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Mercator International Fund

Mercator
International
Funds

The Mercator International Opportunity Fund 2019 Annual Report

The Mercator International Opportunity Fund (MOPPX, MOOPX) had a very strong year in 2019 and ranked in the top 1% of Morningstar's Foreign Large Blend universe.

The Fund also outperformed the Morgan Stanley EAFE Index, rising 38.8% vs. 22.77%. For the quarter ending December 2019, MOPPX was up 11.0% vs 8.2% for the Index.

	YTD	19Q4	Annualized Since Inception
MOPPX	38.78%	11%	4.95%
MSCI EAFE	22.77%	8.2%	4.45%
Foreign Large Blend[1]	21.45%	8.39%	2.61%

*Inception of MOPPX is 4/2/2018

Important Disclosures: MOPPX Total Annual Fund Operating Expenses before waiver for Class I shares is 2.81%. MOOPX Total Annual Fund Operating Expenses before waiver is 2.60%. Past performance does not guarantee future results. Loss of principal is possible. Investment returns and principal value of an investment in the Mercator International Opportunity Fund will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. For up-to-date performance information please contact the fund's transfer agent at 1-800-869-1679.

MOPPX: A Way to Participate in Strong and Innovative Companies Abroad

These are exciting times. We believe the digital revolution offers tremendous investment opportunities for the next decade. Many are in the US, but investors should not overlook the exciting developments in other industrialized countries. MOPPX gives you a vehicle to participate in the best and most innovative companies abroad.

Letting Our Winners Run

"Truth has two important dimensions: 1) accuracy, and 2) direction." In his latest book, Loserthink Scott Adams, pundit and creator of the Dilbert comic strip, explains the difference. "If you are dealing with math, engineering, science or medicine, you want your facts to be as accurate as possible. But even in those fields, it often matters more

[1] 1 Foreign large-blend portfolios invest in a variety of large cap international stocks. Most of these portfolios divide their assets among a dozen or more developed markets, including Japan, Britain, France, and Germany. These portfolios primarily invest in stocks that have market caps in the top 70% of each economically integrated market (such as Europe or Asia ex-Japan). The blend style is assigned to portfolios where neither growth nor value characteristics predominate. These portfolios typically will have less than 20% of assets invested in U.S. stocks.

that you get the direction right." For example, "a doctor might say that improving your diet will add twenty years to your life, even though you might live only another five years. The doctor is still directionally accurate."

Likewise, when picking stocks, we want the facts to be as accurate as possible, but the investment decision comes down to getting the direction right. For long investors, that is from the lower left corner to the upper right.

I am always leery of analysts setting price targets for stocks. It implies a level of accuracy that seems unrealistic. Furthermore, my long experience tells me that taking profits when a stock reaches "fair value" is a reliable way to potentially leave a lot of money on the table. It may be a good short term decision. The stock price may pause for a while. But, it often means selling an investment before it reaches the upper right corner of the chart.

Unfortunately, very few investors heed Peter Lynch's famous warning that "selling your winners and holding your losers is like cutting the flowers and watering the weeds."** A corporation is always evolving. Setting a price target for a stock implies a static view of the economy. It is important to realize that successful corporations often can build on their successes to seek new opportunities.

Take for example Moncler (MONC:IM, 1.35% of the Fund at year end), a French brand bought and resurrected by a talented Italian entrepreneur. Moncler is famous for pioneering the après-ski outerwear that makes people look like the Michelin Man. It is trendy, warm and very light. When their success attracted competition, notably from Canada Goose (GOOS), Moncler began looking for ways to build out their business. They are diversifying geographically and adding new items to their product line.

One of these strategies is working. The other, not so much. Moncler's new sweaters have not made much of an impact. Business momentum, instead, is coming from their new markets, especially China. The exciting news is that they have only started to tap into this huge market.

But that is not the end of the story. Management may yet find the formula for fashionable sweaters down the road. Or else Moncler could come up with a different hit product. As long as management continues to find ways to grow, the stock price has upside and one should be reluctant to take profits. To quote Dilbert's father again, instead of "obsessing over the accuracy of facts" we'd rather focus on "the direction those facts will lead us"* and enjoy the ride.

Digitalization, Long Term Transformation and The Dawn of The Roaring Twenties

Markets are volatile. They are buffeted by trade tensions and geopolitical threats. Monetary concerns and fiscal worries come into play. Sometimes earnings disappoint. Sometimes the President's tweets make the headlines. Through all this, it is our position that strong secular trends do not change. Today, that strong trend is digitalization.

We are living in a time of incredible transformation. The digitalization of the economy offers opportunities similar, if not greater than those opened up at the time of the Industrial Revolution. Productivity is exploding and every industry is affected.

The US, as always, is at the forefront of the changing world. But the rest of the capitalist world is not sitting quietly on the fence.

