Institutional Class: GQRIX
Investor Class: GQRPX
Retirement Class[1]: GQRRX

Theory *and* Practice

GQG Partners Global Quality Equity Fund

"Nothing in life is to be feared, it is only to be understood. Now is the time to understand more, so that we may fear less."

— widely accredited to Marie Curie

Life and investing are both rife with uncertainty. While this is true every year, it's been much more acute in 2020. We all strive for certainty because it makes decision-making easier. It has been said, however, that the only place to find certainty is in death and taxes. Since we are trying to delay or avoid both of those options, perhaps the question we should be asking is whether we forecast or adapt? In theory, these are binary decisions. In practice, however, the two approaches are not mutually exclusive — we can plan to go to the beach, but we also can alter our plans and adapt to the conditions when the rain hits.

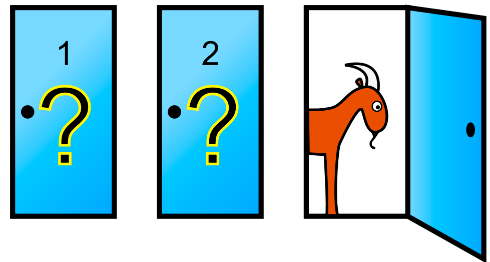
So this idea of planning and adapting is part and parcel of our process. Our performance during the third quarter of 2020 remained quite strong in both absolute and relative terms, and illustrates the non-mutually exclusive concepts of planning and adapting. However, one thing to notice is that while our portfolio quarter-over-quarter isn't that different, our portfolio at the end of the third quarter is meaningfully different than the one with which we started the year. Both now and then, we believed that our portfolio offered us the best risk-adjusted opportunities to deliver compound returns over the next three to five years. Were we wrong at the beginning of the year? It is hard to say since there is no way to model the market as if the Covid-19 pandemic did not happen. However, once we began to understand the potential impact of Covid, we adapted our views in light of new data, given the newfound lack of earnings visibility for several of our portfolio companies.

When the investing landscape changes, we really have two choices: maintain our prior positioning, which comes wrapped in a warm, comforting "long-term investor" blanket, despite the changing environment. Or, we can "switch" our holdings, conditioned upon the new information. While investing is a probabilistic exercise, its outcomes are undefined, and therefore we can never know ex ante what the "right" decision will ultimately be. Additionally, just because something sounds nice in theory, we know that in practice, theories are violated the vast majority of the time. Take a look at some of the news flow during Q3 2020, where several large, well-known companies saw their shares appreciate simply because they announced stock splits.[1] Now we know that in theory a stock split adds no value, as the share price declines commensurate with the split to leave market capitalization unchanged. But in practice, these things happen with relative frequency because exogenous, unaccounted for variables exist.

With the differences between theory and practice in mind, let's illustrate the complexities of portfolio construction in the real world through an interesting, entertaining, and often misunderstood concept — The Monty Hall Problem.

WHAT CAN MONTY HALL TEACH US ABOUT INVESTING?

Monty Hall was the long-time host and producer of the show *Let's Make a Deal* for nearly three decades. Over his hosting tenure, his most famous game, "Big Deal of the Day," required a contestant to pick one of three doors. Behind one door was a grand prize, generally a car, and the other two doors contained "zonks," or duds, which generally were goats. To kick off the game, the contestant was asked to select a door — let's say door number one — and then Monty would open one of the remaining unselected doors, which would always display a goat. At this point, only two doors remained and the contestant was now presented with a conundrum: switch doors or stay the course (which is the exact same question we pondered earlier).



Source: Cepheus, Monty Hall Paradox Illustration, 2006, Wikimedia Commons (public domain), https://commons.wikimedia.org/wiki/File:Monty_open_door.svg.

Clearly, unlike investing, the outcomes of this game are defined and *known* ahead of time. There's a prize behind one of the doors and goats behind the other two. Even though the contestant doesn't know which door contains a car, the odds are already calculated for us. In investing, we're not given such predefined outcomes nor are we given the odds of success. We may end up with a goat, we just don't know it with any certainty. However, much like investing, agreeing upon the underlying probabilities of staying or switching comes with a lot of misunderstanding. In fact, many well-trained PhDs in mathematics disagreed with the answer to the problem![2] This is well documented in the 1990s by Marilyn vos Savant, who holds a Guinness World Record as the woman with the highest documented IQ, in her *Parade* magazine column where she opined on what we now classify as "The Monty Hall Problem."[3]

EXHIBIT 1: THE NON-OBVIOUS ANSWER

BEHIND DOOR 1	BEHIND DOOR 2	BEHIND DOOR 3	RESULT IF STAYING AT DOOR 1	RESULT IF SWITCHING TO THE DOOR OFFERED
Goat	Goat	**CAR**	Wins goat	**WINS CAR**
Goat	**CAR**	Goat	Wins goat	**WINS CAR**
CAR	Goat	Goat	**WINS CAR**	Wins goat

Source: Marilyn vos Savant, "Ask Marilyn," *Parade*, December 2, 1990, 25.

