GLOBAL VALUE ADVISORS
A Division of Moody Aldrich Partners

Emerging Markets
Third Quarter 2024
COMMENTARY

Disciplined Capital Allocators For Tumultuous Times

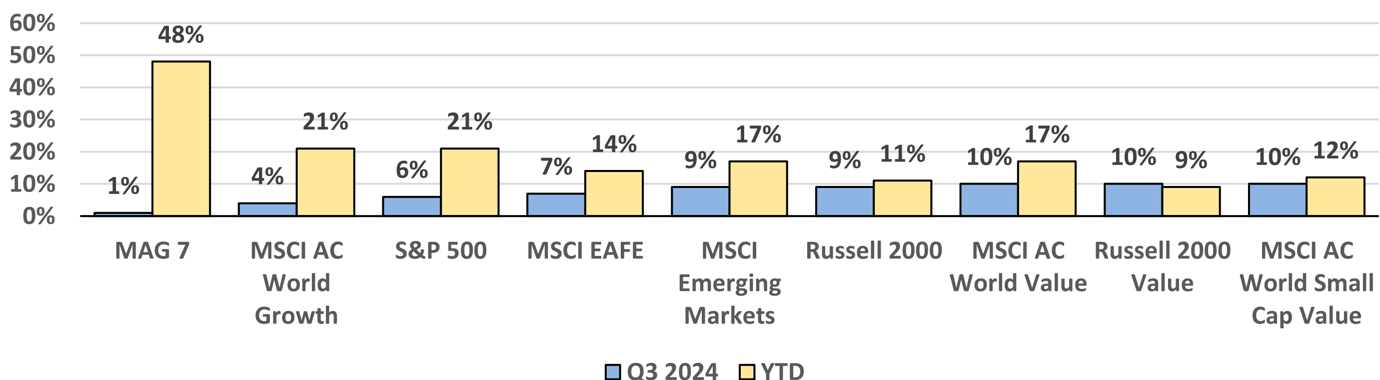
Total Returns (Net of Fees) +	Q3
GVA Emerging Markets	**7.5%**
MSCI Emerging Markets Index*	8.7%
MSCI Emerging Markets Value Index	8.1%
MSCI Emerging Markets Growth Index	9.3%

Regional Indices	Q3
MSCI China	23.5%
MSCI Korea	-5.6%
MSCI Taiwan	0.5%
MSCI India	7.3%
MSCI Emerging Markets Small Cap	5.5%

	GVA Emerging Markets Net Return	MSCI Emerging Markets Net Return*
1 Year	13.8%	26.1%
3 Years**	-2.7%	0.4%
5 Years**	2.0%	5.8%
Since Inception**	1.6%	5.0%

*Benchmark | **Annualized | +Net of fee performance was calculated by retroactively applying the highest model fee for the composite which is the fee new clients would expect to pay based on the early adopter fee schedule (0.60%).

The third quarter of 2024 experienced heightened volatility. Global equity markets appeared poised for a major correction at the tail end of July, but the correction was short lived and major index prices rallied back to all-time highs by the end of the quarter. Key trends in the quarter showed a reversal from the YTD performance. International outperformed the US, Small outperformed Large, and Value outperformed Growth. The Magnificent 7 took a pause and underperformed. Cheap companies with positive FCF and positive shareholder returns (GVA's Advantaged Subset) outperformed the market on a global basis. Against this favorable backdrop, GVA's Global Equity strategy outperformed in the quarter. GVA's International Small Cap and Emerging Markets strategies underperformed, as the Advantaged Subset was a drag in both regions.



Source: Factset. MAG 7 = "Magnificent Seven" stocks – Apple (AAPL), Microsoft (MSFT), Alphabet (GOOGL), Amazon (AMZN), Nvidia (NVDA), Tesla (TSLA) and Meta Platforms (META)

