International Small Cap

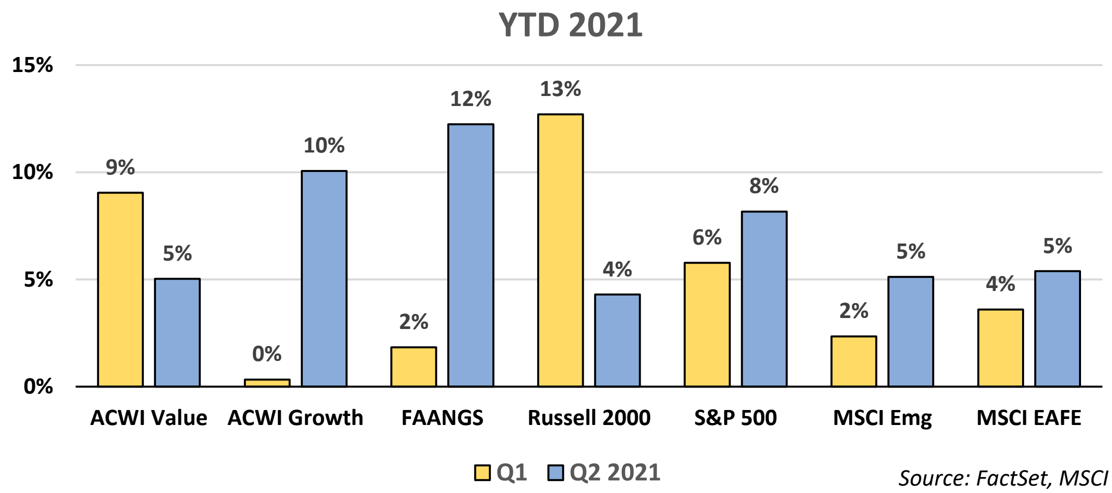
Second Quarter 2021

COMMENTARY*

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.

**This commentary has been modified as of November 2023. The modifications were limited to redactions of certain performance-based information that conflict with current regulations and our current policies and a change in referenced GIPS presentations that can be viewed via hyperlink within this commentary.. The remaining content remains as originally written.*

The second quarter 2021 was characterized by a reversal of market dynamics observed from October 2020 to March 2021. The reflation trade, "cyclical value outperforming growth", stalled as market participants moved past the grand reopening theme and priced in the normalization: bond yields came down and yield curves flattened illustrating this reassessment of more reasonable growth expectations going forward after a torrid first half of 2021. This erratic normalization process is complicated by the propagation of the Delta Covid variant, uneven global vaccination campaigns, slow to fix supply-chain bottlenecks, and fast rising input costs. Inflation rates have continued to ramp higher, but investors are so far accepting that these effects will prove transitory. In the process, Growth and Large outperformed in Q2, and the US market outpaced international markets. The following chart illustrates these trends with total returns:



Source: FactSet, MSCI

When breaking down the relative returns in Q2 21, the underperformance of value was the main detractor to performance. Worth noticing, for the second quarter in a row, investing exclusively in stocks from GVA's Advantaged Subset (companies that combine positive free cash flow and positive Shareholder Yield[1]) contributed positively to the returns. This provides further confirmation of the end of the "junk rally" which is typical during the normalization phase of a market following a low-quality rebound. Going forward, history suggests that investors should expect further strength coming from this source of alpha in GVA's investment process.

Energy is one of the cyclical sectors where GVA continues to see value. Brent oil prices have rebounded from their April 2020 lows of $21 per barrel to the current $75 per barrel. Supply has been cut sharply (US rig counts down 75%) and demand is recovering with the global economic rebound.

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Q2 2021 Top 5 Contributors†

Security	Avg. Weight (%)
USI Corporation	1.2
Enauta Participacoes S.A.	2.1
Cheng Loong Corp.	1.4
Russel Metals Inc.	1.6
Kolon Industries, Inc.	1.4

Q2 2021 Top 5 Detractors†

Security	Avg. Weight (%)
Tokuyama Corporation	1.8
China High Speed Transmission Equipment Group Co., Ltd.	0.6
Hitachi Zosen Corporation	1.2
EDION Corp	1.4
K'S Holdings Corporation	1.1

†The information provided above 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 presentation 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 information is presented as supplemental to the GIPS Report available here. Top Contributors and Detractors are considered Extracted. Attribution total return for portfolio differs from composite results due to attribution methodology not taking intraday trading into account. Return data presented gross of fees. Past performance is not indicative of future returns.

