International Small Cap

Fourth Quarter 2024

COMMENTARY

The Stock Market is a Device for Transferring Money from the Impatient to the Patient

- Warren Buffett

Total Returns (Net of Fees) +	Q4
GVA International Small Cap	**-9.4%**
MSCI All Country World ex-USA Small Cap Index*	-7.7%
MSCI All Country World ex-USA Small Cap Value Index	-8.1%
MSCI All Country World ex-USA Small Cap Growth Index	-7.2%

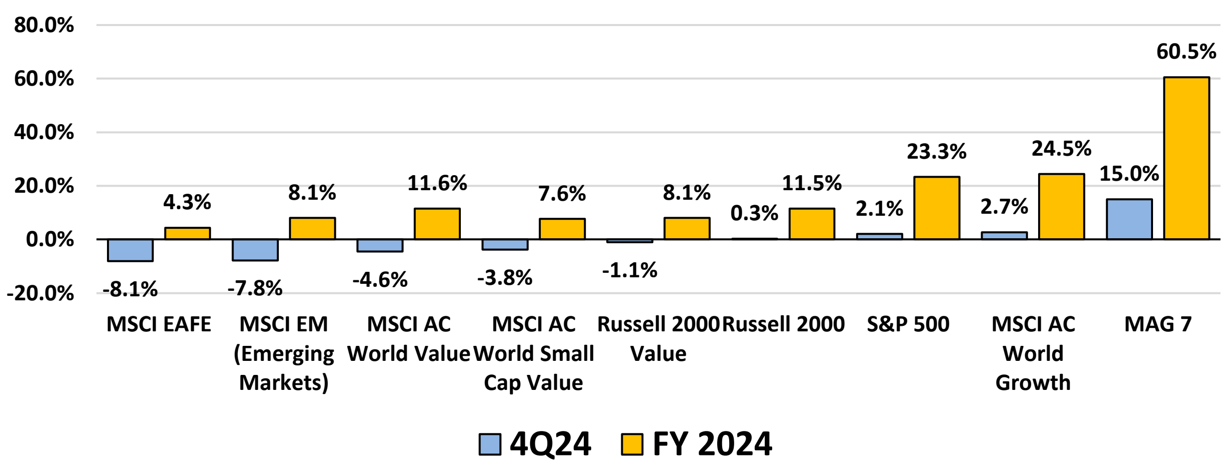
Regional Indices	Q4
MSCI Japan Small Cap	-6.0%
MSCI United Kingdom Small Cap	-9.5%
MSCI Emerging Markets Small Cap	-7.2%
MSCI Europe ex UK Small Cap	-11.1%
MSCI Pacific ex Japan Small Cap	-11.8%

	GVA International Small Cap Net Return	MSCI ACWI ex-USA Small Cap Net Return*
1 Year	-1.9%	3.4%
3 Years**	3.0%	-1.5%
5 Years**	2.7%	4.3%
Since Inception**	2.3%	3.3%

*Benchmark | **Annualized | +Net of fee performance was calculated by retroactively applying the highest model fee for the composite which is the fee new clients would expect to pay based on the early adopter fee schedule (0.60%).

The fourth quarter market dynamics were similar to those observed over the full year and the ones that characterized the previous year: The US outperformed International, Large outperformed Small, and Growth outperformed Value. US Large Cap Growth forged ahead bringing the Magnificent 7's return for 2024 to an astounding +60.5% after +120% in 2023. For the year, cheap companies with positive FCF and positive shareholder returns (GVA's Advantaged Subset) performed in-line with the market on a global basis and outperformed in international and emerging markets. This favorable backdrop for GVA was more than offset by the continuation of the 3 mega-trend headwinds mentioned above.

4Q24 & FY 2024 USD Total Returns



Source: Factset. MAG 7 = "Magnificent Seven" stocks – Apple (AAPL), Microsoft (MSFT), Alphabet (GOOGL), Amazon (AMZN), Nvidia (NVDA), Tesla (TSLA) and Meta Platforms (META)

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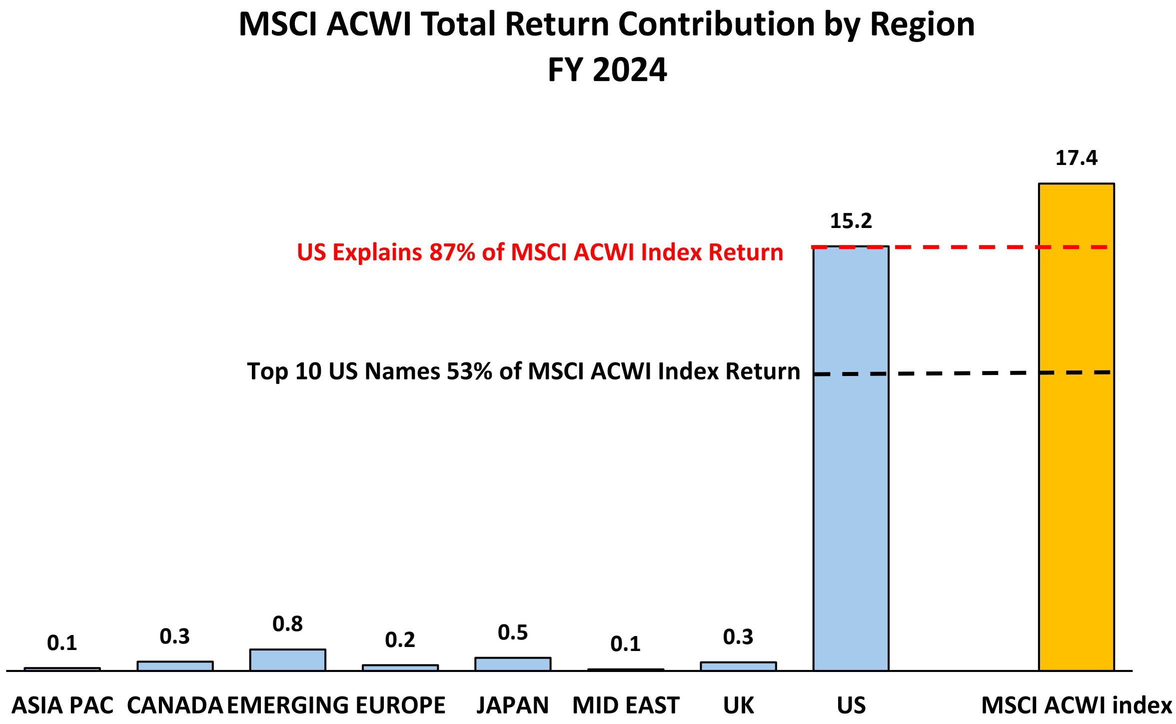
The idea of "US exceptionalism" came back into focus in 2024, as AI momentum continued, excitement rose from a more business-friendly Presidential election, interest rates came down, and the USD strengthened. This combination resulted in US markets far outpacing their global counterparts. The following chart illustrates the rather binary picture for capital allocators: one where the choice seems to be between following the herd and riding the wave in a handful of US large cap tech names or standing on the sidelines with anything else.



