RONDURE GLOBAL ADVISORS

3Q21 Fund Commentary

Chinese Dreams, American Dreams, and Pure Fantasia

"Global investors are shocked to have discovered that China is run by Communists."

- Matthew Brooker, Bloomberg Opinion, 4 Aug 2021

Coming off a week of client calls, one topic has dominated our conversations: China. As in, "What in the world is going on in Chinese markets?" "How worried should I be?" And *"Could Evergrande be the next Lehman Brothers?"*

As is the case in markets (and life), the most important questions about the future can't be answered definitively. Yet mental models for assessing the China situation can gauge risk and guide action.

First, one overarching observation: While it's true that China's economy is radically different from the United States, investors in both countries must grapple with the same question today—How much of today's economy is real (durable, lasting), and how much is fantasy (and likely unsustainable)?

Real Estate Dreams at Home and Abroad

As we write this, the latest shoe to drop in the Chinese real estate debt drama is the failure of the prophetically-named Fantasia Holdings, a developer, to repay the $206-million principal of a bond that matured October 4. Rating agencies downgraded the issuer accordingly. The poor creditors of Fantasia are now left to wonder whether their capital has disappeared to Fantasyland, never to return. (You can't make these names up.)

Of course, Americans are no strangers to real estate fantasy lands. We are in one of our own. In July, the leading measure of U.S. home prices, the Case-Shiller Index, reported a record 19.7% annual gain. That jump is especially astounding considering it is the 14th consecutive month of acceleration. The Fed now faces an unenviable dilemma. Its laudable goal of maintaining a dovish policy long enough "to help the lives of low and moderate-income communities," as Chairman Powell put it, has unwittingly caused a spike in rental costs, borne disproportionately by these same groups. One index shows rental prices leaped by 12% this summer, after a minor Covid dip, with some metros up 20%.

The extent to which debt-fueled real estate investment underpins China's growth is staggering. A recent study by scholars at Harvard and Tsinghua Universities found that China's property sector contributed 29% of GDP in 2016, a level matched only by Spain and Ireland at the height of the 2000s bubble. "Despite the repeated arguments that China is different," they argue, "it shares striking similarities with other boom episodes in the run-up of housing prices, the scale of the construction sector, the debt accumulation, etc." This ill-grounded real estate boom may be what recently prompted Xi Jinping to call on the Party to pursue "genuine rather than inflated GDP growth."

HGTV should consider a Beijing satellite office—the American dream and Chinese dream may be merging. Home ownership has long been a status symbol in China, hardly a foreign notion to Americans. Real estate investment in China is popular partly due to a lack of alternative investment options. Housing constitutes an eye-popping 78% of all Chinese assets compared to 35% in the United States. That both cultures share an infatuation with real estate is no surprise given rapid urbanization and growth in China coupled with falling interest rates on both sides of the Pacific.

Before drawing investing conclusions, let's sort through what we do and don't know about China's property sector.

We can be fairly certain that:

1. *A massive property boom has taken place in China since 1988*, when Beijing undertook urban planning reforms that commercialized development to support the Party's economic growth objectives. Fueled by easy money and real estate being declared a "pillar industry," property prices have surged over the last 35 years.
2. *A gargantuan amount of leverage has been accumulated* during the boom. Household debt has risen from 26% to 61% of GDP between 2010 and 2021, with non-financial corporate debt up from 118% to 159% of GDP over that time.
3. *Problematic incentives, cross-collateralizations, and moral hazard are rife*. Local CCP leaders are often promoted or demoted by economic growth in their jurisdiction; SOE lenders, for whom real estate has been a linchpin, are also woefully entangled.
4. *Housing is likely overbuilt given slowing demand for homes*. Housing demand has fallen as a) the country ages, b) price-to-income ratios in Tier 1 cities are among the highest in the world, c) urbanization rates are high (60%) as is home ownership (90%), and d) borrowing capacity is dwindling as household leverage approaches U.S. levels. Vacancy rates in Tier 2 and 3 cities are shockingly high.
5. *Housing has become an increasingly speculative asset*. Roughly 2/3 of home purchases were made by first-time buyers from 2008 to 2015. That number had cratered to 1/8 by 2018.
6. *Home improvement likely won't make up the gap*. Most housing in China was built after the 1990s, and nearly all since the 1990s, so renovation needs are limited.
7. *A slowdown in property investment would weigh on economic growth*. Because real estate is entwined with other facets of an economy—lending, construction, public finances—roaring development has had an outsized impact in China. One study finds a 20% fall in real estate activity would lead to a 5-10% contraction in GDP, "even without amplification from a banking crisis." Housing's high share of wealth in China amplifies consumer ripple effects.

