

Roads Less Travelled

Experienced emerging-markets investors Andrew Foster, Laura Geritz, Daniel Malan, Scott Thomas and Amit Wadhwaney handicap their diverse opportunity set today and describe why they find – among thousands of choices – Hyundai Mobis, Bajaj Finance, Remgro, GMexico Transportes and Companhia Brasileira de Distribuicao particularly interesting.

INVESTOR INSIGHT



Amit Wadhwaney
Moerus Capital

"We've been more active in Latin America, where the political environment in many countries has taken a turn for the worse."

It's fairly conventional wisdom at this point that the emerging-market equity asset class had a bang-up first decade of the 21st century, and has more or less been a relative bust in the century's second decade and beyond.

To help discern if that dynamic signals opportunity or risk, we spoke with five experts on the subject: Andrew Foster of Seafarer Funds, Rondure Global Advisors' Laura Geritz, Perspective Investment's Daniel Malan and Mikael Loefflerink, Scott Thomas of Wasatch Global Investors and Moerus Capital's Amit Wadhwaney. Among their top finds today: a Korean auto-parts supplier, an Indian finance company, a venerable South African holding company, a Mexican railroad and the top Latin American online travel agency.

You focus as an investor on non-U.S. developed and developing markets. How would you rate the attractiveness of the developing-market side of that today?

Amit Wadhwaney: I should first emphasize that when you speak of developing markets, it is a very heterogeneous group. Countries that are basket cases in one period are cradles of opportunity in another. It's not a monolithic asset class, you very much have to pick your spots.

The story about emerging markets has typically been one of growth – younger people, great demographics, expanding prosperity, expanding consumption. The problem for a value investor is that that often leads people to get excited, expectations run ahead of reality, and investors overpay for growth. That gets magnified in emerging markets because stocks can be thinly traded. Of course that also can go the other way. Pessimism reigns and from time to time we have opportunities to buy things cheaply. Given how badly most emerging markets have underperformed for years, I'd say we're finding more to do in such countries rather than less.

I'll give you two contrasting examples right now. India has a vast developing economy and quite a number of interesting companies, some of which are very well run. The problem is that most of the stocks there are horribly expensive. We've been able to buy things – it's become our highest emerging-market exposure through appreciation – but the purchases were made after a macro or external shock of some kind. We've found little to do there of late.

We have been more active in Latin America, where the political environments in many countries – Brazil, Chile and Colombia come quickly to mind – have in recent years taken a turn for the worse. That isn't generally a positive from an investor's perspective, but it has opened up opportunities in what we consider strong regional companies that can prosper through the ups and downs in political cycles.

One of those would be Despegar.com [DESP], the leading online travel agency serving Latin America. The company was started in 1999 and came public on the New York Stock Exchange in September 2017 at \$26 per share. The stock today trades at about \$5.25.

This is a case where we have seen how these types of OTAs have developed elsewhere, which provides insight into Despegar's growth potential in a region where the online travel market is at a much earlier stage in its development. Growth should come from a number of areas, including taking share from offline alternatives, expanding from a primarily consumer base into more B2B applications, and facilitating payments through co-branded credit cards and partnering with banks to offer buy-now-pay-later financing options. In the short term there's also upside from continuing to come out of the gutter the business fell into because of the pandemic.

At today's market price the company now has more than half its current market value in net cash on the balance sheet. That gives us comfort with respect to its staying power, so we can be patient as the business develops. In the meantime,

the shares at around 0.7x price/sales are certainly not expensive. China's Trip.com trades at 8x sales. India's MakeMyTrip trades at 4x, and Yatra Online at 3.5x. There's a lot of room for that valuation gap to narrow, which we believe should happen over time as Despegar continues to grow and mature as a company.

Staying in Latin America, describe your investment case for Companhia Brasileira de Distribuicao [Sao Paulo: PCAR3].

AW: The organizational structure here can get a bit complicated, but the company's

main business is a collection of grocery stores, convenience stores and gas stations – and the related e-commerce operations – in its home country of Brazil. It is also the dominant shareholder, with a 96.5% stake, in a Colombia-based food retailer called Exito, which also has large operations in Uruguay and Argentina. Another large asset is a 34% stake in Cnova, also publicly traded, which is a French e-commerce platform that is generally considered the country's #2 or #3 player behind Amazon.

In early 2021 CBD spun off another of its divisions, the high-growth Assai

wholesale cash-and-carry business, which reduced outstanding debt significantly but left the remaining company with a collection of businesses that are growing relatively slowly. Combine that lower growth profile with challenging macroeconomic and political environments in Brazil and Colombia and with a complex structure with assets across five countries and three publicly listed entities, and investor interest in CBD has been, shall we say, subdued. We think that's led to the stock being meaningfully undervalued.

Walk through how you arrive at what the stock, now trading at 15 reais per share, is more reasonably worth.

AW: We look at it on a sum-of-the-parts basis. Both Exito and Cnova are public, but the float is very constrained so price discovery is limited. Exito, for example, trades at around 5x EV/EBITDA, which makes no sense. It's a nicely growing business that has a hammerlock on food retailing in Colombia.

That said, to be conservative in our base-case valuation we value the core CBD business at 4x EV/EBITDA, which is way below peers on the local Brazilian market. For Exito, we use the current market price, even though we think that's likely half of what it's actually worth. (At the current price, CBD's holding of Exito alone exceeds the entire equity market cap of CBD.) We're similarly conservative with Cnova, the shares of which we value at 50% of their current market price. Even with such low-ball assumptions, our estimated sum-of-the parts value is over 33 reais per share.

