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IVA Worldwide A IVWAX

An unusual, very cautious approach that pays off over time.

Morningstar's Take IVWAX

Morningstar Rating	★★★★
Morningstar Analyst Rating	Silver

Morningstar Pillars

Process	Positive
Performance	Positive
People	Positive
Parent	Positive
Price	Negative

Role In Portfolio
Core

Fund Performance IVWAX

Year	Total Return (%)	+/- Category
YTD	-1.11	-0.34
2017	13.54	-1.24
2016	6.24	0.20
2015	-2.47	1.68
2014	3.20	1.67

Data through 5-31-18

5-01-18 | by Gregg Wolper

IVA Worldwide has very experienced managers who have remained committed to their unusual but logical approach even when market trends would have favored more-aggressive action. The fund retains its Morningstar Analyst Rating of Silver.

Managers 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 but wary strategy: They will own common and preferred stocks, corporate and government bonds, and gold, and will look at just about any size of company. But they won't buy anything unless they're convinced the price is cheap enough to limit the chance of serious losses. This can often lead to huge cash stakes. Throughout 2017 and into the first quarter of 2018, the fund has had about 40% of its assets in cash, an extremely high level even for this fund. The managers say that valuations are elevated around the world, making it tough to find stocks or bonds at decent prices, though they have done some buying when opportunities have presented themselves. De Vaulx says the huge cash stake is not a macro call and not something they want to have permanently; rather, the idea is that when markets do eventually slide, they'll be able to scoop up good companies at depressed prices.

Judging the success of this approach is not a simple matter. The fund's I shares topped the world-allocation Morningstar Category average by a wide margin from their Oct. 1, 2008, inception through March 31, 2018, and also beat the fund's chosen benchmark, the all-stock MSCI All Country World Index. But the fund benefited (in relative terms) by coming to market in the depths the financial crisis when its cautious strategy gave it a big edge. Over the trailing three- and five-year periods, the record is mixed. The I shares have beaten the category average, but trail far behind the MSCI ACWI.

When markets are in an upward trend for an extended period, this fund can have trouble keeping up. But over the long term its discipline should pay off.

Process Pillar Positive | Gregg Wolper 05/01/2018

Although this fund seeks returns that will exceed the all-stock MSCI All Country World Index over the long haul, 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 also typically own some gold bullion, which the managers say can act as a hedge in a variety of climates. Fixed-income securities appear in varying amounts.

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. The sector and regional weightings can vary markedly from those of the MSCI ACWI, allocation benchmarks, and the portfolios of its peers.

The fund's fixed-income investments can include sovereign bonds and high-yield corporate bonds bought at what the managers consider deep discounts, owned for their capital-appreciation potential more than for income. The fund's high-yield stake reached a peak of more than 30% of assets early in its life. The managers often hedge varying amounts of the fund's currency exposure into the U.S. dollar. Overall, this strategy earns a Positive Process rating.

The fund's current cash stake is quite high even for this fund, whose managers aren't shy about keeping money on the sidelines. At the end of 2018's first quarter, Charles de Vaulx and Chuck de Lardemelle had 40% of assets in cash, around where it's been for more than a year. The managers say equities tend to be fully valued just about everywhere at this point, so compelling stock opportunities are tough to come by. Bond markets don't offer much better values, in their view. Gold remains appealing as a hedge against, among other things, a stock-market decline caused by a U.S. recession, which de Lardemelle says is inevitable at some point. (The fund had 5.7% of assets in gold bullion at quarter-end). All told, the fund had 52.6% of assets in equities, right around the world-allocation category average. The managers aren't sitting still; for example, they like Airbus AIR and Bureau Veritas BVI, an instrument-testing firm in France, and made substantial investments in both in 2016's fourth quarter. And it's encouraging that the managers have found plenty of opportunities at sibling fund IVA International IVIQX, which, with fewer assets, can more readily buy smaller companies. That fund's cash stake has fallen to 20% of assets.

Meanwhile, the fund's stake in bonds, less than 2%, is far lower than the category norm. A lower-than-average bond stake is typical here, but the current gap is a bit wider than usual.

Performance Pillar Positive | Gregg Wolper 05/01/2018
This fund's overall performance is strong in the world-allocation category, and it receives a Positive rating for Performance. From its 2008 inception through March 31, 2018, the I shares' return crushed the category average, 8.9% (annualized) to 4.9%, and also beat the Morningstar Global Allocation Index, which posted a 7.3% gain over that period, and the MSCI ACWI, which rose 8.1%.

That said, the fund had an unusual advantage, relatively speaking, during its first months. It launched just before the October 2008 market crash caused by the Lehman Brothers collapse and other factors, so its large cash stake insulated it in that year's disastrous fourth quarter. (The I shares rose 2.8% while the category plunged 15.1%, the MSCI index sank 22.4%, and the Morningstar Global Allocation Index dropped 10.6%.) But the managers' cautious strategy deserves credit, too. The fund's resilience during downturns is also demonstrated by its Morningstar Risk-Adjusted Return and other volatility measures, such as downside capture ratios.

Interestingly, this wary fund also landed near the top of the category in 2010 and 2013, when stocks rose sharply, but not in the rallies of 2012 or 2017. Its five-year record therefore is more mixed; it has beaten the category average, but lags well behind the MSCI ACWI and, by a much closer margin, the Morningstar Global Allocation Index.

People Pillar Positive | Gregg Wolper 05/01/2018
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 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), 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 Negative | Gregg Wolper 05/01/2018
IVA Worldwide's institutional shares hold three fourths of its total assets. That share class had an expense ratio of 1.00% in 2017, which is in the above-average range among world-allocation funds in the institutional distribution channel. The A shares and the C shares, which together have the remaining assets, each land almost exactly on the border between the average range and the above-average ranges when compared with their respective rivals in those distribution channels. Its brokerage fees are modest, owing to low turnover; even so, it merits a Negative rating for Price.

Important Information Concerning the Attached May 1, 2018 Morningstar Reprint
This disclosure must accompany the May 1, 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 Worldwide Fund A (no load)	4.32%	5.59%	8.24%
IVA Worldwide Fund A (with load)	-0.91%	4.52%	7.68%
IVA Worldwide Fund I	4.61%	5.86%	8.51%
MSCI All Country World Index (Net)	10.73%	9.41%	7.94%

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

MSCI All Country World Index (Net) is an unmanaged index consisting of 47 country indices comprised of 23 developed and 24 emerging market country indices and is calculated with dividends reinvested after deduction of withholding tax. The Morningstar Global Allocation Index represents a multi-asset-class portfolio of 60% global equities and 40% global bonds. The Index is not available for direct investment.

As of June 30, 2018, the IVA Worldwide Fund's top 10 holdings were: Gold Bullion (5.5%); Berkshire Hathaway, Inc. Class A; Class B (4.6%); Bureau Veritas SA (2.5%); Astellas Pharma Inc. (2.4%); Oracle Corporation (2.1%); Cimarex Energy Co. (2.1%); Nestle SA (2.1%); Mastercard Incorporated Class A (2.0%); Sodexo SA (2.0%); Acuity Brands, Inc. (1.8%).
As of June 30, 2018, total firm assets under management were $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. 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 Worldwide Fund Class A (NAV) Morningstar ratings as of 6/30/18 – World Allocation Category; A Shares: Overall: 3 stars/394 funds, Three-year rating: 4 stars/394 funds. Five-year rating: 3 stars/336 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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