

Leaving the Nest

By Bridget B. Hughes

Three years after departing First Eagle, Charles de Vaulx and company are thriving on their own.

In just longer than three years, International Value Advisers has amassed more than \$13 billion in assets under management.

That's quite a feat for a firm, known as IVA, that invests primarily in equities, considering the rough-and-tumble markets that investors have endured during that period. Its asset figure puts IVA among the 100 largest mutual fund families.

Thus, it would be stretching it to call the firm "undiscovered," especially considering

that one of its top investment people, Charles de Vaulx, is fairly well-known among investors—thanks in part to his many years managing funds at First Eagle, both in partnership with value-investing legend Jean-Marie Eveillard and on his own. During those years, de Vaulx established close relationships with many clients and shareholders, who appreciated his candor

Still, IVA isn't a household name. And while you may think you know the firm's strategy and management well, there's more to tell—

including the fact that the firm will close its doors to investors on Feb. 18.

Nimble Is a Sticking Point

In some sense, IVA was born out of necessity. In 2007, a group of senior managers and analysts left First Eagle. Leaving were de Vaulx; Chuck de Lardemelle, who was First Eagle's director of research; Simon Fenwick, analyst and once manager of First Eagle Gold SGGDX; and analysts Thibaut Pizenberg and Michael Malafronte. While the reasons for their departures were varied (not surprisingly,

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Charles de Vaulx

the story differs somewhat depending on which side you talk to), the group had a clear idea of what it wanted for the future. Having worked well together for a number of years, the managers and analysts wanted to stick together—and, importantly, to continue to practice the patient and uncommon value approach they had employed on the First Eagle funds, something that couldn't be taken for granted at other firms. So, they formed a partnership and launched IVA.

Having control over their business was important to the partners. No outside investor was invited as a partner. They also wanted the ability to close their funds when they saw fit. De Vaulx had long argued that his approach requires a small and nimble asset base, because of regular forays into less-liquid smaller companies and high-yield bonds.

With that in mind, the partners targeted a range of asset levels at which they would close their two funds, IVA International *IVIOX* and IVA Worldwide *IVWAX*, from the get-go. It's getting close—in fact so close that they announced in January that the funds will close to new investors, with limited exception, on Feb. 18. De Vaulx says IVA also isn't accepting any more separate accounts beyond the two already in the process of joining. That will happen even though market valuations have steered both funds toward more-liquid large-cap stocks.

"The target remains the same," portfolio comanager de Lardemelle says. "We will act accordingly."

Don't Lose Money

It's unusual for any startup investment firm to be so concerned not with just attracting

assets but also shutting off the flow. IVA's decision to limit its assets under management is unusual even among older firms in the highly profitable asset-management industry. But what most sets IVA apart from the pack is its cautious and flexible investment approach. That includes a strict long-term value discipline, a willingness to consider a variety of investment vehicles, and a pronounced aversion to losing money. As de Vaulx said about his efforts to hire analysts (both at IVA and First Eagle), it is important yet challenging "to find people who care more about the downside than the upside."

That risk control starts at the security-selection level. De Vaulx, de Lardemelle, and IVA's analysts compute intrinsic-value estimates for the companies they are considering. And they compute worst-case intrinsic value estimates for every stock in the portfolio, which encourages analysts to ask more questions about what can go wrong in every case. De Vaulx says that discipline forces analysts to pay more attention to operating and financial leverage, for example.

"It's not enough to be cheap, but [the investment] also has to be safe, to borrow the phrase from Marty Whitman," he says.

"It's interesting to see how worst-case intrinsic values can shrink in front of your own eyes. It leads to good entry points."

The emphasis on the downside extends to the asset-allocation level. It's one of the reasons that the funds always have some cash stake (though cash also is held as the managers wait for opportunities). The funds' investments in gold bullion, a tactic long used at First Eagle, also protect the funds in turbulent markets. (Gold will typically

represent between 5% and 10% of assets, but it's at a bit less than 5% in both funds as of the end of November 2010.) In IVA's prospectus, the managers also gave themselves the ability to engage in interest-rate and index futures as hedging tools, in addition to foreign-exchange contracts, which had also been used at First Eagle.

But What's for Dinner?

Capital preservation, while crucial to compounding wealth over the long haul, will take an investment manager only so far. IVA recognizes that it also has to put up competitive absolute returns over the long term. So, despite the defensive roles that cash and gold are intended to play in the portfolio, de Vaulx and de Lardemelle consider themselves equity investors—or at least investors always on the hunt for "equitylike" returns.

Take the funds' stake in high-yield bonds, which is now near 10% of assets after peaking at more than 20% in both funds in the early and middle parts of 2009. "We don't care about the income," de Vaulx says. "We aren't trying to run a balanced fund. As Dan Fuss at Loomis Sayles says, 'High yield at times can be equities in disguise.' "

The team went through a similar analysis when it bought downtrodden AAA rated commercial mortgage-backed securities in 2008. De Vaulx says such investments were trading at 13% to 16% yields to maturity, so IVA accumulated a stake of about 6% in them. When the securities quickly appreciated to yields to maturity of around 8%, the team began trimming.