Source: Factset

It's worth noting that the US has contributed a staggering 87% of the MSCI ACWI's performance for the year, and its weight within the index has swelled to 66.62%—a level not seen in the history of the MSCI index that goes back to the early 70s. Not surprisingly, 53% of the MSCI ACWI's return has been contributed by the top ten US tech stocks. This level of concentration should give any prudent investor pause. We are witnessing a phenomenon where a handful of stocks are essentially carrying the weight of the global index. While this may seem like a boon for those heavily invested in US equities, history has shown that such concentrations are rarely sustainable in the long run.

The Japanese equity markets experienced a similar phenomenon with their market bubble in the 1980s. At its peak, Japanese stocks made up nearly 2/3 of the entire EAFE index. After the bubble burst, Japan's weighting normalized at closer to a 20% weight:

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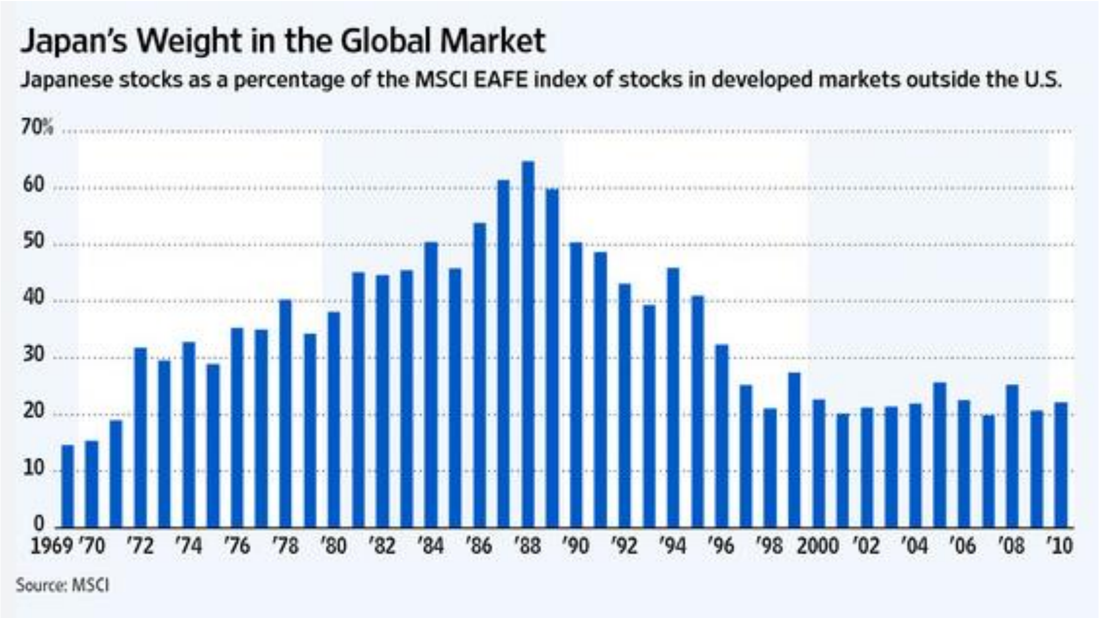

GVA International Small Cap:

GVA's International Small Cap strategy underperformed in Q4 due entirely to stock selection effects. GVA's strategy focuses exclusively on higher quality companies with strong Free Cash Flow, high Shareholder Yields (dividends + buybacks + debt reductions), solid balance sheets, and that are significantly undervalued. Among international small caps, GVA's Advantaged Subset (positive Free Cash Flow + positive Shareholder Yield) outperformed its benchmark, the MSCI All Country World ex-US Small Cap Index, but Value underperformed Growth. This mixed backdrop still resulted in negative relative performance in the quarter, as a sharp drag in a limited number of sectors and regions offset strength in other areas. Emerging Markets was the largest regional detractor on a relative basis, which offset strength in Japan. Materials was the weakest sector, which fully offset stength in Financials.

GVA Global Equity:

GVA's Global Equity strategy underperformed in Q4 due to a combination of allocation and stock selection effects. Companies in GVA's Advantaged Subset (positive Free Cash Flow + positive Shareholder Yield) underperformed its benchmark, the MSCI All Country World Index, and Value significantly underperformed Growth. These headwinds resulted in broad based relative underperformance across sectors and regions. From a sector standpoint, weakness in Consumer Discretionary more than offset strength in Health Care. GVA's globally unconstrained strategy takes advantage of material valuation disparities, exemplified by the strategy's large overweight Emerging Markets (34% vs. 10%) and large underweight the US (27% vs. 66%) vs. its benchmark. Both of these bets worked against us in the quarter, as the US was one of only two regions posting positive performance and Emerging Markets underperformed. GVA remains confident in its positioning, as relative PE ratios between Emerging Markets and the US are close to 20-year lows.

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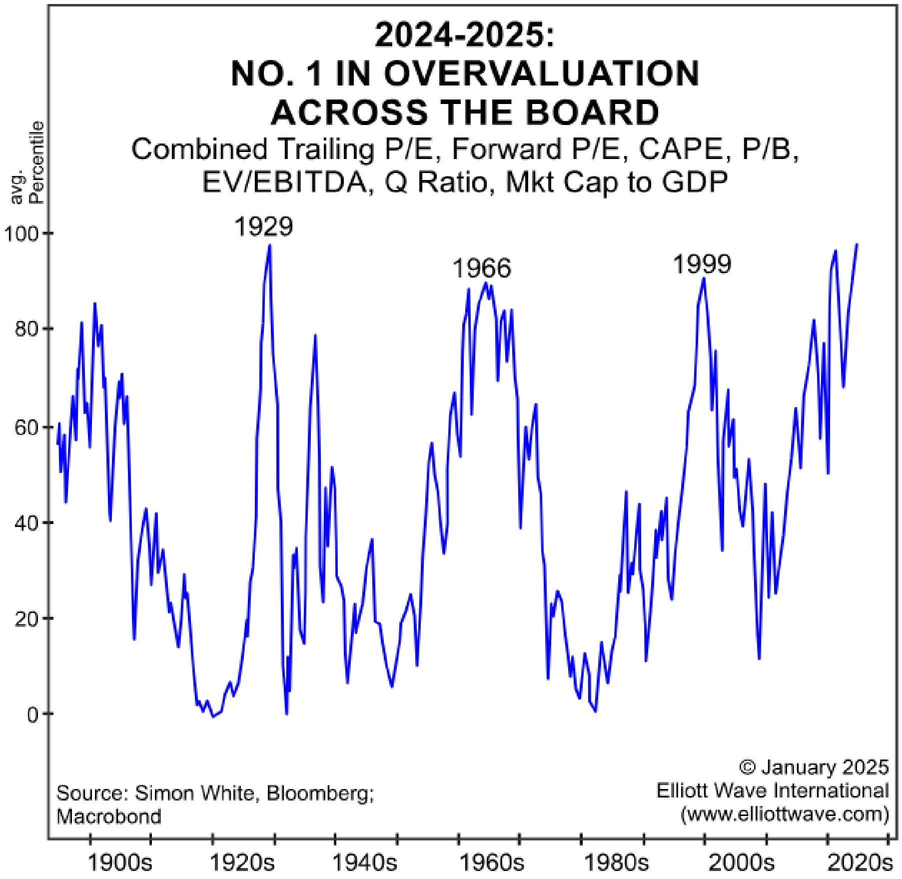
GVA Emerging Markets:

GVA's Emerging Markets strategy outperformed its benchmark, the MSCI Emerging Markets Index, in Q4. Outperformance was driven by a combination of allocation and stock selection effects. Companies in GVA's Advantaged Subset (positive Free Cash Flow and positive Shareholder Yield) outperformed its benchmark, but Value underperformed Growth. This combination resulted in mixed performance across sectors and countries in the month. Financials was the largest sector contributor, which fully offset by weakness in Technology. China was the largest country contributor, easily cancelling out weakness in Taiwan.

