

IVA International I VIQX

This unusual portfolio looks a little less unusual these days.

Morningstar's Take I VIQX

Morningstar Rating ★★★★★

Morningstar Analyst Rating Silver

Morningstar Pillars

Process	+	Positive
Performance	+	Positive
People	+	Positive
Parent	+	Positive
Price	○	Neutral

Role In Portfolio

Supporting

Fund Performance I VIQX

Year	Total Return (%)	+/- Category
YTD	5.20	-2.16
2018	-12.93	1.66
2017	17.25	-7.87
2016	2.82	2.03
2015	1.38	2.97

Data through 5-31-19

5-03-19 | by Gregg Wolper

IVA International has maintained the appealing distinctive traits that set it apart, even as it has become more fully invested, and receives a Morningstar Analyst Rating of Silver.

Managers Charles de Vault and Chuck de Lardemelle focus their attention on problems that could arise. So they only buy stocks trading at a steep discount to their estimate of fair value. Few appealing firms meet that standard, so the fund often carries huge cash stakes. In April 2016, with valuations relatively high across the board, the fund had 36.5% of its assets in cash. But when markets offered more compelling opportunities at times over the following three years—especially in 2018's fourth quarter—the managers took action. The cash stake dropped to 10% by year-end 2018. (With markets shooting upward again in 2019's first quarter, cash rose a bit, to 13%.)

No other meaningful changes took place, though; the fund still boasts managers with vast experience running a cautious, patient strategy, and they still work with a core of long-tenured analysts who are dedicated to this process. The fund's wary approach helped shield it during last year's market turmoil. The I shares lost 12.9%, versus a 19.1% decline for the foreign small/mid-blend Morningstar Category average and a 14.6% loss for the foreign large-blend group. (The fund's portfolio straddles the border between mid-cap and large cap.) Although the fund did outperform, de Vault concedes it should have provided more of a cushion. He cites investors' rush to sell even strong companies but also concedes some misfires among the fund's stock picks, such as Hyundai Motor and casino firm Genting.

Typically, the fund does impress in downturns, as shown by its exceptional downward-capture ratios. That's resulted in strong long-term returns. It has also outperformed for shorter periods in risk-adjusted terms, though not always with straight total returns; it often lags in exuberant rallies, as it did in 2017. But its managers can be counted on to maintain their approach regardless of the market climate. This fund has a place for investors who expect markets to go through rough times along with the buoyant ones.

Process Pillar + Positive | Gregg Wolper 05/03/2019

This fund seeks returns that will exceed the all-stock MSCI All Country World ex USA Index over the long haul, but the managers' value bent and focus on capital preservation are key here. Although they would prefer to be more fully invested, in practice they regularly hold a hefty cash stake, ranging from around 10% to more than 30% of assets, when they can't find investments that meet their stringent value criteria. They typically own some gold bullion, which the managers say can act as a hedge in a variety of climates. The managers also will buy fixed-income securities in small amounts at discounts; they hold them for capital-appreciation potential rather than income.

Equities compose the largest portion of the portfolio. Managers Charles de Vault and Chuck de Lardemelle look for what they consider a large discount to their assessment of a company's intrinsic value. In determining intrinsic value, they come up with a base-case number, but they also compute a worst-case scenario. While looking for deep discounts when buying, the managers are willing to keep owning good companies after they reach intrinsic value. Sector and regional weightings can vary markedly from those of its MSCI ACWI ex US benchmark and peer portfolios.

The managers often hedge varying amounts of the fund's currency exposure into the U.S. dollar. Overall, the fund earns a Positive rating for Process.

What had typically been the most attention-getting aspect of this fund's portfolio is now much less noticeable. For years the fund's cash stake has been much higher than those of peers. For example, it stood at 36.5% of assets at the end of April 2016, and even after managers Charles de Vault and Chuck de Lardemelle did a good deal of buying, the fund still had 22.8% on cash on March 31, 2018. A year later, though, the managers had pared the cash stake to 13% of assets, with 77% of assets in equities and the remainder in gold bullion (6.8%, a slightly higher level than usual), and corporate bonds (2.3%). De Vault says the sharp decline in global markets in late 2018 put some companies within reach that he had been wanting to buy or add to. One new purchase was Grupo Mexico, which owns copper mines in Mexico and Peru. Top positions that received additional cash included Samsung Electronics and BMW.

