



International Small Cap

Third 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.

**This commentary has been modified as of November 2023. The modifications were limited to a change in referenced GIPS presentations that can be viewed via hyperlink within this commentary.. The remaining content remains as originally written.*

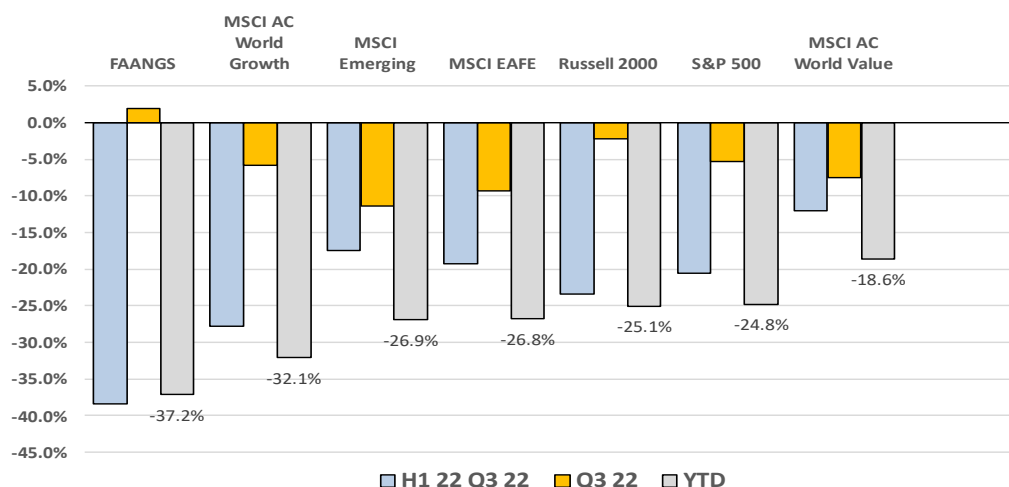
Total Returns (Net of Fees)	Q3
GVA International Small Cap	-8.4%
MSCI All Country World ex-USA Small Cap Index*	-8.4%
MSCI All Country World ex-USA Small Cap Value Index	-8.8%
MSCI All Country World ex-USA Small Cap Growth Index	-8.0%

Regional Indices	Q3
MSCI Japan Small Cap	-4.6%
MSCI United Kingdom Small Cap	-16.5%
MSCI Emerging Markets Small Cap	-5.3%
MSCI Europe ex UK Small Cap	-13.8%
MSCI Pacific ex Japan Small Cap	-6.1%

	GVA International Small Cap Net Return	MSCI ACWI ex-USA Small Cap Net Return*
1 Year	-22.5%	-28.9%
3 Years**	-2.3%	0.4%
Since Inception**	-4.2%	-2.0%

*Benchmark | **Annualized

After a dismal first half of 2022, investors were hoping that a market bottom had been found going into the summer. The third quarter started with a violent recovery of growth stocks coupled with a 0.75% drop in the US 10-year government bond yield seemed to validate that thesis. But, as the US economy showed no clear evidence of a slowdown and its labor market proved a lot more resilient than expected, investors quickly realized that any anticipation of a FED pivot was premature: the Central Bank's crusade against inflation had further to go, which was confirmed by the hawkish message delivered by Jay Powell at Jackson Hole, late August, and the September FOMC minutes: "Many participants noted that with inflation well above the Committee's 2 percent objective and showing little sign so far of abating, and with supply and demand imbalances in the economy continuing, they had raised their assessment of the path of the federal funds rate that would likely be needed to achieve the Committee's goals."



*Source: Factset

The early third quarter bounce was quickly requalified as a bear market rally, as indices retreated broadly to reprice the excess of optimism.

Over the quarter, Growth and the US marginally outperformed. It is worth highlighting that despite a positive return in Q3, FAANGS stocks (we average here Netflix, Amazon, Apple, Alphabet, Microsoft, and Tesla) remain the worst category on a year-to-date basis.



