

# IVA International A IVOX

Capital preservation is a key focus here.

## Morningstar's Take IVOX

**Morningstar Rating** ★★

**Morningstar Analyst Rating** Silver

### Morningstar Pillars

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

### Role In Portfolio

Supporting

### Fund Performance IVOX

Year	Total Return (%)	+/- Category
YTD	-1.91	-1.52
2017	16.98	-14.60
2016	2.50	0.72
2015	1.19	-2.60
2014	1.15	6.21

Data through 5-31-18

5-07-18 | by Gregg Wolper

IVA International's shrinking cash stake confirms that it aims to be an all-weather vehicle rather than purely a haven in downturns, supporting its Morningstar Analyst Rating of Silver in spite of lagging returns.

This closed fund boasts very experienced managers dedicated to their uncommon, cautious approach. Charles de Vaulx and Chuck de Lardemelle worked together at First Eagle for many years before opening this fund in 2008 along with other First Eagle alumni. They use a wide-ranging, wary strategy: They will own common and preferred stocks, bonds, and gold and will buy small firms as well as large ones. But they won't buy anything unless they think the price is cheap enough to limit the chance of serious losses. This can often lead to huge cash stakes. The fund had 36.5% of its assets in cash on April 30, 2016, a high level even here, as the managers had trouble finding anything to buy at acceptable prices. Since then, however, they've gradually pared cash down to

22.8% of assets, buying stocks such as AIB Group A5G, Airbus AIR, and WPP WPP.

Shareholders might welcome that development. While the managers' caution has paid off over time, the high cash stake can stifle gains in rallies. Most recently, in 2017's powerful upturn, the I shares' 17.3% return lagged far behind the 25% and 32% average gains in the foreign large-blend and foreign small/mid-blend Morningstar Categories, respectively, and trailed the MSCI ACWI ex-US Index by about 10 percentage points. (The portfolio has often sat around the border between large cap and mid-cap, but in recent years it has landed in large-cap territory.) With its current cash level, the fund could profit more from rallies while retaining its defensive character. It wouldn't want to lose that defining trait, which generally has served the fund well. From its Oct. 1, 2008, inception through April 30, 2018, the I shares' return has crushed the foreign large-blend Morningstar Category average and the index, while just lagging the foreign small/mid average. The fund still isn't likely to reap the full benefits of market rallies, but its approach should lead to success in the long run.

**Process Pillar** + Positive | Gregg Wolper 05/07/2018

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. They regularly hold a hefty cash stake (ranging from the teens 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. Fixed-income securities appear in the portfolio in varying amounts, usually as a small part of the portfolio. They are bought at discounts and owned for capital-appreciation potential rather than income.

The largest portion of the portfolio is composed of equities. Managers Charles de Vaulx 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. The sector and regional weightings can vary markedly from those of its MSCI ACWI ex US benchmark and the portfolios of its peers.

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.

This fund's cash hoard has continued to shrink. It stood at 36.5% of assets at the end of April 2016 but has gradually declined in size since then; it was 22.8% on March 31, 2018. Conversely, the fund's equity exposure rose to 67.5% of assets from 55.9%. The managers say that while valuations globally are still high, they found some appealing choices. One pick highlights their contrarian nature: WPP, the embattled advertising giant. Charles de Vaulx says that while the advertising field is certainly challenged by the shift to digital ads, the firm will still have a role, as consumer goods companies need to advertise widely; it might benefit rather than be hurt by the departure of its longtime CEO because a younger replacement can provide new ideas; and the stock was selling at such a low price that it offset the risk. Not all of the fund's holdings are in out-of-favor sectors, though; it owns Baidu BIDU and Schlumberger SLB, for example. Meanwhile, the fund's gold bullion stake stood at 7.1%, at the high end of this fund's normal range for the metal, which the managers consider a hedge against many different market scenarios.

