Thursday, September 11, 2025

Data Presented as of August 31, 2025

Undervalued, Under-Followed, Under-Owned & Untapped: *Unlocking Opportunities in "un-US" Markets.*

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Emily Straw: Hello, everybody, and thank you for joining us. I'm Emily Straw and I'm joined by Bob Sharpe, Lead Portfolio Manager on VELA's International Strategy. Today we look forward to Bob sharing his insights into the international landscape, current opportunities, and the value proposition of allocating to an active manager with a strong track record in the international arena.

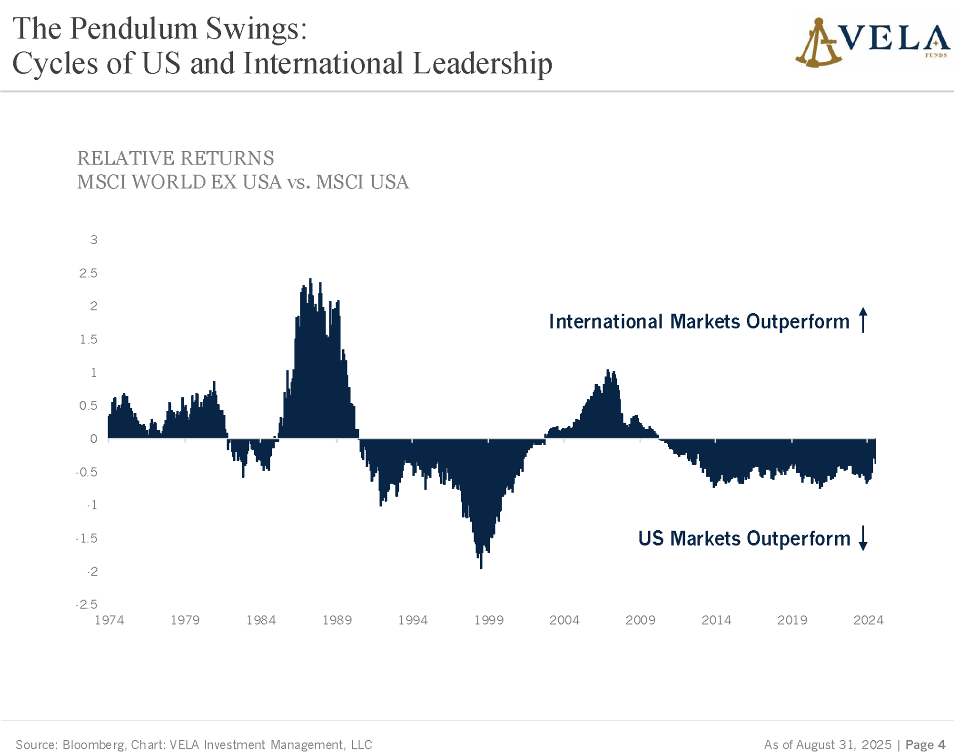
Before we begin, I'd like to share a brief update on VELA. Currently, we manage about $525 million across five mutual funds and two separately managed account strategies. VELA’s International Strategy represents approximately $66 million of our assets under management. We've been energized by our continued growth and the traction that VELA solutions are gaining in the family office, advisor, and institutional channels.

VELA is 100% active employee-owned, and, as many of you know, VELA is an acronym. We follow a valuation centric philosophy, implemented by experienced investors with a long-term view, and a strong alignment of interests. For example, every VELA employee, subsequent to joining the firm, is solely allowed to invest in VELA strategies alongside our clients.

So, with that, let's dive into the current international market. Thank you to everyone who submitted questions over the past couple of weeks. We've done our best to integrate them throughout this webinar. We do have a packed 20 to 30 minutes, but the Q+A should also be enabled throughout this event. So, if we don't get to your question as always, we will follow up with you directly.

So, Bob, I know you're a bottom-up investor, focused on individual stock selection rather than macro events, but just to set the stage, there's been a very large swing on a macro level in performance since the start of 2025-- with international handily outpacing US stocks for the year. What do you see as a few key differences that have caused this leap, and is it likely to continue?

Bob Sharpe: Thank you, Emily. In answering Emily's question, it's worthwhile to put the subject in context. This first slide shows a 50 plus year history of the swing in leadership between US equity returns and international returns.

