GLOBAL VALUE ADVISORS
a division of Moody Aldrich Partners

Global Equity

Third Quarter2018

COMMENTARY

Global Value Advisors is an investment boutique specializing in long-only international and global equities. We are value investors, who buy businesses that are undervalued due to temporary, non-structural reasons. We believe in combining the discipline of quantitative investing with qualitative judgement informed by fundamental research. The key idea is companies that generate positive free cash flows and return capital to shareholders outperform the market.

Q3 2018 Total Returns (Net of Fees)	
GVA Global Active Equity	**5.00%**
MSCI All Country World	4.28%
Value Added	**0.77%**
MSCI All Country World Value	3.98%
MSCI All Country World Growth	4.56%

Regional Indices	
MSCI USA	7.36%
MSCI EAFE	1.35%
MSCI EM (Emerging Markets)	-1.09%

During the 3rd quarter, the GVA Global Equity strategy returned 5.00% net of fees versus 4.28% for its benchmark, the MSCI All Country World Index. The period saw a continuation of emerging markets underperformance relative to developed markets and international lagging the U.S., both of which were headwinds to the strategy's overweight positioning in emerging markets (23% weight in our portfolio versus 11% in the benchmark) and underweight the U.S..

Our regional allocation was detrimental to our performance, however, value stocks stopped underperforming growth companies during the quarter which benefited the strategy. Overall, our strategy performed relatively well, delivering a small beat versus its index. This outperformance was driven by strong stock selection especially in the energy, telecom services and insurance sectors. Our outperformance during the more benign environment for "value" stocks in the 3rd quarter reinforces expectations for our strategy compared to our historical underperformance during periods when growth strongly outperforms value.

As a reminder, GVA focuses on companies that generate sufficient cash flow to maintain their assets, internally finance their growth and return unused capital to shareholders, either directly through the payment of dividends or indirectly through share buybacks or debt repayments. We avoid debt laden companies, cash hoarders (a poor use of capital) and externally financed serial acquirers. Importantly, we ensure style discipline by only purchasing companies with cheap valuations using a blend of standard valuation metrics.

Top Contributors

LG Uplus (Ticker: 032640-KR)

The company is a Korean telecom operator offering triple play services (mobile, internet, and IPTV). The market is consolidated with the top three mobile operators holding 80% market share. LG Uplus is the smallest of the three and continues to take share, with its largest competitor holding close to 50% of the market. The company was a strong performer in Q3 as it reported solid Q2 earnings in July. Operating profit rose by almost 20% year-over-year, ahead of consensus expectations. The company showed strong subscriber growth in all three business lines. Management indicated that the dividend would increase or at least be maintained in 2018 and they affirmed confidence in its 2018 earnings outlook. Valuation remains cheap with a price-to-earnings at 12X (next twelve months), price-to-book at 1X, and Enterprise Value/EBITDA at 4X.

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Pfizer (Ticker: PFE-US)
Pfizer is a leading global pharmaceutical company. The stock performed well in the quarter following a solid Q2 earnings report. Both sales and earnings per share were ahead of consensus expectations. Group sales were up 4% and adjusted earnings per share grew by 21% year-over-year. Management raised earnings per share guidance for 2018 which equates to 13% growth year-over-year. Management returned $10 billion to shareholders in the 1st half of 2018 through a combination of dividends and share repurchases. Dividend yield is 3%. Valuation is cheap with a price-to-earnings at 14X (next twelve months).

Tatneft (Ticker: TATN-RU)
Tatneft is Russia's 6th largest oil and gas company. Tatneft, like all Russian oil companies, reported strong results due to higher crude prices that were driven by a deal between Opec and Russia to curb production. Earnings were also aided by a weaker Ruble caused by US sanctions against Moscow. Increased earnings across Russian energy companies this year have led to higher dividends and share buybacks. Tatneft remains cheap and a compelling investment story that trades at 8X consensus earnings (next twelve months) with a 5.5% dividend yield. It's also debt free.

