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Moerus Capital employs a fundamental, bottom-up investment process, with the goal of investing in assets and businesses at prices representing significant discounts to our estimates of intrinsic value, all the while placing heavy emphasis upon risk avoidance and mitigation. Importantly, the risk that we seek to mitigate *is not* short-term share price volatility, but rather *the risk of a permanent loss of capital*. In fact, we embrace short-term share price volatility as a provider of periodic opportunities to invest in what we believe are high-quality assets or businesses at bargain prices. We believe that buying as cheaply as possible is critical both to *risk mitigation* as well as to *the potential generation of attractive long-term returns*.

In striving to buy as cheaply as possible, we estimate intrinsic value using very conservative estimates that weigh *a company's balance sheet and what is known today* much more heavily than *projections of future earnings and cash flow*, which may or (may not) materialize. In other words, as a general rule of thumb, we try to buy shares of businesses at sizeable discounts to what we think that they would be worth *if they sold their assets today*, using conservative assumptions. The *asset-based investment approach* that we follow at Moerus stands in contrast to the approach of many in the investment community who tend to focus more heavily on *earnings and cash flows*.

Our estimates of a company's intrinsic value generally do not heavily weigh forecasts of cash flows years into the future, simply because we believe *the future is notoriously, inherently difficult to predict*. We are not willing to "pay up" for businesses at prices that would only be attractive under optimistic assumptions of continued prosperity years into the future. By contrast, we believe that a conservative, asset-based valuation methodology often yields a *" bedrock" (lower -bound) valuation*, and that buying at a steep discount to such a bedrock valuation provides a cushion that *not only provides downside protection, but also offers meaningful upside potential* in the event of favorable future outcomes, which typically aren't "priced in" to the stock at such beaten down levels.

Implications of the Asset-Based Approach

Our approach to investing has several noteworthy implications regarding which type of situations tend to find their way into the portfolio, and why.

What's the catch?

At Moerus, we search for high-quality, long-term investment opportunities which are available at attractive prices relative to what we believe their net *assets are worth today* – without attributing any value whatsoever to forecasts of earnings or cash flows, visions of the future which are far too often seen through rose-colored glasses. One implication of our approach is that, at the risk of stating the obvious, such opportunities do not come easily or often – alas, *there is usually "a catch*," or something "wrong" which drives pricing down to the unusually attractive levels which pique our interest. Common examples of what might be "wrong" include, among others, a challenging short- term outlook facing a company's relevant industry or geography, or a company-specific misstep or hiccup that results in share price declines.

For traders and investors with very short time horizons, near-term uncertainty and turmoil might rule out any such investment. But our long-term focus allows us to look past temporary rough patches that render a company, industry or geographic market out of favor in the broader market as they often prove to be interesting sources of longer-term investment opportunity, *provided that the turmoil is indeed temporary, and the potential investment has the staying power and wherewithal to survive tumultuous times and thrive if, as and when the situation normalizes*.

Unappreciated, Misunderstood, or Event-Driven

In addition to situations involving short-term (but temporary) turmoil, asset-based investing has also often led us in the direction of two other scenarios that sometimes lead to atypically attractive investment opportunities. First, companies that are *underappreciated, underfollowed, complex and/or misunderstood* occasionally provide interesting opportunities, in part because fewer eyes are examining and recognizing the value that may (or may not) be present within the business in question. Second, opportunity periodically can be found in situations in which there is *hidden value that could potentially be unlocked through event-driven scenarios*; examples of these include liquidations, corporate reorganizations, mergers and acquisitions, and changes in industry or shareholder structure, among others.

Deep Value and Emerging/Frontier Markets: Compatible… at Times

Another implication of our asset-based investment approach is that while opportunities to implement it in emerging and frontier markets are apt to be sporadic and infrequent, *occasionally compelling balance sheet-based investments can and do become available at attractive prices in even these markets*, which traditionally have not been considered a welcoming destination for deep value investors. Notwithstanding the bloodletting currently taking place in many emerging and frontier markets, in general these markets have historically appealed to growth investors due to their attractive growth potential relative to that offered by more mature markets. Simply put, many investors have historically been *willing to pay up for the future* – in the form of expected future growth – in emerging and frontier markets, whereas at Moerus we look for bargains *here and now*, based on our estimates of the net assets on the balance sheet *today*. Partly as a result of this dichotomy, the predominance of investors who are willing to pay for projected future earnings growth in emerging markets has, in our view, *generally* translated into less frequent opportunities for the asset-based value investor such as Moerus.

However, the very fact that these markets are heavily populated by growth investors provides us, from time to time, with intriguing investments that fit our approach. Examples of situations that could create such opportunities include the following:

• Quarterly earnings disappointments, or revenue growth figures that fall short of what had heretofore been lofty expectations – the kind that are typical of many emerging market securities during the good times – might result in growth investors heading for the exits, leading to a plunging stock price.

