GLOBAL VALUE ADVISORS
A Division of Moody Aldrich Partners

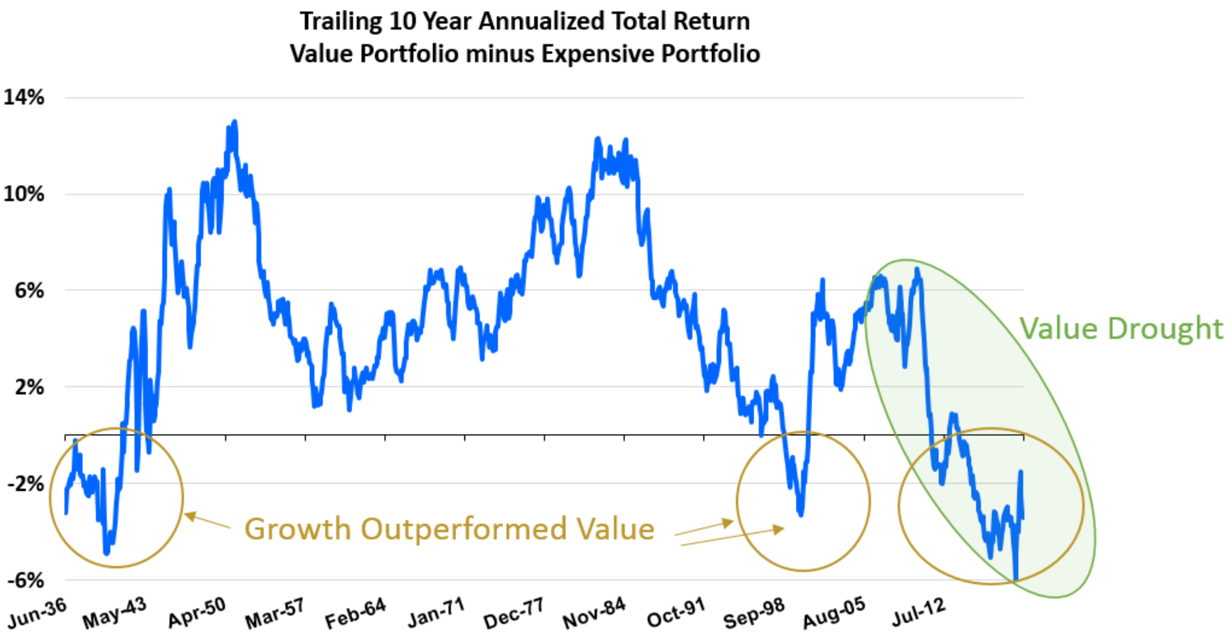
Global Equity

Fourth Quarter 2019

COMMENTARY

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.

Our first investment commentary in 2018 referred to the 10 year "value drought" we had gone through, where investing in low multiple companies had generated disappointing results. Since then, the relative performance of value stocks has deteriorated even further. The following graph illustrates the severity of that pattern and puts it into perspective:



Source Fama French. Rolling 10 year returns. Cheap 30% P/B – Expensive 30% P/B

When studying the US equity market monthly data over the past 83 years, value stocks have outperformed growth stocks 82.5% of the time on a rolling 10 year basis. This value premium has been identified across global markets and is well documented. Over the same period of study, only in 3 instances have growth stocks delivered better returns than value stocks: during the Great Depression, during the TMT bubble, and currently.

Since the financial crisis, the struggle of value stocks has been observed in most of the markets we cover. It has led to a significant widening of valuation spreads across markets to reach peak TMT bubble levels as illustrated by the following graph:

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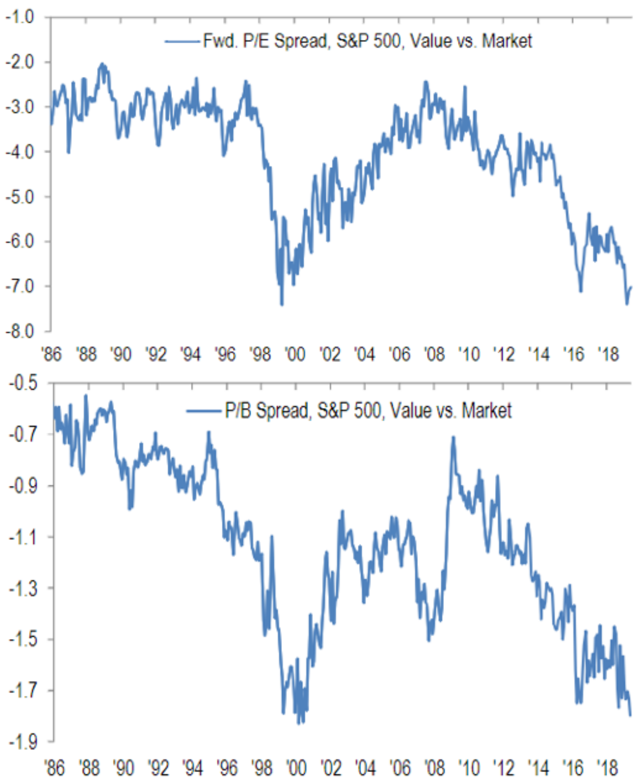

Valuation Gap Widest since the TMT bubble

For comparison: ACWI total return
- 1998: Growth > Value by 17%
- 1999: Growth > Value by 16%
- 2019: Growth > Value by 12%

Growth outperformed value for Global and Int'l Small Cap indexes in 2019:
- ACWI: Growth > Value by 12%
- ACWI ex US Small Cap: Growth > Value by 4%

Academics and strategists have composed an extensive list of theories that explain this prolonged phenomenon (unorthodox central bank policies that led to ultra-low interest rates, digital disruption, sub-par economic growth, etc.). Rather than adding our voice to the debate, we prefer to explain why we believe our investment approach should hold its own if the current market dynamics persist and thrive if the value style regains some of the ground it has lost.

The main reason is that the value companies we own are part of an exclusive club of businesses that have a structural edge. We have identified the key attributes that they share: 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 sheet. The combination of high cash generation with disciplined capital allocation creates superior businesses that outperform the others.

Our investment model back-tests* confirm the above and more importantly, the actual track records of our strategies since inception on June 1, 2018, have so far validated our thesis. Attribution shows our strategies tend to outperform when value beats growth AND when growth beats value by a little bit. We tend to underperform when growth beats value by a significant amount and our strategies act like loaded springs when value wins.

**See back-test disclosures on last page*

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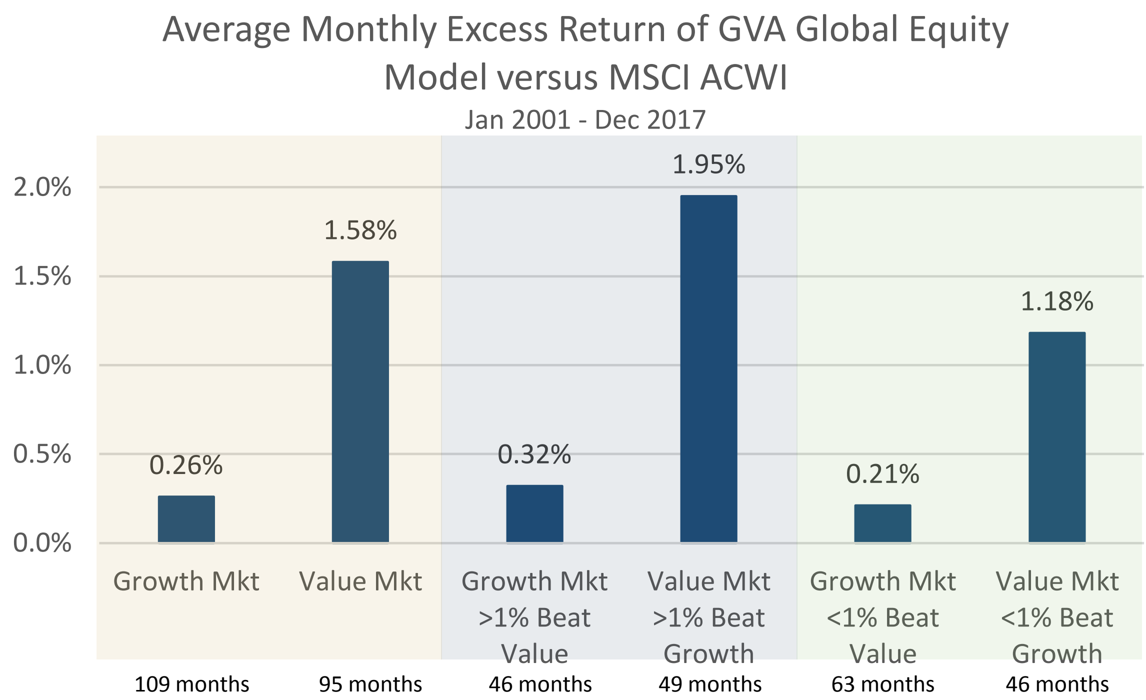
For example:



Source: FactSet – Growth and Value markets determined for each month by comparing the returns for the MSCI ACWI Value versus Growth Indexes. Excess return of the GVA Global Equity Model compared to the MSCI ACWI for each month. GVA Global Equity Model back-test results are hypothetical and involve inherent limitations, please see disclosures at the end of this presentation. Model results do not reflect fees or expenses.

Specifically, our strategy participated meaningfully in the two short-lived value rallies we have seen since inception on June 1, 2018: the first occurring in Q4 2018 and the second in the fall of 2019 during the extreme Value / Momentum reversal triggered by the U-turn in global bond yields. In both instances, our portfolio delivered best in class returns versus the benchmark and peer group as illustrated in the following table:

	GVA Global Equity	MSCI ACWI Index	Median Peer Group
Value Rally in late 2018	-5.5%	-7.3%	-7.5%
Value Rally in fall of 2019	7.8%	3.9%	5.4%

Source: FactSet, total returns in USD, late 2018 range is 7/18/18 to 11/20/18 and fall of 2019 range is 8/21/19 to 10/23/19. Peer group is based on the mutual funds in the eVestment Global All Cap Value Equity universe.

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Strategy Specific Comments

Total Returns (Net of Fees)	Q4	YTD
GVA Global Equity	**10.17%**	**20.14%**
MSCI All Country World	8.95%	26.60%
Value Added	**1.22%**	**-6.46%**
MSCI All Country World Value	7.62%	20.59%
MSCI All Country World Growth	10.23%	32.72%

Regional Indices	Q4	YTD
MSCI USA	8.97%	30.88%
MSCI EAFE	8.17%	22.01%
MSCI EM (Emerging Markets)	11.84%	18.42%

The GVA Global Equity strategy returned 10.17% in the 4th quarter of 2019 versus 8.95% for its benchmark, the MSCI All Country World Index. Overall, 2019 was a complex year to navigate as value underperformed growth across regions, the emerging markets underperformed the developed markets, and small underperformed large. Our bottom-up disciplined value approach positioned our strategies on the wrong side of each of these trades while our selectivity generally helped to offset some of our poor allocations.

Our global equity strategy was confronted with an extreme performance spread between Value and Growth: the MSCI ACWI Value index underperformed the MSCI ACWI Growth by 12.1% for the year. The last two times that growth outperformed value by such a wide margin was the tail end of the TMT bubble in 1998 (growth outperformed by 17%) and 1999 (growth outperformed by 16%). Under such circumstances, beating the MSCI ACWI index becomes an arduous task for any true value investor.

Even though we believe that our differentiated value strategy has the potential to deliver positive returns when the value style struggles, our 20 year investment model back-test* shows that GVA outperforms slightly during modest growth outperformance, but does not outperform during extreme growth years, which was the case in 2019.

Our relative underperformance versus our index during the year was mainly due to the continued outperformance of expensive US companies when the non-US cheaper regions, such as Emerging Markets, kept underperforming throughout the year. As value investors, our portfolio is underweight the U.S. (25.9% vs 55.6%) and overweight Emerging Markets (31.5% vs 12.2%). The MSCI Emerging Markets Index returned +18% for the year, when the MSCI US Index delivered a stunning +31%. Our strong stock selection in the emerging region generated a return of +24% but was insufficient to offset the negative allocation effects.

Since its inception in June 2018, our global equity strategy has returned +7.3% compared with +9.0% for its benchmark, the MSCI ACWI index. This -1.7% relative underperformance has been generated despite the major headwinds we mentioned earlier and while MSCI ACWI Value underperformed MSCI ACWI growth by -4.2%.

