GLOBAL VALUE ADVISORS
A Division of Moody Aldrich Partners

International Small Cap

First Quarter 2022

COMMENTARY

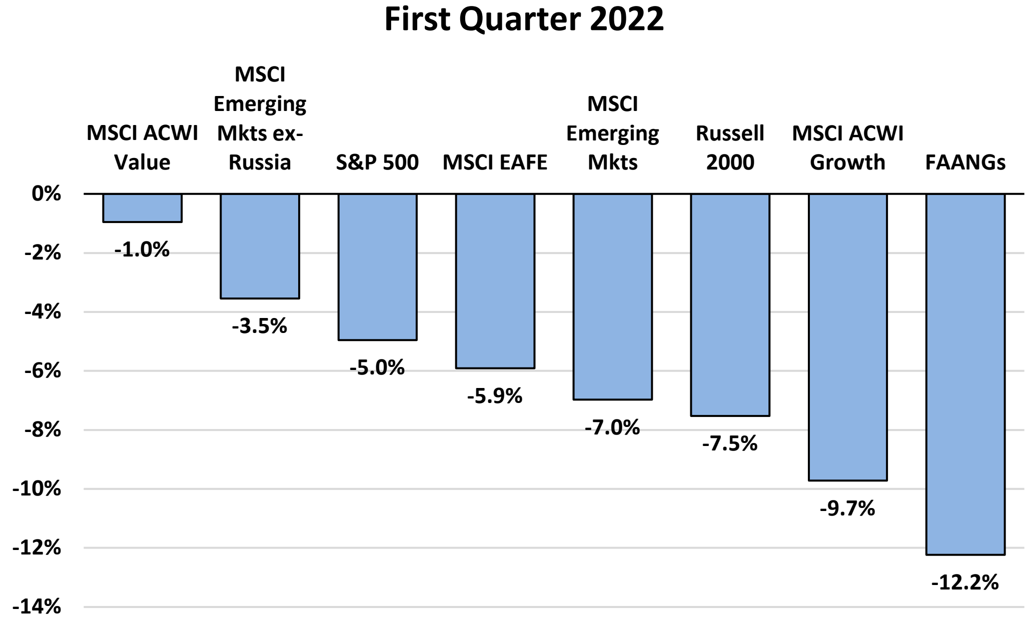
Global Value Advisors is an investment boutique specializing in long-only international and global equities. GVA is a value investor and its research shows that companies that generate positive Free Cash Flow and return capital to shareholders outperform the market. GVA uses a disciplined methodology 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.

Total Returns (Net of Fees)	Q1
GVA International Small Cap	**-0.7%**
MSCI All Country World ex-USA Small Cap Index*	-6.5%
MSCI All Country World ex-USA Small Cap Value Index	-2.6%
MSCI All Country World ex-USA Small Cap Growth Index	-10.4%

*Benchmark

Regional Indices	Q1
MSCI Japan Small Cap	-7.2%
MSCI United Kingdom Small Cap	-14.3%
MSCI Emerging Markets Small Cap	-4.3%
MSCI Europe ex UK Small Cap	-10.5%
MSCI Pacific ex Japan Small Cap	-0.3%

The first quarter 2022 was characterized by the reversal of the market dynamics observed in the last quarter of 2021. The reflation trade "cyclical value versus growth" regained some traction as market participants reassessed the transitory inflation narrative in the face of ever-increasing CPI prints. Inflation is here for longer and the war in Ukraine combined with lockdowns in China will exacerbate this trend. The Federal Reserve came to terms with the changing landscape and adjusted its message while embarking on a belated hiking cycle. In the process, value beat growth and developed outpaced emerging, although, excluding Russia, emerging ended up being the best region for the quarter. The following chart illustrates these trends:



Source: Factset, MSCI

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On the back of these favorable dynamics, GVA's three funds outperformed their respective benchmarks:

Year to Date Returns

GVA Global Equity (Gross)	-2.2%
GVA Global Equity (Net)	-2.3%
MSCI ACWI Index	*-5.4%*
Excess Return (Gross)	3.1%
GVA International Small Cap (Gross)	-0.6%
GVA International Small Cap (Net)	-0.7%
MSCI ACWI EX-US SMALL CAP NET	*-6.5%*
Excess Return (Gross)	5.9%
GVA Emerging Markets (Gross)	-2.5%
GVA Emerging Markets (Net)	-2.6%
MSCI Emerging Markets Index	*-7.0%*
Excess Return (Gross)	4.5%

These numbers reflect a 100% write down of GVA's Russian holdings in the Global Equity and Emerging Markets strategies, which accounted for 3.4% and 6.5% of holdings respectively on the day of the invasion. Although the Russian exposure had a material impact on performance, GVA minimized losses by cutting its weight in half mid-January. GVA's International Small Cap strategy had no exposure to Russia. When breaking down the relative returns, investing uniquely in stocks from GVA's Advantaged Subset (companies that combine positive free cash flow and positive return to the shareholder) had a favorable effect, but the outperformance of value was the main contributor to GVA's relative return.