"The stock market is a device for transferring money from the impatient to the patient."

- Warren Buffett

The U.S. equity market is in its 4th major speculative bubble when looking at the past 120 years. The following graph tracks the US stock market valuation over the past 125 years using an aggregate of 7 metrics. The current valuation level is on par with the 1929 peak, signaling that stock prices have detached from underlying fundamentals by an extraordinary margin. It is important to note that the US is the only country index showing this level of extreme on a CAPE basis, with the exception of India. Almost all major stock indexes outside the US are trading at the mid-to-lower end of their historical range.[1]



[1] *Barclays CAPE by country: https://indices.cib.barclays/IM/21/en/indices/static/historic-cape.app*

As the graph shows, history is littered with speculative bubbles (some large, some small) that have come and gone, each leaving behind a trail of investor enthusiasm followed by inevitable disappointment.

A few years ago, GVA published a piece of research putting into perspective the 4 major equity bubbles of the past century: the most infamous one was the 1929 crash. Then in the late 1980s and early 1990s, Japan saw its own speculative excess. The Japanese real estate market was inflated to absurd levels, and stocks reached valuations that bordered on the delusional. The bubble eventually burst, leading to a “lost decade” of stagnation and deflation. Then, came the TMT Bubble in the late 1990s. The internet was changing the world, and tech stocks were the hottest ticket in town. Investors piled into anything with a dot-com suffix, convinced that the future was bound to be even brighter than the astronomical valuations suggested. The result was a spectacular bust in 2000, leaving many investors with significant losses.

Fast forward to today, and we see a familiar pattern repeating itself in the U.S. market with a 4th equity bubble, principally among the largest tech stocks: Apple, Microsoft, Amazon, Alphabet, Tesla, Nvidia, and Meta. These companies have driven the bulk of the market’s gains, while entire segments have been left behind. With valuation ratios at historic highs and expectations of perpetual growth and ever higher profitability, it is believed that these stocks will continue to defy gravity.

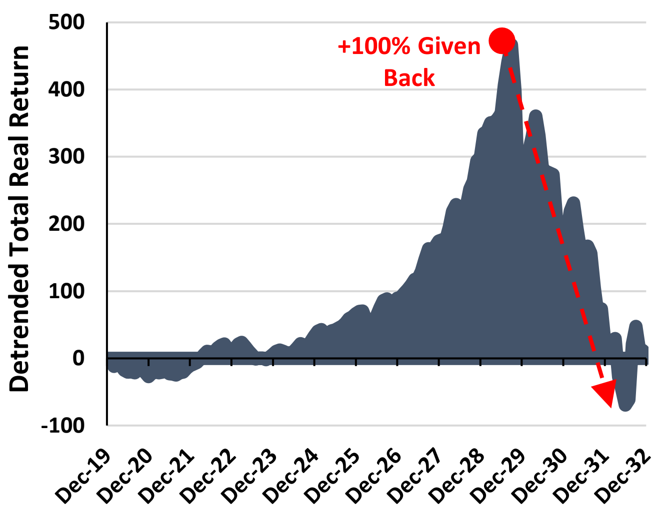
There is no doubt that AI will change the world, the same way the internet or the personal computer changed the world. On that topic, the FT had an interesting graph that showed the decline in productivity over the past decades, as these technological revolutions were rolled out. Investors had a lot of optimism surrounding all the productivity enhancements the internet was supposed to bring, but these gains were accompanied by the “productivity paradox,” where users are distracted by social media, emails, and other non-work-related online activities, or worse, when the workflow is stopped due to technical or cyber security issues. Time will tell if AI comes with similar offsets.

Source: Financial Times

From an investment perspective, because of the newness of each technological revolution and its lack of historical perspective, the market treats each player as a potential winner and typically overstates the strength of their competitive advantage and the durability of this competitive advantage.

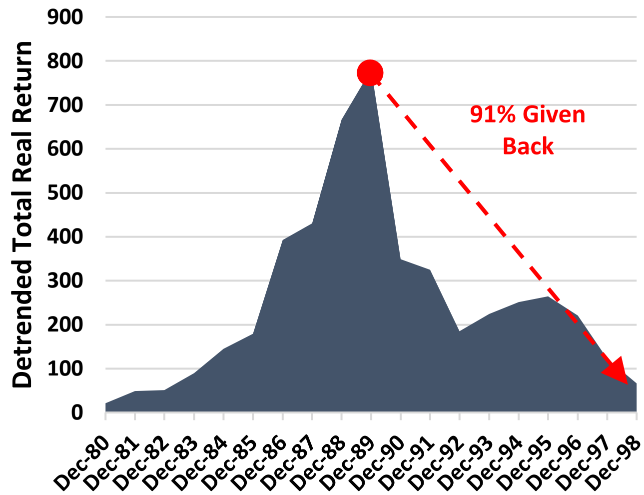
As history has shown time and again, excessive optimism in the face of inflated valuations rarely ends well. The graphs below are a reminder that every major speculative bubble has ended in the same way, with a painful reversion back to trend. US equity markets appear once-again poised for a major correction.