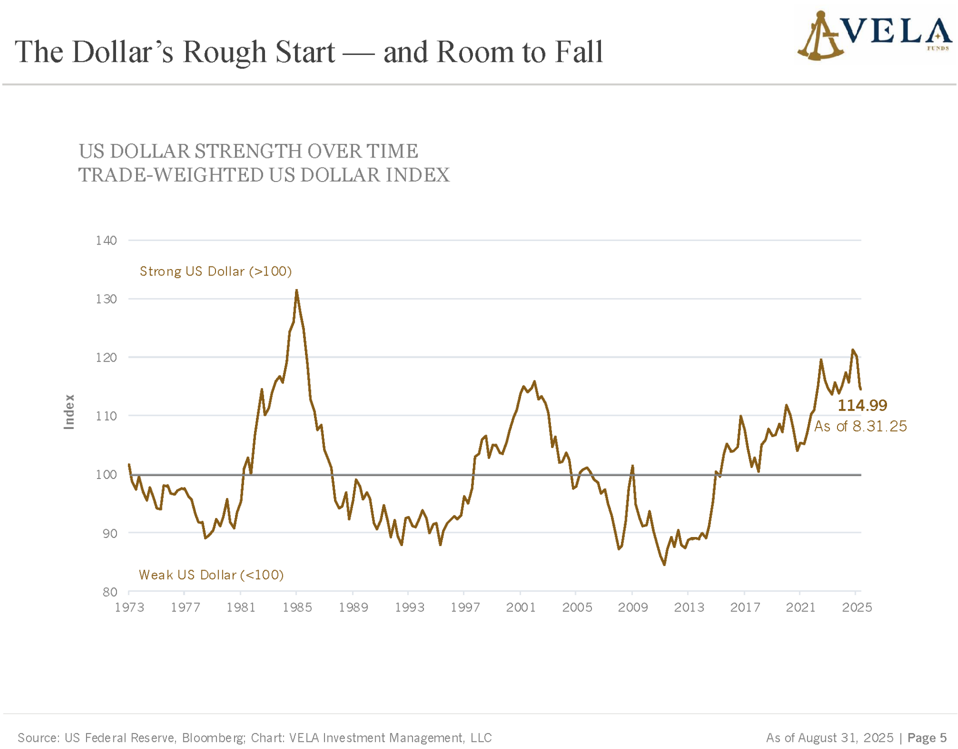


International market returns were superior in the seventies, eighties, and the aughts, while US market returns dominated in the nineties, the tens, and (so far) the twenties.

One of the key takeaways for us as investors is that international and US markets have historically cycled through periods of being leaders or laggards. As I've written in a couple of previous pieces, the recent period of US outperformance through the end of 2024 has been one of the longest we've seen, which of course is always somewhat painful for international investors.

What we see is that international markets have been ripe for a change in leadership for a while. The reversal of fortune we've seen in 2025 to date may be the result of some of the catalytic events coming out of the US in recent months. So in the following slides, we will show high level factors behind these swings and why we think there's an improving path for international returns.

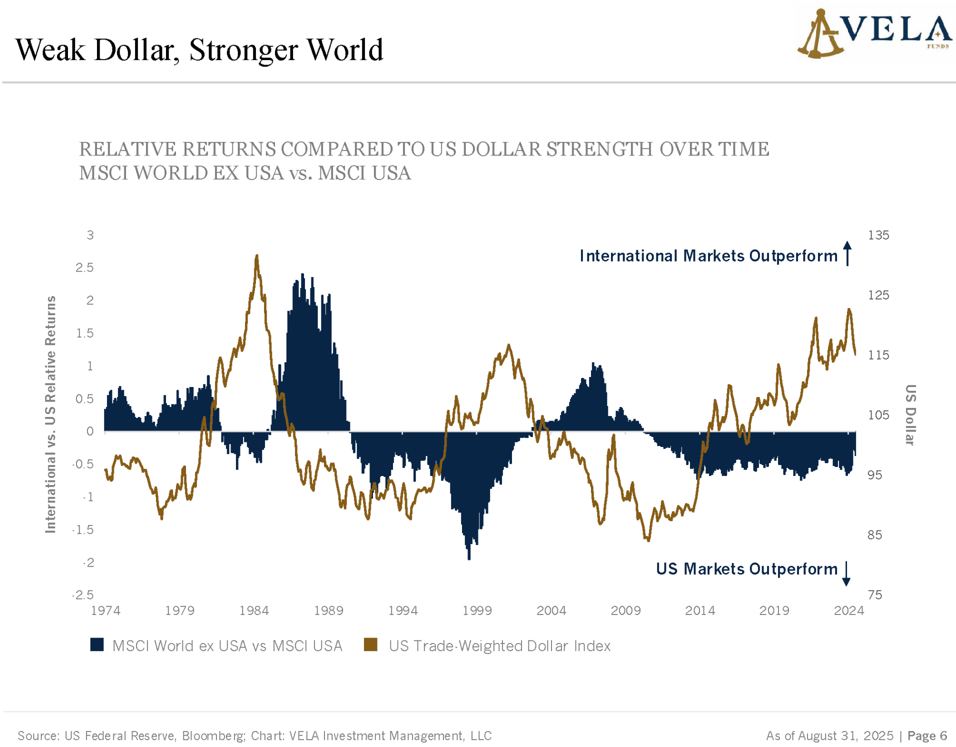
Let's go to five. Thanks.



This slide shows the 50 plus year movement of the trade weighted U.S. dollar. You can see it cycles between lows and highs versus the currencies of our trading partners. From the recent high in January, the dollar is down 10 percent. One important point to note is that if you look at the whole time period, the dollar is still relatively strong compared to its historic values, so there's a decent case to support the continued downward trajectory.

So, why the weakness? Well, the current administration has announced or implemented policies which, in our view, have negatively affected the dollar. The tariff increases on our trading partners are the largest in 80 years[1]. The administration is also encouraging the return of manufacturing to the U.S.-- a weaker dollar would be the easiest way to accomplish this desire. And lastly, the recently passed tax bill will perpetuate budget deficits, requiring greater treasury issues in a time of higher interest rates. This is not a recipe for a stronger U.S. dollar.

