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The 5 Best Mutual Funds to Get Through the Coronavirus Crisis

By Reshma Kapadia

As the coronavirus pandemiccurtails economic activity around the world and financial markets teeter, investors have been scrambling for cash. That includes gravitating toward companies with strong balance sheets—a cohort that has shrunk over the past decade as debt held by non-financial corporations ballooned 76%, to $6.6 trillion.

Companies with strong balance sheets have outperformed the broader market since the S&P 500 peaked in mid-February, according to Goldman Sachs chief U.S. equity strategist David Kostin. Widespread economic distress is likely to prompt even more companies to re-evaluate their dependence on debt financing in coming months—low interest rates notwithstanding—and look to shockproof their finances by piling up more cash.

Ironically, many mutual funds that favor companies with fortress-like balance sheets lagged behind their peers during much of the late, great bull market, which finally met its demise in March. Yet, these fund managers' focus on companies with the financial wherewithal to survive and thrive postcrisis is likely to serve investors well both now and in the future.

Barron's has identified five veteran fund managers who are sticklers for strong balance sheets, and whose funds have lost less than peers during the market's recent rout. Some even favor net-cash companies, or companies with more cash than debt on their balance sheets—an enviable position to be in as the economy heads south. Here's how the five are approaching the downturn—and a look at the stocks they find appealing now.

Laura Geritz, who runs Rondure New World fund (ticker: RNWOX), has always been a balance-sheet investor. She has also been worried for some time about rising debt levels around the world. Now the market shares her concerns. As Geritz notes, many investors began differentiating between companies with weak and strong balance sheets only in the past couple of weeks.

Rondure New World, which will hit its three-year anniversary in May, is down 23% this year, but beating 85% of peers. "We want to hide in cash in balance sheets," says Geritz, who built a strong track record at Wasatch Advisors before founding parent Rondure Global Advisors. "The consumer was holding the U.S. economy up like Atlas. I don't even know if we are in the second inning" of the current coronavirus-induced selloff.

Geritz recently added to a fund position in Japanese leisure and theme-park operator Oriental Land (OLCLF), which has a net 319 billion yen ($2.9 billion) in cash and long-term investments, equal to about 7% of its market capitalization. That's enough to go without customers for two or three years without having to cut capital spending, she says. Oriental Land's U.S.-traded shares are down 9% year to date, to a recent $126.

Dan Davidowitz, manager of the Polen Growth fund (POLRX), says that before the coronavirus outbreak, people might not have appreciated the risks embedded in businesses with aggressive balance sheets, including companies that bought back stock but failed to build up a cash cushion. Davidowitz, who runs a concentrated fund, has no tolerance for leverage, and has always favored companies flush with cash that can fund themselves and invest in or even buy other companies. That has helped performance this year, with the fund down 17%, beating 73% of its large-cap growth peers.

Davidowitz has been adding to top-five holding Facebook (FB), which will see a near-term slowdown in its advertising business but is likely to be resilient longer term. Facebook, he says, could even see an

Six Picks From the Pros

Cash is king at companies like Becton Dickinson and Microsoft, which are favored by conservative fund managers

Company / Ticker	Recent Price	YTD Change	P/E*
Becton Dickinson / BDX	$228.54	-16%	18.0
Facebook / FB	157.66	-23	17.9
Gencor Industries / GENC	10.10	-13	N/A
Microsoft / MSFT	152.31	-3	25.0
Oriental Land / OLCLY	23.79	-13	47.0
Rohto Pharma / 4527.Japan	¥2,916	-12	22.5

N/A=Not applicable *Forward four quarters Source: FactSet

(over please)

Funds Positioned to Weather the Crisis

These five funds run by veteran managers are focusing on cash-rich companies that can withstand the downturn.

Fund / Ticker	AUM (mil)	YTD Return	Comment
Rondure New World / RNWOX	$120	-23%	Global manager focuses on balance-sheet strength
Polen Growth / POLRX	4,800	-17	Concentrated fund invests in self-funding, cash-rich companies
Royce Special Equity / RYSEX	680	-28	Veteran value manager specializes in small-caps
IVA International / IVIOX	1,800	-25	Veteran value managers hold cash, gold, net-cash companies
Jensen Quality Growth / JENSX	7,300	-21	Conservative growth fund has done well in down markets

Data through April 1. Source: Morningstar

uptick in user engagement, and possibly less competition from other social-media platforms. Another plus: $50 billion of cash on its balance sheet, and an estimated $20 billion in annual free cash flow.

At 18 times earnings, Davidowitz says the stock price isn't in line with the company's reality. In other words, Facebook is much too cheap.

Charlie Dreifus, manager of the Royce Special Equity fund (RYSEX), focuses on smaller companies. Dreifus has been investing for more than five decades, and built a record outperforming during market downturns. His risk-averse approach puts a heavy focus on clean balance sheets, metrics such as cash conversion rates, and free cash flow—traits even more important now, he says, since earnings are becoming less important, given the unknowns.

Royce Special Equity is down 28% this year, outpacing 96% of its small-cap value peers. Value investors have struggled through much of the bull market, but the fund's average annual 5.1% return over the past 15 years has beaten 92% of its peers, according to Morningstar. Fund holdings include stocks such as Ennis (EBF), which makes printed business materials, and industrial manufacturer Gencor Industries (GENC).