An Anywhere, Anytime Entertainment Boom

New media are rapidly changing the way we entertain ourselves. Previous generations never heard of binge watching. Streaming has fundamentally changed the music industry and is generating explosive demand for new movies and TV series all over the world. The combination of dramatically lower production costs and the availability of numerous digital distribution channels gives small producers access to large audiences.

MOPPX invests in companies riding the wave of these changes. One example is the British-Canadian company EntertainmentOne (ETO:LN, 0.56%) which was taken over last December by Hasbro (HAS). Its appeal came from such franchises as Peppa Pig, Tiffany's and The Firm. We also have invested in the French company Mediawan (MDW:FP, 1.76%), which is the result of the consolidation of 17 small producers.

The American entertainment industry is being challenged worldwide. The success of Korean movie Parasite currently showing in American theaters is just one example. Turkish housewives are apparently hooked on Brazilian soap operas. Our stance is that these cross-cultural trends, in turn, are increasing the need for rapid and accurate subtitles and dubbing, a service ZOO Digital (ZOO:LN, 0.70%) can offer effectively and economically thanks to the internet.

Newspapers, also buffeted by these changes, are struggling to adjust to digital consumption of news. Norwegian group Schibsted (SCH:NO, 0.80%) saw the writing on the wall several years ago. It vigorously transitioned from print to digital format newspapers while simultaneously diversifying into online classified ads. After expanding the ad business internationally, from France to Brazil, they recently spun it off. MOPPX owns 1.44% in this new company Adevinta (ADO:NO).

In the UK, Future Plc (FUTR:LN, 2.03%), is adept at transforming specialty magazines from print to digital format. In the process, they have developed a proprietary eCommerce platform that allows their readers to buy a featured product by simply clicking on a link.

In Japan, exciting young companies have identified business niches in which they are building dynamic new businesses. One example, UUUM (3990:JP, 1,32%), helps YouTube influencers find sponsors and provides them with all their business needs. Another, CyberAgent (4751:JP, 0.79%) has launched 50 TV channels purely for mobile consumption.

Video gaming is another young industry that has grown at a breathtaking pace. It is already many times bigger than the movie industry and the two industries are increasingly joining forces. British video company Frontier Development (FDEV:LN, 1.73%), for example, has brought the Jurassic Park franchise to video gaming. As technology continues to evolve, video games are increasingly incorporating amazing technologies such as eye tracking from companies like Sweden’s Tobii (TOBII:SS, 1.36%)

Beyond Entertainment: Software, the Cloud and Self-Driving Cars

3D printing is bound to revolutionize manufacturing. The technology is developing more slowly than originally expected, but it has now overtaken its original function of prototype production. Orthopedics, as well as the aerospace and automotive industries, are increasingly using 3D metal printers to manufacture complex parts in small volumes. This is a domain in which Northern Europeans seem to excel. German company SLM Solutions (AM3D:GR, 1.19%), with its multi-laser metal printers, and Belgian 3D software producer Materialise (MTLS:US, 0.83%) are at the forefront of this revolution in slow motion.

The Cloud is enabling the emergence of niche players in software, like Vitec (VIT-B:SS, 1.49%) in Sweden or Basware (BAS1V:FH, 1.81%) in Finland. The latter is a world leader in e-invoicing and purchase-to-pay solutions for corporations.

Many companies in Japan and Europe still need to convert their internal systems to the Cloud. For this, they will need the help of software services provided by CapGemini (CAP:FP, 0.92%) or Comture (3844:JP, 1.3%).

We already know that our perception of mobility is about to change drastically as well. Every car manufacturer is scrambling to launch new electric cars and, down the road, autonomous vehicles. The potential is huge. Japanese auto part manufacturer Nidec (6594:JP, 1.46%) estimates that global demand for traction motors for hybrid and electric cars will jump from 4.5 million in 2018 to as much as 30 million in 2030.

High Definition maps are required for driverless automobiles. Only three companies in the world have put the necessary resources, both in technology and time, to develop these very accurate maps. They are Google (GOOG), HERE (formerly Nokia maps) and the Dutch TomTom (TOM2:NA). Since humans will no longer be controlling cars, strong encryption protection against hacking seems a good idea. This is something the Canadian software company BlackBerry (BB:US, 2.42%) can help with. Already BlackBerry's QNX infotainment platform, a reliable base for autonomous functions, has been installed in more than 150 million cars worldwide.

We Are All Entrepreneurs Now.

One of the most exciting aspects of a digital economy is the ease with which one can become an entrepreneur. In March 2016 I published an article on Shopify (SHOP:US, 0.9%), the leading eCommerce ecosystem, which stated: *The digital revolution and the share economy are turning us all into entrepreneurs. In the new economy, entrepreneurs will be the norm, not the exception.*
https://seekingalpha.com/article/3961494-shopify-e-commerce-solution

SHOP is trading above $450 as of January 31, 2020 compared to $25 at the time the article appeared. At this price, the stock trades at more than 30 times revenues! This is the kind of valuation we used to see in the late 1990s. It seems excessive, no matter the company's merits, so we decided to take some profits. We reduced our holding in SHOP and put the proceeds into its Chinese counterpart Baozun (BZUN:US, 2.0%) which trades at only 3 times revenues.