How important is the dollar cycle vis-a-vis the interplay between the US and international equity returns? Let's turn to slide six.

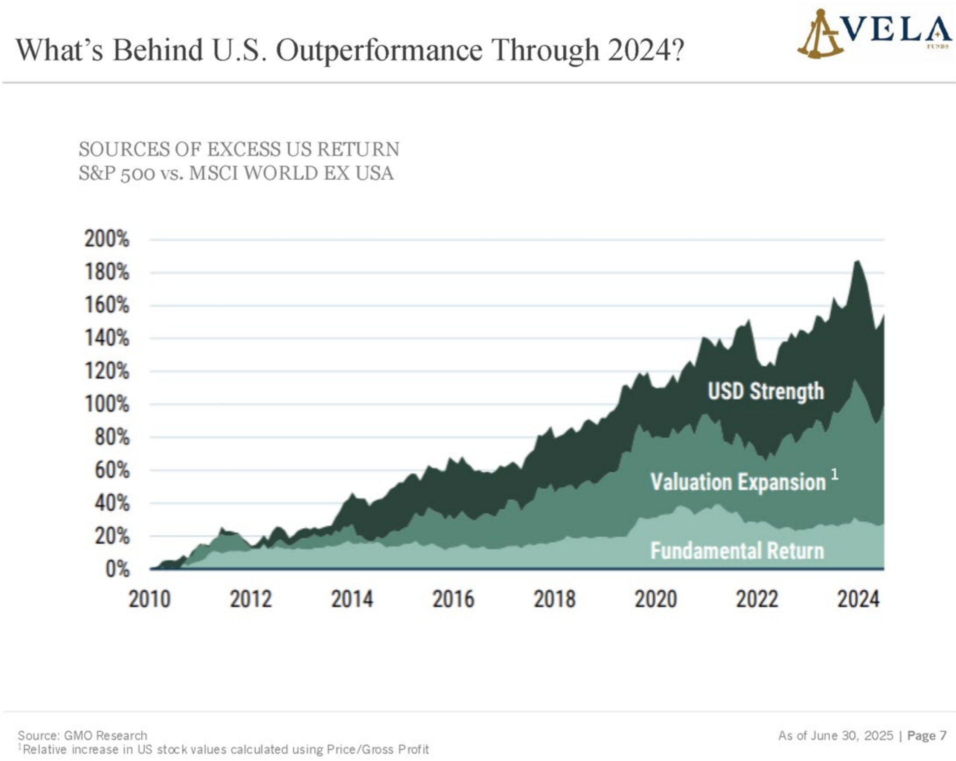


You can see on this slide, which puts together the first two, that the relationship between the dollar and equity market leadership is quite remarkable. From 1985 to 1990, the declining dollar coincided with big outperformance by international markets.

From 1994 to 2000, the U.S. dollar appreciated in tandem with the technology, media, and telecom (“TMT”) bubble in the U.S. Post the TMT bubble, from 2002 to 2008, the baton was handed back to international equity outperformance, with another bout of dollar weakness taking place now.

One note: don't confuse correlation with causation. As mentioned previously, the movements in currency markets are more reflective of money flows. Return seeking investors will move to those markets with the highest prospective returns. If foreign investors begin to withdraw their funds from the U.S., that will eventually be reflected in a weaker dollar. We feel the fuse has been lit on U.S. dollar outflows.

Slide seven, please.



So, we've looked at U.S. dollar strength as one component of the change in market trajectory here. This chart from GMO Research, a quantitative research-oriented investment firm located in Boston, breaks the sources of U.S. outperformance over the past decade into three parts.

Number one, U.S. dollar strength, which we've discussed and think is poised to continue its recent reversal.

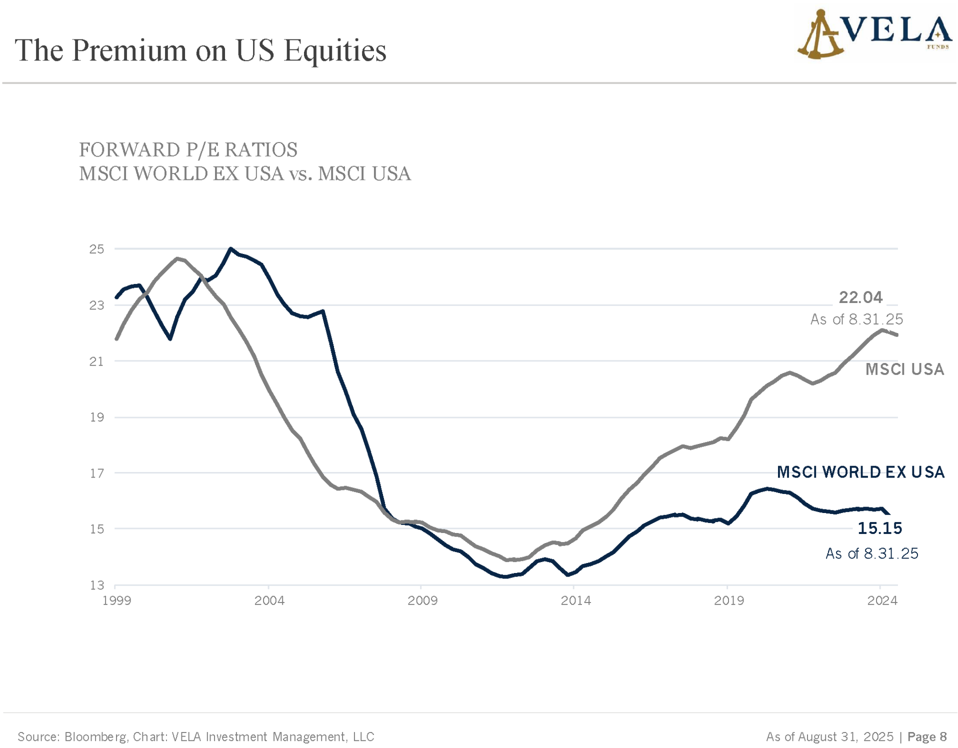
The second is valuation expansion. Valuation multiples tend to expand when investors are excited about the future, and contract if there's a lack of excitement. The U.S. has been an exciting place to invest over the recent decade. However, that has led to valuations which are high on a historical basis today, as we'll see in the coming slides.