One added element of the story is that CBD is working to spin off the majority of its stake in Exito, which will broaden that company's shareholder base and increase the float. We don't make investments predicated on catalysts, but this transaction after a possible sorting out period – which may not be great for the stock in the short term – has the eventual potential at least to better highlight the value of both the Exito business and the remaining assets that seem to us to be so mispriced. **VII**

INVESTMENT SNAPSHOT

Companhia Brasileira de Distribuicao
(Sao Paulo: PCAR3)

Business: Brazilian grocery and convenience-store retailer that also owns large stakes in Colombia-based food retailer Exito and French e-commerce business Cnova.

Share Information

(@4/28/23, Exchange Rate: \$1 = 4.99 reais):

Price	BRL 15.00
52-Week Range	BRL 13.36 – BRL 24.41
Dividend Yield	0.0%
Market Cap	BRL 4.05 billion

Financials (TTM):

Revenue	BRL 17.32 billion
Operating Profit Margin	0.4%
Net Profit Margin	(-1.0%)

Valuation Metrics

(@4/28/23):

	PCAR3	S&P 500
P/E (TTM)	n/a	18.6
Forward P/E (Est.)	8.3	18.9

Largest Institutional Owners

(@12/31/22 or latest filing):

Company	% Owned
BTG Pactual	8.0%
TIAA	6.5%
Nuveen	5.3%
Moerus Capital	5.1%
BlackRock	2.4%

Short Interest (as of 4/15/23):

Shares Short/Float	n/a
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CBD PRICE HISTORY



THE BOTTOM LINE

Macroeconomic concerns in its markets and an overly complex business structure have combined to subdue investor interest in the company's stock, says Amit Wadhwaney. Using what he considers very conservative valuation assumptions for each of its three main assets, he estimates the base-case sum-of-the-parts value at over 33 reais per share.

Sources: Company reports, other publicly available information

Trailing Returns (as of September 30, 2024)	Year to Date	One Year	Three Years	Five Years	Since Inception ¹
Moerus Worldwide Value Fund (Inst.)	18.46%	30.81%	17.62%	12.72%	8.97%
MSCI All Country World Index ex USA (Net) ²	14.21%	25.35%	4.14%	7.59%	7.48%
MSCI All Country World Index (Net) ³	18.66%	31.76%	8.09%	12.19%	11.39%

Gross Expense Ratios: Class Inst.: 1.72%; Class N: 1.97%

Net Expense Ratios: Class Inst.: 1.25%; Class N: 1.50%

1. Inception date of the Moerus Worldwide Value Fund is June 1, 2016.
2. The MSCI All Country World Index ex USA (Net) is an unmanaged index consisting of 46 country indices comprised of 23 developed markets (excluding the US) and 24 emerging market country indices and is calculated with dividends reinvested after deduction of withholding tax. The Index is shown solely for comparison purposes and the underlying holdings of the Index may differ significantly from the portfolio. The Index is a trademark of MSCI Inc. and is not available for direct investment.
3. The MSCI All Country World Index (Net) is an unmanaged index consisting of 47 country indices comprised of 23 developed and 24 emerging market country indices and is calculated with dividends reinvested after deduction of withholding tax. The Index is shown solely for comparison purposes and the underlying holdings of the Index may differ significantly from the portfolio. The Index is a trademark of MSCI Inc. and is not available for direct investment.

Moerus Capital Management (“Moerus”), as registered investment adviser of the Moerus Worldwide Value Fund, has contractually agreed to reduce its fees and/or absorb expenses of the Fund, until at least March 31, 2025, to ensure that total annual fund operating expenses after fee waiver and/or reimbursement (exclusive of any taxes, brokerage fees and commissions, borrowing costs, acquired fund fees and expenses, fees and expenses associated with investments in other collective investment vehicles or derivative instruments, or extraordinary expenses such as litigation) will not exceed 1.25% for Institutional Class Shares.

Past performance does not guarantee future results. The performance data quoted represents past performance and current returns may be lower or higher. Returns are shown net of fees and expenses and assume reinvestment of dividends and other income. The investment return and principal value will fluctuate so that an investor’s shares, when redeemed, may be worth more or less than the original cost. Investment performance reflects expense limitations in effect. In the absence of such expense limitations, total return would be reduced. For performance current to the most recent month-end, please call 1-844-MOERUS1.

Current and future portfolio holdings are subject to change and risk.

Top ten holdings as of 9/30/24 as a % of the Fund’s net assets: Hong Kong Exchanges and Clearing Ltd (4.11%), Grupo Financiero Galicia SA (3.67%), Dundee Corp (3.55%), Jefferies Financial Group Inc (3.41%), Companhia Brasileira de Distribuicao SA (3.26%), Wheaton Precious Metals Corp (3.18%), Hammerson PLC (3.08%), Douglas Elliman Inc (3.06%), ESR Group Ltd (3.03%), and Cromwell Property Group (2.99%).

Click here for a current Fund factsheet: www.moeruscap.com/literature/.

Risk Disclosure:

Investing in Mutual Funds involves risks including the possible loss of principal and there can be no assurance that any investment will achieve its objectives. International and, in particular, emerging country and frontier market investing involves increased risk and volatility due to currency fluctuations, economic and political conditions, and differences in financial reporting standards. Value investing involves the risk that an investment made in undervalued securities may not appreciate in value as anticipated or remain undervalued for long periods of time.

You should carefully consider the Moerus Worldwide Value Fund’s investment objectives, risks, charges, and expenses carefully before you invest. This and other important information about the Funds are contained in the prospectus, which can be obtained by calling 1-844-MOERUS1 or visiting www.moeruscap.com. The prospectus should be read carefully before investing.

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