Emerging Markets

Third Quarter 2024

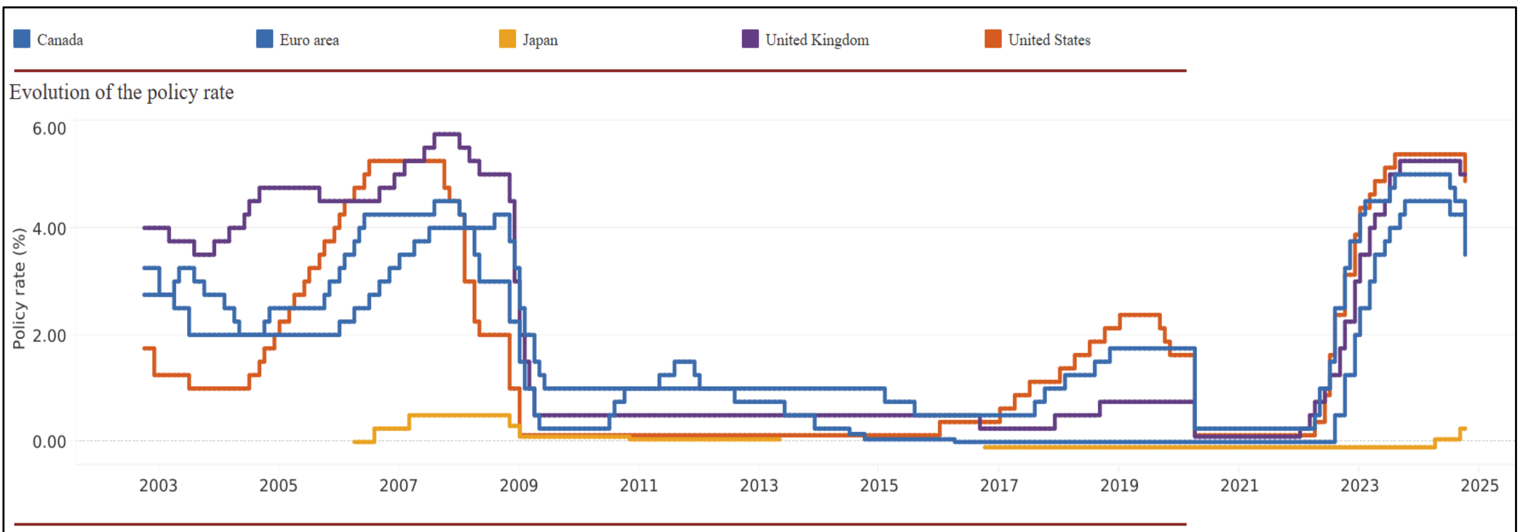
COMMENTARY

The biggest development in the quarter was the start of the long-anticipated Fed easing cycle, following more than two years of tightening. The Fed surprised many investors with a larger than expected 50bps cut to interest rates. The market is pricing in additional interest rate cuts in 2024 and 2025, as the Fed appears to be achieving its dual mandate of maximum employment with stable inflation. The Fed's preferred inflation metric dropped to 2.1% in September vs its target of 2%. The unemployment rate at 4.1% has risen off the bottom but continues to sit close to 50 year lows. On the economic front, the US economy grew at a healthy 2.8% in the third quarter. Consumer spending, which accounts for roughly 2/3 of the economy accelerated to 3.7% growth.

Although the prospects of a soft landing appear high, the data can change quickly. The exact pathway and pace of further interest rate cuts is uncertain. Trump's surprisingly strong "Red Wave" election win is expected to lead to rising deficits, which will add to the already record high $36 trillion national debt. Higher deficit spending is inflationary, as are major proposed policy goals: tax cuts, tariffs, mass deportations, lower regulations, and increased borrowing. Any signs of material changes to inflation or employment will shift investor expectations for further interest rate cuts. The Fed will remain data dependent, as always.

The US is not alone in its interest rate policy shift. On a global basis, most major central banks are now in easing mode. The UK, the Eurozone, Canada, Switzerland, and China are all actively cutting interest rates. Japan remains a key developed market outlier in tightening mode.

Global Central Bank Policy Rates



Source: BIS Data Portal – Central Bank Policy Rates Dashboard

In these rapidly changing and uncertain times for financial markets, GVA's disciplined process should provide stability to a diversified portfolio.

CONTINUED >>

GLOBAL VALUE ADVISORS
A Division of Moody Aldrich Partners

Emerging Markets

Third Quarter 2024

COMMENTARY

Financial markets have gone through extraordinary events in the past few years: the first global pandemic in 100 years, the first global double digit inflation surge in 50 years, and the first war in Europe since 1945. We could even extend this period of extraordinary times to the past 15 years, that were characterized by the lowest interest rates environment in 5,000 years (Homer & Sylla).

Over the long term, a group of companies has steadily outperformed the market. These companies share the following attributes: they rely on the cash generated by their own operations to maintain their business and finance their growth, and they return what is left to their shareholders either directly via dividend or indirectly through share buyback or debt repayment. GVA refers to this select group of companies as the Advantaged Subset. It is the cornerstone of GVA's investment process.