The main question that value investors are trying to answer now is "did the 4th quarter 2020 mark the grand bottom for value after 13 years of a painful drawdown, or was it another head fake that could be confirmed by the Q2 2021 reversal observed in the developed markets?" Although time will tell, GVA believes that markets are in the early innings of a value rebound.

Many Elements Point To A Value Recovery

Having studied past cycles, GVA believes the current market conditions constitute a favorable backdrop to value's continued outperformance.

1. Since the 2nd World War, most of the 5 major value recoveries have taken root in the last phase of an equity bubble. The following graph shows the Buffett Ratio (Total US stock market valuation divided by GDP) which GVA believes does a pretty good job at identifying equity bubbles. The current 236% reading puts the current market valuation at the highest over the past 70 years, exceeding the TMT bubble level reached in late 1999. The height of the TMT bubble is the only other time this metric has crossed into 2 standard deviation territory. When looking at the other common valuation metrics (Shiller PE, Price to Sales) a similar conclusion can be drawn.

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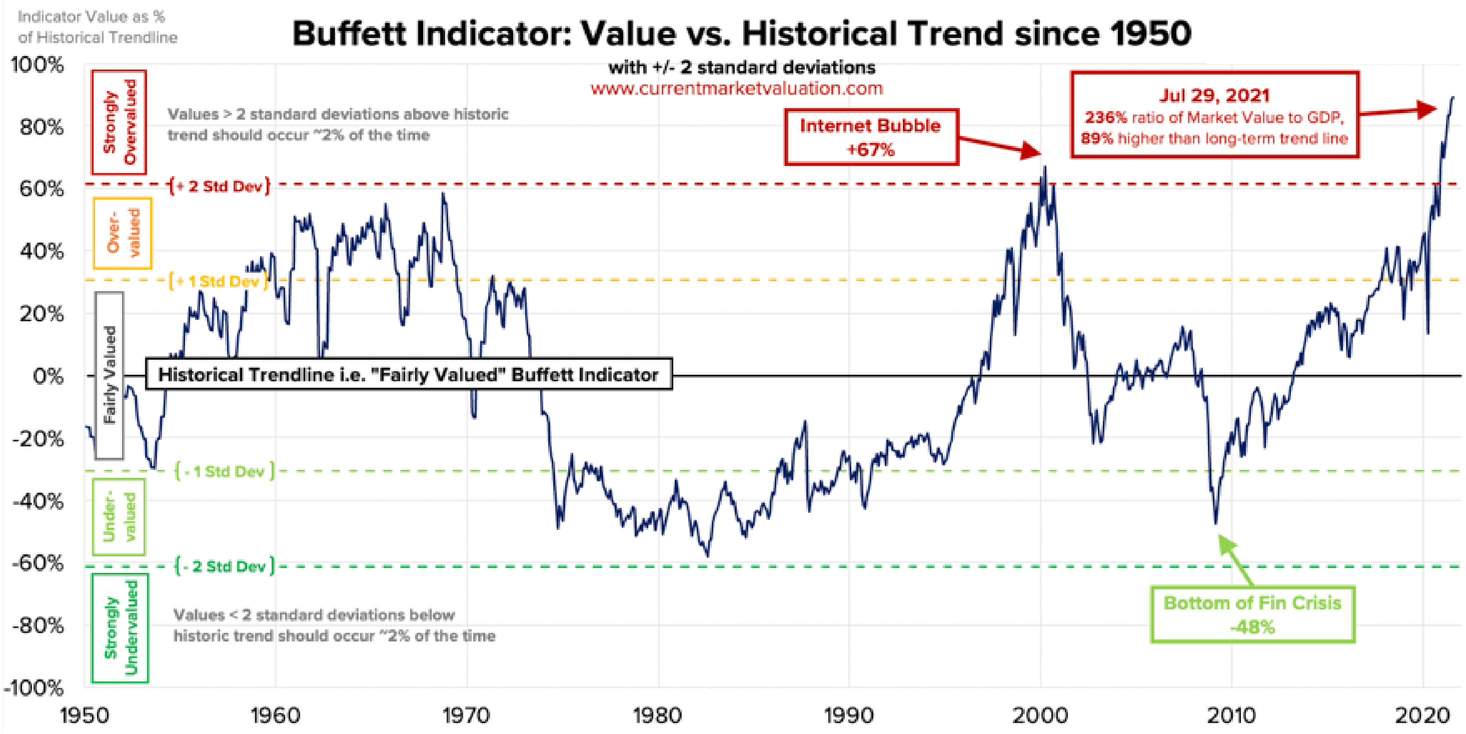

Source: currentmarketvaluation.com.