Dreifus is taking a "be greedy when others are fearful" approach, focusing mostly on cyclical companies where capacity is disappearing and inventory levels are shrinking. He believes these companies could be poised to rebound when the global economy begins to recover. But the value manager is buying slowly, dollar-cost averaging in, and not depleting cash reserves too quickly. "In order to assess the outlook for the economy and companies' revenues and earnings, we must first pass the peak of infections with conviction," he says.

Charles de Vaulx, a veteran go-anywhere value investor focused on preserving capital, has been bemoaning nosebleed valuations for years, and warning of an array of risks building in the global economy. The IVA International fund (IVIOX) that de Vaulx co-manages has fallen 25% this year, beating 68% of peers.

Holdings in BMW (BMW.Germany) and Richemont (CFR.Switzerland) have taken a big beating, but the fund has been helped by holding some gold and cash, and stakes in net-cash companies that de Vaulx says could generate free cash flow even if revenue falls up to 80%.

The fund holds shares of several Asian companies with net cash, including Korean drugmaker DongKook Pharmaceutical (086450.Korea), and Japanese health-care companies such as Techno Medica (6678.Japan) and Rohto Pharmaceutical (4527.Japan). "We have been moaning about how lazy the balance sheets of Korean and Japanese companies were, and now, assuming that cash is in the bank and they aren't going belly up, that's a wonderful virtue," says de Vaulx. The fund hedges 75% of its Korean won risk.

This crisis, de Vaulx says, is 10 times worse than 2008, and requires a much more thorough examination of balance sheets, with "violent" assumptions to assess the composition of inventories and other factors. Among them, he is pondering what happens to cash if working capital is released, and studying where companies' cash is deposited, and in what currency. "We are talking about a 30% to 40% interruption of everything," he says. "It is so drastic and we have no idea if or when the virus will be contained."

That said, de Vaulx is adding to auto, aerospace, and beer company stocks, and education and software-related companies with large recurring revenue across the world. All have strong balance sheets.

"Why not more?" he asks. "Because I'm struck by high-quality stocks—like Amazon.com [AMZN], Costco Wholesale [COST], and Expeditors International of Washington [EXPD]—that aren't as cheap as they had been during previous crises. Sell-side analysts have lowered earnings-per-share estimates a mere 3%, on average, since Feb. 19, which is farcical."

The conservative $7.1 billion Jensen Quality Growth fund (JENSX) has a history of doing better than peers in downturns. That has been evident over the past month, as the fund's 13% decline has beaten 91% of peers, according to Morningstar.

The concentrated fund looks for companies generating at least 15% return on equity and strong balance sheets, but manager Eric Schoenstein says screening only for debt levels could lead investors astray. For example, anyone screening only a company's most recent regulatory filings might miss a subsequent issuance of debt.

The market also might be punishing relatively strong companies that opened up cheap credit revolvers pre-pandemic and now are drawing on them opportunistically. "The market will look at that as a negative signal for the health of the organization, but it isn't because they are in a cash crunch, but rather making sure they have dry powder," Schoenstein says.

That's one reason Schoenstein pays close attention to metrics like cash coverage and debt structure—and who is buying a company's products. The manager favors companies whose products enjoy inelastic demand, regardless of the broader global economic outlook. Top holdings include Becton Dickinson (BD), Johnson & Johnson (JNJ), General Mills (GIS), and Microsoft (MSFT). "A lot of these businesses can get through this, even if things ground to a halt," Schoenstein says.

Schoenstein figures that companies with a 40% to 50% return on equity can make it to the other side of the current crisis, even if revenue growth evaporates for a quarter or two. At this point, he, too, is in the nibbling camp. "How do you catch a falling knife?" he says.

Important Information Concerning the Attached April 3, 2020 Barron's Article Reprint

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Total Returns as of 6/30/20	1 Year	3 Year*	5 Year*	10 Year*	Since Inception*
IVA International Fund A (no load)	-11.86%	-3.78%	-0.64%	4.14%	5.30%
IVA International Fund A (with load)	-16.26%	-5.42%	-1.66%	3.61%	4.84%
IVA International Fund I	-11.62%	-3.55%	-0.39%	4.40%	5.56%
MSCI All Country World Index (ex-	-4.80%	1.13%	2.26%	4.97%	4.01%

**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 fund recently experienced significant negative short-term performance due to market volatility associated with the COVID-19 pandemic.*

The expense ratios for the funds are as follows: IVA Worldwide Fund: 1.16% (A shares), 0.91% (I shares); IVA International Fund: 1.17% (A Shares), 0.92% (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 June 30, 2020, the IVA International Fund's top 10 holdings were: Astellas Pharma, Inc. (3.6%); Bayerische Motoren Werke AG (3.3%); Newmont Corporation (2.8%); H.U. Group Holdings, Inc. (2.6%); Bureau Veritas SA (2.4%); Compagnie Financiere Richemont SA (2.4%); Gold bullion (2.3%); Rohto Pharmaceutical Co., Ltd. (2.2%); Sodexo SA (2.1%); AIB Group PLC (1.8%).
As of June 30, 2020, total firm assets under management were $7.1 billion.

IVA does not own the RNWOX, POLRX, RYSEX or JENSX funds mentioned in this article.

Effective July 13, 2020, Chuck de Lardemelle is no longer a portfolio manager of the IVA Funds. Charles de Vaulx is the sole portfolio manager of the funds and is the Chief Investment Officer of IVA, the funds' adviser.

Economic and Market Events Risk: The impact of the outbreak of a novel coronavirus may be short term or may last for an extended period of time, result in a substantial economic downturn and could negatively affect the worldwide economy. Any such impact could adversely affect the Fund and may lead to losses on your investment in the Fund.

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.

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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.

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