What is harder to discern:

1. *What action Beijing will take with upcoming defaults*. Gearing levels at Chinese property giants is likely far higher than assumed due to the role of off-balance sheet debt. This story does not appear to be over. Yet the role that the Party will play in forestalling future defaults

remains unclear. What is certain is that Beijing will take a special role overseeing any corporate reorganizations that prove necessary. The fact that masses of everyday citizens own Evergrande's securities and homes magnifies the political sensitivity.

2. *The extent to which the CCP can backstop the whole mess*. The government's control over the nation's financial system bolsters its ability to prevent a debt crisis compared to Western peers. Land sales and nationalization of Evergrande's assets, on a regional basis, would be one path to resolution. It appears likely that the current pace of property investment and appreciation are unsustainable and likely to plateau or reverse, knocking household wealth and spending in China. This is bearish but not damning—it's cyclical.
3. *Whether this will lead to a broader contagion in Chinese financial markets*. This is an obvious question but not an answerable one. Hemingway famously said that bankruptcy happens slowly at first, then suddenly. So too banking crises and financial contagion. Because of the real estate sector's close links to the banking sector, and the banking sector's proclivity for sparking financial crises, history has taught us to take seriously incendiary conditions in property markets, but not to presume they will end in utter meltdown.

All told, China's macro economy doesn't inspire confidence right now, but we still consider the country eminently investible. We are emphatically not writing it off. Yet we don't advocate a shotgun approach to going long Chinese equities. We are picking our spots.

What China Wants

We believe the world is witnessing the emergence of a new political chapter in China's history. Seldom do such transitions happen before our eyes. This is one of them.

Like other General Secretaries of the CCP before him, President Xi Jinping has begun to imprint his vision and values onto the Party. In so doing he joins predecessors who, since Mao's death in 1976, have each struck their own balance in the competing tensions of Chinese Marxism: economic liberalization vs. planned economics, wealth inequality vs. shared prosperity, coastal China vs lesser-tiered cities. Xi's early tenure saw him consolidate power. Now, having overturned the term-limit rule in place that Deng Xiaoping put in place in 1982 to avoid the authoritarian excesses of Mao's reign, Xi has positioned himself to rule unbound by the reform-minded restraints of the last 40 years.

What will he do with the power? We are beginning to see.

First, Xi is returning to a more populist vision of economic equality—even if it means trampling on some of the country's mightiest corporations. This course of action is a throwback to an era when Marxist-style socialism trumped market-based growth as the CCP's playbook. Where Deng Xiaoping once praised economic pragmatism, Xi has made clear he will prioritize a socialistic vision over capitalistic success, damn the costs. Corporations beware: this is not Beijing, Inc.

Second, Xi appears far more willing to tussle with wealthy elites and reshape entire sectors of the economy than his immediate predecessors. In echoes of Putin's Russia, not only is Xi unafraid of the billionaire class, his continual anti-corruption campaigns and laying low of the country's highest-profile capitalists, such as Alibaba's Jack Ma, suggest that he sees this as good politics. In recent months, Xi has targeted a broad range of industries, imposing game-changing regulations, preventing IPOs, and soliciting eye-popping donations for social causes.

Third, Xi has reasserted geopolitical grand strategy as the Party's North Star. Priorities that were dear to Mao but sublimated in modern times, such as reuniting Hong Kong and Taiwan with the Motherland, are being elevated. Hong Kong's reversion is largely fait accompli. Xi's actions suggest an emboldened belief that China has grown powerful enough to assert itself internationally. This is foreboding for the Pax Americana, yet the implications for equities are highly uncertain.