Growth Struggles

Similarly, to what we have observed over the quarter and to a certain extent since November 2020, we believe growth companies might disappoint further as they are challenged on three fronts. **First**, growth names will likely struggle in sustaining the high level of growth achieved in the height of the COVID pandemic often resulting from a pull forward effect. **Second**, their valuation levels give little room for disappointment. While most lower quality growth companies have been derating for a year, the bulk of growth companies still trades on par with levels only reached during the peak of the TMT bubble.

Netflix is a good illustration of these two challenges. Every quarter Netflix updates the chart below, showing the annual trajectory of global new subscribers. Prior to the pandemic in 2018 & 2019, there was a steady and tight correlation between new subscriber growth as the years progressed. Then, in 2020 (black line), there was a massive jump in new subscribers as the pandemic took hold around the globe. This rapid growth, however, was not sustainable. In 2021 and 2022 YTD new subscribers started running well below trend, as the surge in 2020 essentially "borrowed" business from future years.

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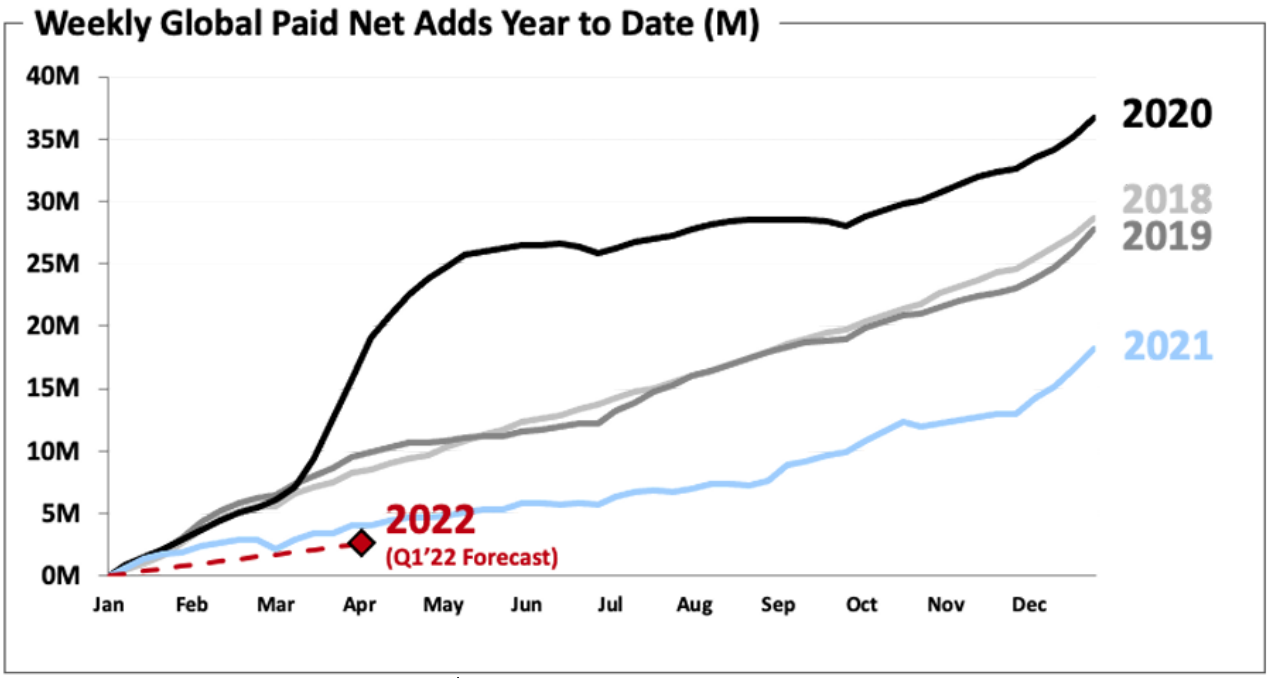

Source: Netflix Q4 21 letter. January 20th, 2022.

Looking a little closer at Netflix's fundamentals over the last two years is also telling. From March of 2020 through its peak in November 2021, Netflix saw its share price increase by 130%. Although the sales growth was high, it could not keep pace with the share price increase. Over the same timeframe, Netflix saw its P/S multiple expand from less than 7x to over 11x. For comparison, the P/S multiple on MSCI ACWI Index is close to 2x and the S&P 500 is roughly 3x. Netflix saw its EPS grow by an impressive 47% in 2020 and another 85% in 2021. However, consensus is looking for EPS to *decline* by 1% in 2022 due partially to the pull forward effect. GVA would argue that paying stretched valuations for a company with a slowing growth profile is a risky venture, at best.

The **third** challenge growth companies are facing is the tightening cycle: history suggests that long duration (low yield or no yield) assets come under pressure in tightening cycles. This does not bode well for growth stocks, as the current hiking cycle has only just started. This is likely to be the most significant headwind for growth stocks going forward.

