IVA Funds Semi-Annual Update Call
September 19, 2019

Important Disclosures:

Mutual fund investing involves risks including possible loss of principal. There are risks associated with investing in funds that invest in securities of foreign countries, such as erratic market conditions, economic and political instability and fluctuations in currency exchange rates. Value- based investments are subject to the risk that the broad market may not recognize their intrinsic value. **An investor should read and consider the fund's investment objectives, risks, charges and expenses carefully before investing. This and other important information are detailed in our prospectus and summary prospectus, which can be obtained by calling 1-866-941-4482 or visiting www.ivafunds.com. Please read the prospectus and summary prospectus carefully before you invest.** The IVA Funds are offered by Foreside Fund Services, LLC.

Total Returns as of 12/31/19	1 Year	5 Year*	10 Year*	Since Inception*
IVA Worldwide Fund A (no load)	12.44%	4.11%	6.07%	7.61%
IVA Worldwide Fund A (with load)	6.79%	3.04%	5.53%	7.12%
IVA Worldwide Fund I	12.68%	4.36%	6.34%	7.87%
MSCI All Country World Index	26.60%	8.41%	8.79%	8.20%
IVA International Fund A (no load)	14.26%	3.79%	5.89%	7.11%
IVA International Fund A (with load)	8.54%	2.73%	5.34%	6.63%
IVA International Fund I	14.61%	4.05%	6.15%	7.39%
MSCI All Country World Index (ex-U.S.)	21.51%	5.51%	4.97%	5.28%

**Annualized; Inception Date 10/01/08*

Past performance does not guarantee future results. *The performance data quoted represents past performance and current returns may be lower or higher. Returns are shown net of fees and expenses and assume reinvestment of dividends and other income. The investment return and principal value will fluctuate so that an investor's shares, when redeemed may be worth more or less than the original cost. To obtain performance information current to the most recent month- end, please call 1-866-941-4482.*

The expense ratios for the funds are as follows: IVA Worldwide Fund: 1.15% (A shares), 0.90% (I shares); IVA International Fund: 1.16% (A Shares), 0.91% (I shares). Maximum sales charge for the A shares is 5.00%. Amounts redeemed within 30 days of purchase are subject to a 2.00% fee.

As of December 31, 2019, the IVA Worldwide Fund's top 10 holdings were: Berkshire Hathaway, Inc. Class A; Class B (4.6%); Gold Bullion (3.5%); Samsung Electronics Co., Ltd. (2.7%); Bayerische Motoren Werke AG (2.7%); Compagnie Financiere Richemont SA (2.5%); Astellas Pharma, Inc. (2.4%); Bureau Veritas SA (2.3%); AIB Group PLC (2.2%) Bank of America Corp. (2.0%); Acuity Brands, Inc. (1.9%).
As of December 31, 2019, the IVA International Fund's top 10 holdings were: Gold bullion (5.3%); Samsung Electronics Co., Ltd. (3.5%); Astellas Pharma, Inc. (3.1%); Bayerische Motoren Werke AG (3.1%); Compagnie

Financiere Richemont SA (2.8%); Bureau Veritas SA (2.8%); AIB Group PLC (2.6%): Nestle SA (2.5%); Sodexo SA (2.3%); Haw Par Corporation Limited (2.2%).

MSCI All Country World Index is an unmanaged index consisting of 49 country indices comprised of 23 developed and 26 emerging market country indices and is calculated with dividends reinvested after deduction of withholding tax. Unlike the composite the index has no expenses. The Index is a trademark of MSCI Inc. and is not available for direct investment.

MSCI All Country World Index (ex-U.S.) is an unmanaged index consisting of 48 country indices comprised of 22 developed and 26 emerging market country indices and is calculated with dividends reinvested after deduction of withholding tax. Unlike the composite the index has no expenses. The Index is a trademark of MSCI Inc. and is not available for direct investment.

The views expressed herein reflect those of the portfolio managers through September 19, 2019 and do not necessarily represent the views of IVA or any other person in the IVA organization. Any such views are subject to change at any time based upon market or other conditions and IVA disclaims any responsibility to update such views. These views may not be relied on as investment advice and, because investment decisions for an IVA fund are based on numerous factors, may not be relied on as an indication of trading intent on behalf of any IVA fund. The securities mentioned are not necessarily holdings invested in by the portfolio manager(s) or IVA. References to specific company securities should not be construed as recommendations or investment advice.

EBIT: earnings before interest and taxes
Price-to-book ratio is used to compare a stock's market value to its book value. Book value is the total assets of a company minus total liabilities.

Tara Hannigan: Thank you. Good afternoon and welcome to the semi-annual IVA Funds Update Call. We thank you for joining us. I'm Tara Hannigan, the Director of Mutual Fund Distribution.

The purpose of this call is to update you on the funds and share our current investment thinking. Our portfolio managers, Charles de Vaulx and Chuck de Lardemelle, will give prepared remarks on the portfolios and describe what they're seeing around the world today and then we will open up the call to questions.