Sometimes the managers like an investment for its potential for both capital preservation

Undiscovered Manager

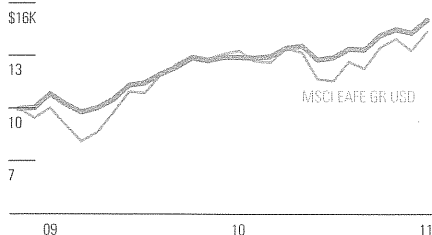


Chuck
de Lardemelle



Charles
de Vault

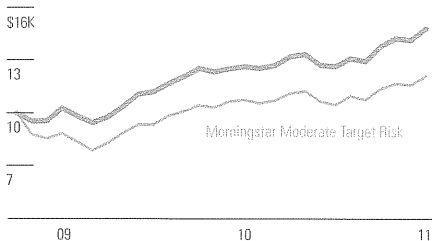
IVA International IVOX



Category	Expense Ratio (%)
Foreign Small/Mid Value	1.39
Morningstar Rating	1-Yr Anl Total Rtn (%)
—	16.49
Minimum Investment	
\$5,000	

Data through Dec. 31, 2010

IVA Worldwide IWVAX



Category	Expense Ratio (%)
World Allocation	1.31
Morningstar Rating	1-Yr Anl Total Rtn (%)
—	17.22
Minimum Investment	
\$5,000	

Data through Dec. 31, 2010

and capital appreciation. Consider the fund's more-recent investments in shorter-term Asian government bonds. On the one hand, de Vault and de Lardemelle consider such issues a cash substitute.

"There are questions around the euro and the dollar. We don't like politicians meddling with currency, so we are willing to consider currencies other than the U.S. dollar to hold cash. The short-term bonds in Singapore [and] Hong Kong are really a way to park money in what we consider sound paper currencies," De Lardemelle says.

But the two managers also acknowledge the appreciation potential of Asian currencies.

Although its history is short, IVA already can claim some level of success. When markets were reeling, as they did during the funds' first five months (Oct. 2, 2008, to March 9, 2009), the funds held up well in relative terms. In 2009's latter nine-plus months, though, they trailed as markets were robust. (IVA Worldwide and IVA International gained 37.57% and 34.62%, respectively, between March 9, 2009, and the end of that year.)

The pattern of outperformance during rough markets and solid but sometimes lagging gains during rallies echoes de Vault's record at First Eagle (some of which he shares with Eveillard). Over time, that track record is quite strong, particularly on a risk-adjusted basis.

IVAs' Place

With such a flexible approach, it can be tough to fit IVAs' funds neatly into a strictly planned and managed investor portfolio. But the advisors who invest here have a pretty simple solution.

"We have a category of flexible mandate managers. From a strategy perspective, it's to us risk capital. Whether it's equity or some other part of the capital structure, it has no effect [on how we think about the fund]," says Robert Skinner, partner at Luminous

Capital in Los Angeles, who has invested with de Vault since he was at First Eagle.

Deb Wetherby, CEO of San Francisco's Wetherby Asset Management, also has a long history investing with de Vault, and she sees several advantages to a flexible approach.

"Giving that broad a mandate to most managers is not something we would do," she says. "You have to give it to people where you feel that they are worthy or they know how to handle it. For us, it's been great in this type of market where having an opportunistic manager with a flexible mandate means they can go up and down the capital structure, or go across cap sizes, or buy unusual things like gold. It gives them the ability to really go where they see value."

Despite that, IVA feels more like a known quantity than other startups, and while care has gone into setting up the business and partnership structure, there remains some risk surrounding the new firm's longevity and prosperity. After all, the company is just more than three years old. Further, the funds aren't cheap. IVA Worldwide's expense ratio is 1.31%; IVA International's is 1.39%.

Nonetheless, the funds seem a pretty good option for the long haul. With an announced closing on Feb. 18, investors interested in this unique investment manager ought not hem and haw too long. ■■■

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Average Total Returns as of 12/31/10	1 Year	Since Inception Annualized (10/1/08)
IVA Worldwide Class A (Without Sales Charge)	17.22%	19.11%
IVA Worldwide Class A (With 5% Sales Charge)	11.38%	16.44%
IVA International Class A (Without Sales Charge)	16.49%	17.03%
IVA International Class A (With 5% Sales Charge)	10.65%	14.40%
MSCI All Country World Index (Net)	12.67%	7.53%
MSCI All Country World Index (ex-U.S.) (Net)	11.15%	9.28%

Past performance does not guarantee future results. The performance data quoted represents past performance and current results may be lower or higher. 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 recent growth rate in the stock market has helped to produce short-term returns that are not typical and may not continue in the future. Because of ongoing market volatility, fund performance may be subject to substantial short term changes. The expense ratios for the funds' are as follows: IVA Worldwide Fund 1.31% (Class A); IVA International Fund 1.39% (Class A).

The holdings mentioned herein represent the following percentage of total net assets of the IVA Worldwide Fund and IVA International Fund as of December 31, 2010, subject to change: Gold bullion 4.5%, 5.0%; Commercial Mortgage Backed Securities (USD) 0.1%, 0.0%; SIGB (Singapore Government) bond(s) 3.2%, 3.9%; HKGB (Hong Kong Government) bond 1.0%, 1.0%.

MSCI All Country World Index (Net) is an unmanaged index comprised of 48 country indices comprising 23 developed and 25 emerging market country indices and is calculated with dividends reinvested after deduction of withholding tax. The Index is a trademark of Morgan Stanley Capital International and is not available for direct investment.

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