



# Stock picking makes a difference

## IVA Worldwide Fund

Class	Ticker	CUSIP
A	IVWAX	45070A107
C	IVWCX	45070A503
I	IVWIX	45070A206

## IVA International Fund

Class	Ticker	CUSIP
A	IVIOX	45070A305
C	IVICX	45070A602
I	IVIQX	45070A404

More than ever we believe individual stock picking is still alive and kicking. Its importance is apparent, especially in today's potentially low return environment. At IVA, we are focused on trying over the short-term (12-18 months), to preserve capital while over the longer-term (5-10 years, i.e. over a full economic cycle), we seek to perform better than equity indices. We attempt to achieve this by sticking to our disciplined, research intensive stock selection process, maintaining a well diversified portfolio, and being mindful of the big picture in terms of market and economic conditions - strictly for risk mitigation purposes. Having a disciplined security selection process provides us a level of comfort with the holdings in our portfolios when markets experience irrational movements or significant declines.

When it comes to stock picking, we believe it is important to pick stocks that are both "safe and cheap," to quote Marty Whitman. Although a stock may look cheap to us, it also needs to be considered safe and we believe safety starts with the balance sheet. A strong balance sheet with no or modest debt is critical to us. We believe that leverage has the potential to negatively impact a company, and if not properly assessed, damages can add up quickly. Additionally, we are focused on investing in quality businesses. We define a quality business as one that historically generates high returns on capital employed and as such generates significant free cash flow, has strong barriers to entry, pricing power, sustainable earnings power, and a potential to grow its intrinsic value<sup>1</sup> over time. We also tend to judge management by what they have done, not by what they have said. We are constantly focused on downside protection, and always ask ourselves, "what can go wrong" as opposed to fantasizing about the upside. As our co-portfolio manager Charles de Vault says, "by avoiding the losers, somehow the gains should take care of themselves." We stick to our investment strategy, and always demand what we think is a "margin of safety"<sup>2</sup> from each investment.

We like some market volatility and we believe volatility is here to stay. "The more markets and individual securities move up and down like a yo-yo, the easier it is to buy low and sell high," quotes de Vault. Our investment in eBay Inc. in 2010 and part of 2011 is an example of a scenario, where because of volatility, we were able to buy low, sell high, buy low again, and sell high again. We do not think the fundamentals of the company changed, but the price did, and we responded in a disciplined manner attune to our investment strategy.

One region where stock picking has made all the difference for us is Japan – a country suffering from low interest rates and a deflationary environment since the early 1990's. The Nikkei 225 Index peaked around 39,000 at the beginning of 1990 and today hovers in the 8,000 range. Japanese markets have historically exhibited high volatility, and we are hopeful this will continue. We believe it is because of this volatility, combined with good stock picking, that our Japanese stocks significantly outperformed our benchmark's Japanese stock components since inception of the Funds on October 1, 2008 through August 31, 2011\*. We would like to see the same performance going forward. In addition, today there are a considerable number of companies that are flush with cash, their returns on capital employed by their businesses (ex cash) are high, and they trade at what we believe are reasonable valuations - exactly what we seek when we look to buy equities. We believe that over time individual securities can generate good returns even when the broader market index is stuck in a negative or low return environment.

A recent example of how important stock picking can be was in the days and weeks following the tragic earthquake in Japan this past March. Our portfolios held up well during this time and we believe owning the well capitalized companies with strong balance sheets made a difference. We did not own Japanese banks, non-life insurers, electric utilities, or the more cyclical companies. With stock picking, as we often say at IVA, "what you do not own is just as important as what you do own."

Another area where stock picking has made a difference is Europe. A debt crisis has plagued European markets since early 2010, which is unsettling to investors and recently to markets. We believe we navigated this crisis well thus far because our exposure to Europe is primarily through owning multi-national companies that derive their revenue globally, and defensive companies that are typically mature with higher yields. Both Nestle SA and Sodexo SA are examples of companies we currently own that have a significant amount of revenue outside of Europe, have quality balance sheets, and generate free cash flow. When this crisis began, we had no exposure to Portugal, Italy, Ireland, Greece, and Spain (though we recently initiated a small position in Italy), banks, or highly leveraged businesses in Europe, whose stock prices were punished

## Investment Risks

*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.*

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the most. European markets have done a good job differentiating what we view as quality businesses from what we believe are weaker and/or undercapitalized or overly cyclical businesses. While this differentiation has helped the performance of our Funds up until now, it has made it a little harder to find new opportunities to put cash to work.

Paradoxically, it has been in the U.S. markets, which are widely perceived to be the most efficient, that we currently are not finding a proper differentiation between what we believe are good and bad businesses. We also believe there is a disconnect between small and mid-cap stocks, and large-cap stocks. Small and mid-cap stocks performed well over the past few years, and we think they now look expensive on a valuation basis. Conversely, large-cap stocks have lagged and valuations among what we view as quality companies are reasonable in comparison. One reason for that lag may be the continued stream of redemptions out of U.S. equity funds, and it is predominantly the large-cap stocks that are getting sold because of their liquidity. We think the stock prices of large-cap companies will eventually reflect the intrinsic value<sup>1</sup> of the underlying businesses as their balance sheets continue to improve, they can increase dividends and implement major stock buybacks, or become acquisition targets. We are patient investors who think that over time our security selection within the U.S. will pay off because of our controlled stock picking process.

Despite the uncertainty surrounding financial markets and their short-term direction, we believe there should be opportunities to generate solid absolute returns over the long-term due to good stock picking coupled with volatility and a disciplined investment strategy.

*\*Source: FactSet Research Systems*

<sup>1</sup>*This is specific to core positions newly initiated by IVA. The timing of new accounts and capital inflows as well as the time elapsed to invest new capital towards the applicable IVA model may cause deviations from IVA's intended margin of safety.*

<sup>2</sup>*A security is deemed attractive if there is a suitable margin of safety, meaning that the market price of a security is trading at a large discount to its assessed intrinsic value. We believe that this investment approach emphasizes capital preservation while still providing the capacity to achieve superior returns over the long term.*

*The holdings mentioned herein represent the following percentage of total net assets of the IVA Worldwide Fund and IVA International Fund as of June 30, 2011: eBay Inc. 0.0%, 0.0%; Nestle SA 2.7%, 3.0%; Sodexo SA 2.1%, 2.5%.*

***Nikkei 225 Index** is a price-weighted index comprised of Japan's top 225 blue-chip companies on the Tokyo Stock Exchange.*

***MSCI All Country World Index (Net)** is an unmanaged index comprised of 45 country indices comprising 24 developed and 21 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.*

***MSCI All Country World Index (ex U.S.) (Net)** is an unmanaged index consisting of 44 country indices comprising 23 developed and 21 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.*

*The portfolio is actively managed and holdings can change at any time. The commentary represents the opinion of Charles de Vault and Charles de Lardemelle as of September 2011 and is subject to change based on market and other conditions. This is provided for informational purpose only and is not to be construed as a recommendation or an offer to buy or sell or the solicitation of an offer to buy or sell any security. Any statistics contained herein have been obtained from sources believed to be reliable, but the accuracy of this information cannot be guaranteed.*

*An investor should read and consider the funds' 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.*

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



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