As a reminder, both funds have reopened to all investors. A quick note on performance, as of June 30, 2019: the IVA Worldwide Fund Class I returned 1.91% for the one year period while the MSCI All Country World Index returned 5.74% over the same period.

For the 5 year period on an annualized basis, the IVA Worldwide Fund Class I returned 3.19% versus the MSCI All Country World Index return of 6.16%. Since the fund's October 1, 2008 inception, it's returned 7.87% on an annualized basis while the MSCI All Country World Index returned 7.74% over the same period. As of June 30, 2019, the IVA International Fund Class I returned -1.88% for the 1 year period while the MSCI All Country World ex-U.S. index returned 1.29% over the same period. For the 5 year period on an annualized basis, IVA International Fund Class I has returned 2.54% versus MSCI All Country World ex-U.S. Index return of 2.16%. Since that fund's October 1, 2008 inception, it has returned 7.32% on an annualized basis the MSCI All Country World ex-U.S. Index returned 4.87% over the same period.

Year-to-date through Wednesday, September 18, the IVA Worldwide Fund Class I returned 7.03% versus the MSCI All Country World Index return of 17.34%. The IVA International Fund Class I has returned 7% versus the MSCI All Country World ex-U.S. Index return of 12.61%.

I will now make some necessary brief legal disclosures before we begin the call.

There are risks associated with investing in funds that invest in securities of foreign countries such as erratic market conditions, economic and political instability and fluctuations in currency exchange rates. Value-based investments are subject to the risk that the broad market may not recognize their intrinsic value and investors should read and consider the funds' investment objectives, risks and charges and expenses carefully before investing. This and other important information are detailed in our prospectus and summary prospectus which can be obtained by visiting our Web site at www.ivafunds.com.

And now, I will hand the call over to Charles and Chuck.

Charles de Vaulx: Thank you, Tara, especially for going over all those performance numbers, including year-to-date performance numbers. Our last conference call was March 21 and we have witnessed some volatility with continued strength in the markets in April, a short downdraft in May, a big rebound in June and July, a big drop during most of August with a big rebound (since the volatility had a lot to do with the trade war with China), the outlook for interest rates and the prospect for more easing or fiscal stimulus.

The good news is that both funds are up nicely year-to-date. The Worldwide I shares have been up 7.03%, the International I shares up 7%. Nice performance indeed in absolute terms. The bad news is that both funds now trail their respective benchmarks even more so than at the time of our first conference call back in March.

Today, I would like to discuss:

1. **Why our relative performance looks so mediocre**
2. **Why we remain cautiously positioned in the Worldwide fund and, albeit, less so in the International fund**
3. **Why we own some gold and recently bought a few gold mining stocks in both funds**
4. **Management fees were lowered for both funds as of June 3 of this year**
5. **Chuck's promotion to co-chief investment officer**

Then I'll hand over the microphone to Chuck for him to make additional points, maybe discuss a few individual securities that are currently in the portfolios of either or both funds.

1. Why our relative performance looks so mediocre

The Worldwide I shares being up 7.03% while the MSCI ACWI is up 17% looks exceedingly disappointing, especially considering that it has had an average equity weighting in excess of 60% since the beginning of the year. Gold is up over 17% year-to-date.

The overwhelming explanation is that the value stocks - an expression that bothers me, but that's a story for another time - value stocks are again lagging growth stocks enormously. Year-to-date, the MSCI ACWI Value Index is up 12.79% while the MSCI ACWI Growth Index stocks are up a remarkable 21.95%. Likewise, the MSCI ACWI ex-USA is up 12.64%, but that is with the MSCI ACWI ex-USA Value Index up only 7.94%, while the MSCI ACWI ex-USA Growth Index is up 17.31%. To add insult to injury, when the markets corrected briefly first in May and then in August, value stocks fell a lot more than growth stocks so that the value stocks had lagged in up markets and then were not at all resilient in down markets. The only good news, if any this year, is that unlike the last few years, small cap value stocks are lagging as much as larger cap value stocks, as opposed to lagging even more which we saw earlier.

So based on the understanding that value has lagged growth a lot this year, both of our funds' performances seem a lot more normal considering their respective equity weightings. The one stock that is hurting us the most this year is Allied Irish Bank, AIB. The stock is down approximately 35% year-to-date, costing us quite a bit in both funds. Basically, we felt the stock was already quite cheap late July at EUR3.66 a share. When the news came out that Boris Johnson became Prime Minister in the U.K., the stock fell almost 40% the following seven weeks. This hit a low of EUR2.26 or so a few weeks ago and bounced back a little to around EUR2.60 as of today, still a major decline year-to-date.

