International Value Advisers, LLC
IVA Funds Update Call
September 12, 2017

Important Disclosures:

Mutual fund investing involves risks including possible loss of principal. 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. Please read the prospectus and summary prospectus carefully before you invest.** The IVA Funds are offered by IVA Funds Distributors, LLC.

Total Returns as of 12/31/17	1 Year	5 Year*	Since Inception*
IVA Worldwide Fund A (no load)	13.54%	7.26%	8.87%
IVA Worldwide Fund A (with load)	7.88%	6.16%	8.27%
IVA Worldwide Fund I	13.84%	7.53%	9.13%
MSCI All Country World Index	23.97%	10.80%	8.44%
IVA International Fund A (no load)	16.98%	7.25%	8.81%
IVA International Fund A (with load)	11.14%	6.15%	8.21%
IVA International Fund I	17.25%	7.51%	9.08%
MSCI All Country World Index (ex-U.S.)	27.19%	6.80%	5.97%

**Annualized; Inception Date 10/01/08*

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, the expense ratios for the funds are as follows: IVA Worldwide Fund: 1.25% (A shares), 1.00% (I shares); IVA International Fund: 1.24% (A Shares), 0.99% (I shares). Maximum sales charge for the A shares is 5.00%.

As of December 31, 2017, the IVA Worldwide Fund's top 10 holdings were: Gold Bullion (5.6%); Berkshire Hathaway, Inc. Class A; Class B (4.7%); Astellas Pharma, Inc. (3.3%); Bureau Veritas SA (2.5%); Nestle SA (2.3%); Oracle Corporation (1.7%); Bollore SA (1.6%); Mastercard Inc., Class A (1.6%); Bank of America Corp. (1.4%); News Corp. Class A; Class B (1.4%). As of December 31, 2017, the IVA International Fund's top 10 holdings were: Gold Bullion (6.8%); Bureau Veritas SA (3.8%); Astellas Pharma, Inc. (3.6%); Nestle SA (2.6%); Airbus Group SE (2.0%); Alten SA (1.9%); Samsung Electronics Co., Ltd. (1.9%); Bollore SA (1.7%); News Corp. Class A; Class B

(1.7%) Antofagasta plc (1.7%).

MSCI All Country World Index 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 Index is a trademark of MSCI Inc. and is not available for direct investment.

MSCI All Country World Index (ex-U.S.) is an unmanaged index consisting of 46 country indices comprised of 22 developed and 24 emerging market country indices and is calculated with dividends reinvested after deduction of withholding tax. The Index is a trademark of MSCI Inc. and is not available for direct investment.

The views expressed herein reflect those of the portfolio managers through September 12, 2017 and do not necessarily represent the views of IVA or any other person in the IVA organization. Any such views are subject to change at any time based upon market or other conditions and IVA disclaims any responsibility to update such views. These views may not be relied on as investment advice and, because investment decisions for an IVA fund are based on numerous factors, may not be relied on as an indication of trading intent on behalf of any IVA fund. The securities mentioned are not necessarily holdings invested in by the portfolio manager(s) or IVA. References to specific company securities should not be construed as recommendations or investment advice.

Basis Point: one hundredth of one percent

The IVA Worldwide Fund and the IVA International Fund are closed to new investors.

Tara Hannigan: Thank you. Good afternoon and welcome to the Semi-Annual IVA Funds Update call. We thank you for joining us. I'm Tara Hannigan, the Director of Mutual Fund Distribution.

Our goals on this call are to update you on the Funds and share our current investment thinking. Our portfolio managers, Charles de Vaulx and Chuck de Lardemelle, will give prepared remarks explaining what they're seeing around the world today. And then we will open up the call to questions.

To update you on IVA as a firm, as of August 31st, 2017, we had approximately $18.6 billion in total assets under management with our two Mutual Funds comprising approximately $12.4 billion of that total. Both Funds do remain closed to new investors.

A quick note on performance, as of June 30th, 2017, the IVA Worldwide Fund Class I returned 12.14% for the one-year period while the MSCI All Country World Index returned 18.78% over the same period. For the five-year period on an annualized basis, the IVA Worldwide Fund Class I returned 7.44% versus the MSCI All Country World Index return of 10.54%. Since the Fund's October 1st, 2008 inception, it has returned 8.96% on an annualized basis, while the MSCI All Country World Index returned 7.63% over the same period.

As of June 30th, 2017, the IVA International Fund Class I has returned 12.35% for the one-year period, while the MSCI All Country World ex USA Index returned 20.45% over the same period.

For the five-year period on an annualized basis, the IVA International Fund Class I returned 7.88% versus the MSCI All Country World ex USA Index of 7.22%. Since the Fund's October 1st, 2008 inception, it has returned 8.88% on an annualized basis, while the MSCI All Country World ex USA has returned 5.02% over the same period.