In that context, GVA's International Small Cap Strategy underperformed the benchmark in Q3 while maintaining positive relative returns year-to-date:

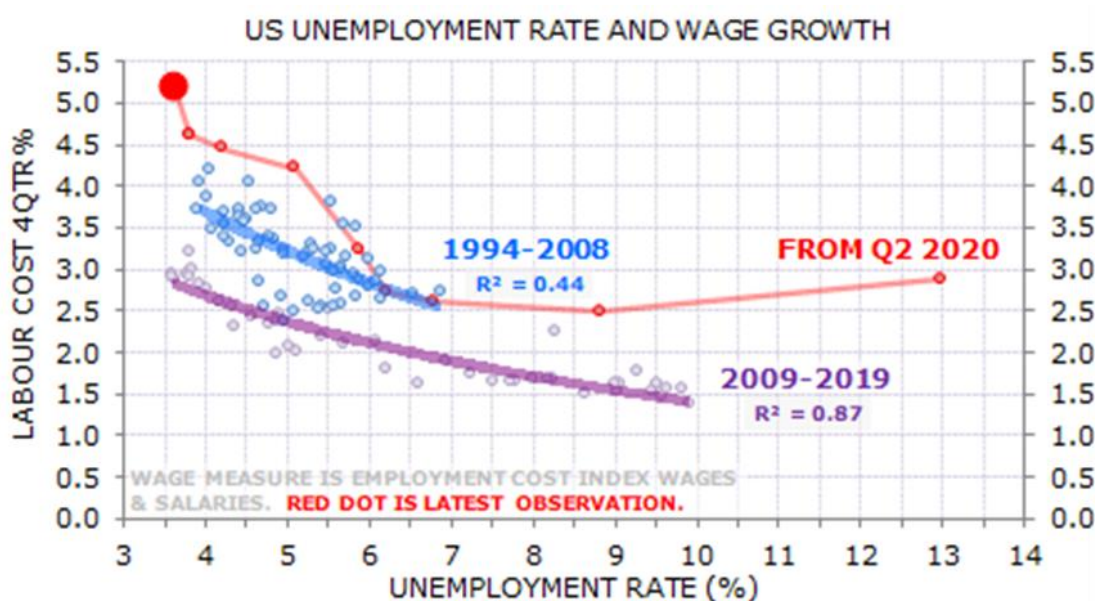
	Quarter to Date			Year to Date		
	Total Net Return	Bench. Total Return	Variation in Total Return	Total Net Return	Bench. Total Return	Variation in Total Return
GVA International Small Cap	-8.40%	-8.37%	-0.03%	-20.81%	-29.37%	8.56%

Having studied past market bubbles' dynamics, this summer head fake did not surprise GVA's investment team. These counterrallies are symptomatic of the deflating phase of any major bubble. Former coworker and bubble expert Jeremy Grantham compiled these bear market rallies in his August 2022 letter:

1. From the November low in 1929 to the April 1930 high, the market rallied 46% – a 55% recovery of the loss from the peak.
2. In 1973, the summer rally after the initial decline recovered 59% of the S&P 500's total loss from the high.
3. In 2000, the NASDAQ (which had been the main event of the tech bubble) recovered 60% of its initial losses in just 2 months.
4. In 2022, at the intraday peak on August 16th, the S&P had made back 58% of its losses since its June low. Thus, we could say the current event, so far, is looking eerily similar to these other superbubbles.

He also adds that these rallies are the precursor to the final leg down of bear markets, triggered by fundamentals deterioration.

GVA believes this deterioration will materialize in the next quarters as no respite should be expected from the FED in its efforts to vanquish inflation. As Gerard Minack at Minack Advisors explains, the key to inflation is the labor market, as wage inflation drives services and housing inflation. To get wage growth under control, he calculates, unemployment rate needs to be lifted by at least 1%. Although the Phillips Curve (which shows the inverse relationship between the unemployment rate and labor cost) is certainly not the perfect tool, we can see here the magnitude of the move on unemployment required to get labor costs back under control. Note that the red dot (Q2 2022) shows unemployment near historic lows, resulting in stubbornly high wage inflation.