Some country weightings are unusual. For example, the United Kingdom, which makes up 11% of the MSCI All-Country ex-US Index, gets just 4% of assets here. France gets 12% of assets versus the benchmark's 7%. The country allocations are not macro decisions; rather, they are the result of specific stock decisions. For instance, 7% of the

fund--more than half the France weighting--lies in just two longtime favorites, Bureau Veritas, a testing firm in which the managers have much confidence, and Sodexo.

Performance Pillar + Positive | Gregg Wolper
05/03/2019

This fund's returns are strong since its inception and are even more impressive on a risk-adjusted basis. Even though its standard total returns lagged during some other time periods, its risk-adjusted measures are more acceptable. It receives a Positive rating for Performance.

This portfolio has typically landed around the mid-cap/large-cap border of the Morningstar Style Box. It was more often in large-cap territory in recent years before resting right on the border at year-end 2018. Thus, while the fund is classified in the foreign small/mid-blend Morningstar Category, it makes sense to compare its performance with the foreign large-blend group as well.

From its 2008 inception through March 31, 2019, the I shares' return topped the foreign small/mid-blend Morningstar Category average, 7.3% (annualized) to 7.0%, and also beat the foreign large-blend average, which rose only 4.3%. The fund also handily topped the MSCI ACWI Ex US Index (its benchmark) and the Value and Mid Value versions of that index. It typically lags during strong rallies, as it did in 2017. But showcasing its defensive character, the fund has extraordinarily low downside-capture ratios, meaning it has fallen much less than its benchmark and the foreign small/mid group during market downturns such as in 2011 and 2018. In the latter year, it didn't provide as much of a cushion as one might have expected, though, as some stock picks misfired and value in general lagged.

People Pillar + Positive | Gregg Wolper
05/03/2019

Chuck de Lardemelle and Charles de Vault have managed this fund together since its October 2008 inception, with support from a medium-size analyst group. Many of the analysts have been on the team for a long time. The team's experience and dedication to the strategy earn the fund a Positive People rating.

De Vault, who is also chief investment officer, worked on a similarly styled fund, First Eagle Global SGENX, first as an analyst beginning in 1987, then as a comanager from January 2000 through December 2004, and finally as the sole manager from January 2005 through March 2007. He also played key roles on First Eagle Overseas SGOVX and First Eagle U.S. Value FEVAX. De Lardemelle also came from First Eagle, where he served for 10 years as an analyst and then director of research, and briefly as a portfolio manager. Two of the firm's analysts worked with them at First Eagle for many years.

The analyst corps gradually grew to a total of 10 as of 2015. It now stands at eight (plus a research associate), five of whom have been in place since 2010 or earlier. One analyst left in August 2015; another, founding partner Simon Fenwick, departed in late 2017; and a third left to go to business school in 2018 but was quickly replaced by an experienced analyst.

De Vault and De Lardemelle each have more than \$1 million invested in this fund and the same amount in sibling IVA Worldwide IWVIX.

Parent Pillar + Positive | Gregg Wolper
10/18/2017

International Value Advisers is an admirable parent. The firm was founded in the fall of 2007 by a group of managers, analysts, and others who migrated from First Eagle. They launched just two funds, which use the patient, value-oriented strategy that the team had specialized in. IVA closed both funds to new investors in January 2011 and has not reopened them, nor has it created new ones (though an offshoot of one fund offered to European investors, which has fewer assets, did reopen in 2017). That restraint demonstrates a clear priority on investment success for fund shareholders rather than amassing the largest asset base possible.

On its website, IVA provides a lengthy "owner's manual" that clearly explains the details of the firm's "atypical" strategy. This increases the likelihood that only appropriate investors, comfortable with the firm's cautious, long-term approach, will own the funds. The firm has good retention; the original two portfolio managers remain in place and analyst departures are rare.

Less impressive are the IVA funds' expense ratios, which are reasonable when compared with peers but not cheap. These could be lower if the management fee included asset-level breakpoints, a common practice in the industry. Another caveat: Although the analysts are experienced, at this time it's not clear there's an obvious candidate to take over as a portfolio manager, should that be necessary for any reason.

Price Pillar ● Neutral | Gregg Wolper
05/03/2019

IVA International's institutional shares hold the biggest portion of assets by far--94% of assets, in fact. That share class had an expense ratio of 1.00% in the Jan. 31, 2019, prospectus. That level lands in the second-least-expensive quintile, labeled the Below Average range, among foreign small/mid-cap funds in the institutional distribution channel. However, in recent years the fund's equity portfolio has been on or slightly above the border with large cap; if the fund were grouped with foreign large-cap funds, the expense ratio of its I shares would rank as above average. Then again, its low turnover leads to below-average commission costs. Overall, therefore, the fund gets a Neutral rating for Price.