Some of you may have read that story in the recent Wall Street Journal article, the one dated Tuesday, September 10 titled, "Disorderly Brexit Process Batters Irish Banks". We believe the market has grossly over exaggerated the impact Brexit may have on that bank and we have taken advantage of the price decline, which we view mostly as a temporary annualized loss to actual holdings. We believe the market misunderstands how overcapitalized the bank is. Close to 20% of its shareholders' equity might be deemed surplus and it is very likely that in a few months the Irish regulator will allow them to distribute its excess capital to its shareholders.

That overcapitalization is on sharp contrast to most European banks that operate in a very fragmented and competitive marketplace. The sell-side firm Berenberg wrote a comprehensive research piece earlier this year titled, "Truly Misunderstood," highlighting that AIB shows okay but not outstanding return on equity versus many European peers, yet also shows the highest unlevered return in the Eurozone today at EUR2.60 a share. The stock trades at roughly 60% of tangible book, offers a 6.6% dividend yield, trades at a P/E of 6.9x in 2019, and 8x if earnings normalize down due to what's been happening to the yield curve on the euro and renewed provisions for nonperforming loans.

Some of the other positions that have hurt both funds this year: Cimarex and Qurate in Worldwide - what Cimarex is owning hurt the Worldwide. BMW, Kangwon Land, Boskalis and Baidu have hurt both funds. In some instances, we believe the intrinsic value is more or less intact and it is thus deemed to be only a temporary unrealized loss, but then in other instances, it was a combination of both.

2. Why we remain cautiously positioned in the Worldwide fund and, albeit, less so in the International fund

Sorry to be repetitive, but for the same reasons as before. On one hand, we understand that the recent capitulation by central banks coupled with more and more noise about the need for fiscal stimulus in Europe, the US or elsewhere is bullish for stocks and bonds, especially as long as inflation expectations remain subdued. Also, the National Financial Conditions Index remains very negative at -0.72, which is typically supportive of financial assets. On the other hand, valuation levels remain very elevated as stocks and bonds have rebounded strongly after last year's fourth quarter. Granted, there is a continued and widening spread between so-called value and growth stocks or value and quality stocks, especially stable quality stocks, but still many value stocks are up year-to-date. Now, some are down and may become attractive, but many are in highly cyclical industries and often in industries that are going through major disruptions.

Besides valuation, we worry that business cycles may return after being nonexistent for the past 9 years. In the last conference call, I cited data from AllianceBernstein showing how much more muted business cycles have become overtime in the U.S., throughout the 20th century, and then more recently nonexistent, especially with the past 9 years. Another financial crisis remains a possibility as debt levels continue to grow around the world, including the U.S., especially at the government and corporate level. And the central bank's answer to the weakening economic equity data is to do more of the same, the same policies that have failed so far - insanity, if you believe in Albert Einstein's definition of it.

In a recent interview, retired value investor Bob Rodriguez quotes, apropos the distortion by central bank's monetary policy, "This produces an absolutely terrible environment for disciplined capital deployment. In the search for returns, true investment discipline has been lost by most and those who continue to deploy it, they are rewarded by massive client redemptions." He concludes, "Clients learned little from the last crisis since they were effectively bailed out by the Fed for their unwise capital deployment decisions."

So basically, those are the reasons why we remain cautiously positioned, less so in the International Fund as it is used by clients that do asset allocation and expect us to be a little more fully invested. Some days, I do worry whether we are, in fact, cautiously positioned enough.

3. Why we own some gold and recently bought a few gold mining stocks in both funds

The portfolio compositions for August 31 were just posted on our website a few days ago and you'll see that gold bullion was 7.7% in the Worldwide and 9.3% in the International Fund, up quite a bit from late July, at 6.3% and 7.3%, respectively. Since then, we have had to reduce our gold bullion to 4.5% in Worldwide and invest 1.6% in 3 gold mining stocks and reduce our gold bullion to 7% in the International Fund and invest the same 1.6% in those same 3 gold mining stocks. We estimate that the sensitivity or leverage, to use another word, of these gold mining stocks to be a little less than 3:1. I'm talking about the sensitivity based on our estimated intrinsic values, not necessarily how they have performed in the recent past as stocks or how they might perform as stocks going forward.

So basically, 1.6% in gold mining stocks might be compared to a 4.8% of supplemental allocation to gold bullion. Why did we have to do that? For the same reason as in 2011, so you might remember that, when the price of gold went up sharply between May and late August, it went all the way to $1,900.

Mutual funds have to deal with the very quirky IRS rule when it comes to investing directly in commodities, including gold. To simplify, the tax rule says that in any given fiscal year, which ends September 30 in the case of the IVA Funds, any $1 of gain taken on bullion when we sell is deemed to be bad income and so we need on the other side $9 of good income that has to be generated in the same fiscal year. That gross of good income includes dividend income, interest income, capital gains, gross capital gains, gains on FX hedging. If the mutual funds ever fail the test, the consequences would be dramatic as they would lose their status as nontaxable pass-through investment companies. So we would not want to see the price of gold go up precipitously and then not be in a position to reduce our position, even though we felt it might be warranted.