What This Means for Investing in China

Our confidence in our financial models of Chinese companies is at an all-time low. The reason is simple: The structural step-change in political uncertainty jeopardizes our earnings estimates and throws into doubt historical market multiples. We don't like to buy companies we can't model. We worry about companies whose earnings power is hard to gauge due to moving regulatory goal posts.

The conundrum we face in Chinese equity markets is not without international parallels. Korean equities have long been under a cloud due to rampant corporate governance failings. Russian equities likewise trade optically cheap, victims of sanctions-driven macroeconomic instability, market distrust of local rule of law, and a poorly diversified economy.

Seen through that lens, how do Chinese equities look to us today? Yes, relative to their U.S. peers they appear cheap. Yet relative to their Russian or Korean peers they do not. Yes, relative to history Chinese equities look undervalued. But viewed as quasi-state-owned enterprises, they do not look like a bargain. Chinese equities as a class looked like good value when the real economy there was buoyant as the rest of the world struggled to buck Covid. Yet that is hardly the case today. Indeed, concerns over the efficacy of Chinese vaccines as well as rolling local lockdowns give the impression of a country whose recovery is looking shakier than ever, even as the rest of the world vaccinates!

Here is our playbook in China:

1. As always, *stick to companies that meet our disciplined criteria* for financial excellence as well as our assessment of a competitive moat, using our Club-Glue-Platform framework.
2. *Try to avoid Beijing's crosshairs*. We are eschewing those that may run afoul of Party sensibilities or enjoy profitability the CCP finds exorbitant. Adverse regulation is painful.
3. *Invest with the Party*. Industries like sportswear are direct beneficiaries of Xi's vision of a healthier, more active China. Position ourselves on the right side of that where possible.

4. *Avoid the real estate and banking sectors*. We are fearful enough about the permanent capital loss in China that we are shying away from troubled sectors, despite distressed valuations.
5. *Err on the side of defense*. Our stock picking style tends toward simple, everyday businesses with an all-weather aspect. We like this approach in China today.

Conclusion: Real Growth, False Growth, or Liquidity-Drenched "Fantasia"?

One of the biggest risks we see to stocks is that the rich earnings-growth environment of the last 12 months will not be repeated. Earnings growth from a wide variety of businesses that benefited from Covid-era conditions may prove to be more ephemeral than the market expects. We believe that stocks ultimately reflect earnings and that prices in the short run reflect changes in expectations about future earnings. The tech crash of 1999 emblazoned in our memory that when stocks trade on earnings revisions, they can get cheaper than you ever think.

Seen through that light, how much can online shopping accelerate around the world versus what occurred during the Covid lockdowns? How much growth in pet food consumption can happen after the world spent the last year going "Covid puppy" crazy? After a year where old-school energy stocks were back in vogue, what are the chances they can "beat and raise" after their recent run if the underlying commodity prices stagnate or revert to means?

We would note, too, that in an environment where a smattering of central banks globally have started to raise interest rates (the Fed's winding down of QE is part of this), we see the need to be positioned cautiously relative to the boom times of the last decade to be as acute as ever.

Rondure New World Fund

New World 3Q -0.51% vs. MSCI EM -7.97%

China was a major source of consternation for investors during the third quarter. Ongoing industry-specific regulation intensified with the government targeting monopolistic behavior, data security, the after-school tutoring industry, the music industry and fintech. As market volatility increased in China, investors looked to other regions. India was certainly a beneficiary. New World was both underweight China and overweight India and has been for quite some time based on the relative expected returns we derived for stocks in both countries. Resource rich countries like Russia and Indonesia outperformed as energy prices (oil, natural gas and coal) gathered strength. Covid vaccination rates, once lagging developed markets, are catching up. The third quarter was an exemplary showcase of Rondure's philosophy and process driven approach; that is to generate low-volatility alpha through quantitative and qualitative analysis using proprietary tools.

Rondure Overseas Fund

Overseas 3Q -0.16% vs. MSCI EAFE -0.35%

Third quarter marked the first down quarter since the Covid-induced downdraft in 3Q20. Several factors contributed to the negative market action: (1) Delta variant spike in many countries, (2) China regulatory pressure and consequent growth scare, (3) input cost inflation and resultant financial pressure, (4) supply chain issues creating product shortages in everything from shoes to semiconductor chips, (5) the anticipated end to Covid-related government support programs, (6) Rising inflation and (7) slowing global growth. Overseas was able to slightly outperform over the quarter, driven by good stock selection in Industrials and Communication Services as well as avoidance of mining stocks like BHP and Rio Tinto as well as large-cap European Pharmaceuticals.