Top Detractors

Kingboard Laminates (Ticker: 1888-HK)
The company is a Hong Kong based leader in electronic materials manufacturing specializing in laminates. The stock underperformed in Q3, following weak 1st half 2018 earnings. 1st half of 2018 sales grew by 6% year-over-year, but gross margins fell by 400 bps to 27%, which was below expectations. The earnings miss was driven by rising raw material prices (primarily copper and wood pulp). Management was not able to fully offset the rising input costs through pricing, but plans to make more adjustments in the 2nd half of 2018. Kingboard's overall growth story remains in place for the mid-term, with its #1 market share position in a niche industry, and a cost advantage over the competition due to its vertical integration. Free cash flow has been positive every year for a decade and management pays a healthy dividend yield of 7%. Valuation is dirt cheap at 5X price-to-earnings (next twelve months), price-to-book at 1x, and Enterprise Value/EBITDA at 4X.

Wharf Holdings (Ticker: 4-HK)
Wharf engages in real estate development and air cargo terminal operations in China and Hong Kong. Being predominantly a property play with major Chinese exposure in a rising interest rate context, it is not the most appealing equity story in 2018. Wharf reported weak numbers in August in two of its divisions which added to worries of risk averse market participants. We are currently revisiting the investment case.

Alpha Bank (Ticker: ALPHA-ATH)
The company is a Greek bank and delivered an encouraging message when it reported its earnings with new business dynamics reflecting the general improvement of the Greek economy. However the legacy business is still a concern as investors worry the banks may not have enough capital to meet fresh targets on reducing their large portfolios of bad debts. Investors have been spooked by plans the Greek banks have to reduce their non-performing exposures, which currently make up almost 40% of their loan books. If the banks sell bad debts below their book value it could trigger losses that eat into their equity buffers and require fresh capital raises. Stress testing the impact it would have for Alpha bank, we decided to preemptively sell our position. Despite being one of the highest quality banks in Greece, we fear that Alpha may have to record a loss in the coming two quarters if such a scenario materialized – which would trigger a systematic immediate sell in our process.

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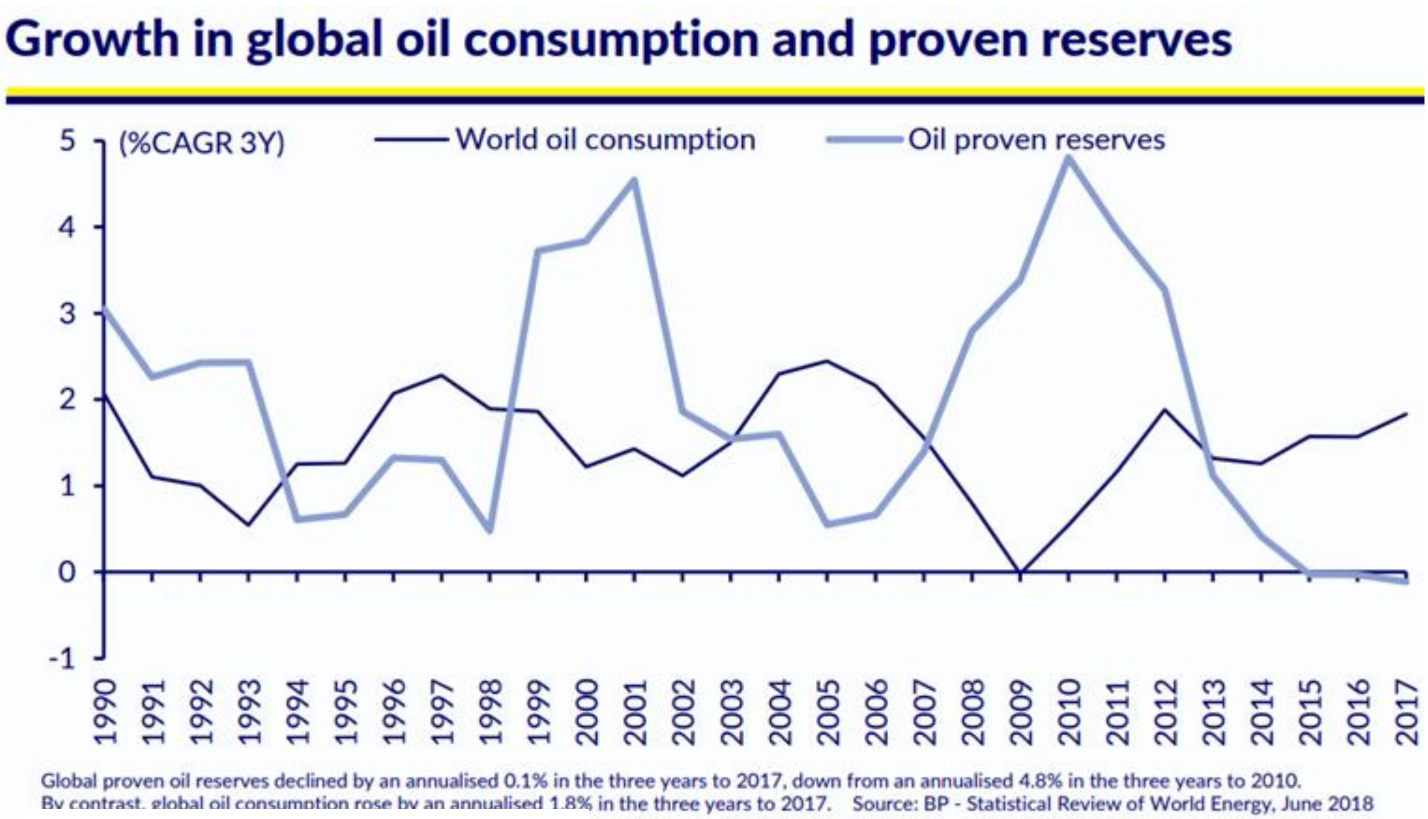
Energy, a key bet in our portfolio