So why some exposure to gold and why we increased it over the past few weeks? Same reason as in the past; we like the fact that more often than not, gold is inversely correlated to stocks and bonds. So as we try to generate positive absolute returns with our long only strategy, gold can be a very useful tool. We also like the fact the gold typically benefits from low, not to mention negative, real interest rates. It is likely that a real interest rate might remain negative for many years to come in many currencies. Finally, gold typically goes up when the dollar weakens. Conversely, there are times like during the 1970s or over the past few years or recent months, for that matter, when gold is able to go up in every currency, including going up in U.S. dollars.

We have recently added to our gold position as policymakers appear to become more and more desperate in the face of a global economic slowdown. Some like Mario Draghi, the retiring ECB Chairman, added some quantitative easing just a week or two ago while warning the policymakers that they may want to do their parts i.e. more fiscal stimulus. Yesterday, as the Fed lowered interest rates by 25 basis points, there were 3 dissenters, which is interesting. More and more people are talking about MMT, Modern Monetary Theory, basically, debt and deficit without tears as Bob Rodriguez would say.

Ray Dalio recently wrote a big piece about paradigm shifts, going systematically through every decade since 1920s, and he believes that we might be on the verge of another paradigm shift as low interest rates and quantitative easing are not sustainable and are losing their potency. As a result, he believes policymakers will choose to shift to currency depreciations and fiscal deficits that are then monetized. That is a reasonable expectation we think especially in the light of the political forces at work, populism and socialism in many parts of the world. We believe that remains very favorable for gold, a lot less so for bonds, unclear what that means for stocks in the medium term.

4. Management fees were lowered for both funds as of June 3 of this year

Many of you remember that back in late May we announced that as of June 3 management fees would be reduced on both of the funds. They were reduced from 90 to 80 basis points for both of the funds with a breakpoint at $5B. In excess of $5B, the fee goes down to 75 basis points, if either of the funds went above $10B, the management fee above that would be 70 basis points.

So basically, we feel that the environment has been difficult, there's been a lot of headwinds affecting value investing. Our performance over the past 5-7 years has been a little disappointing and so we feel that any reduction in fee directly obviously and mechanically benefits the shareholders and we hope to remain competitive that way.

5. Chuck's promotion to co-chief investment officer

Finally, you may have seen earlier this week that Chuck got promoted to co-chief investment officer alongside me. As I stated in the press release, having worked together with Chuck over the past 23 years, with the last 11 of those at IVA, I am indeed thrilled for Chuck to get this well-earned promotion. I believe that he has demonstrated over the years the leadership skills and investment acumen needed for such a role. He is well-prepared for his added responsibilities.

So without further ado, congratulations, Chuck. And I will let you offer your own remarks.

Chuck de Lardemelle: Thank you, Charles, for your kind words. I'm indeed thrilled to take on this additional responsibility at IVA and working even more closely with the analysts. We're putting in place a number of new tools for them to be even more efficient and the ability to screen for names, trying to add a service that would allow them to know which companies are in town so that they can meet management easily. We've relaxed some rules so they can "eat their own cooking" more efficiently. We are putting a research management system in place as well within IVA so there are a lot of projects behind the scenes that I think will be very beneficial to the way they are contributing to the performance of the funds.

I will now describe briefly how our mutual funds are positioned as of September 19, 2019 and make some brief remarks on the investment landscape. Currently, our overall equity exposure ex-gold miners is roughly 61% in Worldwide and 75% in International.

Our corporate and sovereign bond exposure is 2% in both Worldwide and International, mostly in the depressed energy sector for both funds. Combined gold bullion and gold miners exposure is roughly 6% in Worldwide and 8.5% in International, including roughly 160 basis points in gold miners for both funds. Our cash invested in short-term commercial paper is 31% in Worldwide and 14% in International.

In terms of geographic exposure to equities for the Worldwide Fund, approximately 21% of the fund is invested in U.S. equities, 22% in European equities, 16% in Asian equities and 2% in South America. As for the International Fund, approximately 36% of the Fund is invested in Asian and Australian equities, with Japan being 15% of the fund's assets, South Korea at 12%, we have 31% in European equities and 7% of assets are in other countries mostly South America.

Finally, our Japanese yen exposure is roughly 25% hedged in Worldwide, 35% in International while our euro exposure is 10% hedged in both Worldwide and International. Our Korean won exposure is 50% hedged in both funds.

Year-to-date, as of September 18, both the Worldwide and International are lagging their benchmarks as mentioned by Charles earlier in the call. Of course, the cash is a drag on performance but our stock selection has not been as good as it usually is. We believe this is temporary but it requires an explanation.

