GLOBAL VALUE ADVISORS
A Division of Moody Aldrich Partners

International Small Cap

Third Quarter 2019

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. Our research shows that companies that generate positive free cash flows and return capital to shareholders outperform the market.

Q3 2019 Total Returns (Net of Fees)	
GVA International Small Cap	**-2.79%**
MSCI All Country World ex-US Small Cap	-1.19%
Value Added	**-1.60%**
MSCI All Country World ex-US Small Cap Value	-1.03%
MSCI All Country World ex-US Small Cap Growth	-1.34%

Regional Indices	
MSCI Japan Small Cap	3.95%
MSCI United Kingdom Small Cap	-1.06%
MSCI Emerging Markets Small Cap	-4.58%
MSCI Europe ex UK Small Cap	-3.48%
MSCI Pacific ex JP Small Cap	-2.06%

The GVA International Small Cap Equity strategy returned -2.79% (net) in the third quarter of 2019 versus -1.19% for its benchmark, the MSCI All Country World ex-US Small Cap Index.

The -1.60% relative performance of the fund during the quarter was driven by a combination of weak stock selection and negative allocation effects. The two weakest regions were Emerging Markets and Japan where we are overweight and also had poor stock selection. This more than offset strength in the UK. Stock selections in Energy, Materials, and Real Estate were also poor.

The portfolio positioning has not changed substantially over the past few months. Our most notable regional bets include a 15% overweight to Emerging Markets (36% vs. 21%) and a 10% underweight to Europe (17% vs. 27%). We remain overweight in Consumer Discretionary, Financials, and Materials and are underweight Healthcare, Technology and Real Estate.

During the third quarter starting in September, the market experienced a sudden shift from momentum stocks to value plays. GVA's fund outperformed in September, but was unable to offset all the underperformance in July and August. Since the beginning of the year, the fund is up 8.9% (net) versus +10.3% for the MSCI All Country World Ex-US Small Cap Index. Thus far in 2019, the MSCI All Country World ex-USA Small Cap Value Index returned +9.1% when the MSCI All Country World ex-USA Small Cap Growth Index returned +12.3%. Over the last 20 years, our models have typically slightly outperformed during growth led markets (except when the growth/value spread is egregious as it has been this year) and significantly outperformed when value dominates. Our performance this year and since inception is in line with what we would expect from GVA's approach and demonstrates the unique return profile of our value strategy.

The following table provides a selection of metrics that summarize the identity of our portfolio especially when compared to its benchmark:

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	GVA International Small Cap	MSCI ACWI Ex-US Small Cap Index
Wtd. Average Market Cap	$1,198 Mln	$1,694 Mln
Dividend Yield (LTM)	5.6%	2.7%
Price/Earnings (FY1)	9.5x	14.7x
Price/Book	1.1x	1.4x
Free Cash Flow Yield	9.7%	4.1%
Shareholder Yield**	9.3%	2.3%
Net Debt to Equity (ex-financials)	4.6%	140.5%
Return on Equity	15.0%	11.8%

*** Shareholder Yield = dividends + Net Buybacks + Change in Debt. Shareholder Yield and FCF Yield are weighted averages. Source: FactSet as of September 30, 2019*

As you can see, our portfolio reflects deep value metrics without sacrificing profitability and balance sheet strength. Our approach leads us to companies with strong and sustainable cash flow generation, a proven record of returning cash to shareholders while generating above average Returns on Equity and carrying almost no debt. These companies tend to do well in a variety of market environments and, when combined with extremely cheap valuations, should lead to strong outperformance when value stocks are in favor.

Top 3 Performers in Q3 2019

ASM International (ASM-AMS)
ASM International is based in the Netherlands and sells specialized equipment used to manufacture semiconductors. Q2 2019 results were reported in July, which were ahead of expectations. Sales grew by 25% Year-over-Year and gross margins expanded. The company remains on track to deliver strong double-digit percentage growth in 2019. Free Cash Flow (FCF) Yield is 5%, Shareholder Yield is 7%, and PE FY1 is 17x.