Rondure Funds Performance as of 9/30/21

Fund Performance

	1-month	3-month	YTD	1-Year	3-Year	Since Inception
Rondure New World Fund (RNWOX)	-3.08%	-1.98%	3.90%	18.69%	11.35%	8.09%
Rondure New World Fund (RNWIX)	-3.13%	-1.97%	4.04%	18.96%	11.62%	8.35%
MSCI Emerging Markets Index	-3.94%	-7.97%	-0.99%	18.58%	8.96%	8.70%
Rondure Overseas Fund (ROSOX)	-4.35%	-0.75%	7.00%	17.63%	9.06%	9.55%
Rondure Overseas Fund (ROSIX)	-4.34%	-0.75%	7.14%	17.93%	9.32%	9.80%
MSCI EAFE Index	-2.83%	-0.35%	8.79%	26.29%	8.13%	8.32%

New World Top Ten Holdings as of 9/30/2021

Company	% of Portfolio	Country	Sector
Taiwan Semiconductor Manufacturing Co., Ltd.	5.05%	Taiwan	Information Technology
Li Ning Company Limited	4.10%	China	Consumer Discretionary
Samsung Electronics Co., Ltd.	3.34%	South Korea	Information Technology
Tata Consultancy Services Limited	3.32%	India	Information Technology
ANTA Sports Products Ltd.	3.15%	China	Consumer Discretionary
Hong Kong Exchanges & Clearing Ltd.	2.35%	Hong Kong	Financials
Wilcon Depot, Inc.	2.26%	Philippines	Consumer Discretionary
President Chain Store Corporation	1.94%	Taiwan	Consumer Staples
Wal-Mart de Mexico SAB de CV	1.91%	Mexico	Consumer Staples
Public Joint Stock Company Moscow Exchange MICEX-RTS	1.88%	Russia	Financials

Overseas Top Ten Holdings as of 9/30/2021

Company	% of Portfolio	Country	Sector
Nestle S.A.	3.35%	Switzerland	Consumer Staples
adidas AG	3.11%	Germany	Consumer Discretionary
Unilever PLC	2.57%	United Kingdom	Consumer Staples
Diageo plc	2.24%	United Kingdom	Consumer Staples
London Stock Exchange Group plc	2.15%	United Kingdom	Financials
PUMA SE	2.06%	Germany	Consumer Discretionary
Chocoladefabriken Lindt & Spruengli AG Partizipsch.	1.96%	Switzerland	Consumer Staples
Coca-Cola HBC AG	1.89%	United Kingdom	Consumer Staples
Heineken NV	1.84%	Netherlands	Consumer Staples
Ferrari NV	1.82%	Italy	Consumer Discretionary

Data shows past performance, which is not indicative of future performance. Current performance may be lower or higher than the data quoted. To obtain the most recent performance data available, please visit www.rondureglobal.com. The Advisor may absorb certain Fund expenses, without which total return would have been lower. Investment returns and principal value will fluctuate and shares, when redeemed, may be worth more or less than their original cost. Rondure New World Fund (RNWOX/RNWIX) - Inception date of 05/01/201. Expense ratios as of prospectus dated 08/31/2020 are: RNWOX: 1.72% Gross / 1.35% Net, RNWIX: 1.43% Gross / 1.10% Net. Rondure Overseas Fund (ROSOX/ROSIX) - Inception date of 05/01/201. Expense ratios as of prospectus dated 08/31/2020 are: ROSOX: 2.06% Gross / 1.10% Net, ROSIX: 1.73% Gross / 0.85% Net

The Advisor has contractually agreed to waive and/or reimburse fees or expenses through at least August 31, 2022.

An investor should consider investment objectives, risks, charges and expenses carefully before investing. Visit www.rondureglobal.com to obtain a Rondure Funds Prospectus, which contain this and other information, or call 1.855.775.3337. Read the prospectus carefully before investing.

