Global Equity
Fourth Quarter 2021
COMMENTARY

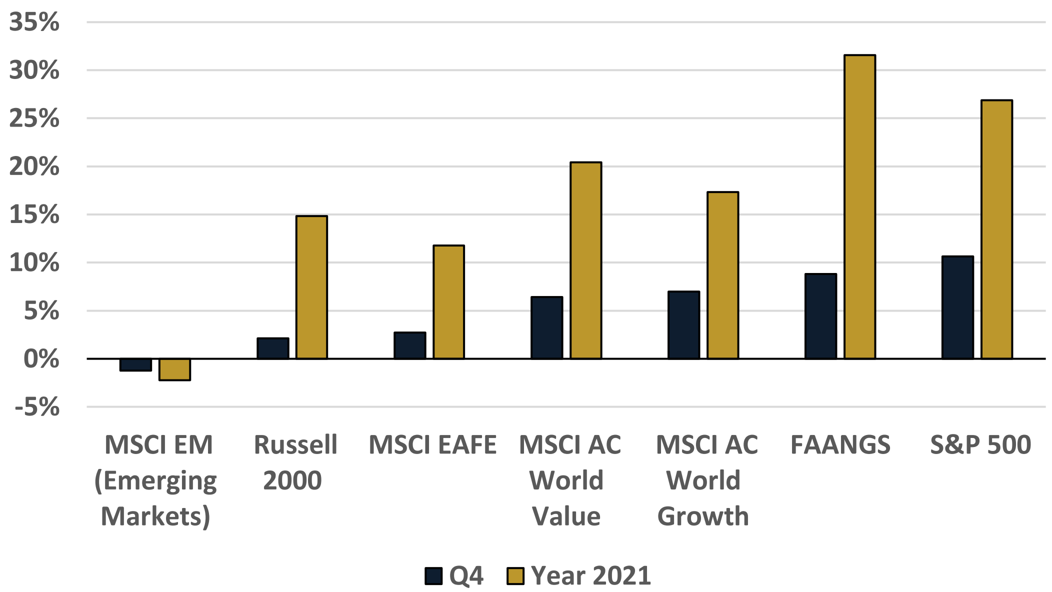
GLOBAL VALUE ADVISORS
A Division of Moody Aldrich Partners

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)	Q4
GVA Global Equity	**2.0%**
MSCI All Country World Index	6.7%
MSCI All Country World Value Index	6.3%
MSCI All Country World Growth Index	7.0%

Regional Indices	Q4
MSCI USA	10.0%
MSCI EAFE	2.7%
MSCI Emerging Markets	-1.3%

Back in early 2021, hopes had been building that the 13- year value drought had come to an end with the grand reopening trade that began in late 2020. Although GVA still believes the cycle has turned in its favor, the value bounce peaked this past May and reversed almost entirely afterwards, as central bankers maintained their over accommodative stance despite the evident economic overheating. Overlooking the ominous cracks in some segments of the market, indices resumed their ascent, driven by the investors' belief that interest rates would remain low forever. The MSCI All Country World Index returned a respectable 18.5% in 2021. Over the fourth quarter, Growth beat Value, and the US beat non-US, following the well-scripted pattern observed over the past 5 years.



Source: Factset, total returns, USD

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Central to the aforementioned pattern is that multiple expansion has been the key driver of Growth's outperformance. The following chart published by AQR shows that the global valuation spread between Value and Growth is the widest in more than 30 years.

Global Value Spreads
Hypothetical AQR Industry-and-Dollar-Neutral All-Country Value Portfolio[2,3,4,5]

Source: AQR. January 1, 1990 – November 30, 2021.