The answer, which is not intuitive, is that the contestant should "switch" two-thirds of the time. This was so misunderstood that when vos Savant revealed the proper answer, it set off more than 10,000 letters from laypeople and mathematicians alike, insisting that the odds were 50:50 once a door was opened. However, as we highlight in Exhibit 1, the odds are unchanged regardless of which door Monty opens. Because there's only a 1/3 probability of picking the car correctly, when presented with the option to switch, one should switch more often than not (unless one has a preference for goats over cars, then it's a win-win-win). Because this is in no way obvious, it just *feels* wrong in practice. There are also only two doors remaining, so it's easy to believe that the odds must be 50:50. Despite the probabilities being defined, many contestants chose to stay with their original choice. So in light of evidence to "switch," many stayed. Some of the decisions most easily could be explained by a contestant's own psychology, whether it be the principal of consistency (well documented by Dr. Robert Cialdini) or due to the endowment effect, which highlights that once something is "owned," it then commands a higher value in the mind of its owner.

Now take this same idea — non-obvious outcomes, probabilities that can be calculated but are rejected by participants who should know better — and apply it to capital markets. Doesn't it sound a bit like style rigidity? That in light of contrary evidence, stocks that were originally bought are held onto to remain "style pure" or to create an ex post rationalization that the purchaser is a "long-term investor?" Sounds a lot like the consistency and endowment effects noted above.

But of course, in keeping with our theme, this is also only true in theory and not in practice. In practice, *Let's Make a Deal* relied on *Monty's* personality and, as Monty himself recounted, he did not always offer participants an ability to "switch."

Not only that, he actually offered cash for contestants to stay at times, even if the door they originally picked yielded a car![4]

So practice is much harder than theory. In theory, probabilities are defined and there's always an answer to the question (regardless of agreement on the outcome). In practice, however, not only are the probabilities undefined, but a contestant (or in our context, an investor) is not simply dealing with one's own psychology, but that of the market in general. Sometimes the market is in a good mood, but sometimes the market is in a bad mood. So Monty may allow for the switch, but not always. Moreover, switching doesn't *always pay off* in practice, so one's process must pay attention to the data.

Our takeaway, then, is that it's essential to remain adaptable. That when conditions change, that when moods change, that when earnings change, it's not good enough to rely on one's initial decision. Because what's obvious isn't always correct, and what's correct isn't always obvious. Investing is riddled with such dogmatic rules, particularly when it comes to active management or valuation multiples (just to name two).

ON ADAPTABILITY

As is always the case, we want to provide all of you with clear insights into the how and the why behind what we're doing. Admittedly, the languages of conditional probability and exogenous factors aren't always the easiest things to understand, but it doesn't make their importance any less real. But as a way to end this note, maybe the easiest way to think about what we're doing is to think of it in the context of something we're all doing a lot less of these days: driving a car. When the road is open and the sky is blue, put the pedal to metal. However, when it starts to rain, one must reduce speed for fear of a disaster. So as the conditions on the road change, the driver's behavior also must adapt to the present conditions, not ideal ones. Similarly with portfolio management, when the conditions change, we adjust to the market conditions we're given, not the ones we may wish for. As has been the case throughout this letter, in theory, things operate under conditions of "the survival of the fittest." In practice, however, we believe it's those that are most adaptable to change that thrive. One species — or one investing style — could be *over fit* to its environment, and while it may be suitable for the current regime, this may prove costly as things change.

So without adapting, one may end up with a goat instead of a car. Or, even worse, one may end up like a seasonal bug — only around for one season.

GQG PARTNERS GLOBAL QUALITY EQUITY FUND

EXHIBIT 2: FUND TOTAL RETURN PERFORMANCE %

AS OF SEPTEMBER 30, 2020	1 MO	3 MOS	YTD	1 YR	3 YRS	SINCE INCEPTION (29-MAR-19)	2019*
Institutional Class GQRIX	-3.13	11.30	15.25	24.33	—	19.07	12.84
Investor Class GQRPX	-3.14	11.23	15.08	24.11	—	18.86	12.70
Retirement Class GQRRX[1]	-3.13	11.40	15.25	24.33	—	19.07	12.84
MSCI ACWI (Net)	-3.22	8.13	1.37	10.44	7.12	9.34	12.88

The performance data quoted represents past performance. PAST PERFORMANCE DOES NOT GUARANTEE FUTURE RESULTS. Current performance of the portfolio may be lower or higher than the performance quoted. Performance data current to the most recent month-end may be obtained by calling +1 (866) 362-8333. The 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. Returns greater than one year are annualized. Performance may reflect agreements to limit a Fund's expenses, which would further reduce performance if not in effect.