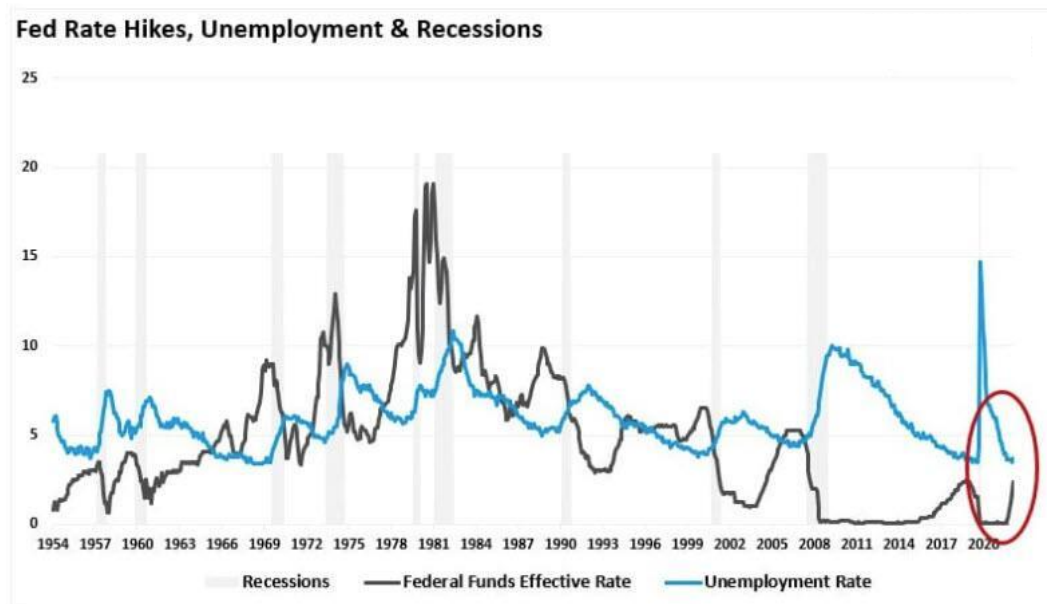


*Source: Gerard Minack – Minack Advisors



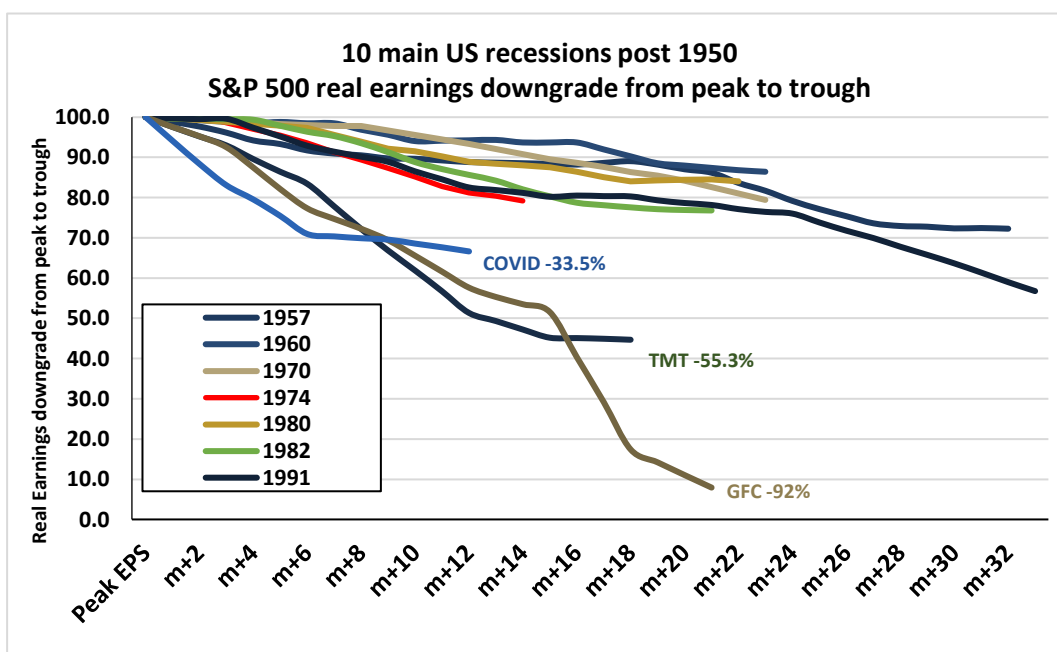
Former Treasury Secretary Lawrence Summers confirmed a week ago that “the neutral jobless rate, which was at roughly 4% pre-pandemic, is now closer to 5% and needs to rise significantly from there for inflation to begin cooling.”