Part of this discrepancy comes from, as Charles explained, value underperforming growth by a substantial amount. Part of the discrepancy comes from a widely recognized situation; investors believe, perhaps rightfully so, that the longest economic cycle in the U.S. in the recent financial history is nearing its end. U.S. car sales are down from their peak. The U.S. interest rate curve is inverted and temporary staffing numbers have plateaued since December of last year. These indicators would be consistent with a very late and decelerating economic cycle and therefore some cyclical companies have been pummeled and punished to levels similar or worse than in 2009

From a stock picking perspective, we note what we believe are now extreme discrepancies in valuations. Your Funds own Nestlé, MasterCard in Worldwide only, and BMW. Nestlé trades around 22x EBIT, growing the top-line 3% to 4% while

BMW trades around 3x EBIT, taking the bank around 1.2x book value. MasterCard is now at roughly 30x EBIT, growing EBIT mid-double-digits.

We understand BMW's earnings are probably near peak levels, but even assuming these industrial earnings are cut by 50%, the valuation appears very reasonable. On a price-to-book basis, BMW trades below the levels reached in '09 despite having a larger net cash position today. Meanwhile, noncyclical growing companies, such as Nestlé and MasterCard, continued to benefit from multiple expansions driven in part by a dash to non-cyclicals by market participants, and also by very low and falling long-term interest rates.

Due to these very high valuations, we are exercising discipline and have trimmed these two positions recently although they remain sizable in the portfolio. Additionally, market participants are punishing small cap names as well beyond anything rational. In some cases, we are witnessing discrepancies not seen in years.

Interestingly, we've had two takeovers this year where the premiums offered were high to very high despite both offers coming from the controlling shareholders, which I think highlights how discounted some of our companies are.

So how are we responding to this challenge of extreme cheapness in some cyclicals, perhaps already discounting a heavy recession in our opinion, coupled with extreme valuation metrics for quality, noncyclical names? We are dealing with this unusual and uncomfortable situation in four ways.

First - we are hedging our equity portfolio with a larger than usual gold and gold miners position, taking into account the leverage embedded in the gold miners as explained by Charles. If a recession does hit, it is likely in our opinion that long-term interest rates in the U.S. could fall and that should trigger gold appreciation in what is likely to be a difficult equity market. As a point of reference, and this is not a target, the total value of all gold in the world reached 15% of global GDP in September 2011. And yet, another round of QE and interest rate cuts due to a recession, we believe gold could reach the same level or higher than in 2011, which could propel gold over $2,000 per ounce providing some offset to a potentially difficult absolute performance by equities in general. We would expect the miners to go up at least twice as much as gold especially if oil is week during that time, which is usually what happens during recessions.

Second - obviously, your Fund is going to have a substantial cash cushion, which would provide additional dry powder to buy cheaper securities. We like the optionality embedded in cash at this point of the cycle.

Third - 7% of Worldwide assets are in Japan, 6.5% in South Korea. For International, we are 15% in Japan, 12% in South Korea. While both countries compete in a number of industries (car manufacturing and shipbuilding come to mind), their respective currencies act in very different ways. In most instances, when fears of global economic slowdown grips markets, the Japanese yen appreciates because it is a funding currency for many leveraged bets. As markets come down, financial participants deleverage and need to buy back yen to repay loans. Conversely, the Korean economy is perceived as extremely cyclical and export-oriented and the Korean won tends to fall heavily in an environment of slowing global growth. And therefore, we are 50% hedged on the Korean won in both Funds, while we are only 25% hedged on the yen in Worldwide and 35% in International. I find it interesting that the cross-currency rate, yen-Korean won, indeed correlates closely with moves in gold.

Fourth - we are actively looking to add to positions or build new positions that are non-cyclical yet trade at much lower multiples than, say, food and beverage. These recently included health care opportunities in Japan and software opportunities in the U.S. Additionally, we're trying to identify misclassified or misunderstood businesses that are less cyclical. One recent example of such a business is LKQ Corporation listed in the U.S. and part of the S&P 500. LKQ offers automotive products and services. Despite this description that implies some correlation to the dreaded and cyclical car industry, the reality of LKQ's business is quite different. LKQ's U.S. business provides parts to repair shops to be used after a car accident. Most insurance companies use LKQ services. LKQ sources parts from wrecked cars and from Taiwanese copycat providers of parts such as headlights and bumpers, that's called the alternative part market, as opposed to the new and expensive replacement part market. And the company is therefore in a position to enable cheaper repairs and to fill orders for these cheaper parts much more frequently and efficiently than competitors. LKQ has an estimated 60% share of alternative collision parts in the

U.S. Additionally, turnaround time is key as the insurance companies don't want to pay for the rental car provided to their client during the repairs for longer than necessary. So LKQ has an extensive distribution network in the U.S. The combination of size and logistics results in a very strong competitive position for LKQ in the U.S. One potential upside to the valuation comes from the fact that the largest auto insurance company in the U.S., State Farm with 18% market share, is not using alternative parts for repairs at all. If State Farm finally decided to use LKQ, this would be a nice boost to the business.

