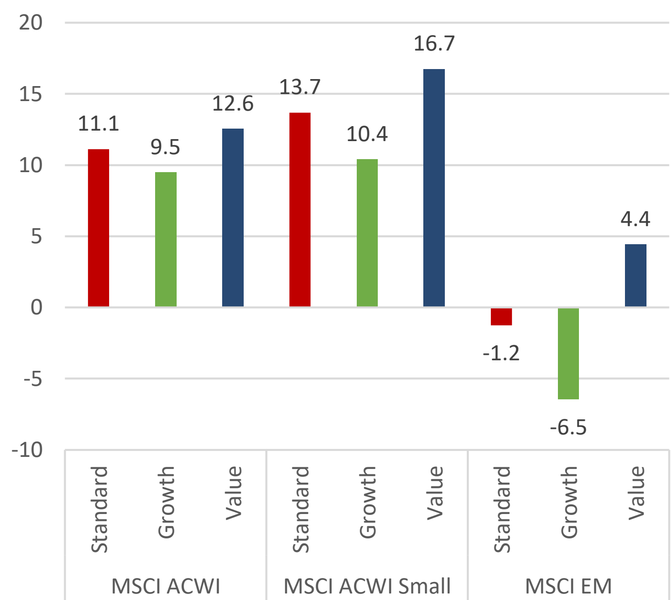
Regional Indices	Q3
MSCI China	-18.2%
MSCI Korea	-13.2%
MSCI Taiwan	-2.1%
MSCI India	12.6%
MSCI Emerging Markets Small Cap	-2.2%

GVA's Emerging Markets strategy outperformed in Q3 2021. China was the standout underperforming market in the quarter as the government continued its regulatory crackdown on the education and technology companies, which both represent expensive Growth industries. Adding to this was contagion worries surrounding the near bankruptcy of the real estate developer Evergrande in China. As a result, Value significantly outperformed Growth in the quarter. This outperformance was counter to the trend seen in developed markets. Companies in GVA's Advantaged Subset (positive FCF + positive Shareholder Yield) outperformed the benchmark in the quarter and on a YTD basis. GVA's strategy focuses exclusively on higher quality companies with strong Free Cash Flow, high Shareholder Yields (dividends + buybacks + debt reductions), solid balance sheets, and that are significantly undervalued.

Q3 2021 Performance (%)



YTD 2021 Performance (%)



Source: Factset, total returns

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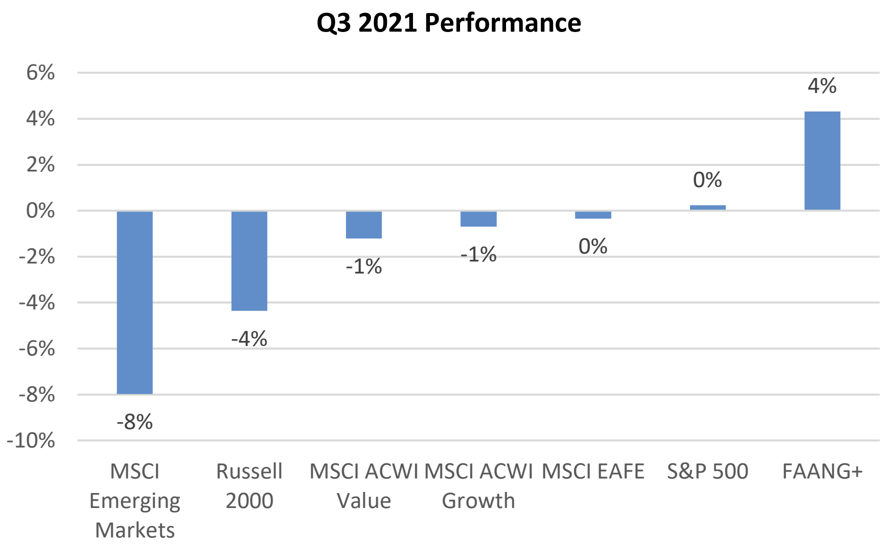
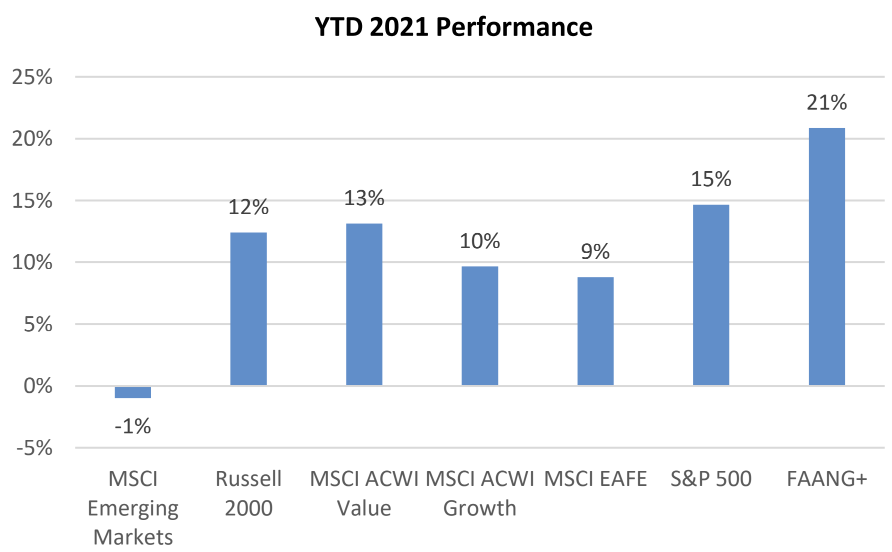
GVA's Emerging Markets performance in the quarter was in-line with expectations, as the strategy typically outperforms during both Value and modest Growth outperformance markets. GVA expects to underperform during extreme Growth markets, as experienced in Q1-Q3 of 2020. GVA's globally unconstrained strategy also takes advantage of material valuation disparities, exemplified by the strategy's large overweight Russia (14% vs 4%) and large underweight Taiwan (3% vs 15%) vs. the MSCI Emerging Markets Index. GVA was on the right side of both bets in the quarter, as investors rotated towards cheap Energy stocks and away from expensive Technology stocks. Energy was the standout sector contributor, where the strategy is overweight vs the Index (15% vs 6%) and Brent oil prices rallied to $79 per barrel.