History tells us that no FED has ever lifted the unemployment rate by 1% without triggering a recession. The following graph illustrates that:



*Source: Real Investment Advice

GVA's economic base case is a recession in the next few quarters. When analyzing the 10 most recent recessions in the US (1950-2020), the median peak to trough earnings cut was -28% with a median duration of 21.5 months.



*Source: Public Database - Robert Shiller



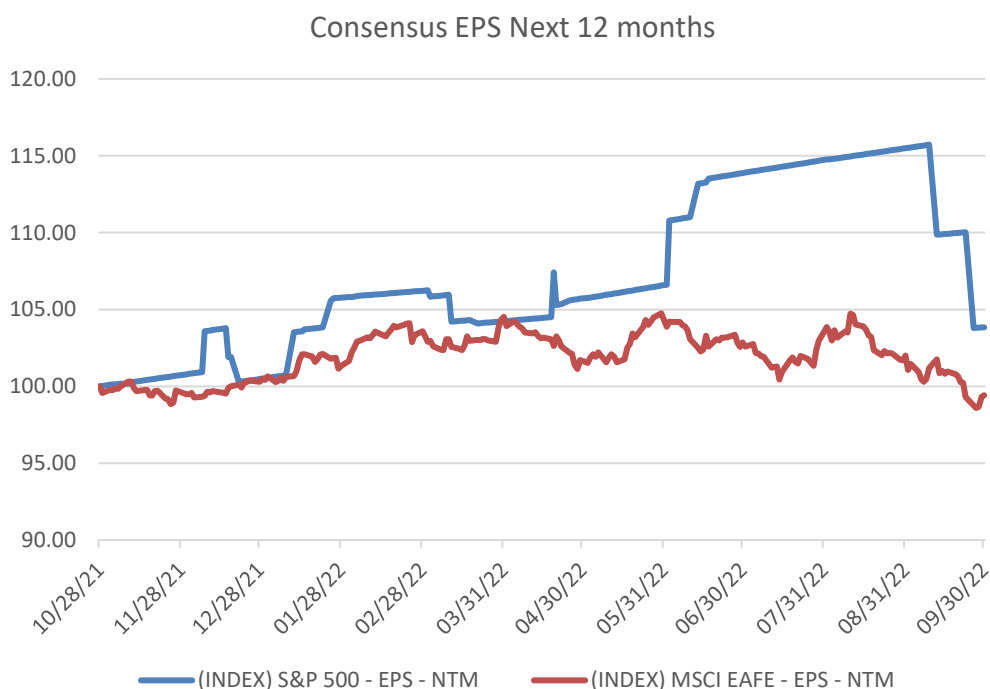
International Small Cap

Third Quarter 2022

COMMENTARY

GVA believes that the year-to-date equity market performance has principally been driven by the multiple compression induced by the rate hiking cycle initiated earlier this year. The denominator of the market P/E (the earnings) will probably be under pressure in the coming months and might contract by the same amount as it has in past recessions: -30% real. We focused this analysis on the US equity market because of the availability of deep historical data, however, this base case scenario can be extrapolated to most non-US equity markets because of the synchronicity of the economic cycle across regions and the similarity of central banks' policies, the Bank of Japan being an exception. GVA believes that the UK and Europe might actually have to deal with stronger headwinds than the US because of the acute energy crisis of the region.

