

# IVA International I IVIQX

Caution plays a big role here.

## Morningstar's Take IVIQX

**Morningstar Rating** ★★★★★

**Morningstar Analyst Rating** Silver

### Morningstar Pillars

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

### Role In Portfolio

Supporting

### Fund Performance IVIQX

Year	Total Return (%)	+/- Category
YTD	-9.13	0.85
2019	14.61	-6.98
2018	-12.93	1.66
2017	17.25	-7.87
2016	2.82	2.03

Data through 2-29-20

9-09-19 | by Gregg Wolper, Ph.D.

IVA International has maintained the appealing distinctive traits that set it apart, and a recent cut in its management fee is a plus. It receives a Morningstar Analyst Rating of Silver.

Managers Charles de Vault and Chuck de Lardemelle focus their attention on problems that could arise. They buy only stocks trading at a steep discount to their estimate of fair value. Few companies 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 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. That said, the managers hadn't changed their spots; with markets shooting upward again, cash rose to 16.2% by the end of July 2019.

The fund still boasts managers with vast experience running a cautious, patient strategy, with a core of long-tenured analysts who are dedicated to this process. The fund's wary approach helped shield it during 2018'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 concedes some misfires among the fund's stock picks, such as Hyundai Motor and casino firm Genting.

Typically, the fund does impress in downturns, helping it to post strong long-term returns. Its record looks especially good in risk-adjusted terms. But it often lags in growth-led rallies, as in 2017 and thus far in 2019. All told, its managers can be counted on to maintain their approach regardless of the market climate. And a cut in management fee and installation of breakpoints in June 2019 led to a welcome reduction in its expense ratio. 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, Ph.D. 09/09/2019

This fund seeks returns that will exceed the all-stock MSCI All Country World ex U.S. 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, from around 10% to more than 30% of assets, when they can't find investments that meet their stringent value-based criteria. They typically own some gold bullion, which they say can act as a hedge in a variety of climates. They also will buy fixed-income securities in small amounts at

discounts; they hold them for capital-appreciation potential rather than income.

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

The managers often hedge varying amounts of the fund's currency exposure to the U.S. dollar, but the fund is never fully hedged. The fund earns a Positive Process rating.

What had typically been the most attention-getting aspect of this fund's portfolio is now less extreme, though still 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 Charles de Vault and Chuck de Lardemelle did a good deal of buying, it still had 22.8% in cash on March 31, 2018. By year-end 2018, though, the managers had pared the cash stake to 10% of assets. De Vault said the sharp decline in global markets in late 2018 put some firms 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 and BMW. But the trend reversed a bit when the market rallied in 2019, and as of July 31, 2019, the fund had 16.3% of assets in cash. The rest of the portfolio was divided between equities (73.8% of assets), gold bullion (7.3%, a slightly higher level than usual), and corporate and sovereign bonds (2.3%).

Some country weightings are unusual. For example, the fund has 11% of assets in South Korea, which makes up 3% of the MSCI All Country World ex U.S. Index. Yet only 2.8% is in Samsung; the fund has nine other Korean stocks. It's worth noting that country allocations are not based on macro forecasts; they are the result of specific stock decisions.

**Performance Pillar** Positive | Gregg Wolper, Ph.D. 09/09/2019

This fund's long-term returns are strong, and especially impressive on a risk-adjusted basis. Even though this cautious fund's total returns have lagged during rallies in the past few years, its overall risk-adjusted showing earns it a Positive rating for Performance.

This portfolio has typically landed around the mid-cap/large-cap border of the Morningstar Style Box, but has more often been in large-cap territory. For that reason, it was moved to the foreign large-blend category in 2019 from foreign small/mid-blend. But it should be remembered that the fund's tendency to own more mid- and small-cap stocks than most others in its new category can affect performance, much as its tilt near the value side of the blend area limits it during growth rallies.