Year-to-date through yesterday, September 11th, the IVA Worldwide Fund Class I returned 9.95% versus the MSCI All Country World Index return of 16.37%. The International Fund Class I has returned 13.88% versus the MSCI All Country World ex USA Index return of 20.93%.

I'll make some necessary brief legal disclosures before we begin the call. 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 visiting our website at www.ivafunds.com.

I will now hand the call over to Charles de Vaulx.

Charles de Vaulx: Thank you, Tara, and thank you for mentioning some of those performance numbers including the year-to-date numbers. With our absolute return focus, especially in the short term, we are quite pleased to be up almost 10% year-to-date in the Worldwide strategy and close to 14% in our International strategy, especially since those returns even exceed what we consider to be normal equity type returns, i.e., 8% per annum. So no need for us here to lament that we're lagging our benchmarks again year-to-date. I love lagging and being up almost 10 percent.

The past seven to eight months have been extraordinary as we have been witnessing what looks like the grand finale of a remarkable fireworks display. Who could have predicted that a synchronized, global economic recovery would happen whilst inflationary pressures would be receding and the U.S. dollar giving back some of its gains from the past year, thus helping large U.S. multinationals along the way but also emerging market equities and fixed

income.

The topics I would like to cover today are:

1.) **Discuss some of the changes in the world seen over the past six to seven months**
2.) **Discuss why our portfolios remain so defensively positioned**
3.) **Highlight some areas where we have been active both as buyers and as sellers over the past six months or so**
4.) **A few words on gold**
5.) **A few concluding remarks on the asymmetrical nature of money.**

Discuss some of the changes in the world seen over the past six to seven months

To us, the most important change perhaps has been the fact that inflation expectations have come down so drastically and so nicely. While we have seen a few commodities such as copper go up in price, we have seen the price of oil recede. More importantly the big surprise, including to all the policymakers and central bankers, is how little wage pressure there has been around the world even though the official unemployment rates keep dropping. The Taylor rule, based on the belief that inflation and interest rates would rise as the unemployment rate drops, is simply not working anymore at least this time around.

If anything, the idea that automation, artificial intelligence, perhaps the gradual replacement of gasoline powered cars by electric battery powered cars, all those trends are starting to shape the new view that wage and commodity price inflation may remain muted for many, many years to come. And that as a result, central bankers who have been mandated to target a CPI rising by 2 percent a year, those central bankers may have to keep rates ultra low for many, many years to come.

From a political standpoint, the fact that President Trump has not been able to do much of what he promised during the campaign may explain some of the weakening of the U.S. dollar, but also may have helped prevent interest rates from rising further on the contrary.

The elections in France have had the electrifying effect of calming the fears of ultra rightwing and populist policies in Europe, and instead given faith again in the European project. Now, it will be interesting in the next few weeks to see if President Macron's labor-related reforms will be able to pass with Congress and if strikes will not be too overwhelming between now and then. I believe there was a strike today with over 250,000 people protesting his attempts at those reforms.

Likewise, in the U.K., the difficulty with which the Theresa May administration is trying to orchestrate a clean Brexit can be viewed as paradoxically encouraging for the Eurozone.

For sure, the terrorist attacks have continued in Europe; London, Barcelona come to mind. But at least the migrant crisis seems to be receding. Now, perhaps mind you at the price of some forced pact with Turkey and its regime.

Regarding North Korea, we have no insight as to how things may unfold. Is it really possible to prevent North Korea from acquiring a nuclear capability? And what are the real motives of Kim Jong-un? Are they simply defensive or is there more? My personal read is that for the past 70 years, the regime in North Korea has had two overwhelming goals -- regime preservation and the reunification of the Peninsula. Trying to force the U.S. to vacate South Korea seems to be the objective, not at all to strike the U.S.

In any case – again, whilst we do not have the answers to those geopolitical questions, at least the very defensive posture of our portfolios hopefully would help if things were to escalate badly there.

Why do our portfolios remain so defensively positioned?

It's basically and overwhelmingly due to valuation. Simply put, ultra-low interest rates which are typically negative either in nominal terms or in real terms when adjusted for inflation, have convinced, if not forced, investors to pay up significantly for bonds but also for stocks because of TINA (There Is No

Alternative).

It is true that there are few signs of the euphoria that typically accompanies speculative bubbles, except maybe with Bitcoin. But we do heartedly agree with GMO's James Montier, who, several weeks ago in Barron's, talked about "a foie gras bubble," where investors are being force fed risky assets (stocks and bonds) while remaining very complacent as if there were no risks. This can be explained perhaps by an everlasting bull market and the very low volatility as measured by the VIX.