2. The same five value recoveries have, without exception, materialized once the valuation spread between cheap stocks and expensive stocks was significant, or "wide". The wider the spread, the bigger the value recovery. The following chart illustrates that and puts into perspective both the relative return of value versus growth (dark blue line) and its corresponding relative valuation (gold line).

   The dark blue line shows the relative performance of value vs growth since 1949. If you invested $1 in value stocks in 1949, your end value would be 6 times as high as if you had invested in growth stocks. Although this is impressive, value has underperformed since 2006 and has given back more than half of its total outperformance (peak 13 times). Over the course of the entire study, value has outperformed growth by an average 3.1% per annum.

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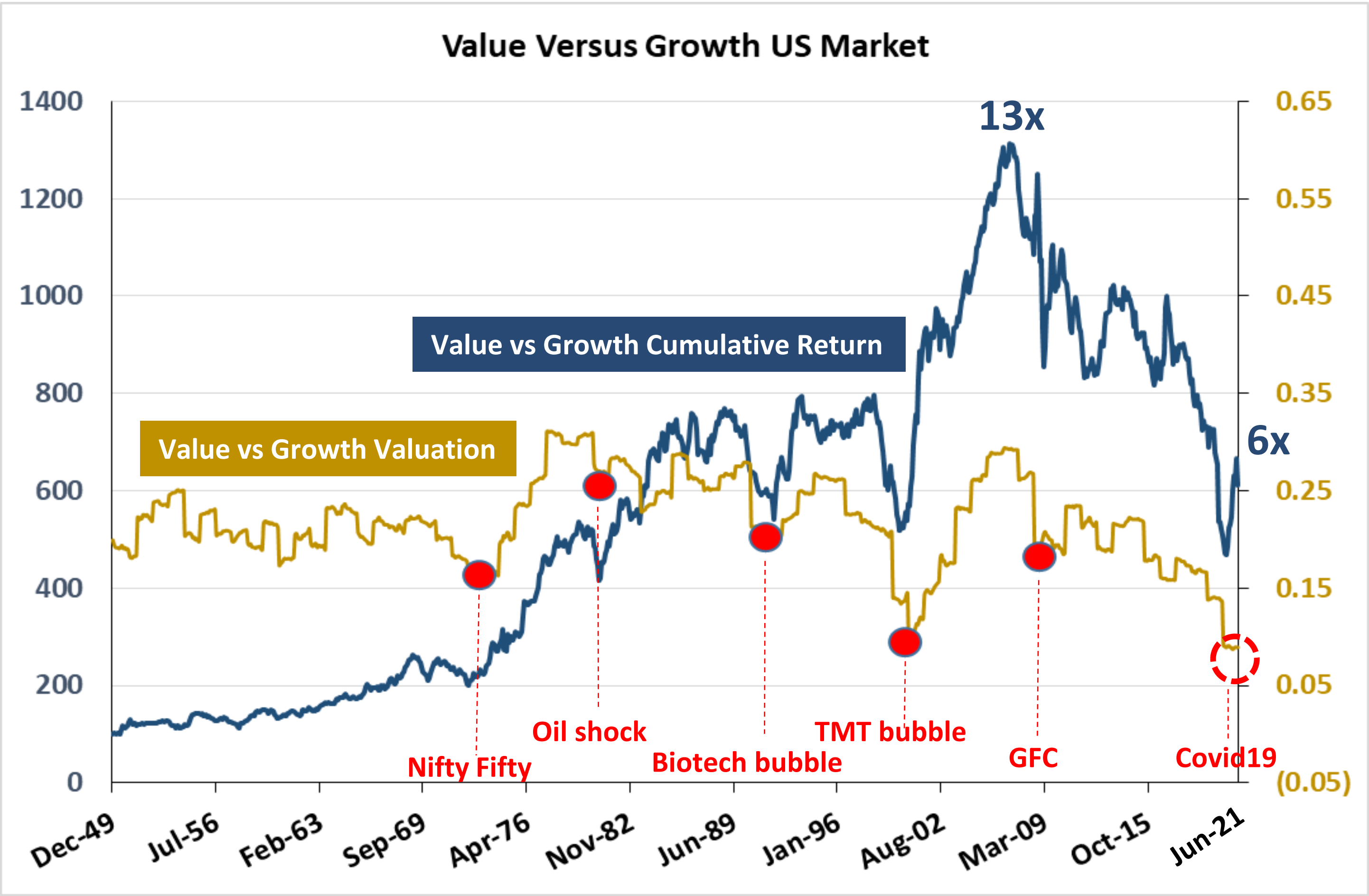