From its Oct. 1, 2008, inception through July 31, 2019, the I shares' return topped the foreign large-blend average, 7.1% (annualized) to 4.2%, and also beat the foreign small/mid-blend average, which rose 6.9%. The fund also handily topped its MSCI All Country World ex U.S. Index benchmark and the value and mid-value versions of that index. It typically lags during strong rallies, as it did in 2017 and has thus far in 2019. But showcasing its defensive character, the fund has extraordinarily low downside-capture ratios, meaning it has fallen much less than its benchmark and category rivals during market downturns such as in 2011 and 2018.

**People Pillar** Positive | Gregg Wolper, Ph.D. 09/09/2019

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 CIO, 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 | 08/09/2019

International Value Advisers has many appealing traits, resulting in a Positive Parent rating. The firm was founded in 2007 by a group of managers, analysts, and others who migrated from First Eagle. They launched just two strategies, both of which use the patient, value-oriented approach in which the team had specialized. IVA closed both of its mutual funds to new investors in early 2011 and did not reopen them until September 2018, even though that meant the firm had no funds open to new investors for that entire period. (A smaller version of its global strategy offered to European investors reopened in 2017.) That restraint demonstrates IVA's priority is investment success for fund shareholders rather than amassing a huge asset base.

Also helpful is the "owner's manual" that explains the firm's philosophy, increasing the likelihood that

appropriate investors, comfortable with its unusual approach, will own the funds. The firm has good retention; the original two portfolio managers remain, as does the firm's original president, and analyst departures are uncommon.

The expense ratios of the IVA funds had been one less-appealing aspect. But in June 2019 the firm cut its management fee and installed breakpoints. That leaves succession as the only sticking point. Although there are several very experienced analysts, it would be big loss if just one of the portfolio managers needed to be replaced for any reason.

**Price Pillar** Neutral | Gregg Wolper, Ph.D. 09/09/2019

In June 2019, IVA reduced its base management fee for IVA International to 0.80% from 0.90% and also introduced asset-level breakpoints. As a result, the expense ratio for the fund's Institutional share class, which holds 94% of its assets, is now 0.90%, down from 1.00%. With the other two share classes included, and all compared with rival foreign large-cap funds from comparable distribution channels, the fund's overall asset-weighted expense ratio lands in the average range. The fund was moved into the foreign large-blend category recently, and large-cap funds generally charge less than funds in its previous category, foreign small/mid-blend. While the fee cut is welcome, the fund's Price rating remains Neutral.

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Total Returns as of 3/31/20	1 Year	5 Year*	10 Year*	Since Inception* (10/1/08)
IVA International Fund A (no load)	-18.09%	-2.12%	2.74%	4.55%
IVA International Fund A (with load)	-22.21%	-3.12%	2.22%	4.09%
IVA International Fund I	-17.92%	-1.88%	3.00%	4.82%
MSCI All Country World Index (ex-U.S.)	-15.57%	-0.64%	2.05%	2.76%

\*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: 1.17% (A shares); 0.92% (I share). Amounts redeemed within 30 days of purchase are subject to a 2.00% fee. The fund recently experienced significant negative short-term performance due to market volatility associated with the COVID-19 pandemic.

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 March 31, 2020, the IVA International Fund's top 10 holdings were: Gold bullion (4.0%); Astellas Pharma, Inc. (3.5%); Bayerische Motoren Werke AG (3.1%); Compagnie Financiere Richemont SA (3.0%); Sodexo SA (2.5%); Miraca Holdings Inc. (2.5%); Bureau Veritas SA (2.4%); Rohto Pharmaceutical Co., Ltd. (2.1%); Haw Par Corporation Limited (2.1%); Koninklijke Boskalis Westminster NV (1.9%).

As of March 31, 2020, total firm assets under management totaled \$8.3 billion.

**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.

**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). Please read the prospectus and summary prospectus carefully before you invest.** The IVA Funds are offered by Foreside Fund Services, 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 3/31/20 – Foreign Large Blend; I Shares: Overall: 4 stars/638 funds, Three-year rating: 2 star/638 funds. Five-year rating: 3 stars/503 funds. Ten-year rating: 5 stars/369 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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