• Broader macroeconomic slowdowns and turmoil could be particularly punishing to investors in emerging markets given the growth bent of many who typically invest there. Amid the ensuing rubble, even previously well-loved gems can sometimes become available at compelling prices.

A final important point to make on this subject is that share price declines in emerging and frontier markets could be and often are *exacerbated by the relative illiquidity of many of these markets*. When investors flee illiquid markets, dramatic share price declines could result, potentially turning a stock that used to trade at a sky-high valuation a year or two ago into a bargain today. In sum, the main point which we'd like to make clear is that although emerging and frontier markets have traditionally been considered the preserve of the more adventurous, growth-oriented investor, we believe that *compelling asset-based, deep value investment opportunities periodically can and do become available there, albeit perhaps more sporadically than in developed markets*.

Patience

Given the nature of these sources of opportunity, *patience is indeed a virtue when it comes to implementing an asset-based investment approach*. Patience is needed to hold cash in the absence of attractive pricing and wait for quality investments to become available at truly modest prices. Once a promising long-term investment becomes available at a price that is cheap enough, patience is often required to hold (or add to) the investment, as the poor near-term conditions that contributed to the deep discount continue to run their course. Of course, patience must go along with and be backed by conviction – developed through research, analysis, and considerable reflection – that such a prospective investment has the *staying power* (financial, operational and otherwise) to navigate its way through temporary difficulties until its underlying value is ultimately realized.

Not for the Fashionable

The asset-based investment approach requires patience because investment opportunities available at the type of valuations we seek do not make themselves available frequently, and when they do, it is usually at a point in time in which the assets in question are underappreciated and/or out of favor. Attractive value investments, particularly those at the deep discounts to conservative intrinsic value estimates that we require, are not available whenever they are "in fashion." In that sense, we often find ourselves looking for bargains in some of the most *far-flung or "out-of-fashion" places*, to which many others in the investment community for various reasons are biased against venturing. Importantly, the "far-flung places" in which we often find ourselves are *not always specific geographic locations*, but also include *classes of companies* that, for any of a host of possible reasons, by and large *fall under the radar* of many analysts and investors who are more earnings-based.

One such class of companies is made up of those which, at some point, *execute a sale of their principal operating business (and thus their principal source of earnings), thereby becoming cashed-up in the process*, but often also falling off the radar of many earnings growth-oriented analysts and investors as a result of the sale. While infrequent and sporadic, in select cases "falling off the radar" could contribute to such a dramatic effect on a company's stock price that the business could become available at a meaningful discount to the *current value of its primarily liquid net assets*. A company that builds cash on its balance sheet by selling its main assets might offer an intriguing investment opportunity over the years that follow the transaction, but on the other hand, in many other cases such a transaction raises *a host of red flags* that must be identified in order to avoid impending investment disappointment, if not disaster. And this specific class of companies, in general, brings with it a lot of baggage in the form of issues that *must be thoroughly considered and vetted* before daring to invest

Summary Conclusions

• The deep value, asset-based investment approach that we apply stands in stark contrast to those of many/most investors who tend to be heavily earnings-focused.

• We believe that buying at a substantial discount to a bedrock valuation, one which is estimated using a highly conservative, asset-based methodology, provides downside risk mitigation while also offering attractive upside potential, since favorable scenarios typically are not priced in at such depressed levels.

• Attractive investment opportunities that become available at sizeable discounts to conservatively estimated, balance sheet-based intrinsic values are unusual. Typically, there must be "a catch," or something "wrong" that has created bargain pricing.

• Common "catches" include short-term turmoil affecting a company, industry or geography, a situation that is complex or underappreciated, neglected, or misunderstood by the broader market, or event-driven scenarios which cause a business to become "unfashionable" in the minds of most market players.

• Although sporadic, compelling asset-based value investments can and do become available even in emerging and frontier markets, which have traditionally been considered the stomping grounds of growth investors.

• Companies which have sold their principal operating business(es), thereby cashing-up but losing the attention of heavily earnings-focused analysts and investors, represent one class of "unfashionable" companies that have historically offered compelling asset-based investment opportunities from time to time.

• However, a company's sale of its primary operating business adds significant uncertainty regarding the loss of recurring income, the eventual use of sales proceeds, and the timing and nature of any potential payoff.

• Further, the ability and willingness (or lack thereof) of management to redeploy the proceeds prudently and profitably, *in the best interest of all shareholders*, is critical to the ultimate success or failure of any such investment. As a result, a thorough assessment and appraisal of management is critical to the due diligence process.

• Unusual bargains can sometimes be found in corners where, in our opinion, many market participants are biased against looking. Asset-based investment opportunities, in the form of companies that *create value by means other than recurring earnings from continuing operations*, are at times neglected in an earnings-focused world.