Over the past 5 years, this sub-segment of the universe shows the following annualized returns:

	US	Global	Small Cap	Emerging Markets
Advantaged Subset (Annual)	16.9%	13.9%	10.3%	8.9%
Corresponding MSCI Universe	15.6%	12.2%	8.4%	6.0%
Advantaged Subset Relative Return (Annual)	1.3%	1.7%	1.9%	2.9%

Source: Factset. As of Sept. 2024.

GVA's research shows that these numbers align with longer term trends, as illustrated here, when expanding the study to the past 20 years:

	US	Global	Small Cap	Emerging Markets
Advantaged Subset (Annual)	11.8%	10.2%	11.0%	10.4%
Corresponding MSCI Universe	10.7%	8.4%	7.7%	7.6%
Advantaged Subset Relative Return (Annual)	1.1%	1.9%	3.3%	2.8%

Source: GVA Study, Factset. As of Sept. 2024.

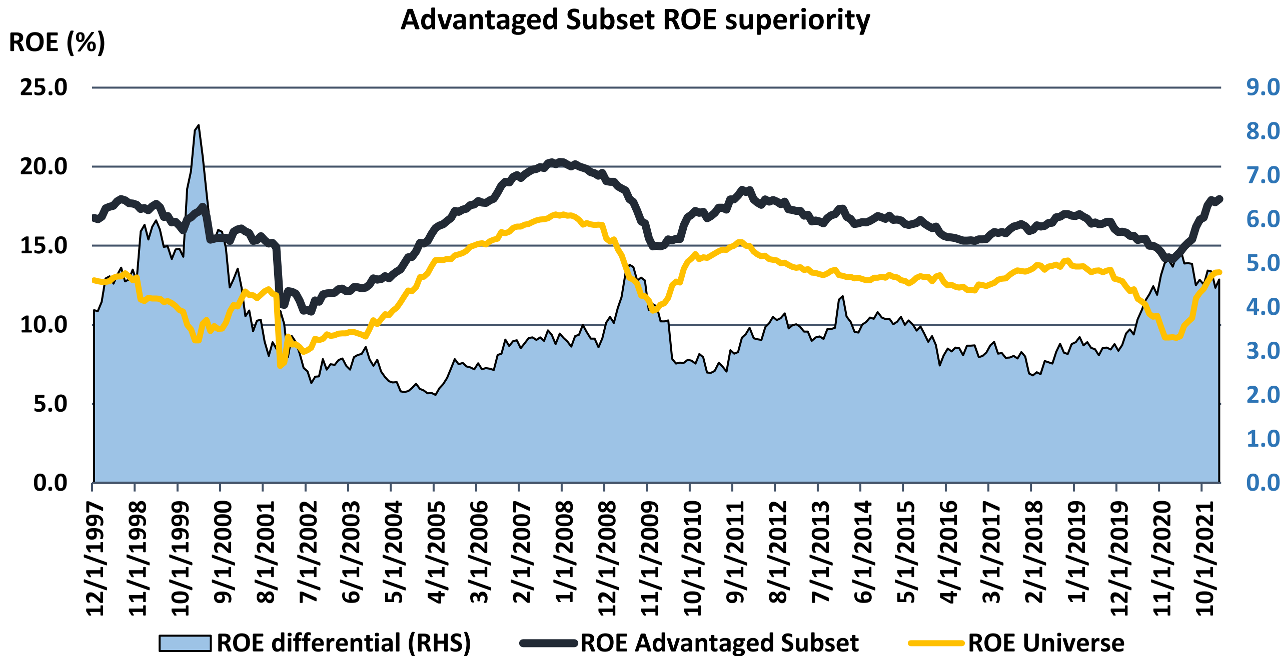
It should be noted that historical outperformance of the Advantaged Subset is similar if the same studies are run on an equally weighted basis against an equally weighted benchmark. This reinforces the strength of the metric, as the outperformance is not being driven by a concentrated number of companies (i.e. Magnificent 7).

This outperformance has also been achieved with a lower level of risk (or volatility). The structural edge of these superior companies can be observed across geographies, sectors and company sizes. Most importantly, the edge is robust through time (GVA's research goes back to the 1970s in some geographies).