Net interest rates have been receding this year whilst they were expected to creep up, at the same time that corporate profits remain strong and that the world economy gathering strength has been a huge shot in the arm, helping propel stocks and bonds to exceedingly high valuation levels. As we've argued before, interest rates are unlikely to stay low forever and corporate profits are unlikely so stay that high forever in light of major disruptions affecting so many industries and a labor force, which politically may not accept the current status quo forever whereby the owners of capital, the shareholders, keep earning a higher and higher share of the spoils.

Interesting to note that more and more experienced and respected investors are starting to sound the alarm bell. First, it was late June, Bob Rodriguez, the former manager at FPA, declaring, "We are witnessing a perfect storm," due to massive manipulation and distortion following a policy of 0% rates. Rodriguez says that having more than 60% of his own money invested in treasuries. Then Howard Marks from Oaktree writing his long memo, "Here They Go Again … Again," where he observes that uncertainties today seem bigger than ever, seem to be in greater number, and more unsolvable than ever before, whether it be in terms of economic growth rates, the impact of central banks, the geopolitical tensions, and the long-term impact of technological progress. He observes that for the vast majority of asset classes, the prospective returns are the lowest ever with most securities trading well above their intrinsic values, and finally concluding with the observation that investors are more and more willing to increase the level of risks taken to try and generate the returns they want or that they need.

A few weeks ago, Alan Greenspan was talking about the bubble he sees in fixed

income especially if there is a return to some form of stagflation as we lived through during the 1970s. Greenspan went on to explain that stocks would be greatly affected when that bubble bursts.

Finally, Jeff Gundlach from DoubleLine a few weeks ago also stating how worried he was about financial markets and how pricey they are. He singled out junk bonds and emerging market debt as significantly overvalued. But he also argued that it's better to be cautious now than to hold until it is too late.

Besides valuation, we also remain worried by the very rapid credit growth in China. In the Financial Times recently was an interesting article by Joe Zhang, a former manager at the People's Bank of China, discussing what might be a 500 billion CDS, credit default swaps, market, and arguing that the country's credit market is far too big, but it has refused to burst because of the many non-bank financial institutions that have served as plumbers to the banks. He argues that the CDS market in China is the key to understanding the strange longevity of China's credit bubble.

Highlight some areas where we have been active both as buyers and as sellers over the past six months or so

It's been difficult for us to find much to buy. Though we have, during the second quarter, started buying into Allied Irish Bank after they went public: we like the duopolistic nature of the banking market in Ireland as well as the good economic prospects for the Irish economy.

While Samsung Electronics has doubled over the past year, we've seen many small and mid-cap names in South Korea be down quite a bit, unrelated to the North Korean situation, by the way. So we've been adding to Kangwon Land, the sole casino operator in South Korea, and buying into KT&G, the tobacco company.

As oil prices have receded, we were disappointed by not finding much to buy, but we were able to add nicely to a small position we had in that sector in the U.S.

We've been able to add to Baidu, the Chinese Internet search engine.

Although it still remains a small-ish position, we've also been able to add several months ago to Bureau Veritas (the French-based yet global testing, inspection and certification company) which is now a decent sized position.

I've mentioned that we've been trimming quite a bit of our Samsung Electronics, but we've also been trimming other names that had done very well for us such as Genting Malaysia, Hyundai Motor, (Altron) in France.

And also, we've been able to reduce Hong Kong and Shanghai Hotels. This is a family-controlled company listed in Hong Kong, the owner of the Peninsula Hotel chain among other assets. What happened is that the controlling shareholder realized the prospects for the hotel industry and for some of the hotels that the company owns were getting more difficult. And he announced several months ago that he was willing to sell all or part of the company, thus helping the stock go up significantly.

A few words on gold

Gold has historically exhibited a pretty good inverse correlation with the U.S. dollar and with real interest rates. So the past six months as a result have been ideal for gold as the U.S. dollar has weakened and as real interest rates have come down nicely. We are happy to maintain our current allocation to gold, roughly 5.9% in Worldwide, 7% in International, and all in the form of gold bullion, which strikes us as purer, of course, but also cheaper than most gold mining stocks out there.

A few concluding remarks on the asymmetrical nature of money.

Let's not forget the asymmetrical nature of money. You only need to be rich once. As Buffet once observed, “Why risk what you have and need for what you don’t have and don’t need?”. And I cannot help resist quoting Peter Bernstein, "The market is not an accommodating machine. It won't give you high returns just because you need them." Chuck?

Charles de Lardemelle: Thank you, Charles. I will now describe briefly how our Mutual Funds are

positioned as of Monday, September 11th, 2017 and make some brief remarks on the investment landscape. Currently, our overall equity exposure is roughly 50% in Worldwide and 61% in International. Our fixed income exposure is 3% in Worldwide and International. Our gold bullion exposure is 6% in Worldwide and 7% in International. Our U.S. dollar cash levels invested in short-term commercial paper of our choosing are 41% in Worldwide and 29% in International.