Source: GVA Research, utilizing the US Fama & French database. Relative valuation is based on P/B of growth (top 30%) and value stocks (bottom 30%), market cap weighted. This study was recreated from a Research Affiliate white paper entitled Reports of Value's Death May Be Greatly Exaggerated https://www.researchaffiliates.com/en_us/publications/journal-papers/reports-of-values-death-may-be-greatly-exaggerated.html, . Dec 1949 – June 2021.

The gold line shows the relative valuation spread of value vs growth. When the gold line goes down, value becomes cheaper vs growth. The median ratio between “cheap” P/B and “expensive” P/B is 0.20 since 1949, which means that growth stocks were, on average, 5 times as expensive as value stocks. The previous peak in spreads was during the TMT bubble, when growth was 10 times as expensive. After 13 years of multiple expansion for growth and multiple compression for value, the valuation spread is now close to an all-time high, with growth trading 11 times more expensive than value. Also note that the valuation spread has barely narrowed following value’s rebound over the last 9 months, which is highlighted by the red circle.

3. The value rebound observed over the past 9 months shows similar characteristics as the previous 5 value rebounds. The move up in interest rates and commodity prices that started in the summer 2020 is typical of value rebounds. GVA sees the recent pullback as part of the economic normalization phase it described earlier. Similar pullbacks can actually be observed in the first nine months of each of these value recoveries, as indicated by the far right column in the table below.

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First 9 Months of Value Rebounds

Theme	Value Trough	Value Relative Return (First 9 Months of Rebound)	# of Months with Value Negative Relative Return (First 9 Months of Rebound)
Nifty Fifty	Jul-72	11.8%	2
2nd Oil Shock	Mar-81	6.2%	4
Biotech Bubble	Oct-90	6.5%	2
TMT Bubble	Feb-00	37.2%	1
GFC	Feb-09	12.0%	1
Average		*14.7%*	*2*
Covid 19	Oct-20	17.7%	2

Source: GVA Research utilizing the Fama French database, based on PE metric. Dec 1951- June 2021. Note that similar results can be seen using the P/B database.

Looking at complete cycles, the average length of a value rebound lasts 6.6 years, and the average annual relative return (versus index) delivered by the cheapest 30% of the universe is 7.6%. Given that we are less than one year into the current value recovery suggests there could potentially be plenty of room left going forward. The following table summarizes that:

Theme	Value Trough	Next Value Peak	Length of Value Rebound (Years)	Value Annual Relative Return During the Rebound
Nifty Fifty	Jul-72	Jul-79	7.0	9.1%
2nd Oil Shock	Mar-81	Sep-86	5.5	6.6%
Biotech Bubble	Oct-90	May-98	7.6	5.0%
TMT Bubble	Feb-00	May-07	7.2	13.6%
GFC	Feb-09	Jul-14	5.4	3.8%
Average			*6.6*	*7.6%*
Covid 19	Oct-20	?	?	?

Source: GVA Research utilizing the Fama French database, based on PE metric. Dec 1951- June 2021. Note that similar results can be seen using the P/B database.

GVA is Uniquely Positioned in Its Peer Group

GVA's disciplined process ensures that it remains committed to a clearly defined segment of value and that its strategies will not style drift over time. GVA's research shows that focusing on the Advantaged Subset of value candidates, leads to outperforming core and value benchmarks, and traditional value peers. GVA's strategies typically outperform during both value and modest growth outperformance markets. GVA expects to underperform during extreme growth led markets, as experienced in Q1-Q3 of 2020.