See back-test disclosures on last page

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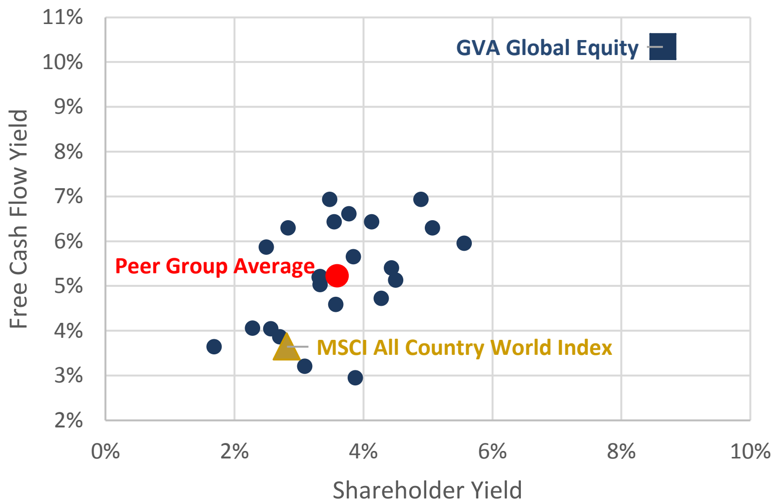
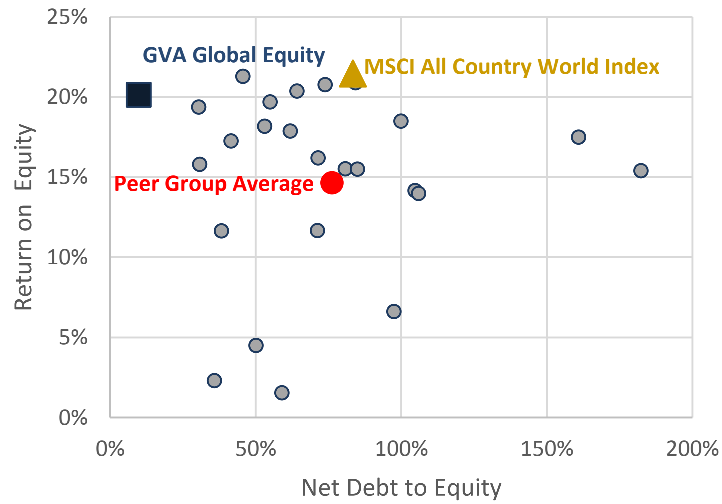
We are optimistic about the current portfolio positioning in very cheap, highly profitable, unlevered companies. We know that these attributes provide natural tailwinds to our portfolio and they contribute to its staying power. It is worthwhile reiterating that our portfolio positioning is very different from our peers. The following 2 charts capture the essence of the difference:





*Source: eV*estment universe is the Global All Cap Value universe (mutual funds only, 23 constituents) as of Dec 31, 2019. Aggregate metrics are derived from the most recent quarterly reported holdings ex-financials and analyzed in Factset.

Top 3 Performers in Q4 2019

Mitsubishi Tanabe Pharma (4508-JP)
Mitsubishi Chemical Corp launched a tender offer to acquire an additional 35% stake in Mitsubishi Tanabe Pharma for 397 billion yen (US$3.7 billion) in cash. This brings Mitsubishi Chemical's total ownership to 92%. The offer price was a 53% premium over the last closing price of Mitsubishi Tanabe Pharma on November 15, 2019. GVA participated in the tender and then sold our remaining shares in early 2020. Free Cash Flow Yield is 19%, Shareholder Yield is 3%, and its Forward 1 year PE is 68x.

Cosan S.A. (CSAN3-BR)
Cosan is a Brazilian based holding company which produces sugar and ethanol. The company reported strong Q3 2019 results in early November. Adjusted EBITDA grew 30% year-over-year to R$1.6bn and was 10% ahead of consensus estimates. Strong results in the Sugar & Ethanol and Comgas business segments more than offset weakness in the Fuel Distribution business. Free Cash Flow Yield is 7%, Shareholder Yield is 2%, and its Forward 1 year PE is 14x.