See the prospectus for additional information regarding Fund expenses. Rondure Funds will deduct a 2.00% redemption proceeds fee on Fund shares held 60 days or less. Performance data does not reflect the deduction of this redemption fee or taxes, which if reflected, would reduce the performance quoted. For more complete information including charges, risks and expenses, read the prospectus carefully. The objective of all Rondure Funds is long-term growth of capital.

RISKS: Investing in foreign securities entails special risks, such as currency fluctuations and political uncertainties, which are described in more detail in the prospectus. Investments in emerging and frontier markets are subject to the same risks as other foreign securities and may be subject to greater risks than investments in foreign countries with more established economies and securities markets. Diversification does not eliminate the risk of experiencing investment loses.

The MSCI EAFE Index is designed to represent the performance of large and mid-cap securities across 21 developed markets, including countries in Europe, Australia, Asia and the Far East, excluding the U.S. and Canada.

The MSCI Emerging Markets Index is designed to represent the performance of large and mid-cap securities across 26 Emerging Markets (EM) countries. You cannot invest directly in these or any index.

Yield *is the percent return a company can give back to its shareholders for investing in the security.*
Moat or economic moat *is a term coined by Warren Buffett. It is used to describe the competitive advantage a company may have over another company in the same industry.*
Bps *is an abbreviation for basis points, which are a unit of measurement that equals one hundredth of one percent or 0.01%.*