S&P 500: Great Depression 1920-1932



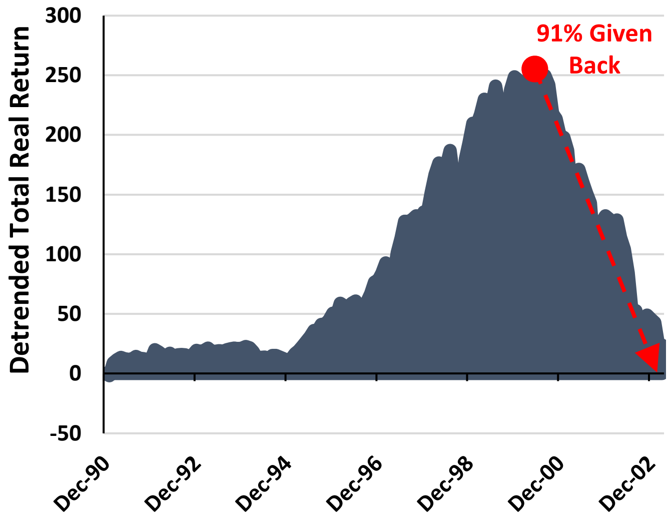
Source: Factset

Japan: Real Estate Bubble 1908-1998



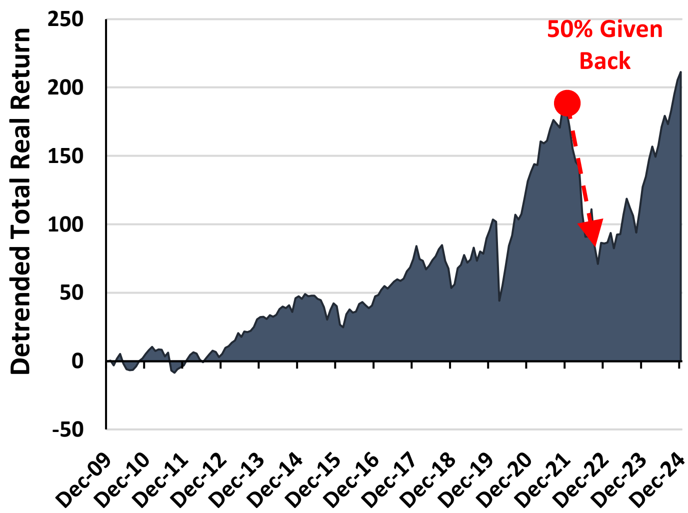
Source: Factset

S&P 500: TMT Bubble 1990-2003



Source: Factset

S&P 500: Everything Bubble 2010-2024



Source: Factset

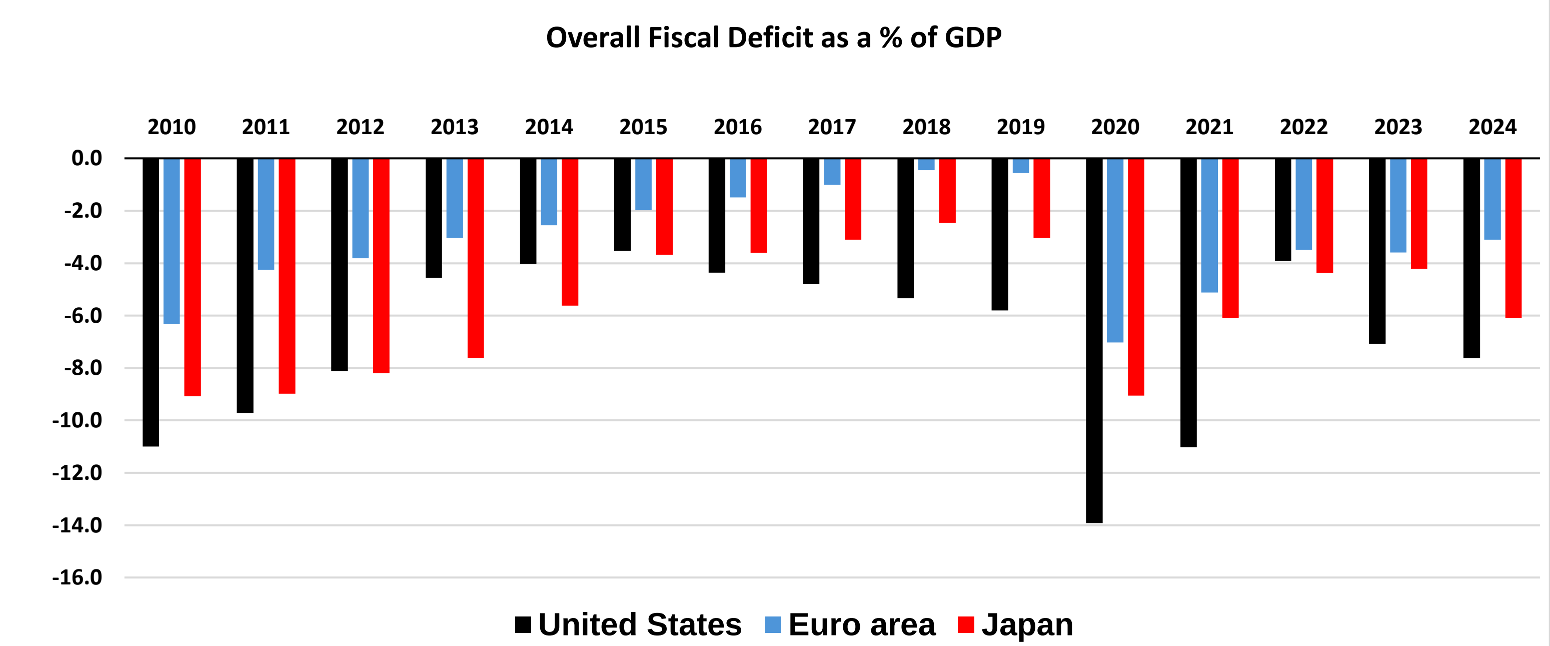
In the face of the current market dynamics, GVA is sticking with its investment principles and believes the same rules that worked in the past—buying cheap cash generative, profitable and unleveraged businesses—will regain traction once markets reprice the excesses. In that process, being patient and disciplined is key.

Small, International & Value

3 Unloved Segments of the Market at the Core of GVA's Strategies

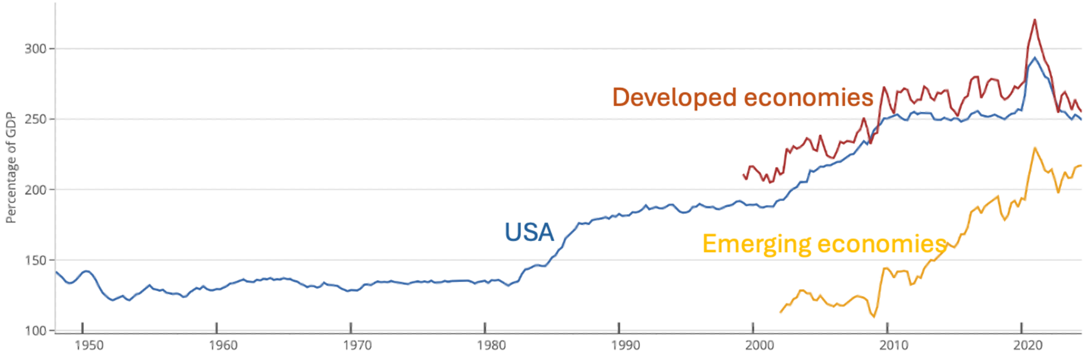
As the market has become enamored with a narrow set of high-flying stocks, small-cap stocks, value stocks, and international equities have lagged. While these asset classes have historically offered compelling returns over long periods, they've been overshadowed in recent years by the strong, almost relentless performance of U.S. large-cap growth stocks.