Regional Leaders in eCommerce

At the dawn of the 21st century, regional leaders have emerged in eCommerce. Zalando (ZAL:GR, 1.55%) dominates clothing e-retailing in German speaking countries. ASOS (ASC:LN, 2.02%) is a leading online fashion company in the UK and Boozt (BOOZT:SS, 0.85%) in Scandinavia. Rakuten (4755:JP, 0.98%) goes toe-to-toe with Amazon in Japan.

Growth in eCommerce requires increased automation of warehouses. The need for fast delivery is stimulating continuous innovation in robotics. Ocado (OCDO:LN, 1.92%) has done very well selling its automated warehousing systems to major food retailers, from Kroger (KR:US) in the US, to Aeon (8267:JP) in Japan or Casino (CA:FP) in France.

The New Economy Needs Semiconductors. Lots and Lots of Semiconductors

There are also more direct and immediate opportunities in technology companies needed to build the digital economy. Such an economy needs semiconductors, a lot of semiconductors. According to Applied Materials' (AMAT) CEO, Gary Dickerson, the "opportunities going forward are bigger than we have ever seen. Tech is transforming health care, education, retail, agriculture and everything, all the growth in sensors and IoT technology, all those things. It is meaningfully bigger than it's ever been."***

Dickerson observes that the last semiconductor down cycle was much less severe than in the past. The industry revenue this time declined only 20% versus 40% in past cycles. In the early days, semiconductor cycles were driven by a single product, beginning with the PC and later, the cellular phone. This time the explosion of demand for chips is coming from several powerful trends: the Internet of Things, 5G, Big Data, autonomous vehicles, the cloud, robotics and automated manufacturing.

MOPPX owns a number of world-leading technology companies. We have exposure to semiconductor companies like STM (STM:US, 2.03%) in France, Infineon (IFX:GR, 1.03%) in Germany and the world's largest semiconductor foundry TSMC (TSM:US, 1.75%) in Taiwan. The fund also has stakes in dominant players in the semiconductor production equipment sector, including Dutch lithography machine maker ASML (ASML:US, 1.32%) and Japanese Advantest (6857:JP, 1.71%), Disco Corporation (6146:JP, 1.71%) and Lasertec (6920:JP, 2.31%).

The Future is Bright

Markets are volatile. Economic and geopolitical events will cause stock prices to go through corrections. However, the fundamental transformation of the world economy is an underlying trend that makes us look to the future with great expectations.

** One Up On Wall Street by Peter Lynch
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https://www.cmlviz.com/2019/12/16/AMAT/applied-materials-amat-ceo--the-opportunities-going-forward-are-much-bigger-than-weve-ever-seen.html

IMPORTANT DISCLOSURES: **Mutual fund investing involves risk. Such risks associated with the Mercator International Opportunity Funds as well as applicable investment objectives, charges and expenses must be considered carefully before investing. This and other important information about the Mercator International Opportunity Fund is found in the Prospectus, a copy of which or current performance information may be obtained by contacting Mutual Shareholder Services ("MSS") toll free at 1-800-869-1679. We encourage you to read the prospectus carefully before investing.**

MOPPX Total Annual Fund Operating Expenses before waiver for Class I shares is 2.81%. The Advisor has contractually agreed to waive fees and/or reimburse expenses of the Fund to the extent necessary to limit total annual fund expenses (excluding brokerage costs; underlying fund expenses; borrowing costs such as (a) interest and (b) dividends on securities sold short; taxes; and extraordinary expenses) to 1.20% through March 1, 2020. Beginning March 1, 2020, the expense limitation will be increased to 1.40% and set to expire on March 31, 2021.

MOOPX Total Annual Fund Operating Expenses before waiver is 2.60%. The Advisor has contractually agreed to waive fees and/or reimburse expenses of the Fund to the extent necessary to limit total annual fund expenses (excluding brokerage costs; underlying fund expenses; borrowing costs such as (a) interest and (b) dividends on securities sold short; taxes; and extraordinary expenses) at 1.45% through March 1, 2020. Beginning March 1, 2020, the expense limitation will be increased to 1.55% and set to expire on March 31, 2021.

Past performance does not guarantee future results. Loss of principal is possible. Investment returns and principal value of an investment in the Mercator International

Opportunity Fund will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. For up-to-date performance information please contact the fund’s transfer agent at 1-800-869-1679.

Investing in mid or small cap companies can be considered riskier than investing in large cap companies. In addition, the size of companies comprising an Index, although midcap by some country standards, could be considered small cap in the U.S. Currency risk involves the chance that the value of a foreign investment, measured in U.S. Dollars will decrease due to unfavorable change in currency exchange rates.

Positions reported as of March 31, 2019. Arbor Court Capital, LLC serves as the Distributor for the Fund and is a member of FINRA and SIPC.