Energy has been a key bet since the beginning of 2018. At the end of September, energy stocks represented 13.4% of the portfolio versus 6.7% in the benchmark. Our quantitative process has a clear positive view on the sector and identifies a dozen energy companies globally that generate strong free cash flows, return significant capital to shareholders directly (via dividends) or indirectly (via share repurchases or debt repayments) and trade on very low valuation multiples.

We have been holding several of them in the fund as we believe in the sustainability of their free cash flow generation. The central reason for this is our belief that oil prices should be supportive in the near future. First, the growth in oil consumption has been steady at +1.5% annually (Exhibit 1) and is not expected to come down any time soon, barring a major economic slowdown. Second, the growth in oil proven reserves has become negative following several years of under investment in the sector (Exhibit 2). We are potentially facing a supply crunch.

Exhibit 1:



Source: CLSA

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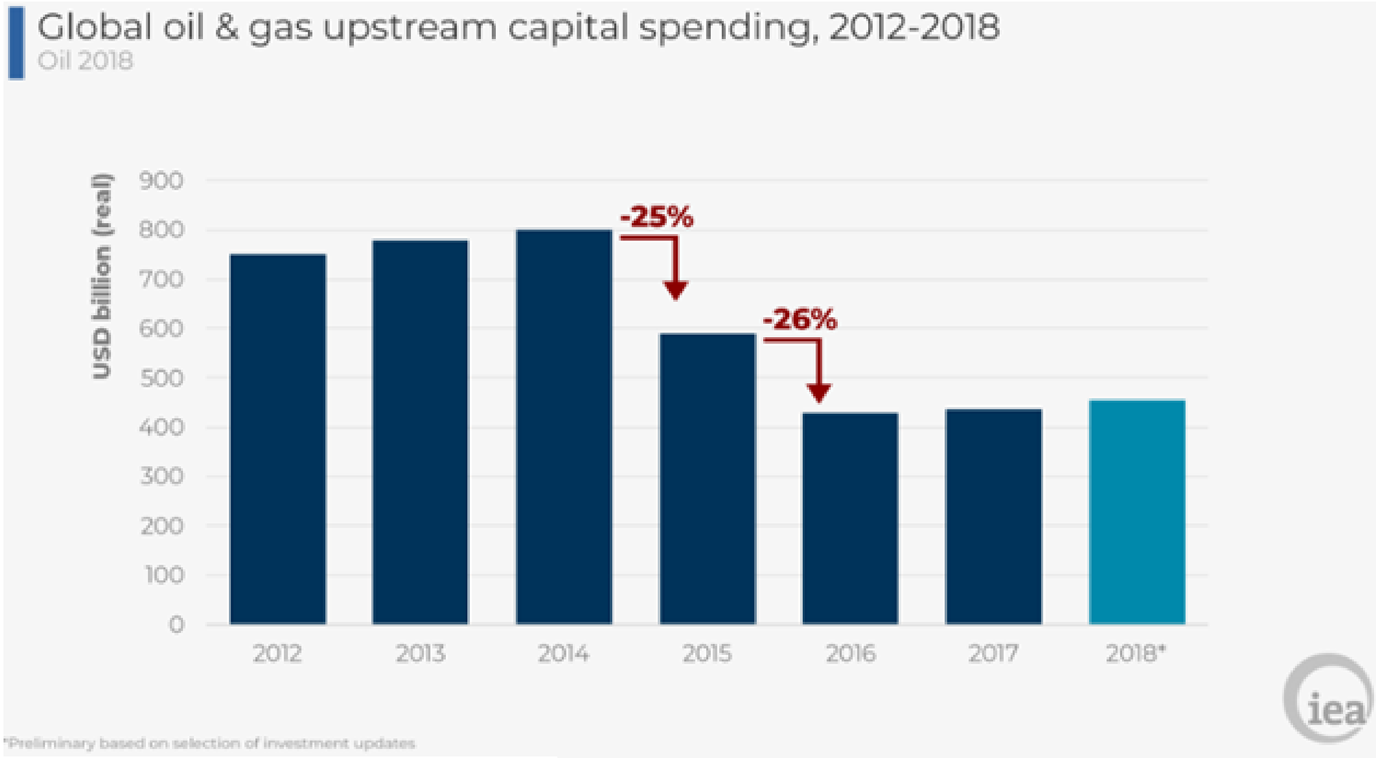
Exhibit 2:



Source: iea

Short term developments are exacerbating the issue as US sanctions on Iran's oil exports are set to take effect on November 4, 2018. It is likely to serve as a catalyst for the energy market for several reasons. The US administration is likely to ease pressure on Saudi Arabia to limit the upward movement of oil prices after the midterm elections. Compared to historical maximums, OPEC is poised to hold spare export capacity of approximately one million barrels per day by the November sanctions deadline. Shale growth will continue to decelerate as takeaway capacity remains fully utilized. Significant downside risk for export volumes departing Iraq, Libya and Nigeria exist given each of these nation-states are currently producing at historically high levels.

Lukoil, Russia's top privately held crude producer is one of our largest holdings in the sector. It has been a great performer since the beginning of the year with a US$ total return of 36%. We still believe that Lukoil remains a very cheap stock when going over its investment case: the Russian company is debt free, its capex peaked in 2017 and the US$3 billion share buy-back program just announced brings its shareholder yield to 11%. It trades at 5.5X earnings. These earnings have grown 20% year-over-year and, based on the current market conditions, they could grow another 20% next year.

<u>October Preview</u>

As of the writing of this letter (Oct 16th), our Global Equity strategy has outperformed its benchmark by 0.6% (gross of fees) month-to-date. At the beginning of October, the US Treasury bond market broke through a 37-year trend line, as the 10-year Treasury bond yield rose past 3.2%. It is too early to tell whether this is a regime change or a short term bump. The market reaction was immediate and brutal as volatility spiked and equity markets collapsed with value

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companies holding up better than growth companies. We are encouraged to see the strategy deliver good results in line with our expectations when the inevitable switch to value occurs.

We welcome your feedback or questions and appreciate your interest in Global Value Advisors.

Sincerely,



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For comparison purposes, the GVA Global Equity strategy performance is measured against the MSCI All Country World 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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