GLOBAL VALUE ADVISORS
A Division of Moody Aldrich Partners

International Small Cap

Fourth 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.

Q4 2018 Total Returns (Net of Fees)	
GVA International Small Cap	**-13.01%**
MSCI All Country World ex-US Small Cap	-14.43%
Value Added	**+1.42%**
MSCI All Country World ex-US Small Cap Value	-13.05%
MSCI All Country World ex-US Small Cap Growth	-15.78%

Regional Indices	
MSCI Japan Small Cap	-14.93%
MSCI United Kingdom Small Cap	-17.52%
MSCI EM (Emerging Markets) Small Cap	-7.17%
MSCI Europe ex UK Small Cap	-17.95%
MSCI Pacific ex JP Small Cap	-11.53%

The GVA International Small Cap equity strategy returned -13.0% in the 4th quarter versus -14.4% for its benchmark, the MSCI All Country World ex-US Small Cap index. During the quarter, Emerging Markets outperformed significantly, and we remain overweight. Also critical to our strategy was the recent leadership of value stocks. Our overexposure to smaller companies compared to the index was a net benefit to performance.

The strategy's outperformance of 1.4% was driven primarily by stock selection with a positive contribution from our regional allocation, mainly over-weights to Emerging Markets and the UK. The strength in these two regions more than offset the weakness in Japan, where we remain significantly overweight the benchmark. Our holdings in utilities, technology, and transportation sectors showed particular resilience in this down market.

This encouraging result confirms the observations made when studying the back test of our strategy. The segment of the universe we focus on and invest in is made of cheap companies that generate enough cash flows to maintain their assets, finance their growth, and return what is left to their shareholders without relying significantly on external financing. These attributes provide the staying power that becomes critical when the economic environment deteriorates.

Our 14 year quantitative back test[†] (from 2004 to 2017) shows that our methodology does particularly well in down markets: over the period, the MSCI ACWI ex-US Small Cap index has had 4 down years. Our simulated portfolio beat the index in 3 of them. Importantly, the average relative return delivered in these down years is larger than the relative returns generated in up years. This resilience does not come from a defensive sector positioning of our portfolio. In each of these down years, our model had an overweight to cyclical industries. In some cases, that cyclical bet was very significant. The year 2008 is a great example of that, with our model delivering +8.8% of excess return despite a sizable cyclical bet.

The performance attribution report on the following page illustrates the dynamics at work in the 2008 downturn and the staying power of the stocks held in the model 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. Please see last page for more information regarding our back test.

CONTINUED >>

	31-DEC-2007 to 31-DEC-2008								
	GVA Model			MSCI AC World ex USA Small Cap			Attribution Analysis		
	Port. Average Weight	Port. Total Return	Port. Contrib. To Return	Bench. Average Weight	Bench. Total Return	Bench. Contrib. To Return	Allocation Effect	Selection Effect	Total Effect
Total	100.00	-41.12	-41.12	100.00	-49.90	-49.90	-2.81	11.59	8.78
Cyclical	88.24	-41.56	-36.37	75.19	-51.55	-38.72	-0.85	11.87	11.02
Consumer Discretionary	12.37	-49.87	-7.04	13.09	-53.83	-7.10	-0.03	0.35	0.31
Financials	21.57	-44.78	-9.48	15.61	-50.40	-7.47	-0.11	2.05	1.94
Industrials	18.97	-41.30	-7.73	20.93	-50.24	-10.68	-0.11	2.30	2.19
Information Technology	14.28	-45.42	-6.88	8.26	-50.71	-4.39	-0.20	1.09	0.89
Materials	15.12	-30.05	-3.51	12.54	-53.66	-6.83	0.03	4.12	4.15
Real Estate	5.93	-38.88	-1.73	4.77	-49.96	-2.24	0.02	1.13	1.15
Defensive	11.70	-38.27	-4.76	24.74	-44.73	-11.16	-1.37	0.31	-1.06
Communication Services	1.67	-81.28	-1.49	2.64	-51.97	-1.37	-0.08	-0.70	-0.78
Consumer Staples	2.66	-11.79	-0.24	5.68	-28.55	-1.20	-0.89	0.38	-0.50
Energy	2.75	-25.40	-0.86	7.03	-58.24	-4.84	0.41	1.04	1.44
Health Care	0.51	-29.30	-0.28	5.71	-36.35	-1.91	-1.10	-0.14	-1.24
Telecommunication Serv	1.65	-53.45	-0.68	0.80	-60.52	-0.52	-0.23	-0.04	-0.27
Utilities	2.47	-40.15	-1.21	2.89	-47.07	-1.33	-0.06	-0.04	-0.11