Source: Factset, total returns

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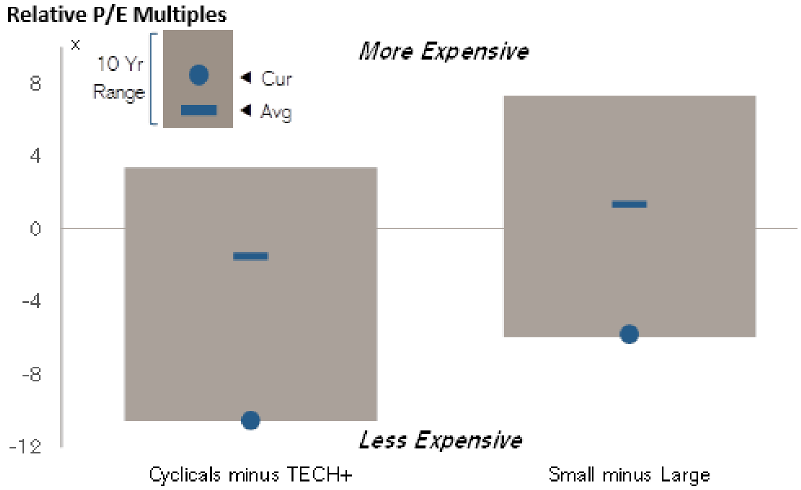
The outperformance of expensive Technology stocks has been a headwind to the strategies. Market valuation multiples are currently at all-time highs across multiple metrics (P/S ratio, CAPE ratio, and Market Cap/GDP ratio), but large divergences can be seen when looking across regions, styles, size, and sectors. The relative PE multiple of Cyclical stocks vs Technology stocks is currently at 10-year lows. The same stretched valuation gap can be seen when looking at relative PE multiples of Small Cap stocks vs Large Cap stocks over the last decade. GVA's strategies are well positioned to take advantage of this anomaly once the market normalizes. GVA's Emerging Markets strategy is significantly underweight Technology stocks vs the Index (3% vs 21%). The strategy is also finding much better value in smaller cap stocks, with an average market cap of $3.9bn vs the Index at $37.0bn.



Source: Credit Suisse. S&P 500

The charts below show the same 10-year relative PE ratios, expanded across sectors as well as investment styles for the S&P 500. Similar results can be seen on a global basis. TECH+ typically trades at a 2.3x multiple point premium to the market, but it is currently trading at a 6.2x premium. Note that all other sectors are actually trading at a *discount* to their 10-year PE average. Similarly, Growth has traded at an average 2.6x multiple point premium to the market, but today it trades at a 6.4x premium. This dynamic is the opposite for Value, which is trading well below its 10-year average PE ratio. GVA focuses exclusively on the cheapest 20% of stocks in the world. The PE ratio of GVA's Emerging Markets strategy is 7x vs the Index at 17x. Note that Financials are also trading at a large discount to their history. GVA's Emerging Markets strategy is slightly overweight Financials vs the Index (20% vs 19%).