Postscript: After the writing of this letter Netflix announced that it lost 200,000 customers in the first quarter, its first decline in a decade. The company also projected it will lose another 2 million customers in the current quarter. NFLX shares fell as much as 39% on the news, representing the biggest intraday drop since 2004.

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GVA owns value names with appealing attributes for this environment
The market has so far ignored them

The segment of the universe GVA focuses on, and invests in, is made of significantly undervalued companies that generate cash flows to maintain their assets, finance their growth, and return what is left to their shareholders without relying significantly on external financing. Specifically, GVA searches the globe for companies that rank highly on our four cornerstone investment criteria:

1. High and consistent Free Cash Flow.
2. High and consistent Shareholder Yield (dividends + buybacks + debt reduction).
3. Strong balance sheet.
4. Valuation in the cheapest 20%.

GVA's research shows that companies with these characteristics outperform the market over time. Importantly, these attributes provide staying power when economic conditions deteriorate.

Typically, investors don't start worrying about corporate balance sheets until interest rates begin to rise. Once this happens, attention shifts to companies with strong balance sheets and high levels of sustainable FCF. Strong and consistent FCF allows a company to easily weather an economic downturn, by having the ability to service their debt, return cash to shareholders, and strengthen their business by conducting M&A at discount prices. This puts them at a competitive advantage versus peers with higher balance sheet gearing that are forced to focus only on debt reduction.

Although the world economy has been delivering above normal growth over the past 18 months, GVA anticipates a gradual slowdown going forward as central banks normalize interest rates policies. The three most prominent economic predictors of a recession are the inversion of the yield curve (10 year – 2 year yield), a spike in energy prices, and a rate hiking cycle. The market is currently facing all three of these headwinds. The length of time between an inversion of the yield curve and the onset of a recession has historically varied from 6 months to 4 years.

Meanwhile, GDP continues to grow at above average rates and earnings estimates are still being revised upwards. This is coupled with strong consumer spending, low unemployment, and rising wages. GVA also remains cognizant that further geopolitical developments might complexify the economic outlook.

GVA believes the businesses it owns are well suited for the environment we face. Its companies have all demonstrated agility in the pandemic and experienced limited to zero pull-forward effect on earnings. Strong pricing power in the recent quarters allows GVA's holdings to generate sizable cash flows while maintaining discipline in their capital allocation process. Their balance sheets are healthy (in many cases debt free) which should provide downside protection in the event of a severe downturn. Most importantly, these companies remain attractively valued.

This is particularly true in the resource sector, where GVA has a positive bet across strategies. The sector went through a boom and bust of extreme proportions from 2000 to 2020. From 2010 to 2020, the MSCI ACWI Metals and Mining Index combined with Energy saw its worst decade of performance on record as it was essentially flat when the MSCI ACWI Index returned +10% annually. As the sector digested the excesses of the 2000's, cost cutting and capital discipline became paramount in the downturn. As a result, limited capacity was added and excess cash was returned to the shareholders.

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Consequently, the rise in commodity prices observed in late 2020 did not come as a major surprise, as the world economy roared back in the wake of the largest coordinated global economic stimulus ever recorded. Commodity markets remain tight and the current conflict in Eastern Europe will likely exacerbate supply disruptions. Commodity prices also tend to do well in periods of high inflation, like other real assets. This should benefit GVA's holdings whose valuations do not seem stretched: for example, GVA owns two of the largest diversified miners in the world. Listed in Australia, both generate more than 10% of their market cap in free cash flow per annum and pay 9%+ dividend yields, despite trading at less than 10x FY1 earnings. Rising commodity prices should easily offset higher labor costs, leading to margin expansion. Balance sheet gearing is limited, and both of these holdings are expected to end the year in a net cash position.

Outlook

GVA believes that the pre-pandemic secular stagnation experienced since the global financial crisis (GFC), characterized by suboptimal GDP growth and "lower rates forever," might have come to an end. Current market dynamics reinforce GVA's conviction that the regime change under way is creating new market leadership where value stocks should continue to regain their appeal. GVA's portfolios are positioned for just this scenario.

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

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Data presented is as of March 31, 2022. Characteristics for the MSCI ACWI ex-US Small Cap Index and the GVA International Small Cap Portfolio were derived from FactSet. **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 $22 Million for its international small cap equity clients, with $167 Million in total assets under management. +Preliminary performance results. † Inception date is 06/01/18.

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

Moody Aldrich Partners claims compliance with the Global Investment Performance Standards (GIPS®).

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The Global Value Advisors International Small Cap Equity Composite was created June 1, 2018. The inception date of the International Small Cap Equity Composite 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.

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: 1.00% on the first $25 million and 0.90% on all additional funds. Management fees are paid quarterly in arrears. Actual investment advisory fees incurred by clients may vary.