Some of the fund's country weightings are unusual. For example, the United Kingdom, which makes up 12% of the MSCI All-Country ex-US Index, gets just 4% of assets here. A modest amount of currency hedging is in place, with 35% of the yen exposure

and 10% of the euro exposure hedged near the end of 2018's first quarter.

**Performance Pillar** + Positive | Gregg Wolper  
05/07/2018

This portfolio has typically landed around the mid-cap/large-cap border of the Morningstar Style Box, while landing more consistently in large-cap territory in recent years. Thus, while it is currently classified in the foreign small/mid-blend Morningstar Category, it makes sense to compare its performance with the foreign large-blend group as well.

Judged over its full history, from Oct. 1, 2008, through April 30, 2018, the fund's returns are about average versus the foreign small/mid-blend group but well above average when compared with the foreign large-blend category. That's even after lagging both averages by substantial amounts in 2017's strong rally, when this cautious fund's high cash stake held it back. Showcasing its defensive character, the fund has extraordinarily low downside-capture ratios, meaning it has fallen much less than its benchmark, the MSCI ACWI ex-USA Index, during market downturns.

Overall, the fund is performing as one would expect given the managers' history and its cautious, loss-averse approach. The fund landed in the top decile of the foreign small/mid-cap category in both 2011 and 2014, years when international markets and currencies struggled, while lagging in 2012's rising market as well as 2017. Overall, therefore, a Positive Performance rating remains merited despite the fund's now-low category ranks over the three- and five-year periods in its current category.

**People Pillar** + Positive | Gregg Wolper  
05/07/2018

Chuck de Lardemelle and Charles de Vaulx have managed this fund together since its October 2008 inception, with support from analysts who have been on this team between four and nine years. The team's experience, stability, and dedication to a proven strategy earn the fund a Positive rating for People.

De Vaulx, 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 US 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), after one analyst left in August 2015 and another, founding partner Simon Fenwick, departed in late 2017.

De Vaulx and de Lardemelle are compensated based on the firm's profits. While in theory that could induce them to focus on asset-gathering at the expense of investment flexibility, the fact that they closed both of IVA's funds after just a few years mitigates that concern.

**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  
05/07/2018

IVA International's institutional shares carry the biggest portion of assets by far. That share class had an expense ratio of 1.00% in the Jan. 31, 2018, 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 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 well-below-average commission costs. Overall, therefore, the fund gets a Neutral rating for Price.

*Important Information Concerning the Attached May 7, 2018 Morningstar Reprint  
This disclosure must accompany the May 7, 2018 Morningstar article reprint.*

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Total Returns as of 6/30/18	1 Year	5 Years*	Since Inception* (10/1/08)
IVA International Fund A (no load)	3.29%	5.52%	8.04%
IVA International Fund A (with load)	-1.90%	4.44%	7.48%
IVA International Fund I	3.47%	5.79%	8.31%
MSCI All Country World Index (ex-U.S.) (Net)	7.28%	5.99%	5.25%

\*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: 1.25% (A shares); 1.00% (I share).

MSCI All Country World Index (ex-U.S.) (Net) is an unmanaged index consisting of 46 country indices comprised of 22 developed and 24 emerging market country indices and is calculated with dividends reinvested after deduction of withholding tax.

As of June 30, 2018, the IVA International Fund's top 10 holdings were: Gold Bullion (6.8%); Bureau Veritas SA (3.8%); Sodexo SA (2.9%); Astellas Pharma Inc. (2.8%); Nestle SA (2.4%); Airbus Group SE (2.4%); Samsung Electronics Co., Ltd. (2.3%); Kangwon Land, Inc. (1.8%); Alten SA (1.7%) Haw Par Corporation Limited (1.7%). As of June 30, 2018, total firm assets under management totaled \$17.7 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](http://www.ivafunds.com).** The IVA Funds are offered by IVA Funds Distributors, LLC.

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**The IVA Funds are closed to new investors.**