The European business is less attractive, simply providing parts for wear and tear such as spark plugs or brake pads. It is closer to a distribution business, yet with nice opportunities to improve margins after a roll up of competitors in Europe. There are two long-term threats to the business. First, in the U.S., the possibility of less collisions over time as the safety features of cars continue to improve. For now, texting and driving has interrupted a steady long-term decline in accidents per mile driven. Second, in Europe, the electrification of cars will lead to less parts needed in maintenance of vehicles. These changes will be slow to occur, will occur over decades, but will likely weigh on top-line growth in a mature business.

We were able to pay around 11x EBIT for this highly profitable business around $26 a share with a number of free options -- State Farm's potential participation in the business, improvements in margins in Europe and the possibility of vastly improved working capital requirement as has happened with AutoZone and O'Reilly in the US through vendor financing programs. The stock recently popped due to an activist taking a stake in the company and due to progress on the European integration of the different acquisitions. The two remaining options, State Farm and a fall in working capital requirement, remain outstanding. LKQ represents 170 basis points of the worldwide fund at the current price of $32. We are happy holding on to the stock at these levels. Jonah, our analyst on LKQ, has demonstrated time and again an ability to analyze good businesses in what appears at first glance to be a difficult industry, the automobile industry.

So despite the recent difficult performance of the Funds, I'm quite excited by the opportunities we are finding in this market and by the overall discounts to intrinsic values. I do not believe these extreme discrepancies in valuation between value and growth (to summarize quickly) will last forever. When the tide finally turns, I believe this will be quite beneficial to our shareholders. In the meantime, we remain cautious and trying to hedge the portfolio appropriately to dampen volatility.

Because of our strong bias towards preservation of capital, we would expect to outperform benchmarks in bear markets or difficult markets and underperform in some bull markets, towards the end of a long bull market. We do not pay attention to benchmark performance over a month, a quarter or a year. Over the long term however, we aim to deliver attractive absolute returns and hopefully do as well or better than these equity benchmarks.

All of us at IVA are extremely grateful for your continued support. This concludes my prepared remarks and I'd like to turn the call back over to the operator to open up for questions.

Question: Hi Charles and congratulations, Chuck, on your new position. First question, when you look at legacy businesses that are trading at discounts from fear of disruptive technology, are there any that you think have been overly discounted by the market that you're looking to put money to work for opportunity?

Charles de Vaulx: Well, the one that comes to mind is some of the automobile companies. I mean BMW, I think Chuck mentioned, if you strip out the net cash, the value of the finance business, what he called the bank, you're paying very little for the business.

We think of the market as exaggerating. This is a family-controlled business that has been exceedingly well-run for the past 40 years. Capital allocation has been superb, there are headwinds such as the arrival of electrical cars, Uber, maybe driverless cars. We think that the company should be able to navigate whatever changes in life are ahead reasonably well and we think that the stock has been unduly punished.

We still have a position in WPP where we believe that the market at one point 6 or 9 months ago over-exaggerated the threats or the disruption happening in that industry, with many consumer goods companies deciding to reduce their advertising budgets. There's more competition from the I.T. service companies like Accenture. Chuck, can you think of other businesses where you think the market has overreacted?

Chuck de Lardemelle: Well, I think another example of a name we own where that question is very much outstanding is Qurate. So Qurate is basically QVC. You may be surprised to know that actually 50% of revenues at QVC is done through QVC.com and not television. Now, having said this, the revenues have been very flat for years now which means that QVC is losing share versus retail in general, and the QVC.com website is driven by viewership at QVC. The existing clients of QVC, are for the most part ladies in their mid-40s to mid-70s, basically. But there is clearly a question by markets as to whether the franchise is sustainable. In the last two quarters, there have been some tweaks made to the business which have not been well-received by investors and because there is some leverage, the stock price been crushed.

I think this is a very good example of two things. One, the fact that when you invest in potentially disrupted industries, you are bound to have some volatility in the stock price and the multiples tend to be low. Second, important as well, I think it's a very good example of what happens in deflation. Basically, the markets suddenly have taken the view that the revenues on the top-line were now going to decline slightly. I think we would make exception to that, but because there is some financial leverage on the business, suddenly the multiple decreases very substantially. And you can see that, for instance, in the businesses we don't own, a lot of times it is sort of the same story. So going from the top-line, 3%, 4% to top-line as 0% or minus 1%, you get punished very, very severely, and obviously, we're trying to avoid the situations at all costs.

We are also making sure when we dabble in a situation where the question of obsolescence shows up and we are not 100% sure, to keep those positions reasonably small. I don't think we have that many businesses. I think we have, as Charles mentioned, WPP, we mentioned Qurate, we mentioned BMW, I think those are really the 3 positions where we believe we're at risk of large changes.