This is an important characteristic of our approach, and one that differentiates us from the so-called "quality-adjusted value" strategies that have mushroomed in the past 10 years, as an astute way to justify the drift away from the value style. We are not paying up for the key attributes we listed above, and this is why our model tends to guide us towards cyclical industries. Our approach provides some protection on the downside and it also positions us well when the cycle turns, as typically, our sector positioning then becomes a tailwind.

We feel very optimistic about our strategy's ability to deliver superior returns in the current market environment. The past 6 months have been an excellent way to challenge our investment principles and test our methodology. We managed to beat our index and most of our peers despite some significant headwinds.

<u>Top 3 Performers</u>

Companhia de Saneamento de Minas Gerais (CSMG3-BR)
"Copasa" is a water utility company based in Brazil. The stock was a strong performer in Q4, as the company stands to benefit from anticipated liberalization/privatization following the recent presidential election of Bolsonaro (sworn in Jan 1, 2019). There are also several areas to improve operating efficiency at Copasa. Investors shrugged off weak Q3 results, which saw EBITDA down 10% YoY (below consensus). Despite the slowdown, Copasa generates consistent FCF with a 5 year average FCF yield of 12%. Management pays a 5% dividend. The balance sheet is in good shape with net debt to EBITDA at 1.5x. Valuation is cheap with a forward 12 month PE at 12x, P/B close to 1x, and Enterprise Value/EBITDA at 7x.

HANJIN KAL Corp (180640-KR)
HANJIN KAL Corp operates a holding company where the majority of profits are derived from Korean Air. Korean Air benefited in Q4 from collapsing oil prices (Brent fell from $77 to $50 per barrel), as well as an activist investor trying to shake up corporate governance at the company. These factors more than offset poor Q3 results. Hanjin KAL saw Q3 sales rise by

CONTINUED >>

19% YoY, but operating profit fell by 8% YoY (below consensus). The main reason for the miss came from rising costs in Jin Air, Korean Air's budget airline. We continue to hold Hanjin KAL, as FCF generation remains strong with a 5 year average FCF yield of 7%. Management pays a 1% dividend and buys back shares. Net debt on the balance sheet is close to zero and forward 12 month PE is below 10x.

Ashmore Group plc (ASHM-GB)
Ashmore is a UK based asset manager focused exclusively on Emerging Markets. The stock benefited in Q4 from strong relative performance in Emerging Markets, as well as inflows into the category. The company also reported a solid fiscal Q1 trading statement in October. Inflows were $2bn in the quarter, bringing total assets under management to $76bn (consensus $75bn). Ashmore has generated positive FCF every year for the last decade, with an average FCF yield of 7%. Management pays a 5% dividend. Balance sheet has zero debt. Valuation is cheap with a forward 12 month PE at 15x and Enterprise Value/EBITDA at 11x.

Bottom 3 Performers

GAM Holding AG (GAM-CH)
GAM is an asset manager based in Switzerland. The company has been struggling to maintain assets following the loss of a star fund manager and the liquidation of the manager's funds (largest in the company). On top of this, the company's second largest fixed income fund has underperformed its benchmark recently and has lost 1/3 of its assets. In December, the company announced a profit warning as well as plans to take a write-down on the value of their business. Although GAM is struggling, there are reasons to believe the worst is behind them. Management has implemented major cost cuts to stabilize the business. The balance sheet is rock solid, making GAM a take-over candidate. GAM has zero debt and $477 million in cash, which amounts to a staggering 60% of the market cap. FCF has been positive 9 of the last 10 years, with the most recent FCF yield at 8%. Note that a dividend cut is in the works, which may lead to an automatic sell in our process. Forward 12 month PE is 12x and Enterprise Value /EBITDA is 1x.