AQR's value composite looks at valuation spreads between Value and Growth across five basic value measures: book-to-price, earnings-to-price, forecast earnings-to-price, sales-to-enterprise value, and cash flow-to-enterprise value. Spreads are adjusted to be dollar neutral. Valuation spreads are compared within each industry. More information: https://www.aqr.com/Insights/Perspectives/Thats-it-Thats-the-Blog

If history repeats, and it tends to do so when it comes to asset bubbles, GVA believes that this spread will narrow going forward. Several of the market areas focused on the most speculative growth mania of the 2020-2021 melt-up have already rolled over significantly. These include cryptocurrencies, meme-stocks, IPOs, SPACs, and unprofitable growth companies. Cathie Wood's Ark Innovation ETF (ARKK), which has become a poster child for investing in the hottest areas of the market, ended the year roughly 40% off its peak. The highest risk areas of the market are often the first to decline in a downturn. Large cap profitable growth stocks (i.e., FAANGs) performed well in 2021, but they are at risk of declines as interest rates rise.

GVA believes FAANG stocks were already overvalued prior to the pandemic. The stay-at-home effect from COVID led to a major shift in consumer spending from services to goods in 2020 and 2021. This trend turbocharged the earnings growth of the FAANGs and resulted in a run-up of valuation multiples to extreme levels. As the economy normalizes and consumers shift back towards services, FAANG earnings growth and multiples are likely to contract. Goods accounted for 31% of US total personal consumption pre-pandemic. This percentage soared to 36% in early 2021, but as the vaccine rollout materialized it has since dropped back to 34%.

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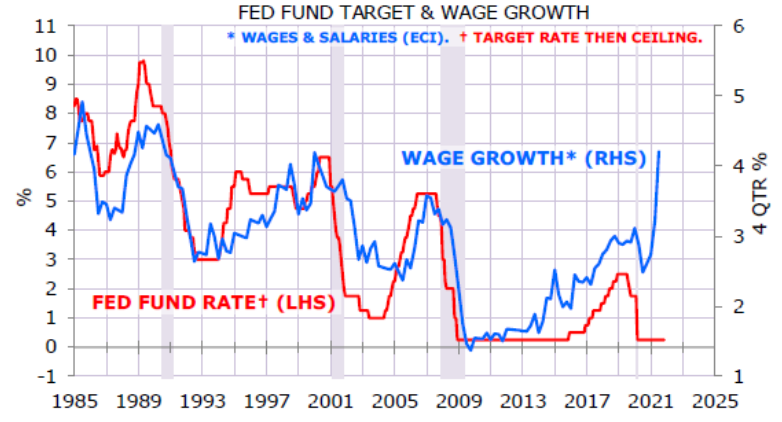
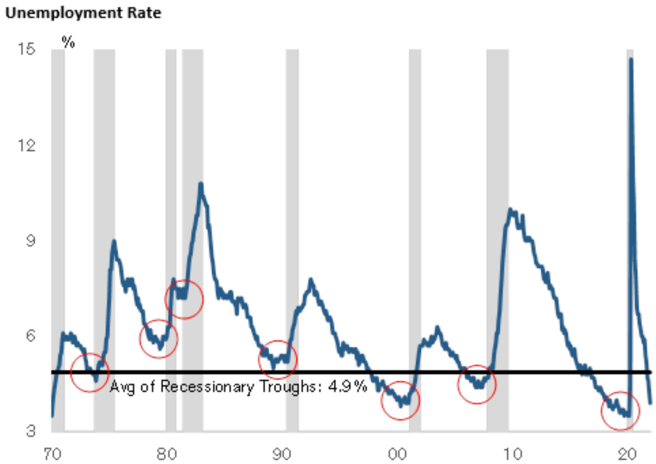
Although all the FAANG stocks followed a similar trend since the March 2020 bottom, Apple is a good illustration of the downside risk to the group. Apple's sales were up 33% and EPS jumped 72% in FY2021, which was the company's strongest growth in a decade. Growth was fueled by remote school and work, a 5G upgrade cycle, and significant government stimulus. All of these tailwinds are likely to become headwinds in 2022, as comparisons become difficult. Prior to 2021, the smartphone market had posted flat sales growth for five years and was largely considered a mature market. From 2015 through 2020 Apple's annual sales growth averaged only 4%. From the March 2020 lows, investors pushed Apple's stock price up over 230%, which was significantly faster than earnings growth. The company's PE next twelve months ended 2021 at 30x, which is more than twice the levels seen prior to the pandemic. Despite expensive valuations, consensus is looking for EPS to grow only 8% in both FY22 and FY23.