We do own a hotel company Hong Kong & Shanghai Hotels and that business has changed as well as a lot of the rooms are being booked through portals online which take 20% of the room rate, and also you have full access to all inventory in a city so the power of the brand has been weakened substantially for luxury hotels. So there are plenty of examples like that and hopefully we wouldn't get trapped into any of those.

Charles de Vaulx: Speaking of hotels, Chuck, in answer to your questions, sir, we still own, in fact, another hotel company, Millennium & Copthorne, headquartered and listed in the U.K. though their hotels which they own typically are around the world.

The stock got so cheap. Now, there are headwinds, the market overreacted we think. The stock got so cheap that the parent company, City Developments from Singapore, decided to buy out the minority shareholders. They offered a year and a half ago a price that was too low. We fought them, we, along with the family office of Michael Dell, and then earlier this year. A few months ago, they came back with a much better price and it was a 40% to 50% premium over where the stock was trading just a few months ago. We do believe that the price being paid could have been higher, frankly.

There was another instance, speaking of industries being challenged or disrupted, the satellite industry in the International Fund only, because it's such a small company. We owned Asia Satellite where, likewise, there was a takeover that took place just a few weeks ago at 100% premium over the price of the stock just a few months ago. So on one hand, the disruption here was real, was genuine, but boy, had the market overshot.

Question: Have you given any thought or done some work on, when you think aggregate oil demand, Worldwide falls off, so that if it's sooner rather than later, does that discourage you from looking at opportunities in the oil patch?

Charles de Vaulx: Well, forecasting is not my forte so I'll let Chuck answer that one.

Chuck de Lardemelle: It's not mine either. But just to give you a sense of where we are roughly and rough numbers: the demand globally for oil is roughly 100 million barrels a day and grows about 1 million, 1.5 million barrels a day in a normally going economy. Obviously, we're going to shift slowly towards electric cars. The gasoline and diesel consumption that's used in transportation for cars is about 25% of the total. So if it takes 25 years to manage that transition, basically, you would have an oil consumption globally that wouldn't grow. It would grow a lot less than it does today, 1.5% growth today may turn out to be 0.5% going forward. Usually, the commodity prices, of course, they react short-term to demand slowing down. But usually, when there are big problems in commodities, these are problems of supply, and certainly that's what we've seen with tremendous supply coming from shale in the US.

So I think the real question in oil is how abundant is that shale supply, does it stop at some point? And from what we understand, owning Cimarex and having looked at the number of shale plays in the U.S., there is still tremendous inventory in the U.S.

So we use $55 a barrel as the reasonable price for oil. What we understand of shale is that at $40 oil, these companies are not making money. Basically, the cash from operation gets reinvested into drilling new holes and you keep your production flat. At $55, you are able to grow your production about 10%. So that's how we view shale at this point and that sort of caps the price of oil unless, of course, there is going to be war in the Middle East, at which point all bets are off. So I'm not sure if that answers your question.

Question: Yes, I appreciate that. And there've been a lot of whitepapers talking about bursting of the bubble with the exchange-traded funds. Where does IVA stand on that, and if it happens, when and how do you take advantage of that?

Charles de Vaulx: Look, I'm not sure I want to spend 15 minutes responding appropriately to your question, it's a great question. I, first of all, don't like the word bubble because to me, bubble has a very narrow definition, it has to be fueled by credit. I don't think there's evidence of people buying ETFs using credit.

To me, whether it's ETFs or not is not the question. If you remember the late 90s, when benchmarks did very well typically, value stocks underperform, when the party stops, too many people try to exit at the same time and markets can fall sharply.

There might be still many active managers that call themselves active managers but remain index huggers to some extent. And I also expect these managers to suffer next time there's a downturn in the market and that downturn could be triggered by a global economic recession or if inflation finally comes back and hurts bonds. Chuck?

Chuck de Lardemelle: I would add maybe a few points. One, there is one ETF where we do have a bubble in the classic sense of the term "bubble" as highlighted by Charles, and that's high yield. The underlying asset may well be in a bubble in the sense that you've had a lot of credit going to corporates and then, I suppose, the high-yield market provides yields today that are not high. And on top of that, there is a large ETF now where the underlying assets are potentially, not only very overvalued, but also extremely illiquid.

So where there might be problems, in my opinion, and when you look at an ETF the one thing you want to ask is: does the ETF seem to be a lot more liquid than the underlying investments? If that is the case, you are likely to get into trouble at some point if there are many sellers of the ETF. It may de-correlate substantially from the underlying assets or the underlying assets may fall extremely heavily as the units are trying to get canceled or redeemed.

So I don't anticipate, for instance, issues on ETFs that track the S&P 500, but certainly on high-yield I would anticipate substantial problems. How would we take advantage of that? Well, obviously, at that point some dealers are trying to sell the underlying inventory of bonds and we may decide to put some bids on some bonds at what we hope will be clearly distressed prices driven by lack of liquidity.