The expense ratios for Institutional Class shares are 0.75% (net) and 1.24% (gross); for Investor Class shares are 1.00% (net) and 1.49% (gross); and for Retirement Class[1] shares are 0.75% (net) and 1.24% (gross). The adviser has contractually agreed to waive fees until November 30, 2020. *Indicates partial-year return since inception.

During the third quarter of 2020, GQG Partners Global Quality Equity Fund Investor Class shares (GQRPX) outperformed the benchmark MSCI ACWI (Net) by 310 basis points, posting a total return of 11.23 per cent versus the benchmark's 8.13 per cent return (see Exhibit 2).

The largest contributors to relative performance during the quarter were stock selection in China, the United States, and the information technology sector.

The largest negative contributors to relative performance during the quarter were an overweight in the health care sector and stock selection both Denmark and Germany.

EXHIBIT 3: TOP FIVE FUND CONTRIBUTORS & DETRACTORS BY HOLDING FOR 3Q 2020

TOP CONTRIBUTORS BY HOLDING	END WEIGHT %	CONTRIBUTION TO RETURN BPS
NVIDIA Corp	5.6	+157
Alibaba Group Holding Ltd	5.8	+150
Advanced Micro Devices Inc	2.3	+93
Amazon.com Inc	4.9	+87
Abbott Laboratories	4.2	+68

BOTTOM CONTRIBUTORS BY HOLDING	END WEIGHT %	CONTRIBUTION TO RETURN BPS
Vertex Pharmaceuticals Inc	2.1	-13
Intuit Inc	0.0	-4
Deutsche Boerse AG	0.9	-4
Morgan Stanley	0.0	-2
Roche Holding AG	0.0	-0

Source: Northern Trust for the three months ending September 30, 2020. Portfolio holdings are subject to change without notice and are US dollar-weighted based upon the total net assets of the portfolio. The holdings identified and described do not represent all securities purchased, sold, or recommended for inclusion in the Fund and no assumption should be made that such securities or future recommendations were or will be profitable in the future. Current and future holdings are subject to risk. There are 100 basis points (bps) in one percent.

Contributing holdings over the third quarter included:

— **ALIBABA GROUP**

Alibaba is the world's largest e-commerce company as measured by total gross merchandise value (the total value of all items sold across its various platforms). During the quarter, the company announced continued revenue growth, particularly in its cloud computing business that grew nearly 60 per cent on a year-over-year basis.

— **NVIDIA CORP**

Nvidia is a leading designer of graphics processing units. The company's chips are used in a variety of end markets, including high-end PCs for gaming, data centers, and complex computing applications such as artificial intelligence (AI) and autonomous driving. During the quarter, the company continued to benefit from the work-from-home environment, announcing strong growth in its data center business.

Detracting holdings over the third quarter included:

— **VERTEX PHARMACEUTICALS**

Vertex is a US-based health care company, best known for its cystic fibrosis therapies. During the quarter, despite raising guidance for the year, the stock underperformed as the health care sector broadly underperformed other areas of the market.

— **DEUTSCHE BOERSE AG**

Deutsche Boerse is a German financial exchange company. During the quarter, despite year-over-year revenue growth, the company's margins fell based on higher expenses and the stock price subsequently decreased.

END NOTES

1. Jamie Powell, "Stock Splits: Playing Devil's Advocate," *Alphaville* (blog), *Financial Times*, August 21, 2020, https://ftalphaville.ft.com/2020/08/20/1597935078000/Stock-splits--playing-devil-s-advocate/.

2. Marilyn vos Savant, "Ask Marilyn," *Parade*, December 2, 1990, 25.

3. Zachary Crockett, "The Time Everyone 'Corrected' the World's Smartest Woman," *Priceonomics* (blog), August 2, 2016, https://priceonomics.com/the-time-everyone-corrected-the-worlds-smartest/.

4. Gerd Gigerenzer, *Risk Savvy: How to Make Good Decisions* (New York: Viking Press, 2014), 129.

UNDERSTANDING INVESTMENT RISK

Investing involves risks, including possible loss of principal. There is no guarantee the GQG Partners Global Quality Equity Fund will achieve its stated objective. Stock prices of small- and mid-size companies may be more volatile and less liquid than those of large companies. International investments may involve risk of capital loss from unfavorable fluctuation in currency values, from differences in generally accepted accounting principles or from social, economic or political instability in other nations. Emerging markets involve heightened risks related to the same factors as well as increased volatility and lower trading volume. The primary risk of participation notes is that changes in the market value of securities held by the Fund and of the derivative instruments relating to those securities may not be proportionate. Participation notes are also subject to illiquidity and counterparty risk. The Fund is non-diversified. Investments in commodities are subject to higher volatility than more traditional investments. Trading through Stock Connect is subject to a number of restriction that may affect the Fund's investments and returns, including a daily quota that limits the maximum net purchase under the Stock Connect each day.

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[1]Retirement Class (Class R6) shares are only available to employee benefit plans that are sponsored by one or more employers or employee organizations. Such employee benefit plans must purchase R6 shares through a plan level or omnibus account.

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