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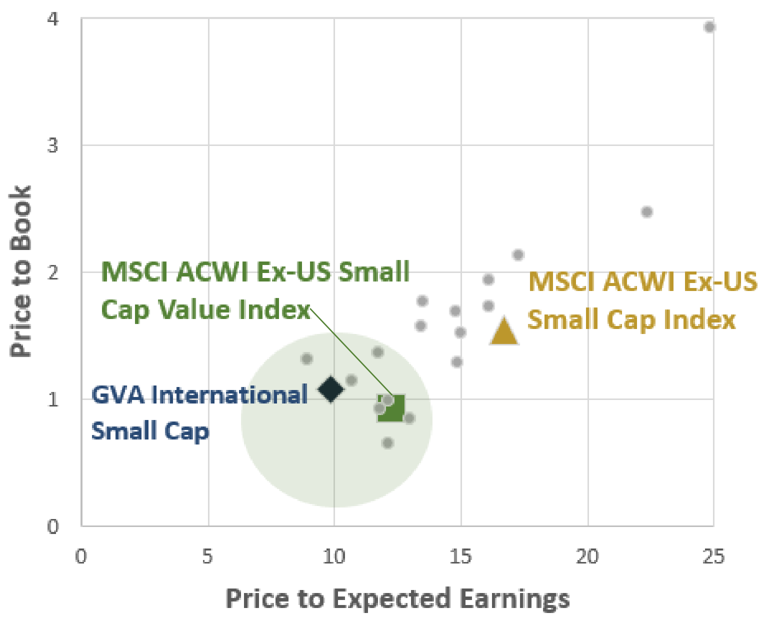
All three of GVA's strategies demonstrated these attributes during the recent value rebound that has been observed across geographies and sectors. See GVA Investment Insight studies for further evidence[2,3].

In the study below, GVA analyzed the positioning of its eVestment peer group, downloading their funds' most recent holdings to derive each fund's aggregate Price to Book and Price to Earnings. The following graph shows how disparate this positioning is among the 19 funds of this category. Most importantly it highlights GVA's unambiguous commitment to value among its peers. The table to the right illustrates notable performance deviations during the Covid value rally. GVA's Global Equity strategy outperformed both the MSCI ACWI and MSCI ACWI Value Indexes while a majority of GVA's value peers, especially those with higher valuation metrics, underperformed. Given its valuation discipline, GVA is likely positioned to outperform many of its peers, and the Indexes, in a sustained value cycle.

Peer Group Valuations



Source: eVestment universe is the Global All Cap Value universe (mutual funds only, 19 constituents) as of September 30, 2020. The date chosen captures the peer universe right before the value rally. Aggregate metrics are derived from the most recent quarterly reported holdings ex-financials and analyzed in Factset. Price to Earnings is based on NTM consensus. Past performance is not indicative of future results. "Disciplined Value" Funds refer to peers with valuation metrics at or below the MSCI ACWI Value Index. "Other Funds" refer to peers with valuation metrics above the MSCI ACWI Value Index

Outlook

GVA's Advantaged Subset has outperformed over time and GVA's process has delivered alpha in both value and most growth markets. GVA's strategies are uniquely positioned vs its value peers and do not allow for style drift.

GVA believes the markets are at an attractive point in the cycle for value investors. Although the last 13 years experienced the largest and deepest period of underperformance for value, history still suggests that value outperforms in the long run. Past value drawdowns have all been followed by long periods of outperformance, with the current rebound tracking in line with historical comparisons, so far. Most importantly, the relative valuation spreads of value vs growth remain near all-time highs, which will likely narrow over time and presents one of the best investment opportunity sets on record for value investors.

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2. *How Consistently Do Companies With Positive FCF and Positive Shareholder Yield Outperform?*
3. *What to Expect From GVA in Growth and Value Markets* https://moodyaldrich.com/gva/investment-insights/

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A Division of Moody Aldrich Partners

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GVA recently completed its 3 year performance record. We would like to thank our clients and main financial backer for your support during these lean years for value. We greatly appreciate your unwavering commitment to GVA's approach and increased investments during periods of underperformance. GVA's historical studies suggest that markets are still in the early innings of a value recovery and GVA's strategies are actively positioned to benefit.

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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