Taylor Wimpey (TW-GB)
Taylor Wimpey is a residential homebuilder in the UK. In early December, Boris Johnson's conservative-led party secured a large victory in the general election. Investors poured into UK companies that generate a large portion of their revenues domestically (i.e. Taylor Wimpey), as a "hard-Brexit" scenario became less likely. In addition to this, Taylor Wimpey reported strong results earlier in the quarter. Demand for new homes remains strong, and the cost of inflation is expected to ease in 2020. Full year guidance was reiterated. Free Cash Flow Yield is 7%, Shareholder Yield is 9%, and its Forward 1 year PE is 10x.

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

Alliance Resource Partners (ARLP)
Alliance Resource Partners is a coal producer for US utilities and industrial customers. Weak Q3 2019 results were reported at the end of October. Both revenue and earnings came in below expectations. Management lowered its full year adjusted EBITDA guidance to a range of $598-618m vs consensus at $651m. Lower sales volume and a decline in coal prices were mostly to blame. A combination of slower global growth and higher production trends has pressured coal prices. International coal prices fell 20% in the third quarter and were down 40% the first 9 months of 2019. Note that there are some signs of coal prices stabilizing in Q4. Free Cash Flow Yield is 17%, Shareholder Yield is 5%, and its Forward 1 year PE is 4x.

Ally Financial (ALLY)
Ally Financial is a leading auto loan provider in the US. The US consumer remains quite healthy, but US auto volumes have rolled over. Ally's stock underperformed despite posting solid Q3 2019 results in mid-October. EPS came in at $1.01 vs consensus at $0.98. Revenues were also ahead of expectations, due to strong loan originations. Investors were disappointed that full year 2019 guidance was reiterated, rather than raised. This implies lower than expected Q4 results. Note that ALLY is one of the few financial companies that stands to benefit from lower interest rates. Free Cash Flow Yield is 14%, Dividend Yield is 8%, and its Forward 1 year PE is 8x.

Daelim Industrial (000210-KR)
Daelem Industrial operates a commercial engineering and construction business in Korea, as well as a petrochemical business. Q3 2019 results reported in mid-October showed solid earnings but the outlook was somewhat disappointing. Q3 operating profit grew 9% year-over-year, which was in-line with consensus. Order intake for large plant orders and overseas projects was disappointing at 9m in 2019, leading to a lower than expected backlog. Free Cash Flow Yield is 15%, Shareholder Yield is 21%, and its Forward 1 year PE is 5x

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 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.

The information presented in the presentation represents back-tested performance based on our quantitative model and does not include fundamental analysis. The performance results shown represent a larger group of stocks than would be included if the fundamental analysis was applied. GVA's quant 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 fundamental analysis cannot be applied. Back-tested presentations may not be relied upon for investment purposes and are not meant to represent actual current or future performance.

Back-tested performance is hypothetical (it does not reflect trading in actual accounts) and is provided for informational purposes only to indicate historical performance had the portfolios been available 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 quant 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 quant model if the quant 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 Quant Model performance is measured against the MSCI ACWI ex-US Small Cap, MSCI ACWI ex-US Small Cap Value and MSCI ACWI ex-US Small Cap Growth. Results do not reflect fees or expenses. Results in back-test do not guarantee future results.

The quant 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. FX is implicit in the total return. The quant model back-tests 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.

Quant Model Universe: The GVA quant model uses the monthly MSCI All Country World ex US Small Cap, MSCI ACWI ex-US Small Cap Value and MSCI ACWI ex-US Small Cap Growth Indicies' constituents as the available set of securities for each period, which are sourced from MSCI.
Financial Data: The quant model uses trailing twelve month financial statement data that is sourced from the FactSet Fundamentals database. The quant model applies a date lag for each data item to avoid look-ahead bias.
Managing Quant Modeling Mistakes
Overfitting: The quant model uses a limited number of simple factors applied to a significant population size. Overfitting generally occurs with too many (and/or overly complex) factors, and with an insufficient sample size. Also, when running the quant model against various equity universes (global all cap, international all cap and international small cap), the back-tests perform consistently.
Survivorship Bias: GVA's quant-model universe consists of historical index constituents, thus eliminating any survivorship bias.
Look-ahead Bias: GVA's back-test applies a date lag to all factors used in the quant model to ensure that each observation period only uses financials that had been reported as of the observation date. The lagged back-test juxtaposed to a non-lagged back-test clearly indicates a significant bias is removed by lagging the dates.

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