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Mercator International Funds
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Mercator
International
Funds

The Mercator International Opportunity Fund (MOPPX)
Quarter 4, 2020 Report

MOPPX was up 24.2% in the last quarter of 2020. For the whole year, the fund is up 55.6% compared to +7.8% for its benchmark, the Morgan Stanley EAFE index.*[1]

It is difficult to remember that MOPPX was down 23% in the first quarter of the year, in line with the global markets.

	Q4, 2020	**Year**	**Annualized Since Inception (4/2/2018)**
MOPPX	+24.20%	+55.60%.	+21.10%
MSCI EAFE	+16.10%	+7.80%	+5.30%

Performance as-of 12/31/2020

**Performance data quoted represents past performance. 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.*

The bounce from the lows of early Spring has been breathtaking, especially in North America. The Mercator International Opportunity Fund was able to take full advantage of a voracious appetite for growth stocks that spilled over to overseas markets.

It all happened very quickly. March's sharp correction gave us only a short window in which to buy long term growth stocks that had previously traded at excessive multiples. As a result, we ended up making only marginal changes to the portfolio. It is fair to say that the same stocks that took the fund down on fear have been responsible for the strong performance over the full year.

One of the trades we did make was buying back Shopify (SHOP)*. Some readers may remember that we had already made a lot of money on that investment when we took our profits back in 2019. We bought it back at lower levels. In the following months, SHOP proceeded to more than

[1] The Morgan Stanley EAFE Index is designed to represent the performance of large and mid-cap securities across 21 developed markets, including countries in Europe, Australasia and the Far East, excluding the U.S. and Canada. It covers approximately 85% of the free float-adjusted market capitalization in each country. One cannot invest directly in the index.

* Company listed was not part of the funds portfolio on 12/31/2020.

triple. We took profits once again as SHOP is now trading at 57 times revenues according to Bloomberg. That is revenues, not earnings. It is unusual for us to take short term profits, but last year's volatility required some more proactive steps.

A Two-Tier Market

The market's rising tide did not lift all boats. Many remained stuck in the mud when the tide came in. A large number of stocks barely recovered from the lows of March. Air France (AF:FP)*, for example, was trading at around 10 euros in early January and ended the year 2020 just above 5 euros. Leading French oil company Total (FP:FP)* lost more than 20% over the course of the year and the German fashion company Hugo Boss (BOSS:GR)* lost 40%. These are but a few well-known European companies that were on the wrong side of money flows.

Once again in 2020, US markets outperformed the international index. Whereas EAFE gained less than 8%, the S&P was up 16.3% and the NASDAQ composite managed an impressive 43.6% return. NASDAQ's outperformance in particular seems to indicate that tech stocks have once more been leading the charge. Within the technology sector, the leading names continued to be investors' favorites. A portfolio of today's blue chips, the likes of Google (GOOG)*, Apple (AAPL)*, Amazon (AMZN)*, Microsoft (MSFT)* and Tesla (TSLA)*, would have yielded a very nice return indeed.

Unprecedented fiscal and monetary stimuli combined with lockdowns have enormously benefited the digital blue chips at the same time that they destroyed a number of old economy businesses. Many, if not most world-leading digital innovators are in North America. Elsewhere in the industrialized world, stock markets are still more heavily geared towards legacy businesses. That does not mean one cannot find good growth stocks in Europe, Japan or Taiwan. It only means innovation is less prevalent and the choice for investors is more limited. On the other hand these markets tend to trade at more reasonable valuations.

We have discussed in previous articles how we believe COVID-19 accelerated the transformation of modern economies. The longer the pandemic creates havoc, the more we can expect digital champions to consolidate their dominance at the expense of smaller and less flexible companies. Hence, winners are continuously getting stronger and losers find themselves struggling to survive.

Investors get it. They don't want to sell their winners anymore, no matter the valuations. Call it the Amazon lesson. For decades, value investors warned us about Amazon's absurd valuation. They once believed it a disaster waiting to happen. With hindsight, we now know better. Value investors were not looking at the value of becoming the default medium for online consumption. That, in a nutshell, is priceless.

* Company listed was not part of the funds portfolio on 12/31/2020.

With this in mind, investors are becoming reluctant to sell their winners. We agree in general with this. Real performance is made by compounding returns on great companies over time, not by trading. However, what is one to do when everybody agrees in the stock market? A consensus works until it does not. Then, suddenly, everyone runs for the exit at the same time.

As Jeremy Grantham points out in his recent letter: "As a Model 3 owner, my personal favorite Tesla tidbit is that its market cap, now over $600 billion, amounts to over $1.25 million per car sold each year versus $9,000 per car for GM". One has to wonder what upside new investors in Tesla are seeing, or should we say praying for.

A Diversified Portfolio

In 2020, investors in North America had to cope with the dichotomy between highly performing digital companies and everything else. Performance has been very concentrated in a few sectors, even a few stocks the likes of Amazon and Facebook.

In contrast, Mercator fund's strong performance has been broad-based. It did not come from a small number of countries or industries. Nor does last year's performance arise from one or two stocks. Actually, in 2020, seventeen holdings in the portfolio each returned 73% or better. They are in sectors as varied as media, in Japanese company Cyber Agent (4751:JT, 1.39%), up 82%; industrial services with Japan Elevator Services (6544:JT, 1.42%), up 95%; solar energy with the Israeli SolarEdge (SEDG, up 215%, 2.30%); eCommerce in Scandinavia with Boozt (BOOZT:SS, 2.73%), up 256%; video gaming with the British company Frontier Development (FDEV:LN, 2.53%); up 146%, or payment systems developed by the Dutch Adyen (ADYEN:NA, 1.53%), up 157%. Of those seventeen best performing stocks, four are in Japan, one in Taiwan, two in the UK, eight in Continental Europe and one each in Canada and Israel. There is nonetheless a common thread among most of these companies: their ability to embrace the Digital Revolution.

Where do we go from here?

Valuations do matter. We have started to take profits where very high multiples could only be justified by flawless execution for many years in the future. We sold SHOP for a second time and exited the Dutch semiconductor production equipment company ASML. We also reduced our holdings in SolarEdge (SEDG, 2.30%) and Boozt (BOOZT:SS, 2.73%).

Going forward, we believe 2021 will be a challenging year. We don't know how badly the prolonged health crisis has destroyed the fabric of the economy, let alone the cohesion of society.

Restaurants are closing for good. Taxi drivers are going out of business. Airlines are kept afloat with tax money. These are the most immediate repercussions. But what will the long-term ripple effects be?

Is the urbanization trend reversed for good? Will people move back to cities once the pandemic is under control? Is the globalization trend definitely broken? Is the West decoupling from China or are we experiencing a short-lived spat? Is the nine-to-five work day a thing of the past? Will we all work from home from now on? How long can we assume that money printing will never result in inflation? Until now, consumer prices have been kept in check, first by outsourcing to China and lately thanks to the incredible productivity improvements brought about by digitalization. But what if asset inflation finally morphs into consumer price inflation?

The times they are a-changin. In today's tense environment, we believe the lower valuations of European and Japanese companies offer a good diversification opportunity.

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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 2.82%. 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 1.41% which is set to expire on April 30, 2021.

MOOPX Total Annual Fund Operating Expenses before waiver is 2.61%. 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 1.56%. This waiver is set to expire on April 30, 2021.

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 December 31, 2020.

Arbor Court Capital, LLC serves as the Distributor for the Fund and is a member of FINRA and SIPC.

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