As is often the case, this is not the scenario that the street is currently envisioning, as analysts have barely started to revise down their earnings expectations: the S&P 500 Next 12 months EPS peaked mid-September and has only started to be reduced by a few percent. The consensus forecast for the S&P 500 is still looking for an optimistic 7% growth in 2022 and 8% in 2023.



*Source: Factset

Although dark storm clouds are overhead, GVA's strategies are well positioned to outperform in turbulent markets. Our process only invests in companies with the following attributes:

1. Are in the top 20% of companies ranked on Free Cash Flow generation.
2. Are in the top 20% of companies ranked on Shareholder Yield (dividends + buybacks + debt repayments).
3. Strong balance sheet.
4. Cheap valuation, defined as the bottom 20%.

In periods of distress, investors shift their focus towards companies that can fund their own growth internally (high FCF) and have solid balance sheets. GVA had anticipated this same rotation during the COVID lockdowns, but unprecedented government stimulus left companies and consumers in much healthier shape than they should have been. "Zombie" companies with unsustainable debt levels were bailed out and ironically outperformed the market. This time around, the "FED put" is gone. Interest rates are almost certain to ramp higher, forcing an economic slowdown. Without further stimulus, financial markets are expected to perform as they should. Cash draining companies with high balance sheet leverage will be under pressure to raise external sources of financing or face the risk of going out of business, whereas strong companies with high FCF and solid balance sheets will be left in a stronger competitive position.



GLOBAL VALUE ADVISORS
A Division of Moody Aldrich Partners

International Small Cap

Third Quarter 2022

COMMENTARY

GVA also stands to benefit from the shift in market dynamics. High inflation rates and rising interest rates are favorable backdrops to value stocks outperforming. After waiting for more than a decade, there is a strong chance that we are entering a multi-year cycle of value stocks outperforming growth. Investors have already reassessed their love for low profitability growth stocks (i.e., unprofitable tech, cryptos, NFTs, SPACs, IPOs, etc), as interest rates jumped from zero to 3% in the last 6 months alone. Having seen early signs of dovishness coming from some Central Banks around the world, it seems reasonable to assume there will be a FED pivot, but for now, that is hard to envision.

Although tough times are ahead, GVA's strategies are positioned for just these types of markets. Prudent investors will stay the course and continue to invest during market drawdowns, and GVA's form of value investing may continue to regain its place in the sun. We'll be watching closely...

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,



Philippe 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



GLOBAL VALUE ADVISORS
A Division of Moody Aldrich Partners

International Small Cap

Third Quarter 2022

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 strategy performance is measured against the MSCI ACWI ex-US Small Cap Index – Net

** This information is presented as supplemental to the GIPS Report, which is available [here](#).

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.

Data presented is as of September 30, 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 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 \$17 Million for its international small cap equity clients, with \$128 Million in total assets under management. † 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 - Net over a complete market cycle.

Moody Aldrich Partners claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Moody Aldrich Partners has been independently verified for the period October 26, 2012 through September 30, 2022. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verifications provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. The Global Value Advisors International Small Cap Equity Composite has had a performance examination for the periods June 1, 2018 through September 30, 2022. The verification and performance examination reports are available upon request at information@moodyaldrich.com.

GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.

Global Value Advisors is a division of Moody Aldrich Partners, LLC. Moody Aldrich Partners is an independent SEC registered investment adviser. The firm maintains a complete list and description of composites, policies for valuing investments, calculating performance, and preparing GIPS Reports, which is available upon request. The firm's list of pooled fund descriptions for limited distribution pooled funds is also available upon request.

The Global Value Advisors International Small Cap Equity Composite was created June 1, 2018. The inception date of composite performance 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 retroactively using the highest maximum management fee, 1%.

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.