And then lastly, fundamental return. This is the non-value portion of the returns that would be dividends, buybacks, and, and fundamental growth. Clearly, U.S. businesses have outperformed international companies during this period. However, take a closer look-- from 2010 to 2015, the fundamental return favored U.S. firms over international, and another step higher took place from 2018 to 2021. But while U.S. companies handled the pandemic better than most, the period *since* 2021 shows international companies outperforming their U.S. brethren. So, the big question: will this trend continue?

And then there's another couple of observations. The fundamental return (the light green you see on the chart) represents just 20 percent of the total. The valuation expansion and U.S. dollar strength, together, are the source of the other 80 percent of relative return. I already mentioned that both the dollar and the valuations are closer to the respective highs. In our view, the odds that each of these measures continue to move higher is low.

Emily Straw: This is great, Bob, and thank you. So, looking at that second layer of the graph, what role do you see valuation expansion continuing to play?

Bob Sharpe: Well, let's turn to the next slide please.



This chart shows the forward P/E ratio for U.S. and international markets over the last 25 years. So, from 2002 to 2008, international equities outperformed U.S. equities and traded at a premium P/E. Now, that premium moved to a discount around the time the European Union entered its debt crisis in 2011, culminating with the near bankruptcy of Greece, which marked the commencement of the U.S. equity outperformance.

Since that time, European growth has been subpar. The pandemic and the fallout from the Russian-Ukraine war (that would be higher Energy prices) have functioned as an anchor to growth in Europe. Meanwhile, the U.S. charged ahead with superior economic growth, better handling of the pandemic, access to cheaper energy, and lastly, has been blessed recently with a boom in artificial intelligence and ‘AI equities’.

Leading to today, the U.S. equity market trades at a 40-45 percent premium to international markets. So, what’s the problem with the P/E premium widening against international stocks? Well, you know, we've seen this story before in the late nineties. It happened to be a different technology, although somewhat related. The internet infrastructure became overbuilt— costs rose, profits plunged, and U.S. equities declined.

One could say that U.S. markets (and especially the AI-themed stocks), are priced for perfection. Given both my experience investing through multiple cycles and our long-term investment horizon at VELA, we feel confident over the next five years that this P/E gap will narrow, and that it will narrow in a manner which favors international equity returns.

Emily Straw: So, would you expect that the valuations would move in tandem with the U.S. Dollar, or does that require a separate catalyst that'll spark a trend reversal? And if so, the obvious question is-- what does that look like?

Bob Sharpe: Sure. I'll give it, I'll give it a good stab. So, like extended currency moves, valuations are cyclical over long periods of time, and that's evident from the slides we've shown.

But for those trends to have any legs requires a trigger. Yes, we would expect to see a catalyst, but that serves only to make it more easily identifiable that a structural shift is underway. So, the second part of your question-- are there any candidates for a structural shift besides some negative event in the U.S.?

Well, one event that took place earlier this year that doesn't get much press is the fiscal policy shift in Germany. Historically, Germany has been a model of fiscal austerity, holding their annual average budget deficit to within one and a half percent of GDP over the last 20 plus years[2]. That policy has changed.

They initiated a 500-billion-euro program, again, mostly for defense and infrastructure, which will be implemented over the next 10 years, and that could add an additional one percentage point to their GDP growth per year[3]. Once that gets rolling, now Germany has debt capacity. With a 60 percent debt to GDP ratio, it has much more headroom than the U.S., which has a similar ratio of 120 percent[4].

Now, if other European countries follow, the E.U. growth rate could bump up closer to the to the projected U.S. growth rate. Now, that would be a positive surprise and a catalyst for re-rating. So, that'd be my best guess for a structural change that's happening outside the U.S.

Emily Straw: All right. And given that, where are you finding the most value today?