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Total Returns as of 6/30/19	1 Year	5 Year*	10 Year*	Since Inception* (10/1/08)
IVA International Fund A (no load)	-2.14%	2.28%	6.74%	7.05%
IVA International Fund A (with load)	-7.01%	1.24%	6.19%	6.55%
IVA International Fund I	-1.88%	2.54%	7.01%	7.32%
MSCI All Country World Index (ex-U.S.)	1.29%	2.16%	6.54%	4.87%

*Annualized

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. As of the most recent prospectus, maximum sales charge for the A shares is 5.00%. The expense ratios for the fund are as follows: IVA International Fund: 1.16% (A shares); 0.91% (I share). Amounts redeemed within 30 days of purchase are subject to a 2.00% fee.

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.

Investment Objective

The IVA International Fund will seek long-term growth of capital by investing in a range of securities and asset classes from markets around the world.

IVA reopened all funds to new investors in September 2018

As of April 2019, the IVA International Fund Morningstar Category changed from Foreign Small/ Mid Blend to Foreign Large Blend.

As of June 30, 2019, the IVA International Fund's top 10 holdings were: Gold bullion (7.4%); Bureau Veritas SA (3.1%); Compagnie Financiere Richemont SA. (3.0%); Astellas Pharma Inc. (3.0%); Samsung Electronics Co., Ltd. (2.9%); Bayerische Motoren Werke AG (2.7%); AIB Group PLC (2.6%); Nestle SA (2.5%); Sodexo SA (2.4%); Haw Par Corporation Limited (2.3%).

As of June 30, 2019, total firm assets under management totaled \$14.1 billion.

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 IVA Funds Distributors, LLC.

Past performance is no guarantee of future results. The Morningstar Rating™ for funds, or "star rating", is calculated for managed products (including mutual funds, variable annuity and variable life subaccounts, exchange-traded funds, closed-end funds, and separate accounts) with at least a three-year history. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product's monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of products in each product category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. The Overall Morningstar Rating for a managed product is derived from a weighted average of the performance figures associated with its three-, five-, and 10-year (if applicable) Morningstar Rating metrics. The weights are: 100% three-year rating for 36-59 months of total returns, 60% five-year rating/40% three-year rating for 60-119 months of total returns, and 50% 10-year rating/30% five-year rating/20% three-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10-year period, the most recent three-year period actually has the greatest impact because it is included in all three rating periods. The Morningstar Rating is for the share class specified only; ratings for other share classes will vary. IVA International Fund Class I (NAV) Morningstar ratings as of 6/30/19 – Foreign Large Blend; I Shares: Overall: 4 stars/611 funds, Three-year rating: 1 star/611 funds. Five-year rating: 4 stars/488 funds. Ten-year rating: 5 stars/362 funds. Different share classes may have different ratings.

The Morningstar Analyst Rating is not a credit or risk rating. It is a subjective evaluation performed by the mutual fund analysts of Morningstar, Inc. Morningstar evaluates funds based on five key pillars, which are process, performance, people, parent and price. Morningstar's analysts use this five pillar evaluation to identify funds they believe are more likely to outperform over the long term on a risk-adjusted basis. Analysts consider numeric and qualitative factors, but the ultimate view on the individual pillars and how they come together is driven by the analyst's overall assessment and overseen by an Analyst Ratings Committee. The approach serves not as a

formula but as a robust analytical framework ensuring consistency across Morningstar's global coverage. A fund may receive a Gold rating and still have negative, flat or poor performance.

The Analyst Rating scale ranges from Gold to Negative, with Gold being the highest rating and Negative being the lowest rating. A fund with a "Gold" rating distinguishes itself across the five pillars and has garnered the analysts' highest level of conviction. A fund with a "Silver" rating has notable advantages across several, but perhaps not all, of the five pillars-strengths that give the analysts a high level of conviction. A "Bronze" rated fund has advantages that outweigh the disadvantages across the five pillars, with sufficient level of analyst conviction to warrant a positive rating. A fund with a "Neutral" rating isn't seriously flawed across the five pillars, nor does it distinguish itself very positively. A "Negative" rated fund is flawed in at least one, if not more pillars and is considered an inferior offering to its peers. Analyst Ratings are reevaluated every 14 months. For more detailed information about Morningstar's Analyst Rating, including its methodology, please go to <http://corporate.morningstar.com/us/documents/MethodologyDocuments/AnalystRatingforFundsMethodology.pdf>.

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