Question: You mentioned AIB, I believe it's Allied Irish Bank, at one time. And can you speak to how negative interest rates affect them if they have negative interest rates in Ireland? And do they operate under the pound or under the euro in terms of where they're at?

Charles de Vaulx: Yes, it's the euro and they lend very little to the U.K., I think 12% or 14% of the loans. And I believe all of those loans, or pretty much all of them, are in Northern Ireland. So I guess, yes, for that portion, those loans would be in British pounds.

I don't have the numbers in front of me, but there is a slight duration mismatch as is the case with most banks, think about Bank of America. In answer to your question, I mean this is not Scandinavia where depositors would have to pay to have a deposit – in some parts of Scandinavia people can borrow money and get paid to borrow, it is still positive rates on deposits and loans. But the NIMs, the net interest margins, does contract some as interest rates move. But the bank is very massively overcapitalized. The one reason why Brexit has caused the stock to come down a lot is that a lot of the industrial fabric of Ireland is made of small and mid-size businesses, many of which trade a lot with the U.K. And so since no one knows what Brexit will mean for the U.K., there is the fear that many of these businesses will be affected.

Now, longer-term, I believe that among the many companies that will choose to relocate out of London, the vast majority might elect to go to Frankfurt or Paris or Amsterdam, but Ireland being English-speaking, nice temperate climate, I would expect also some companies possibly moving to Ireland assuming they can find the space to build new homes and set up offices.

Chuck de Lardemelle: Yes, I would add, obviously, the banks in Europe now on average trade at around 7x earnings. And most investors, and I think rightfully so, are asking themselves, "Well, is this the new Japan?" And if you look at the performance of banks in Japan and deflation and interest rates, it has been absolutely dreadful.

On top of that, in Europe, you have so many banks who use derivatives plus the question of mismatch between, say, you collect deposits in France and you lend in Italy - or what is the exposure of Societe Generale to Santander? It gets horribly messy and on top of everything else, the return on equity of the European banks is horrible.

We think AIB is very differentiated. One, you have a very consolidated market in Ireland. Second, the interest rates: they are able to charge mortgage rates that are much higher than in the rest of Europe partly because they are not allowed to take fees, but partly because it's a consolidated market. Third, it's a market that is about to grow again. Basically after the Great Financial Crisis, the construction industry in Ireland stopped. You had a lot of excess inventory to be absorbed. People couldn't get loans so they weren't moving into new apartments or houses. And now, the economy is booming and there are construction cranes everywhere and that will lead to more units put on the market and therefore mortgages against those units.

So we think AIB is in a substantially different place from the typical European bank. Part of the question is what is the return on equity? Once they have returned the excess capital is it 8%, is it 10 % is it 12%? And that will dictate the P/E.

Roughly, if you have an 8% return on equity, you will get an 8x P/E on the earnings and to get 12%, you get a 12 times P/E. But we do expect at the end of this process AIB to trade at a premium to other European banks that are stuck in less favorable economies and not able to grow their book and much more stuck with negative interest rates and all the problems that that entails.

Question: I'm just curious about negative interest rates like on the European bank. So does that really slow down their lending?

Chuck de Lardemelle: Yes I think it's horrible, and I think you're starting to see real pushback. Charles mentioned pushback here at the Fed, but there is real pushback in Europe as well. So Draghi, the Head of the European Central Bank, tried to push another round of Q.E. and more negative interest rates.

A number of people on the board of the ECB, the European Central Bank, voted against that. I think it's clear, to us at least, that negative interest rates have made lending in Europe absolutely unprofitable and if you don't have loan growth, it's very difficult to grow an economy.

Just think about it for two minutes. If you are lending at 1%, if you have 1 loan out of 100 that goes under, you have no money, and it's crazy, so nobody lends. And, of course, charging 1% versus the minus 0.5% that you get charged at the at the ECB, that's an OK spread, but the truth of the matter is with interest rates so low in nominal terms, the banks are stuck. They need to raise fees and they're trying to and/or doing it, but they have no incentive to lend whatsoever.

And so, the Draghi policies today, in our opinion, have created more problems than solving problems. Lagarde who is coming in from the IMF has already indicated that she very much does not believe in those negative interest rates and she's trying to push European countries to actually do more of fiscal spending or run higher deficits, but that runs against the European rules.

Germany however now is in a recession and may be more willing to relax the rules. We don't know. But there is clearly a slight wind of change in Europe and seemingly an understanding that these negative interest rates, they don't work for Japan, they haven't worked for Europe, and I think the Fed is way ahead of the curve there and understands you must avoid getting into that situation because it helps nobody.

Question: And I appreciate the comments on Christine Lagarde because the press kind of thinks she's going to follow Mario Draghi, but that's not what I heard her say so I was curious on your thoughts there. Thank you.

Charles de Vaulx: Chuck and I thank you for participating in the call. As usual, in a few days from now, there will be a replay on our website of this conference call, and in a week or 10 days, the transcript of this call. Thanks again.