K'S Holdings Corporation (8282-JP)
K's Holdings is a consumer electronics retailer in Japan, with roughly 500 stores. K's Holdings' stock price declined in Q4 following disappointing Q3 results. The main reason for the disappointment was that analysts were overly optimistic on their estimates (profit came in 10% below consensus). It should be noted that K's is hitting/exceeding their communicated targets and the full year guidance was reiterated. We will likely see a slight drop in earnings per share in 2019, but there doesn't appear to be major structural headwinds at this point. Same store sales remain positive. The 10 year average FCF yield is 5%. Dividend yield is 3% and management regularly buys back shares (positive for Japan). Forward 12 month PE is at 10x and P/B is at 1x.

Perpetual Limited (PPT-AU)
Perpetual is an Australian based financial firm, specializing in asset management and wealth management. The shares underperformed in Q4 due to weak fiscal Q1 results reported in October. Suboptimal performance and outflows led to assets under management falling by 2.5% YoY to $30bn (slightly below consensus). Despite the weak recent results, the overall fundamentals at Perpetual remain strong. FCF has been positive every year for the last decade, with an average FCF yield of 7%. Management pays a 7% dividend yield and the balance sheet is solid with debt to capital at only 12%. Forward 12 month PE is below 13x.

CONTINUED >>

GVA Case Study: Autos

Automotive stocks are a good example of where GVA has added value through fundamental analysis. As a reminder, GVA's model picks stocks based on four cornerstone investment criteria:

1. Strong and consistent Free Cash Flow (FCF) generation.
2. Strong and consistent Shareholder Yield defined as dividends + net buy backs + change in debt.
3. Cheap valuation.
4. Solid balance sheets.

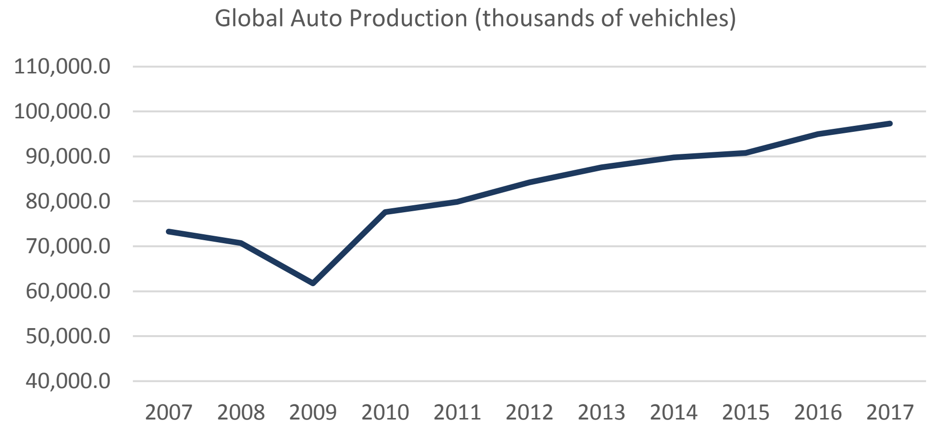
The investment team can only pick from names in the model output (100% compliant), and will then narrow the model name recommendations down to the fundamental portfolio. GVA's main limitation with its model is that the model is purely "backwards looking." The model identifies the very best companies in the world, based on average FCF generation and average shareholder yield over the last 7 years (average length of a business cycle). The model does not have an opinion on any areas outside of our four key investment criteria, such as the competitive environment, macroeconomic factors, interest rate sensitivity, or where we are in the business cycle.

In relation to the Auto Industry, the model correctly identifies 4 stocks that have best-in-class FCF and shareholder yields. The companies also have strong balance sheets and trade at cheap valuations (cheapest 20%). However, the model does not identify that we are likely at the peak of the auto cycle and that there are signs the fundamentals are rolling over. GVA believes that the strong results the model is seeing over the last 7 years with auto stocks will not be repeated in the next 3-5 years. As a result, we have excluded all four names the model wants to purchase from our fundamental portfolio. So far, this decision has been prudent.