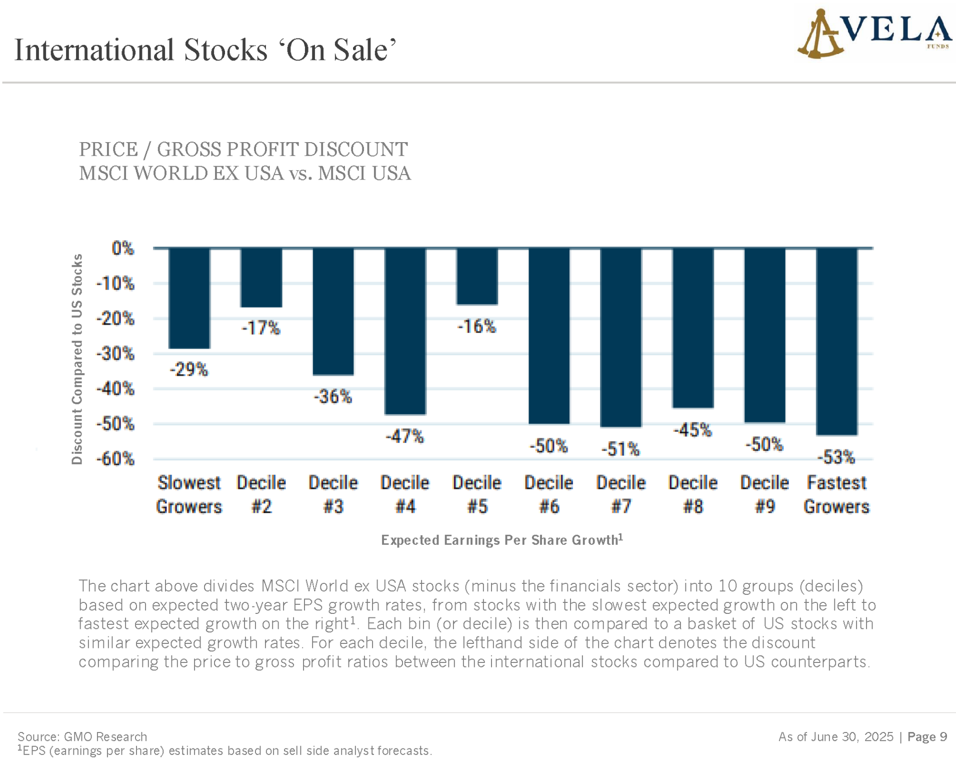
Bob Sharpe: This may be surprising, but we are finding the most value in the lower half of the capitalization spectrum. Small cap international stocks have lagged their large cap brethren since the third quarter of 2021 and have only recently started to pick up now[5]. Since the fund is set up as an all-cap fund, it allows us to hunt for investment ideas where we see value.

We also see compelling value in emerging markets. We have the flexibility to make an allocation to emerging market companies up to 30 percent of the fund. Now, we currently hold eight companies with a total weight of 14 percent. Two recent areas of interest in emerging markets have been Mexico and South America.

Emily Straw: Okay, and to briefly interject, this leads me to ask--given you're seeing some opportunities in the smaller capitalization as well as in some of the emerging markets arenas, do you have any thoughts, as a thoughtful steward of capital, on a soft close or capacity constraints?

Bob Sharpe: So, given the size of the fund, we have no plans for capacity restrictions at this time. We feel we have a great advantage over larger funds in our category, and we retain the maximum flexibility to pursue investment opportunities anywhere--small, mid, large, or mega cap.

So, anyway, that's really the U.S. versus international debate from the 10,000 foot level. So, it's now time to move to the true focus-- individual companies. Let's move to slide nine.



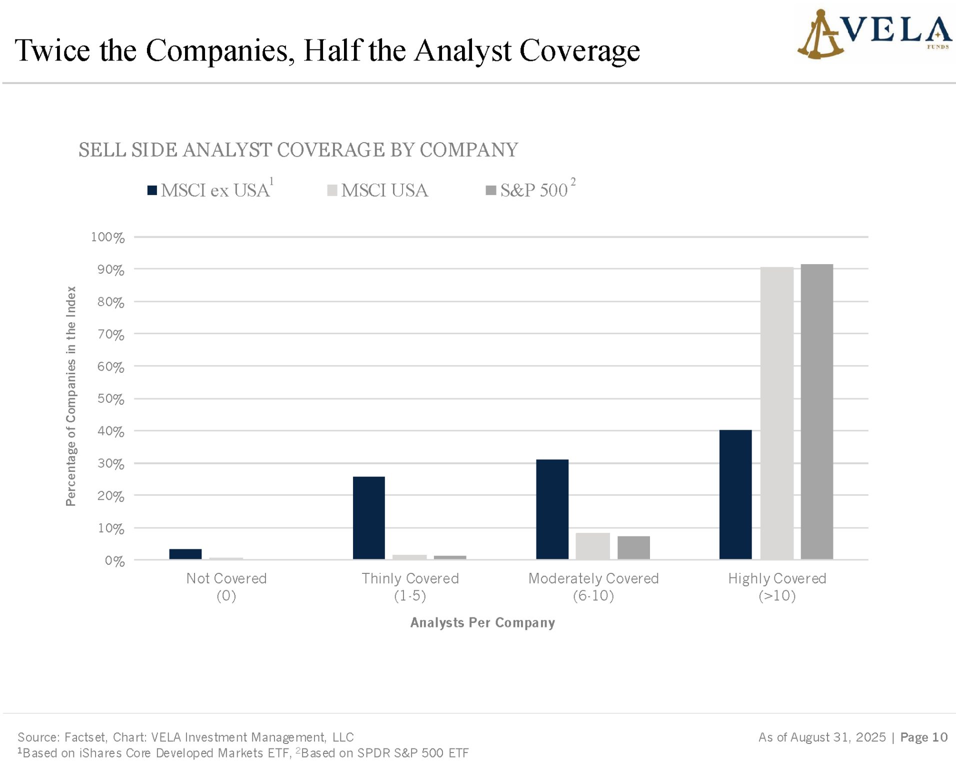
Okay. A bit complicated, but this is another chart from the GMO report previously cited. This analysis is a bit more granular and demonstrates how inexpensive international stocks are compared to U.S. stocks--when sliced into deciles of expected earnings growth against the valuation metric of market cap to gross profit.