Much of the market euphoria in recent years has been driven by high earnings growth and unprecedented monetary and fiscal stimulus, which appear to be coming to an end. The MSCI All Country World Index saw its EPS grow an impressive 47% in 2021, but consensus is looking for that to slow to 7% in 2022. More importantly, central banks around the globe are widely believed to be behind the curve as illustrated by the following two charts (here the US).



Source: BLS, Federal Reserve, NBER; Minack Advisors



Source: Credit Suisse

Inflation rates are running at 40 year highs and labor markets remain tight, yet interest rates are still set at close to zero. The Consumer Price Index (CPI) has risen to a worrisome 7% in the US, 5% in Europe, 5% in the UK, and 1% in Japan. Given the high inflation rates, central banks will likely have difficulty following their stimulus playbooks (i.e. "Fed Put") if economic conditions deteriorate. Investors are now looking for at least 4 rate hikes in the US in 2022, as well as quantitative tightening. The ECB and BOJ are expected to leave current accommodations in place, for now. Tighter financial conditions and rising global bond yields are likely to put additional pressure on Growth stocks, which are longer in duration.

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Performance

	Dec (%)	QTD (%)	1 Year (%)
GVA International Small Cap (Net)	**3.88**	**-1.99**	**7.78**
MSCI ACWI ex-USA Small Cap	4.23	0.62	12.93
GVA Global Equity (Net)	**4.60**	**1.95**	**15.51**
MSCI ACWI	4.00	6.68	18.54
GVA Emerging Markets (Net)	**3.62**	**-1.89**	**6.48**
MSCI Emerging Markets	1.88	-1.31	-2.54

GVA's Global Equity strategy underperformed in Q4 2021. Underperformance was driven by a combination of allocation and stock selection effects. Companies in GVA's Advantaged Subset (positive Free Cash Flow + positive Shareholder Yield) outperformed lower quality companies, but this was offset by Value underperforming Growth. GVA's globally unconstrained strategy takes advantage of material valuation disparities, exemplified by the strategy's large overweight Emerging Markets (28% vs. 12%) and large underweight the US (34% vs. 61%) vs. the MSCI All Country World Index. GVA was on the wrong side of both of these bets in the quarter, but remains confident in its positioning. The relative PE of Emerging Markets vs the US is close to a 20 year low at 0.54x, which will likely normalize over the medium term.

Despite this frustrating year, GVA is sticking to its view that Q4 2020 marked the grand bottom for Value (see GVA's Q2 2021 investment letter). Cheap companies with high Free Cash Flow generation and high Shareholder Yields have been largely ignored by the market, but investors are starting to pay attention. GVA believes that most of the elements are in place for a sustainable outperformance of cheap low growth stocks, and the investment team is convinced its portfolios are ideally positioned to take advantage of this regime change.

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,

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

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

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The Global Value Advisors Global Equity Composite contains fully discretionary equity accounts managed in the Global Equity style which seeks to outperform the MSCI ACWI Index and the MSCI ACWI Value Index -Net over a complete market cycle.

Data presented is as of December 31, 2021. *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. Global Value Advisors manages $139 Million for its global equity clients, with $167 Million in total firm assets under management. Characteristics for the MSCI ACWI Index and the GVA Global Equity Portfolio were derived from FactSet.

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The Global Value Advisors Global Equity Composite was created June 1, 2018. The Composite inception date is June 1, 2018. Composite results are based on fully discretionary accounts under management, including those accounts no longer with the firm. Past performance is not indicative of future results.

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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 is calculated using actual management fees. The annual composite dispersion is an asset-weighted standard deviation calculated for the accounts in the composite the entire year.

The investment management fee schedule for new business is as follows: 0.90% on the first $25 million, 0.80% on the next $25 million, 0.70% per annum on all additional funds. Management fees are paid quarterly in arrears. Actual investment advisory fees incurred by clients may vary.

Performance statistics are calculated using the MSCI ACWI Index and gross of fee performance. For more details on the quant model please contact info@globalvalueadv.com.