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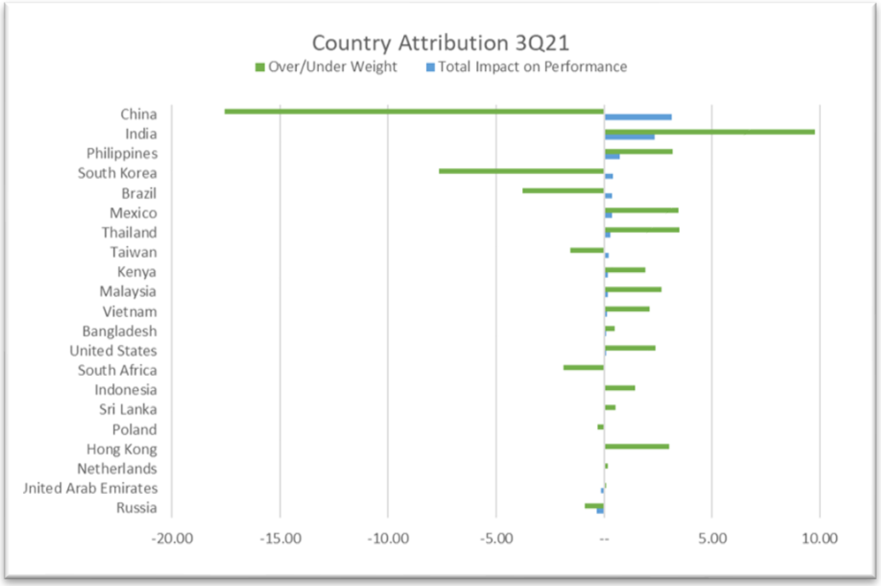
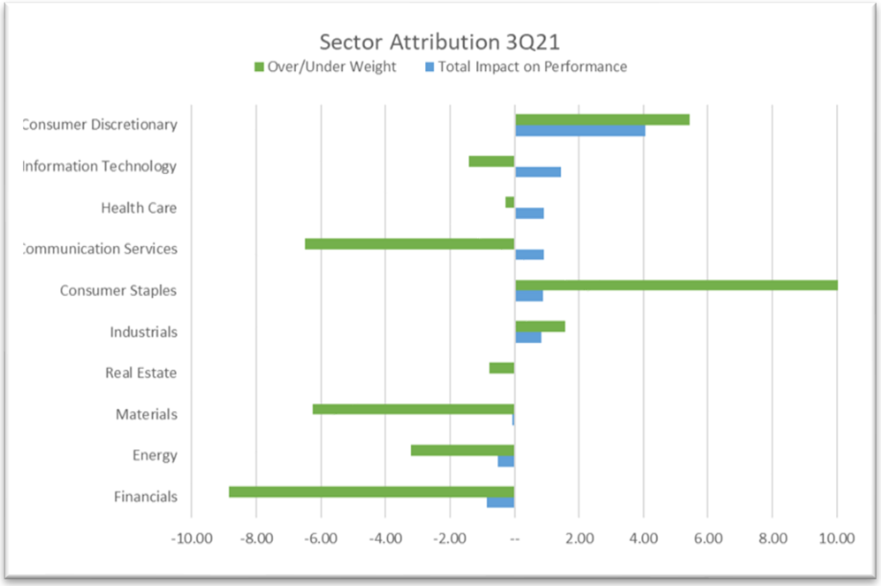
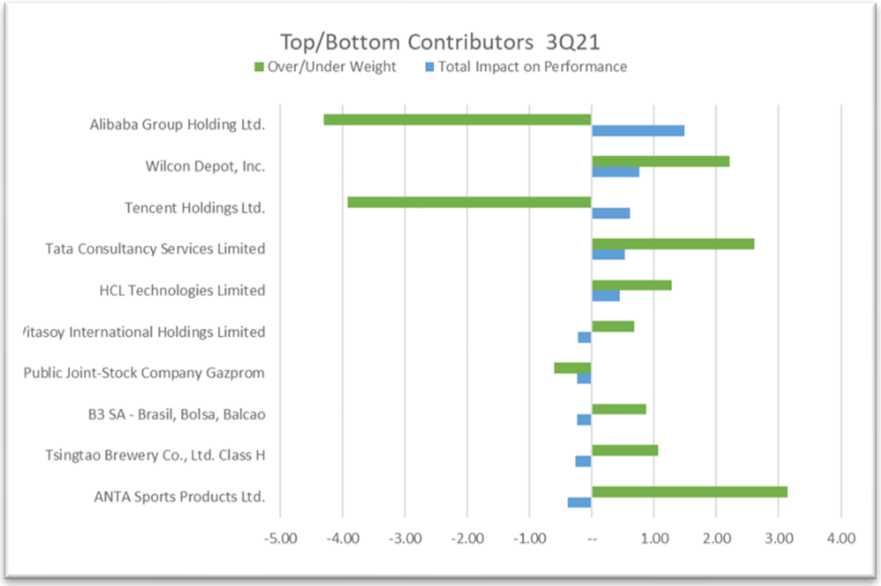
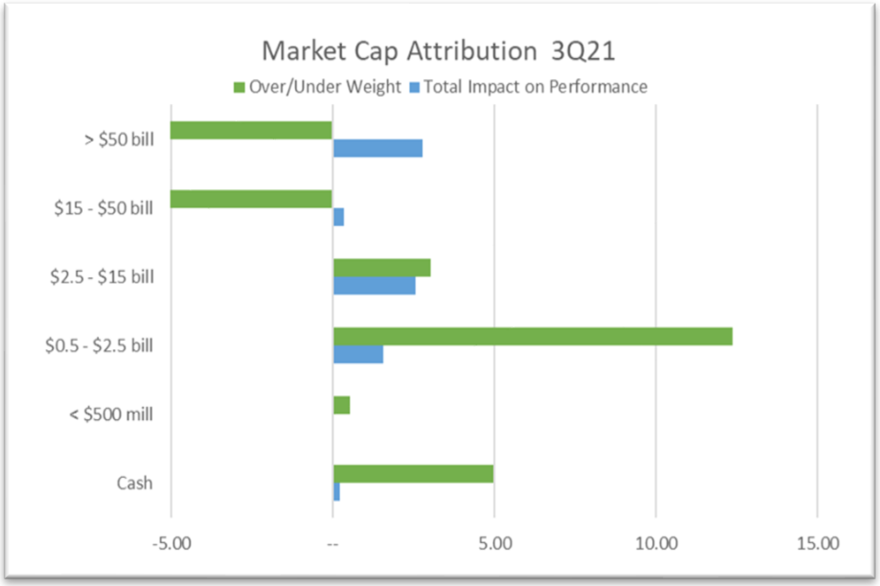
RONDURE NEW WORLD PORTFOLIO ATTRIBUTION 3Q21









RONDURE OVERSEAS PORTFOLIO ATTRIBUTION 3Q21