The ultralow interest rates environment in the post GFC period has supported equity markets in general, but the U.S stock market has particularly benefited from fiscal tailwinds that have far exceeded the fiscal largesse's observed in the rest of the developed world:



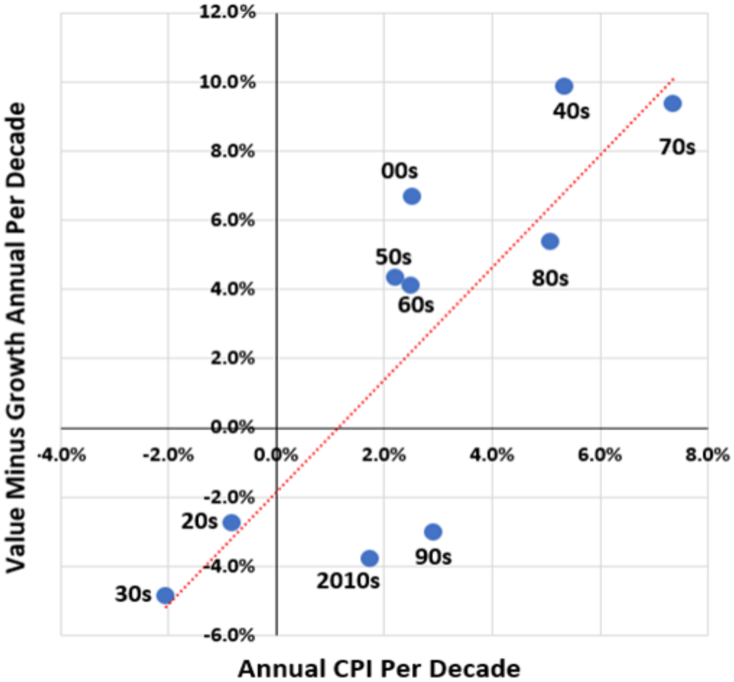
Source: IMF

That has been a boost to US GDP and US corporate profit, technology being the prime beneficiary. In that process, debt has risen globally to reach a post WW2 record during the pandemic.



Source: BIS – data.bis.org

GVA believes that the developed economies will opt to inflate their debt away going forward, and government spending will get more constrained in the midst of the interest rates regime change already under way (higher neutral rate going forward). GVA has studied similar events in the history of financial markets, which proved to be supportive of value stocks, as can be illustrated here:



Source: GVA study using CPI and Fama French database.

GVA has identified a subsegment of the investment universe made of superior companies that are well positioned to benefit from this scenario: these are businesses that have a proven track record at generating strong cash flows to finance their operations and returning the majority of the unused cash to their shareholders. They exhibit higher profitability and lower leverage than the rest of the universe. Most importantly, they currently trade at a 50% discount to the market. GVA believes that this represents an opportunity similar to the one available to contrarian investors in the late 1990s, at the peak of the TMT bubble. Back, then, this subsegment of the universe showed the following returns as the TMT bubble deflated:

	1999	2000	2001	2002
MSCI ACWI	26.8%	-13.9%	-15.9%	-19.0%
Cheapest 25% Stocks Within Advantaged Subset	14.5%	14.8%	5.2%	2.2%
Excess Return	***-12.3%***	***28.7%***	***21.1%***	***21.2%***

Source: Factset

This opportunity set is currently composed of stocks at the intersection of the most unloved asset classes of the past 15 years: International, Small and Value.

International Small Cap

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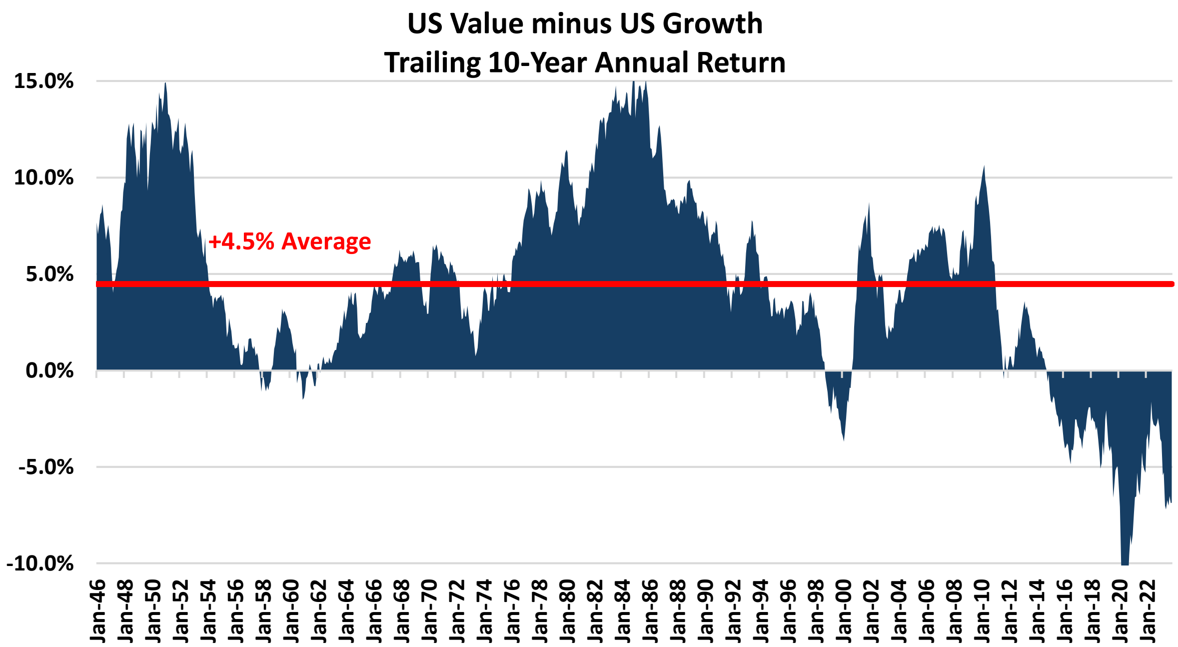
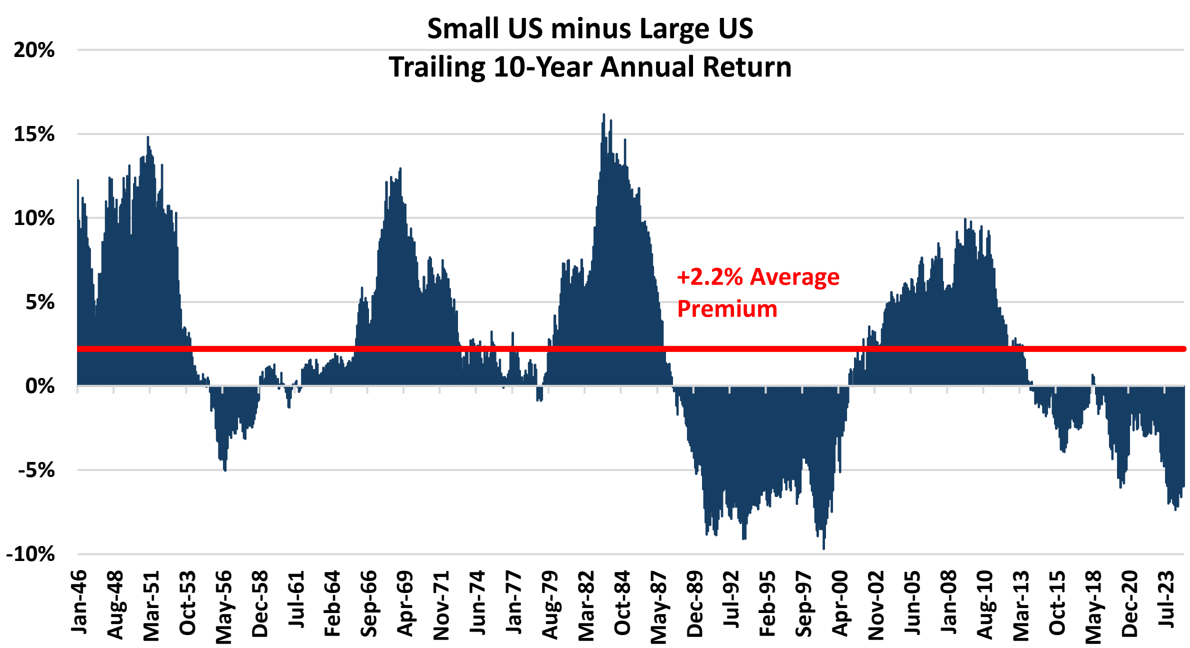
It is well documented that value stocks and small-cap stocks, which historically provide a "premium" over the long term, tend to go through phases of relative neglect. We show here how Value stocks have consistently outperformed Growth stocks over the long term and how the recent drawdown is unique by its duration and its magnitude.