Qualicorp (QUAL3-BR)
Qualicorp is a leading provider of health insurance and healthcare services in Brazil. In August, the leading hospital operator in Brazil announced it is taking a 10% stake in Qualicorp, which both validated the business and improved corporate governance. Q2 2019 EPS was also ahead of expectations. FCF Yield is 8%, Shareholder Yield is 3%, and PE FY1 is 16x.

Changyou.com (CYOU-US)
Changyou.com is an online and mobile game developer in China. In early September, the Chinese internet firm Sohu announced plans to acquire Changyou.com for $10 per ADR share. The purchase price was at a 70% premium to the then current share price. The deal is likely to close, as Sohu already controls 90% of the voting rights at Changyou.com. CYOU's consistent FCF generation and strong balance sheet (70% of market cap in net cash) made it an attractive acquisition target. PE FY1 is below 5x.

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Bottom 3 Performers in Q3 19

PT Indo Tambangraya Megah Tbk (ITMG-ID)
PT Indo Tambangraya Megah is an Indonesian coal miner. Weak Q2 2019 results were reported in August and the outlook for coal is negative. A combination of slower global growth and higher production trends has pressured coal prices. International coal prices fell 20% in the third quarter and are down 40% YTD. ITMG is scrambling to cut costs, as the company is now loss making at current coal prices. Note that ITMG has 40% of the market cap in net cash. FCF Yield is 29%, Shareholder Yield is 26%, and PE FY1 is 7x.

Tokuyama Corporation (4043-JP)
Tokuyama is a chemical manufacturer based in Japan. Chemical companies tend to be highly sensitive to changes in GDP growth rates and the company's Q1 2019 results reported in July were weak, with operating profits down 21% year-over-year. The balance sheet ratios are adequate, but could come under pressure if earnings continue to decline. We sold our position in August.

Atresmedia Corporacion de Medios de Comunicacion SA (A3M-ES)
Atresmedia Corp is a leading TV broadcaster in Spain. Q2 2019 results reported in July showed revenues down 5% year-over-year, but flat EBIDA due to cost cutting. TV advertising revenues were down 10% year-over-year (in-line with Spanish TV market). We continue to hold our position as much of the negative news is already in the share price. FCF Yield is 14%, Shareholder Yield is 13%, and PE FY1 is 6x.

GVA is positioned to perform:

We believe the portfolio is well positioned to outperform the market in the mid-term. Our historical backtest shows that the portfolio slightly outperforms during growth markets and significantly outperforms during value rallies (see table below). On a global basis, growth has outperformed value over the last 11 years. Research studies show that value outperforms growth over the very long term. On a performance basis, we are now back to 2000 levels of growth outperforming value. The valuation spread of value stocks vs the market is also the widest since the TMT bubble. GVA's disciplined process focuses exclusively on the cheapest 20% of stocks in the world and the firm's disciplined process ensure persistent style consistency.

GVA has no insight into when this growth super-cycle will end, but we believe it is only a matter of time. Investors saw a hint of value resurgence in both Q4 2018 and September 2019. GVA outperformed, as expected, in both these markets. The following factors have been a headwind to GVA, but will turn into a tailwind once they reverse:

- Growth has outperformed value materially over the last decade.
- US has outperformed International markets significantly over the last decade.
- Valuation ratios of US vs International markets have widened.

GVA is also well positioned to outperform in down markets. The current bull market started in March of 2009 and is the longest in history. Although markets remain near all-time highs, several recession indicators are flashing red. GVA's historical model outperformed the benchmark significantly in the down years following the TMT bubble (2000-2002), as well as the worst year of the housing crisis (2008).

Please reach out to us for proof statements around any of these trends.