The fastest growth deciles are found to the right side of the slide and across the top five growth deciles. The international companies that fall into those deciles trade, on average, at a 50 percent discount using market cap to gross profit. I find that crazy. One example of a holding in the international fund to demonstrate is TotalEnergies SE (TTFNF).

TotalEnergies, the French energy supermajor, falls in the same growth decile as ExxonMobil. TotalEnergies trades at six times the market cap to gross profit, while ExxonMobil trades at 10 times, so Total trades at a 40 percent discount. Now, these two energy companies are expected to grow at similar rates, and it turns out that they also have similar return on invested capital levels[6].

However, the EV/EBITDA or Enterprise Value/Operating Cash Flow for TotalEnergies is just five times, while Exxon trades at eight times. Further, the dividend yield of TotalEnergies is six percent while Exxon carries a three and a half percent yield. So, it's just not clear to me why being a French based company justifies that large of a discount.

So, value can be found in the international side--especially at the company level. Let's move to slide 10.



This slide demonstrates the considerable opportunity we see for active portfolio management to make a real impact in this space. As the title of this slide states, you have roughly twice the companies that have about half analyst coverage combing through the U.S. and International Index proxies.

Here we took the constituent companies, tabulated the number of sell-side analyst recommendations for each, and split those companies into four categories: not covered, the thinly, the moderately, and the heavily covered. So, in the US, 90 percent of the companies fall in the highly covered category with just 10 percent falling in the other three.

On the other hand, only 40 percent of the international companies fall into this ‘highly covered’ category. The next 30 percent in the ‘moderately covered’ and the remaining 30 percent in the ‘not covered’ to ‘thinly covered’ categories. Add in the fact that the opportunity set for international is over 5,000 companies (more than twice the U.S. opportunity set), and the lack of research cover coverage is even more stark.

The dearth of coverage means the likelihood we can find true diamonds in the rough is greatly enhanced, and it is a siren call for active management.

VELA's Investment Strategy

We seek to invest in companies at attractive discounts to our estimate of intrinsic value with:

- Strong competitive moats due to economies of scale, intellectual property, network effects, and switching cost that operate in above average industries.
- Balance sheets capable of withstanding significant pressure.
- Management teams whose incentives are aligned with long-term shareholders.
- Prefer dividend paying companies.
- Leeway to add attractive Emerging Markets companies (30% limit).
- Low turnover (<25%).

We screen a universe of over 5,000 companies by market cap, float, and trading liquidity before applying any valuation, returns or yield criteria to cut the opportunity set down to a more manageable prospect pool from which fundamental research can then be conducted.

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As an active manager, we at VELA seek companies trading at attractive discounts to our estimates of intrinsic value. Given the sparse coverage on the international side, we believe our analytical strength can be brought to bear on this target rich environment. Eight analysts--that includes myself-- have contributed investment ideas to the international fund, as of today.

Emily Straw: This is great, and you gave some examples earlier about Exxon and Total. Do you have a couple of additional examples you can take us through?

Bob Sharpe: Sure. The first one is Bakkafrost (BKFKF). It trades in Norway, and here's an example where, you know, you can get exposure to a new or a different industry that's not really available in the U.S. Bakkafrost operates Salmon Farms off the Faroe Islands and Scotland.

Now, Bakka is vertically integrated, which means it's providing the fish feed all the way through selling salmon filets to consumers, and it operates as a premium supplier of salmon around the world in both business to business and business to consumer channels. Now, it's currently undergoing a large capital program to expand its capacity by over 60 percent over the next five years, so that should provide some growth.

Now, the investment program is depressing-- its operating margins. A couple of disappointing earnings releases allowed us to take a position at an attractive entry point [relative to our estimate of the company's worth]. The company has generated a high teens return on invested capital since becoming public in 2010, and the goal is to return to those levels once the new capacity comes online. The CEO has been in place for 36 years, so he has a great understanding of the business. He also owns eight percent of the company, so his interests are aligned with ours. The company also pays a dividend yield of three percent.