Why has GVA excluded auto stocks:

Global auto growth has been strong over the last 7 years, but there are signs that industry fundamentals area breaking down. Auto stocks tend to be highly cyclical and purchases are mostly completed with financing. Higher interest rates and slowing global GDP growth will likely be a structural headwind to growth. At the same time, the four auto stocks the model wants to purchase have operating margins near historical highs. This gives investors little margin of safety, if the industry continues to deteriorate.

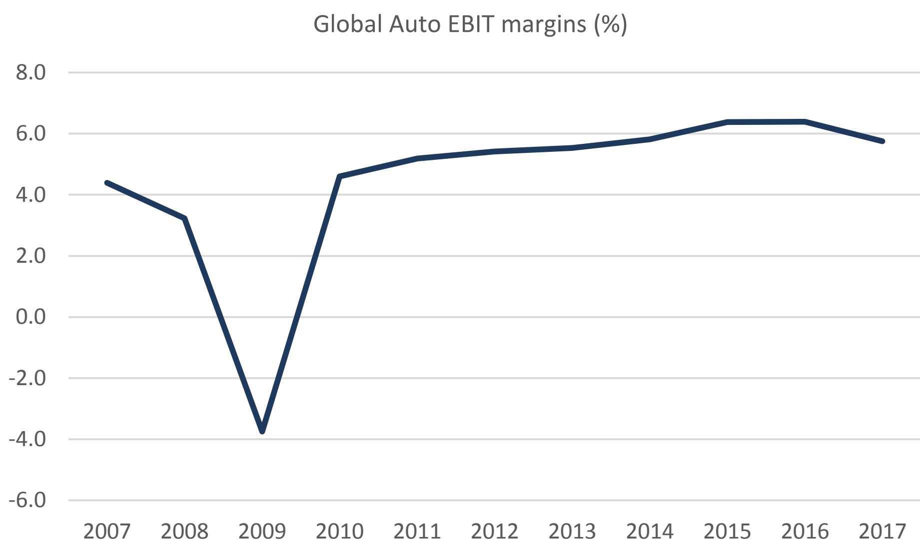
In terms of global auto production, we are well above the peak levels seen in 2007:



Source: Factset, OICA - International Organization of Motor Vehicle Manufacturers

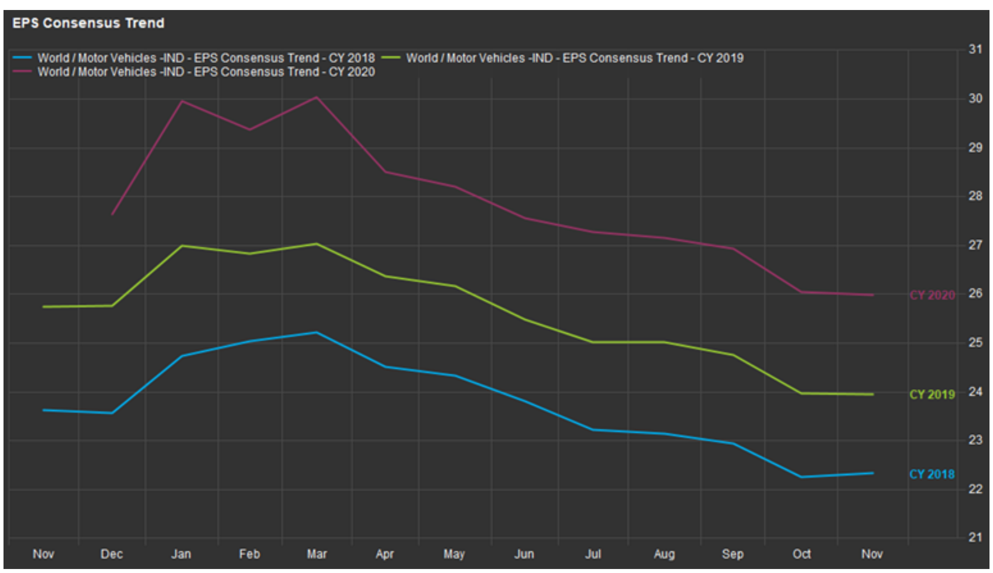
CONTINUED >>

Global auto operating margins peaked in 2016 and have started to roll over:



Source: Factset aggregates

Global auto consensus EPS estimates are coming down in each of the next 3 years:



Source: Factset

CONTINUED >>

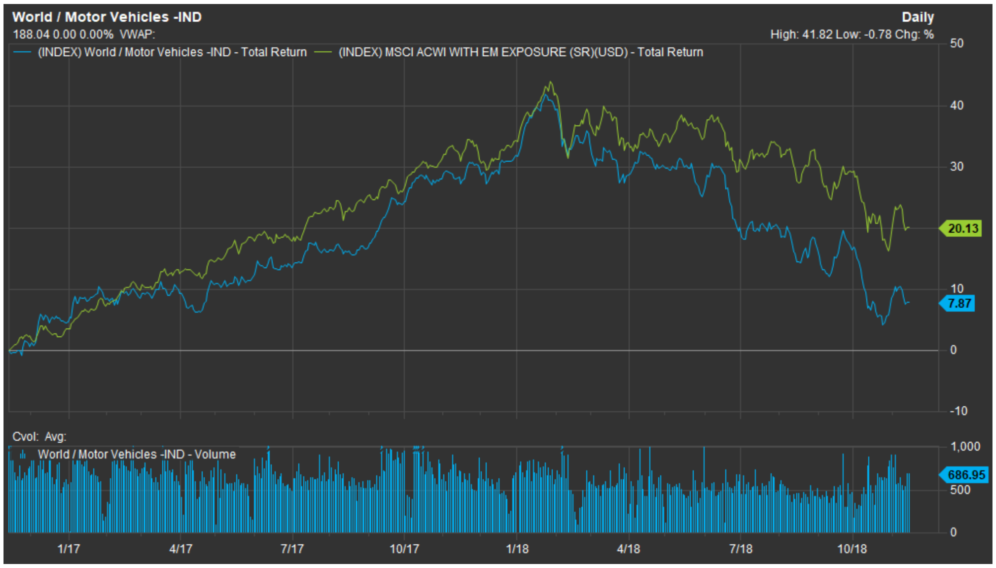
GLOBAL VALUE ADVISORS
A Division of Moody Aldrich Partners

International Small Cap

Fourth Quarter2018

COMMENTARY

Auto stocks started underperforming global indexes at the beginning of 2018:



Source: Factset

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

Sincerely,

Phillippe Rolland
CIO, Portfolio Manager

Todd Bassion, CFA
Portfolio Manager

Matthew Marotta
Investment Research
Portfolio Implementation

OFFICE CONTACT

18 Sewall Street
Marblehead, MA 01945

Phone
(781) 639-2750

Fax
(781) 639-2751

CONTINUED >>

International Small Cap

Fourth Quarter2018

COMMENTARY

Disclosures

The information provided in this report should not be considered a recommendation to purchase or sell any particular security. There is no assurance that any securities discussed herein will remain in an account's portfolio at the time you receive this report or that securities sold have not been repurchased. The securities discussed do not represent an account's entire portfolio and in the aggregate may represent only a small percentage of an account's portfolio holdings. It should not be assumed that any of the securities transactions or holdings discussed were or will prove to be profitable, or that the investment recommendations or decisions we make in the future will be profitable or will equal the investment performance of the securities discussed herein. A complete list of all securities recommended during the preceding year is available upon request. Past performance is not indicative of future results. The calculation methodology for the contributions to performance and a list showing all holdings' contribution to the overall strategy's performance during the measurement period is available upon request at information@globalvalueadv.com or by calling (781)-639-2750.

For comparison purposes, the GVA International Small Cap Equity strategy performance is measured against the MSCI All Country World ex-US Small Cap.

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. 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 Index 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.

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 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 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, distribution or taking any action in reliance on the contents of this information is strictly prohibited.