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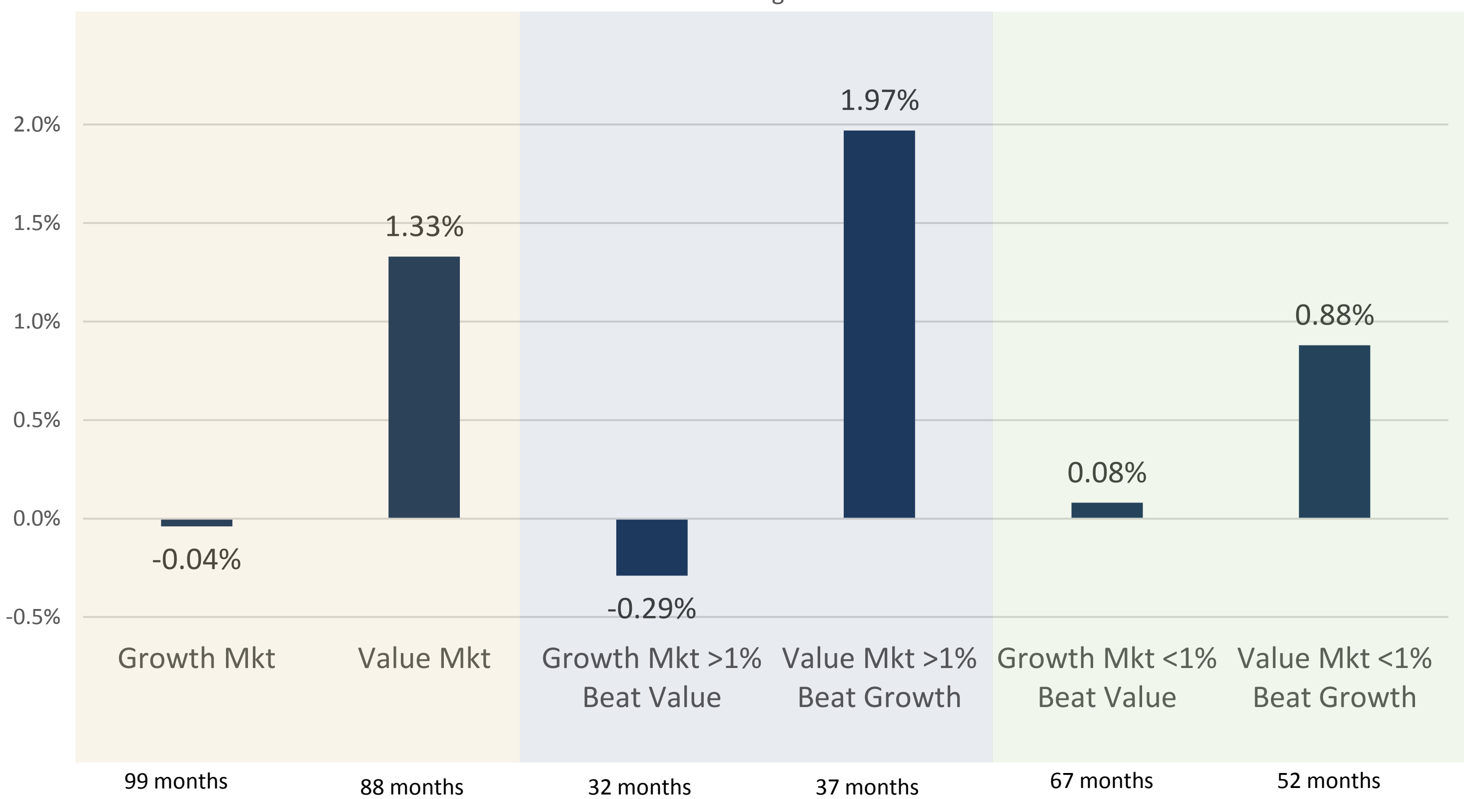
Back Test: Growth and Value Market Capture

Average Monthly Capture of MSCI ACWI Ex-US Small Cap Index Return
Jan 2004 – Aug 2019



**Source*: FactSet – Growth and Value markets determined for each month by comparing the returns for the MSCI ACWI Ex-US Small Cap Value versus Growth Indexes. Excess return of the GVA International Small Cap Model compared to the MSCI ACWI Ex-US Small Cap Index for each month. *GVA International Small Cap Quant 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.*

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
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 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, 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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