These companies adhere to a disciplined capital allocation process relying predominantly on internal funding to operate their businesses while maximizing the shareholder return. This pool of superior companies will of course exclude companies whose cash generation is insufficient to run their operations. It will also typically exclude "empire builders" whose growth is usually externally funded through debt or equity. It also excludes businesses that have morphed into financial engineering experts, taking advantage of ultralow interest rates to manufacture optically appealing buybacks. Finally, it tends to exclude "cash hoarders" whose non-optimized balance sheets often lead to Free Cash Flow agency costs that are typically associated with malinvestment.

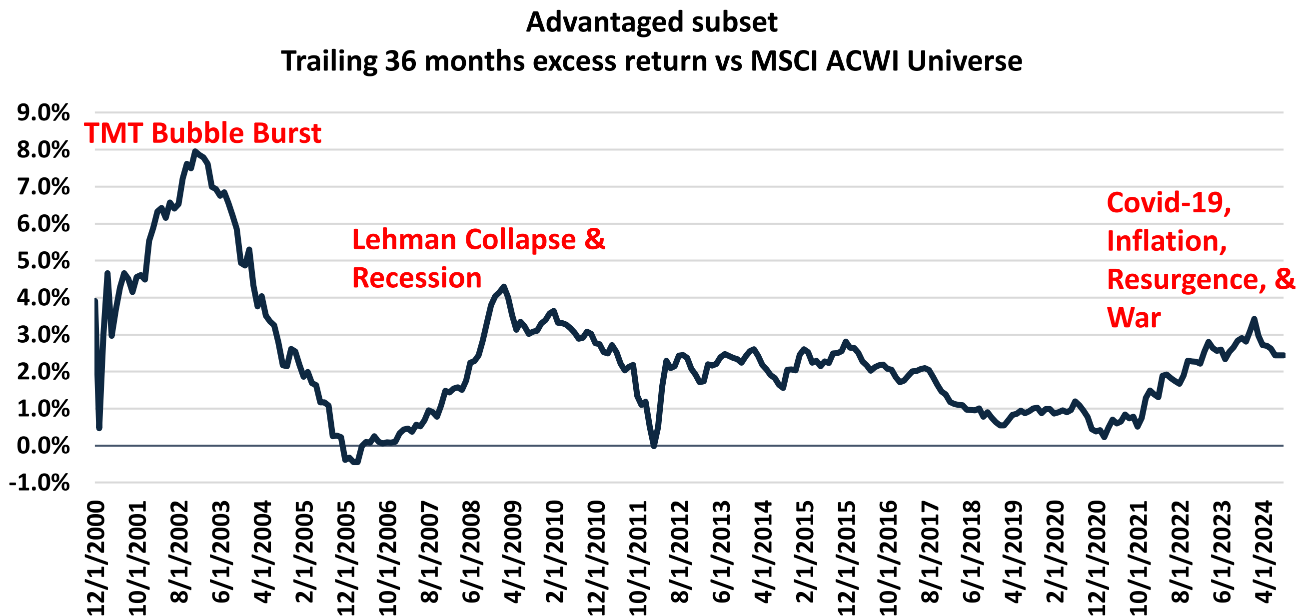
CONTINUED >>

These superior companies exhibit higher profitability and lower leverage than the rest of the universe; we illustrate here the steady profitability gap between the Advantage Subset and the whole universe (in this case the MSCI ACWI universe):



Source: Factset As of Sept. 2024.

These attributes prove to be invaluable during market stresses as illustrated here:



Source: Factset As of Sept. 2024.

Investing in the Advantaged Subset outperforms the market consistently over time. The metric does particularly well during periods of elevated market uncertainty. Over the last 25 years, the Advantaged Subset has only experienced brief periods of sustained underperformance (i.e. late 2005 & 2011).

GVA believes that the investment landscape of the next decade will be drastically different from the one we have operated in since the early 80s: as global debt is being inflated away, inflation and interest rates will find new normals, higher than the levels observed in the 2010s.

Fiscal policies are going to be used to address decades-long underinvestment in infrastructures, to finance decarbonization, nations' independence and defense. This will create new structural demand for goods and workers whose supply is becoming scarcer (limited natural resources and shrinking workforce), which in turn might move prices up; protectionist policies might add to it.

At the same time, markets that have reached multi decade high valuation levels might normalize, as they have often done in similar interest rates regime changes. Deleveraging processes and speculative bubble bursts have proven to trigger a resurgence of volatility. This is why focusing exclusively on the superior businesses that we described above might prove highly rewarding yet again.