Another idea from our analyst, Maya Peterson, is Ambev (ABEV), the number one Brazilian brewer, and it happens to be an Emerging Markets idea. A majority of Ambev is owned by Anheuser-Busch, Inbev (BUD), which is also a publicly traded company. I would say Ambev is the jewel in the Inbev empire. Beer volumes can grow much faster in Latin America, closer to five percent than the plus or minus one percent rate that we see in developed markets like the U.S. and Western Europe.

Now, the P/E multiple for Ambev is 13 times. If you calculate the P/E multiple on Inbev, the U.S. and Western European business, the P/E premium is north of 20 times. So, this discount seems kind of ridiculous to me. You can simply get better growth prospects at a lower multiple. And then, on top of that, Ambev is more capital efficient than Inbev-- the return on invested capital for Ambev is 17 percent compared to Inbev's 6.45 percent. The major reason is that a Brazilian brewer can distribute his own products, unlike in the U.S., which requires a three-step distribution system. So, Ambev gets to keep the entire distribution margin for itself. This allows Ambev to be highly cash generative with a free cash flow margin of 26 percent. They pay a nice dividend with a yield greater than six percent, which is three times larger than the yield on Inbev, its' balance sheet remains strong, and its' excess cash is used periodically to repurchase shares.

Emily Straw: Those are great. As the questions have come in, there's been a couple here, and one is: are there specific sectors that you like and/or are cautious of? I see a theme in the two examples you gave before and, uh, we would be remiss not to have the question come in and have you touch on tariffs as well.

Bob Sharpe: Okay, thanks. It's going to be easy to note the attractive sector-- the area that keeps bubbling up new ideas for us is consumer staples. The two examples I just discussed, Bakkafrost and Ambev, both come from that sector.

And then this year, we also had JD Peet's (JDEP), the Dutch Coffee Company. It was a contrarian purchase early in the year and is now being taken out for an all-cash offer. Recent areas of interest in the Consumer Staples area have been in Mexico, with a consumer products company and convenience store, and then in the UK, with food and non-alcoholic beverage companies.

Now, on the cautious side, which is probably out of consensus, I've been a big believer and supporter in the Industrials sector for the last 25 years, and its' consistently done well. In our current market, I'm just finding it harder to justify the valuations. Now these valuations are nothing like AI stocks, but the discounts to our estimates of intrinsic value just aren't great enough to grab my attention. For the first time as an international analyst and portfolio manager, the fund has moved to an underweight position [relative to the index]. Frankly, it's sort of killing me.

Now, let me touch briefly on the tariffs-- how we think about them and how they affect our stock selection. The first comment, and it's a little bit cynical, is, are they legal? You know, if you're not happy with the level of tariffs, wait a few days and they'll change. The only question is, do they change in your favor or against you?

But clearly, it created quite the volatility early on, which I'll touch on in a second. As the tariff topic moved to the forefront earlier this year, you know, when we surveyed the portfolio, we were lucky not to be highly exposed to any glaring situations. We generally would prefer to find companies which produce locally for local needs.

Now, having said that, what we have done, given the volatility, is used the tariff scare to take starter positions in a couple of exporters where the discount to our estimate of intrinsic value got silly. And these are, you know, deeper value situations or asset plays where you're not really paying very much for the going concern. So, I guess I've used it opportunistically and then been fortunate not to get hurt by it too badly.

So, just a briefly in closing, again, a reminder that the focus of the fund is bottom-up stock selection. The two examples cited each, in our estimation, carry strong double digit expected returns, which we can comfortably hold over the next five years. Now the winds are shifting, with the currency backdrop more favorable to seeking the superior value opportunities in the ‘un-U.S.’ markets. I'm more excited today than I have been in a long time on the prognosis of international returns. It's been a long walk in the desert the last number of years now.

So, I just feel now is a great time to allocate funds to international as the next five years should see a long overdue reversal of the 14-year trend of all-U.S., all the time.

Thanks.

Emily Straw: Thanks, Bob, and, and as we mentioned previously, if there are any questions you may have, please let us know. Feel free to reach out to us and we'd be happy to set up a call with Bob or any of the other portfolio managers. We thank you for taking the time and we look forward to talking to you throughout the next quarter.

Bob Sharpe | Portfolio Manager & Research Analyst

Bob joined VELA in 2020 and has served as Portfolio Manager on the International Fund since the strategy’s inception. He is also a partner in our firm. Prior to joining VELA, Bob most recently served as a Partner, Vice President, and Portfolio Manager of the International Value Fund at Heartland Advisors. Bob’s other roles have included Portfolio Manager and Director of International Investments for STRS Ohio, and Equity Research Analyst for the Capital Group.

Emily Straw | Partner, Client Development

Emily is a Partner with our firm and has responsibility for client development, cultivating and serving relationships across multiple distribution channels. Prior to joining VELA, Emily served as Senior Vice President at First Pacific Advisors, where she was responsible for institutional business development and client service across equity, fixed income/credit, and alternative solutions. Previously, Emily was Managing Director & Partner at Palmer Square Capital Management, where she focused on institutional business development, client service and product development across corporate and structured credit.

Disclosures:

Investors should carefully consider the investment objectives, risks, and charges and expenses of the fund before investing. The prospectus contains this and other information about the fund, and it should be read carefully before investing. Investors may obtain a copy of the prospectus by calling 833-399-1001.