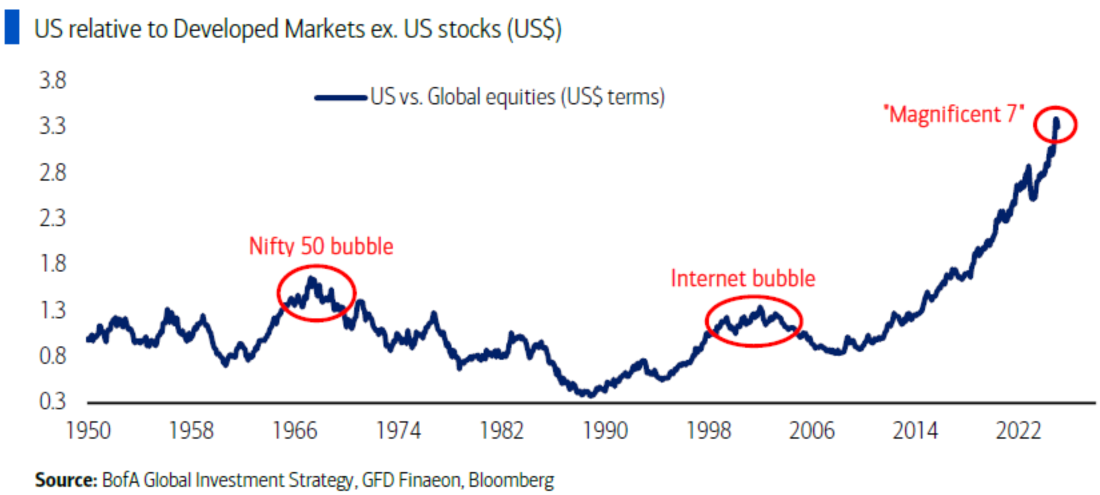
Source: Fama and French

Small cap stocks typically outperform over the long term but are currently going through the 2nd worst period of underperformance since WWII.

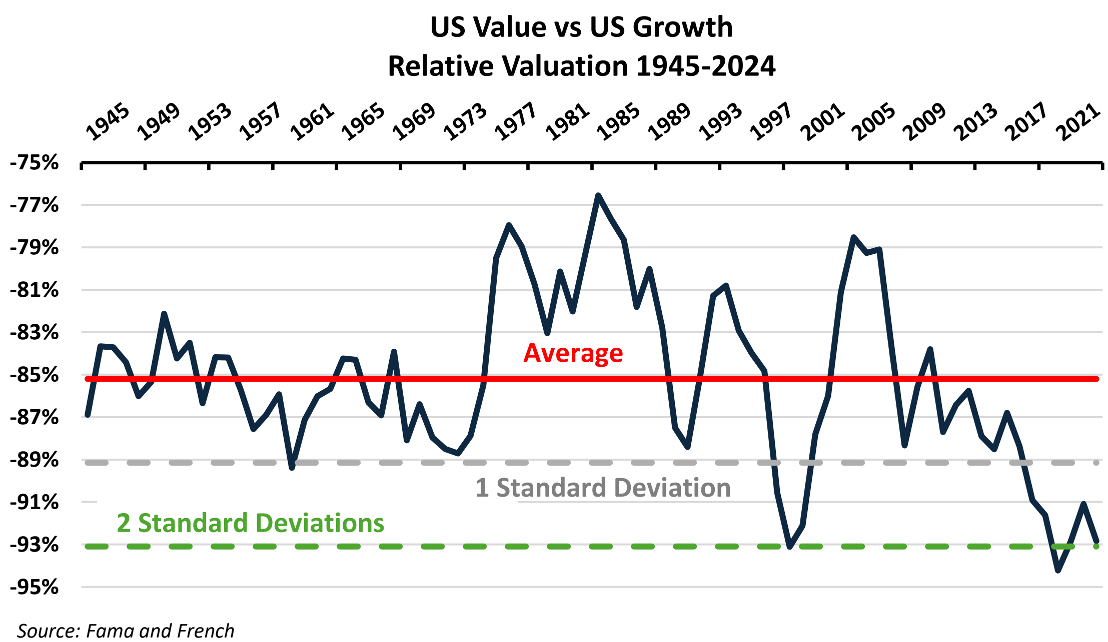


Source: Fama and French

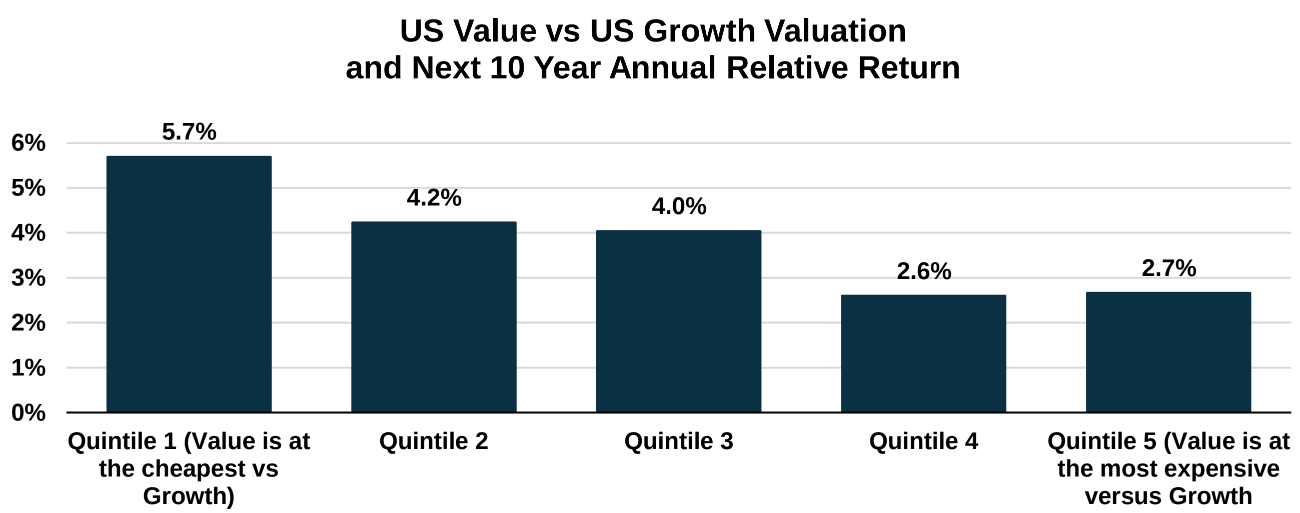
The underperformance of international equities has also been striking:



After derating for 15 years, value, small, and non-US have reached highly compelling relative valuation levels that were only tested at the peak of the TMT Bubble in the late 90s.