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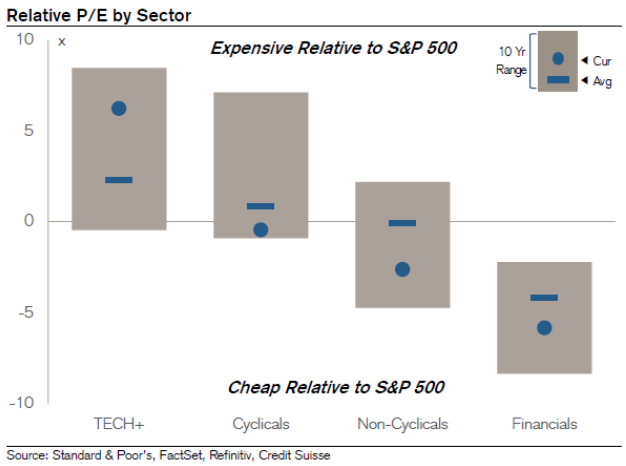

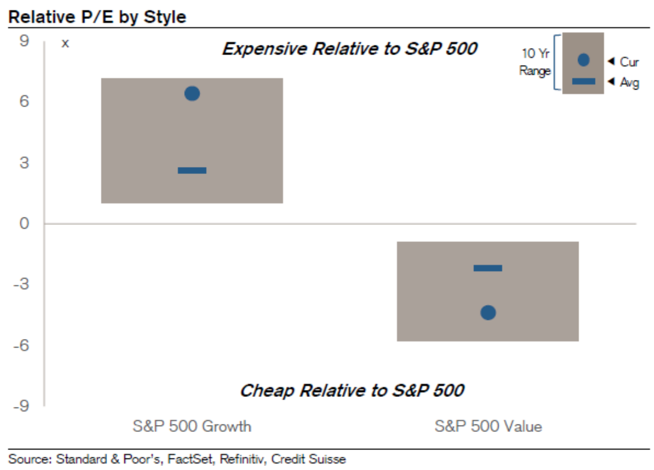

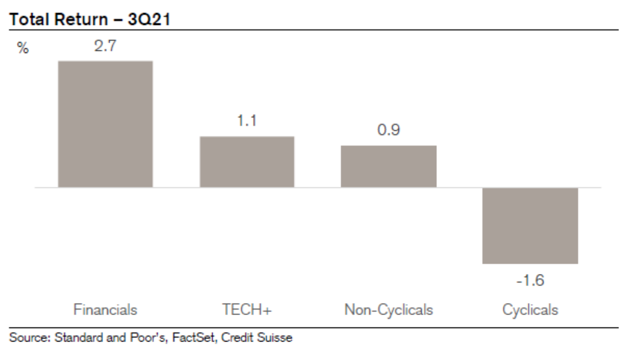

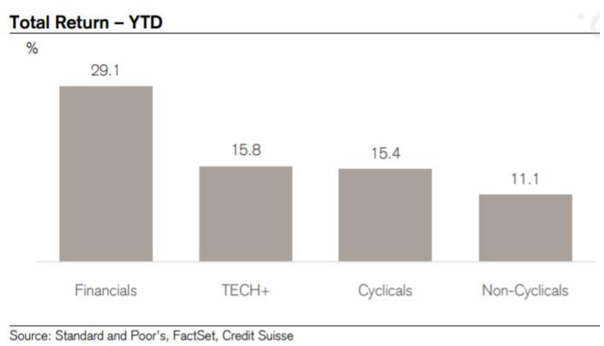

GVA takes a long-term approach to investing and believes it is well positioned to outperform the Index. GVA's research shows that companies in the Advantaged Subset outperform over time. GVA's exclusive focus on value stocks within the Advantaged Subset, should position the strategy well for the coming years. On top of this, GVA believes that markets are at an attractive point in the cycle and are likely to be favorable to its strategies going forward. Several of the headwinds over the last decade look extremely stretched vs history and have recently shown signs of reversing. The relative PE ratio of Emerging Market stocks vs US stocks is now close to a 20 year low at 0.55x. GVA's Emerging Markets strategy is overweight Cyclical stocks, Financials, and Smaller Cap stocks. GVA believes that many or possibly all these factors will turn in its favor over the mid-term and its best years for performance lie ahead.

Q3 2021 Top 5 Contributors†

Security	Avg. Weight (%)	Contribution (%)
China Shenhua Energy Co. Ltd. Class H	2.8	0.5
iShares MSCI India ETF	4.0	0.4
Magnitogorsk Iron & Steel Works PJSC	1.6	0.3
PT Bukit Asam Tbk	0.7	0.2
FirstRand Limited	1.5	0.2

Q3 2021 Top 5 Detractors†

Security	Avg. Weight (%)	Contribution (%)
BB Seguridade Participacoes SA	2.7	-0.6
Enauta Participacoes S.A.	1.2	-0.5
China Resources Pharmaceutical Group Ltd.	1.5	-0.4
BAIC Motor Corporation Limited Class H	3.6	-0.4
Banco Bradesco S.A.	1.4	-0.3

†The information provided in this report should not be considered a recommendation to purchase or sell any particular security. Please see additional disclosures at the end of this letter.

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

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