The fund is distributed by Ultimus Fund Distributors, LLC. (Member FINRA). Ultimus and VELA Investment Management, LLC are not affiliated.

Important Risk Information: Investing involves risk including the possible loss of principal. Investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Due to the active management of the Fund, the Fund could underperform its benchmark index and/or other funds with similar investment objectives and strategies. Value investing is subject to the risk that the market will not recognize a security's inherent value for a long time or at all, or that a stock judged to be undervalued may actually be appropriately priced or overvalued. In addition, during some periods (which may be extensive), value stocks generally may be out of favor in the markets.

International Investing Risk: The VELA International Fund invests in a diversified portfolio of non-U.S. equities from a broad market capitalization spectrum. The fund may invest in non-U.S. securities and U.S. securities of companies domiciled in non-U.S. countries that may experience more rapid and extreme changes in value than a fund that invests exclusively in securities of U.S. companies. These companies may be subject to additional risks, including political and economic risks, civil conflicts and war, greater volatility, expropriation and nationalization risks, currency fluctuations, regulatory risk, higher transaction costs, delayed settlement, possible non-U.S. controls on investments, and less stringent investor protection and disclosure standards of U.S. markets. Diversification does not assure or guarantee better performance and cannot eliminate the risk of investment loss.

The MSCI World ex USA Index is an equity index that tracks the performance of large and mid-cap companies from 22 developed countries, excluding the United States. It captures approximately 85% of the free float-adjusted market capitalization within these countries, providing a measure of global developed market stock performance without US exposure.

The MSCI USA Index is a stock market index that measures the performance of large and mid-capitalization companies in the U.S. equity market, covering approximately 85% of the free float-adjusted market capitalization. It serves as a widely used benchmark for institutional investors to gauge the performance of the broad U.S. stock market.

The Standard and Poor's 500, or simply the S&P 500, is a stock market index tracking the stock performance of 500 leading companies listed on stock exchanges in the United States.

The trade-weighted dollar is an index created by the Federal Reserve to measure the value of the U.S. dollar (USD) based on its competitiveness versus trading partners.

Indexes are not available for direct investment.

The companies identified above are example holdings and subject to change without notice. The companies above have been selected to help illustrate the investment process described herein and should not be considered a recommendation to purchase or sell any particular security. As of time of writing, TotalEnergies represented 2.08% of the fund, JD Peets represented 2.99% of the fund, Ambev represented 2.11% of the fund, and Bakkafrost represented 1.54% of the fund. US-based counterparts included as examples, including Exxon and Inbev, are not included in the International Fund.

A complete list of holdings for the International Fund is available at www.velafunds.com.

Definitions:

Intrinsic Value is a measure of an asset's worth, estimated by investors using financial models or other inputs.

Standard Deviation measures the volatility of the Fund's returns. Beta measures the Fund's sensitivity to market movements.

Sharpe Ratio uses the Fund's standard deviation and average excess return over the risk-free rate to determine reward per unit of risk.

Return on Equity (ROE) is a measure of financial performance calculated by dividing net income by shareholders' equity.

The **Price-to-Earnings (P/E)** ratio is a valuation metric that compares a company's stock price to its earnings per share (EPS). **Trailing P/E** uses past 12-month earnings, while **Forward P/E** uses estimated future earnings.

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Capital Expenditures (CapEx) are funds used by a company to acquire, upgrade, and maintain physical assets such as property, plants, buildings, technology, or equipment. CapEx is often used to undertake new projects or investments by a company.

Free Cash Flow (FCF) is the cash a company generates after covering its operating expenses and capital expenditures.

Return on Invested Capital (ROIC) is a financial metric that measures how efficiently a company uses its capital to generate profits.

Valuation Multiples are financial ratios that compare a company's market value to a specific financial metric, like revenue, earnings, or cash flow. They help in comparing the relative value of different companies, especially within the same industry.

The Enterprise Value to EBITDA (EV/EBITDA) ratio is a financial metric that compares a company's total value to its earnings before interest, taxes, depreciation, and amortization, providing a "debt-neutral" way to assess if a stock is under- or overvalued. A lower ratio suggests better value, but the ratio should be compared against industry averages and historical trends for context.

Gross profit is a company's remaining profit after deducting the costs associated with producing and selling its products or services. Price/Gross Profit is a calculation measuring a company's stock price against the gross profit for each share.

Float refers to the number of a company's shares that are available for public trading, excluding shares held by company insiders, employees, or institutions. To calculate it, you subtract restricted and closely-held shares from the company's total outstanding shares. A lower float typically indicates higher stock volatility, as fewer shares are available for trading, and a smaller number of buyers or sellers can significantly impact the price.

Liquidity refers to how quickly and easily an asset can be bought or sold in the market without causing a significant change in its price. High liquidity means there are many buyers and sellers, while low liquidity implies the opposite, making it harder to exit a position without impacting the price.

"Un-U.S." refers to International or non-U.S. financial markets.

Footnotes:

[1]Lombard Odier
[2,3]EuropaNews
[4]International Monetary Fund
[5]T Rowe Price
[6]Bloomberg