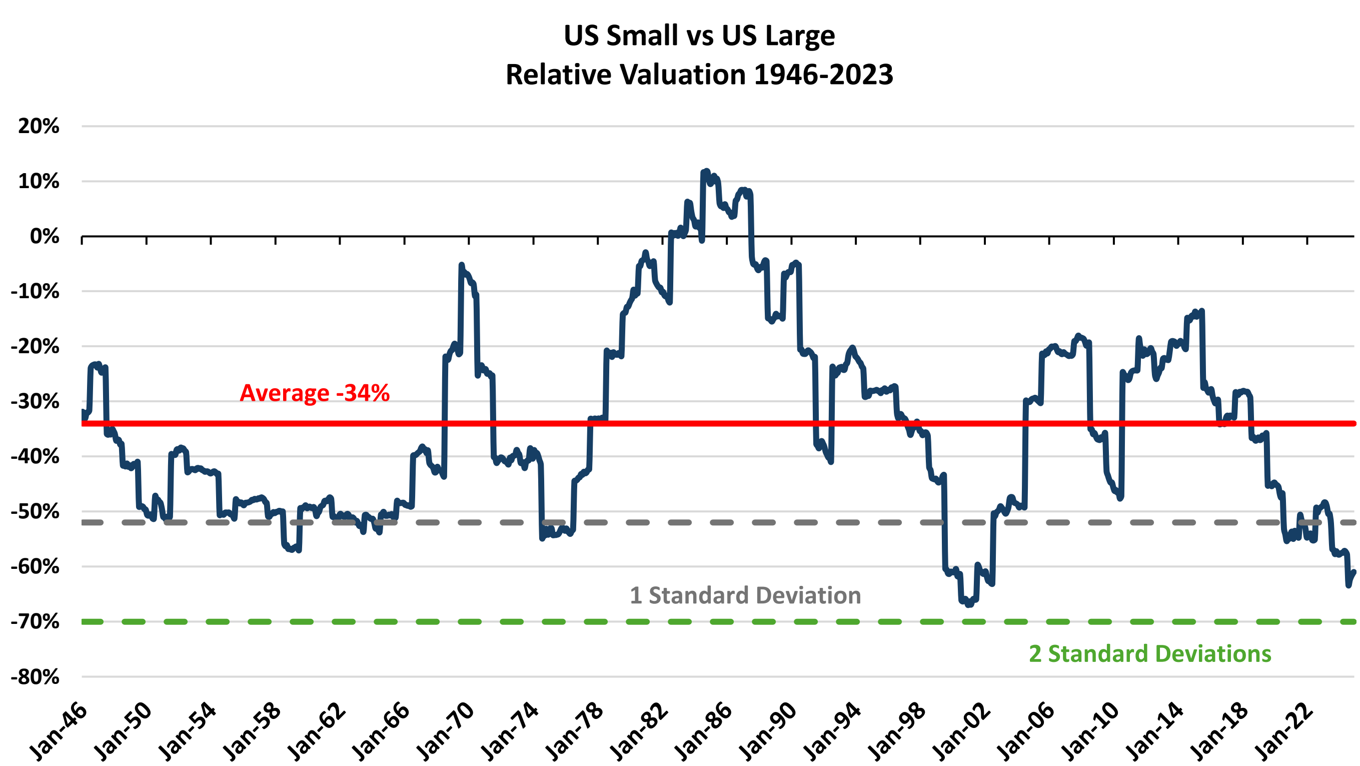


GVA's research shows that whenever value stocks have traded at similar extreme valuation levels versus growth stocks, they have outperformed growth stocks by close to +6% annually the following 10 years.



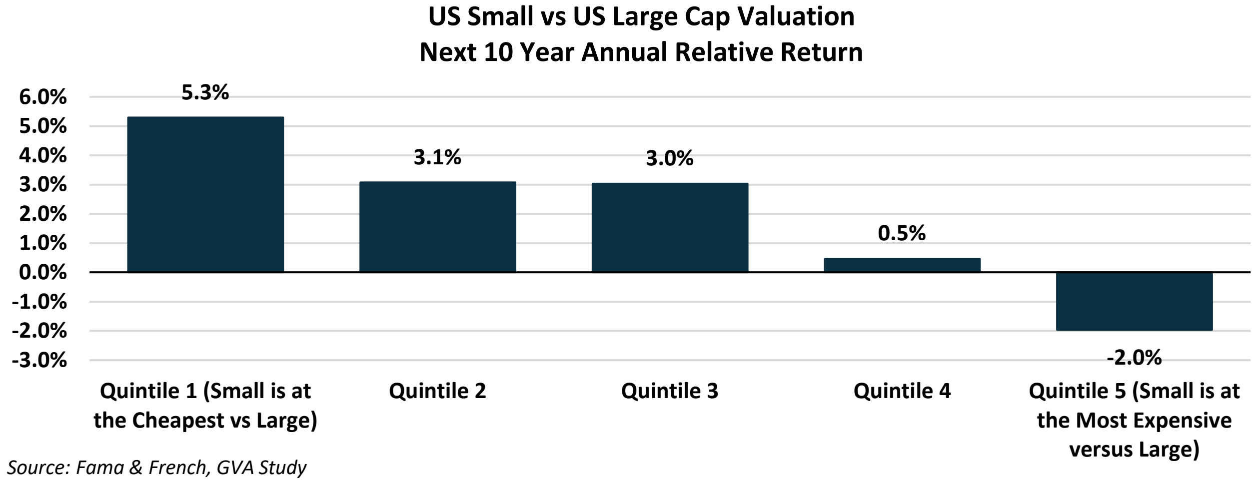
Source: Fama and French

Similarly, small stocks have never been that cheap versus large stocks on a P/B basis:



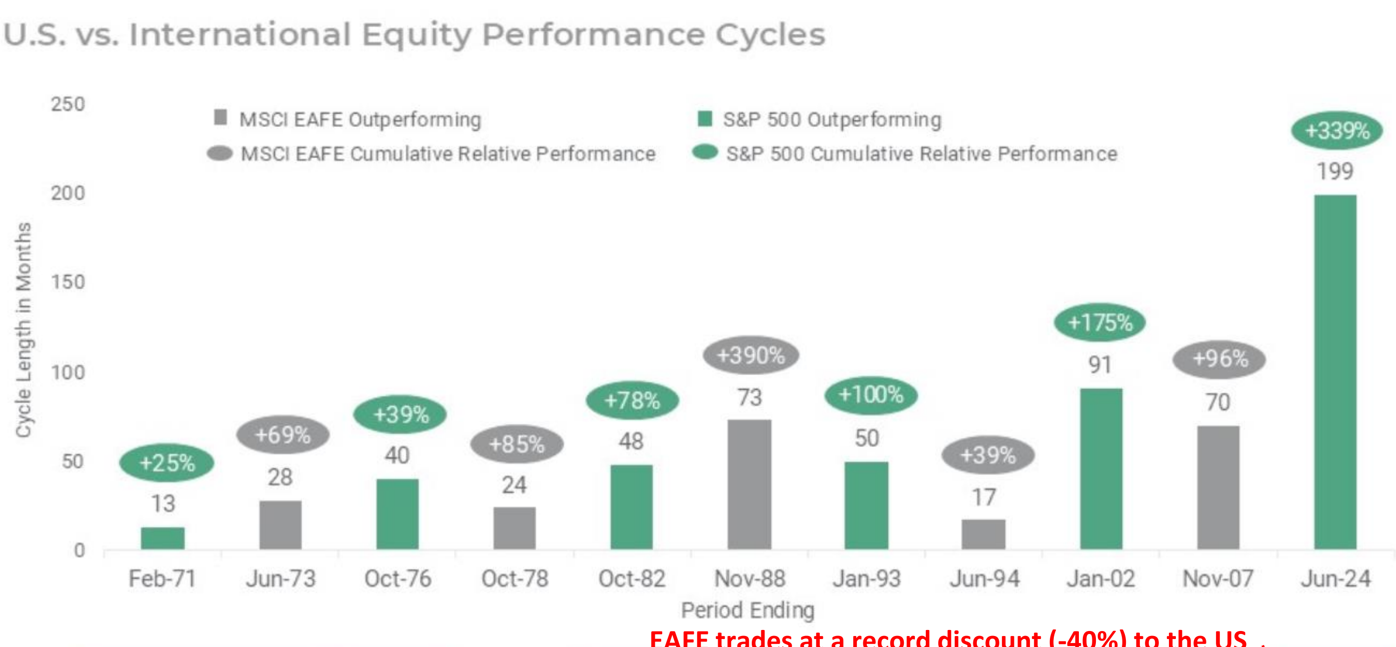
Source: Fama and French

Small companies have derated so much that they are revisiting the bargain basement level of the pre-TMT bubble (Third percentile). Each time small cap stocks have traded at that discount to large, small stocks have outperformed large by +5.3% annually the following 10 years:



Source: Fama & French, GVA Study

Finally, non-US trades at a record 40% discount to the US:



P/CF (Sector Neutral)	Oct 76	Oct 78	Oct 82	Nov 88	Jan 93	Jun 94	Jan 02	Nov 07	Jun 24
MSCI EAFE	4.9x	**5.2x**	4.7x	**8.7x**	10.3x	**9.7x**	9.3x	9.8x	8.7x
MSCI USA	**6.7x**	5.0x	**5.2x**	6.4x	7.4x	9.5x	**12.8x**	10.9x	**14.4x**

Source: Brandes; RELATIVE PERFORMANCE OF MSCI EAFE VS S&P 500 MEASURED MONTHLY, FEBRUARY 1, 1970, TO JUNE 30, 2024. PRICE/CASH FLOW (P/CF) MEASURED BETWEEN DECEMBER 31, 1974, AND JUNE 30, 2024, ON THE LAST DAY OF THE MONTH IN WHICH THE CYCLE ENDED | Source: FactSet, MSCI. Cycles are based on sustained outperformance on a cumulative basis over periods of at least 12 months. Past performance is not a guarantee of future results. It is not possible to invest directly in an index. MSCI EAFE Index inception is March 31, 1986. Performance shown prior to inception is the result of back-testing by the index provider. There may be frequent material differences between back-tested performance and actual results. MSCI EAFE net return vs S&P 500 total return.

By staying patient and accumulating undervalued assets during their downturns, GVA is convinced its strategies hold superior businesses that will prove great opportunities when the cycle inevitably shifts in their favor.

GVA' s Positioning at the Intersection of these 3 Mega Trends

The following visuals illustrate the compelling investment opportunity set currently available to contrarian investors. GVA's value portfolios trade at some of the most extreme valuation levels when compared to their respective universes.

GVA portfolios hold businesses that have a proven track record of generating strong free cash flows, returning the majority of this cash to their shareholders, while delivering strong profitability despite a lower leverage than the rest of the universe; the following characteristics encapsulate the uniqueness of GVA's portfolio positioning:

GVA Emerging Strategy	Portfolio	Benchmark	Discount (%)
Market Value	3,231	38,419	
FCF Yield	14.9	5.3	-65%
Dividend Yield	5.6	2.5	-55%
P/B	1.1	2.8	-61%
P/S	1.0	2.6	-63%
P/E NTM	7.5	15.6	-52%
P/E	8.5	24.5	-65%
Average Valuation Discount			-60%

Source: Factset

GVA International Small Cap Strategy	Portfolio	Benchmark	Discount (%)
Market Value	1,791	2,337	
FCF Yield	13.2	4.4	-67%
Dividend Yield	5.1	3.3	-35%
P/B	0.9	1.8	-49%
P/S	0.8	1.7	-51%
P/E NTM	8.1	15.9	-49%
P/E	9.4	21.4	-56%
Average Valuation Discount			-51%

Source: Factset

GVA Global All Cap Strategy	Portfolio	Benchmark	Discount %
Market Value	9,318	137,448	
US Weight	26.8%	66.6%	-40%
FCF Yield	10.5	3.4	-67%
Dividend Yield	5.0	2.1	-58%
P/B	1.2	6.6	-82%
P/S	1.0	4.2	-76%
P/E NTM	8.0	22.1	-64%
P/E	10.7	32.8	-68%
Average Valuation Discount			-69%

Source: Factset

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GLOBAL VALUE ADVISORS
A Division of Moody Aldrich Partners

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Fourth Quarter 2024
COMMENTARY

Thank you for your interest in Global Value Advisors. We look forward to updating you again next quarter.

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This information is presented as supplemental to the GIPS Report, which is available here.

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 was calculated by retroactively applying the highest model fee for the composite which is the fee new clients would expect to pay based on the early adopter fee schedule (0.60%). The annual composite dispersion is an asset-weighted standard deviation calculated for the accounts in the composite the entire year.

The standard investment management fee schedule for new business is as follows: 0.60% in perpetuity on all investments made prior to strategy assets reaching $150 million, thereafter, 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.

The information presented in the presentation contains analysis of back-tested the GVA Proprietary Model (the "Model") and does not include qualitative analysis or portfolio manager selections. The results shown represent a larger group of stocks than would be included if qualitative analysis was applied. Our 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 qualitative analysis cannot be applied retroactively. Back-tested presentations may not be relied upon for investment purposes and are not meant to represent actual current or future performance.

For more details on the Model please contact info@globalvalueadv.com. Back-tested analysis is hypothetical (it does not reflect trading in actual accounts) and is provided for informational purposes only to indicate historical analysis 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 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 Model if the 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 Model performance is measured against the MSCI All Country World ex-US Small Cap Index. Results in back-test do not guarantee future results.

The 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. Foreign exchange is implicit in the total return. The Model 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.