Although the Advantaged Subset has steadily outperformed in the complex investment landscape of the recent years, the benefits have been outweighed by the unrelenting outperformance of large cap growth stocks (especially in the US) which has constituted painful headwinds to GVA's positioning in deep value, smid non-US stocks.

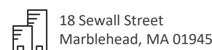
GVA has not deviated from its disciplined value process focused exclusively on companies in the Advantaged Subset. Patient investors stand to be greatly rewarded if they can stay the course. Please feel free to contact us with any questions or comments. Thank you for your interest in Global Value Advisors. We look forward to updating you again next quarter.

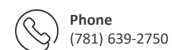
Phillippe Rolland
CIO, Portfolio Manager

Todd Bassion, CFA
Portfolio Manager

Matthew Marotta, CFA
Investment Research
Portfolio
Implementation

OFFICE CONTACT


18 Sewall Street
Marblehead, MA 01945


Phone
(781) 639-2750

Fax
(781) 639-2751

CONTINUED >>

Disclosures

The information contained in this document is subject to updating and verification and may be subject to amendment. No representation or warranty is expressed as to the accuracy of the information contained in this document and no liability is given by Global Value Advisors as to the accuracy of the information contained in this document and no liability is accepted for any such information. This document and the information contained within it are confidential and intended solely for the use of the individual or entity to whom they are addressed. If you are not the named addressee you should not disseminate, distribute or copy this document or any of the information contained within it. If you are not the intended recipient you are notified that disclosing, copying, distributing or taking any action in reliance on the contents of this information is strictly prohibited.

Moody Aldrich Partners claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards" and "GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein."

** This information is presented as supplemental to the GIPS Report, which are available here

*Sector weights include exposure to iShares MSCI China A ETF and iShares MSCI India A ETF. ETF exposures are broken out by sector on a look-through basis.

Past performance is not indicative of future results. The U.S. Dollar is the currency used to express performance. Returns are presented gross and net of management fees and include the reinvestment of all income. Net of fee performance was calculated by retroactively applying the highest model fee for the composite which is the fee new clients would expect to pay based on the early adopter fee schedule (0.60%). The annual composite dispersion is an asset-weighted standard deviation calculated for the accounts in the composite the entire year.

The standard investment management fee schedule for new business is as follows: 0.60% in perpetuity on all investments made prior to strategy assets reaching $150 million, thereafter, 1.00% on the first $25 million and 0.90% on all additional funds. Management fees are paid quarterly in arrears. Actual investment advisory fees incurred by clients may vary.

The information presented in the presentation contains analysis of back-tested the GVA Proprietary Model (the "Model") and does not include qualitative analysis or portfolio manager selections. The results shown represent a larger group of stocks than would be included if qualitative analysis was applied. Our Model narrows down our universe to approximately 125-175 stocks and then we conduct fundamental analysis in order to determine inclusion in the portfolio. The strategy being offered includes both the quantitative and qualitative analysis together however performance shown in the back-test only reflects the quantitative portion of analysis as the qualitative analysis cannot be applied retroactively. Back-tested presentations may not be relied upon for investment purposes and are not meant to represent actual current or future performance.

For more details on the Model please contact info@globalvalueadv.com. Back-tested analysis is hypothetical (it does not reflect trading in actual accounts) and is provided for informational purposes only to indicate historical analysis over the relevant time period. Securities were selected with the full benefit of hindsight, after their performance over the period shown was known. There are inherent limitations of data derived from retroactive application of a model portfolio. The results may not reflect the impact that any material market or economic factors might have had on GVA's use of the back-test Model if the Model had been used during the period to actually manage client assets. GVA was not managing money during the period tested. For comparison purposes, the GVA International Small Cap Model performance is measured against the MSCI All Country World ex-US Small Cap Index. Results in back-test do not guarantee future results.

The Model identifies companies with positive free cash flows, that have positive total return to shareholders, excludes companies whose leverage is in the highest 20% of the starting universe, are the cheapest 20% of the starting universe and illiquid companies are eliminated. Foreign exchange is implicit in the total return. The Model assumes it is fully invested with no cash and includes the reinvestment of all income. The U.S. dollar is the currency used to express performance. All returns are presented gross of investment management fees, trading costs, and all other costs, expenses and commissions associated with client account trading. As there are no fees or expenses deducted, actual client returns could be materially different. The client may experience a loss.