

Two New Funds from IVA Hold Loads of Promise

We're recommending these funds right out of the gate, but there are risks attached.

Fund Spy | 12-04-08 | Bridget B. Hughes, CFA

It's not often that we're ready to endorse a fund that's just eight weeks old. But then again, the new offerings brought by investment startup International Value Advisors at the beginning of October 2008, IVA International (IVIOX) and IVA Worldwide (IVWAX), are a special case.

We do recognize some risks in jumping in this early. The research infrastructure, for example, isn't completely built out, though the firm is hiring analysts. And there are operational uncertainties associated with small and new firms. But there are several reasons for our enthusiasm for these funds (available only through financial advisors): the people and process behind the offerings, current market conditions, and reasonable fees.

A Rose by Any Other Name

IVA's funds feel quite familiar. After Charles deVaulx abruptly left Arnhold and S. Bleichroeder, advisor to First Eagle Overseas (SGOVX) and First Eagle Global (SGENX), in March 2007, four other employees shortly followed in his footsteps to strike out on their own. Charles deLardemelle, Simon Fenwick, Michael Malafronte, and Lawrence Borsanyi set up shop near the end of 2007 as a new investment firm and began investment operations in February 2008. Once deVaulx's non-compete agreement had expired, he joined IVA as a partner. Subsequently, Tara Hannigan has followed, joining Borsanyi in more of a marketing role. DeVaulx and deLardemelle serve as co-portfolio managers of IVA International and IVA Worldwide.

DeVaulx, in particular, comes with impressive credentials. He had worked with one of our favorite value managers, Jean-Marie Eveillard, for decades at SoGen and then First Eagle. Although Eveillard mentored DeVaulx, especially early on, DeVaulx earned our regard for his own ideas as a comanager with Eveillard on First Eagle Overseas and First Eagle Global. And after Eveillard retired at the end of 2004 through DeVaulx's departure, the funds continued to perform well. DeLardemelle, Fenwick, and Malafronte also deserve credit; all three served in investment capacities at First Eagle.

DeLardemelle and DeVaulx are using the same strategy at IVA as they did on the First Eagle funds. Taking their cues from legendary value investor Benjamin Graham, they look for securities trading at big discounts to their estimates of intrinsic value, or what they think a private buyer would pay for a company, in cash. Their investing thesis is always filtered through a thorough consideration of what could go wrong, and if they can't get comfortable with the downside, they'll pass on the stock, no matter how big the discount looks. They're flexible when it comes to market cap and country and sector exposures, and they'll hold cash, bonds, and gold when they think those assets make the most sense. While superior long-term returns are a goal, so is capital preservation.

From what we know about how that approach worked with First Eagle Overseas and First Eagle Global, we'd expect the new funds to exhibit more-limited volatility. They may lag their more-aggressive peers in sharp rallies, but we'd fully expect them to hold up better than rivals in a downturn. Starting with a portfolio of cash at the beginning of October was an unusual advantage as global markets were reeling, but the funds have indeed been strong since their inceptions. Both are down about 6% through Dec. 1, 2008, while most peers have suffered double-digit losses.

A Serendipitous Launch

IVA couldn't have known for sure that global markets were going to plunge as they have in 2008, and no investor wants to lose money, however limited an amount. However, for the kind of value investors deLardemelle and DeVaulx are, starting from scratch as securities prices are falling may seem like a dream. DeVaulx says that he is seeing a lot of bargains, particularly in both large- and small-cap Japanese stocks and in some corporate bonds. He and deLardemelle bought stocks and bonds toward the end of October, and again in November, bringing cash in both funds to midteens levels from more than 30% of assets at October 31.

Further, the funds have been growing as new shareholders invest. That provides more dry powder for the managers to use to scoop up investments. Of course, there's no way to predict if and when inflows will dry up (or if redemptions will take over); still, we think these purchases can give the fund an advantage as long as stocks are volatile or trending down.

It's a rare occasion that investors are able to participate in the full potential of all of a fund's investments, but we think the IVA fund launches coinciding with weak markets presents such an opportunity.

Reasonable Fees

According to the funds' prospectus, IVA International and IVA Worldwide will cap their expense ratios at 1.40%, including a 0.90%

management fee and 0.25% 12b-1 fee (for its A shares). Those won't put the funds in the cheapest quintiles of their categories, but considering their small size, we think the costs are reasonable. We'll be looking for those expense ratios to fall, however, as assets climb.

IVA hasn't yet released complete portfolios, but once it does, we'll start regular coverage of the funds. Still, we think these are good long-term options to consider. One other note: Both funds will pay out a very small taxable distribution (ordinary income, not capital gains) toward the end of December.

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*Total returns from the period October 1, 2008 (Fund Inception date) through December 1, 2008 for the funds are as follows: IVA Worldwide Fund -7.50% (I shares), -12.12% (A Shares with 5.00% Sales Charge) and -7.50% (A Shares without Sales Charge); IVA International Fund: -7.50% (I shares), -12.12% (A Shares with 5.00% Sales Charge) and -7.50% (A Shares without Sales Charge). **Past performance does not guarantee future results. The performance data quoted represents past performance and current returns 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.** As of the most recent prospectus, the Gross and Net Expense ratios for the funds are as follows: IVA Worldwide Fund: 1.34% gross / 1.15% net (I shares) and 1.59%/ 1.40% (A Shares); IVA International Fund: 1.42%/1.15% (I Shares) and 1.67%/1.40% (A Shares). The Net Expense Ratio reflects contractual waivers in effect from October 1, 2008 through September 30, 2009.*

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 consider the fund's investment objectives, risks, and charges and expenses carefully before investing or sending any money. This and other important information about the investment company can be found in the Fund's prospectus. To obtain a prospectus, call 1-866-941-4482 or visit www.ivafunds.com. Please read the prospectus carefully before investing.** The IVA Funds are offered by Foreside Distribution Services, L.P.