In terms of geographic exposure to equities, for the Worldwide Funds, approximately 20% of the Fund is invested in U.S. equities, 16% in European equities, and 14% in Asian equities.

As for the International Fund, approximately 34% of the Fund is invested in Asian and Australian equities, 24% in European equities, and 3% in other geographies. Finally, our Japanese yen exposure is roughly 25% hedged in Worldwide, 35% in International, while our euro exposure is approximately 10% hedged in both Worldwide and International.

The current U.S. bull market that started in 2009 is now the second most powerful since World War II. The only uninterrupted bull that delivered stronger returns since 1945 was the 1990 to 1998 run that ended with the Asian crisis. The combination of ultra-low interest rates, coupled with strong margins in corporate America, has pushed valuations to very high levels in the U.S. stock and bond markets. One unusual characteristic of this market is how calm and quiet the bull is after eight and a half years of gains. The VIX index reached an all-time low at the end of July. We can't help but wonder if the ETF mania currently developing is playing a role. Is it possible that large and steady reallocations of money over time into blind pools of securities produces a no-ripple financial bubble? Only time will tell.

Our primary goal at IVA is preservation of capital. With the help of our nine analysts, we attempt to buy securities at a substantial discount to their intrinsic value: what a knowledgeable person would pay in cash for the whole business. Well, that is becoming a difficult task these days especially for the Worldwide Fund. New names so far this calendar year include Korea Tobacco & Ginseng, Ralph Lauren, and Allied Irish Bank. In oil, we increased an existing position substantially recently, and we're currently building a small position in an aircraft parts supplier listed in the U.S.

For the International Fund, since the beginning of the year, in addition to previously mentioned KT&G and Allied Irish Bank, we found a number of small Japanese, Korean, and South American names. Our equity exposure in the International Fund has gone up from 56% on January 1st to 61% today.

Our stock picking continues to deliver with the equity-only part of both Funds outperforming by over 300 basis points year-to-date. Obviously, our high cash levels yielding around 1% dilutes our performance, but provides for downside protection and dry powder in case opportunities arise in the future.

A quick word on our largest equity position in the Worldwide Fund, Berkshire Hathaway. As you know, the company is a large reinsurer. As a result, Berkshire will face substantial claims for losses inflicted by the recent hurricanes Harvey and Irma here in the States and on the Caribbean Islands. GEICO, the car insurance business, will also incur losses due to these hurricanes.

On average, over the last decade or so, underwriting profits have averaged 3% of the insurance flow at Berkshire. The flow today is over a hundred billion dollars. So combined losses for the hurricane season and other natural disasters worldwide will have to exceed 3 billion over the average season for the company to incur an underwriting loss. We view this as unlikely from these two storms alone but obviously possible in any given year.

Having said this, the first six months of 2017 reported underwriting results at Berkshire were poor suffering from FX headwinds, especially the euro being up, and an upfront charge on a big retroactive insurance contract signed early in the year. The point is that even with 5 billion of excess disaster losses in any given year, the cost of float in a difficult year would amount to 2 percent or so. And if that happens very infrequently, it would not impair the value of Berkshire.

To put such potential losses in perspective, Berkshire market capitalization today is well over $400 billion. The last time the insurance arm of Berkshire as a whole had an underwriting loss was 2002 due to the necessary buildup of provisions at General Re after its acquisition by Berkshire. 2017 may be the first underwriting loss in 15 years for Berkshire, but if it happens, we expect it would be minimal as a percentage of float and inconsequential in relation to cash flows and market capitalization.

The discount to our estimate of intrinsic value at Berkshire unfortunately is low at today's share price. And while some reinsurers got punished last week, it was not the case for Berkshire. Berkshire, at the right price, is the type of business we like to own, well-run, no nonsense, heavy cash generation, great capital allocation, and safety due to a strong balance sheet coupled with honest and smart management.

Because of our strong bias towards preservation of capital, we would expect to outperform benchmarks in bear markets or difficult markets, and underperform in strong bull markets or towards the end of a long old bull market. We do not pay attention to benchmark performance over a month, a quarter, or a year, but over the long term, we aim to deliver attractive absolute returns and hopefully do as well or better than these equity benchmarks. All of us at IVA are extremely grateful for your continued support.

This concludes my prepared remarks. I'd like to turn the call back over to the operator to open the call for questions.

Question:	You both mentioned smaller-cap companies that you bought in Korea and Japan. And I wonder whether you are finding more opportunities globally in small caps. In the past, they have not been cheap enough, and I wonder whether that has changed.
Charles de Vaulx:	Yes, to some extent. I did mention that over the past year, for reasons that have nothing to do with North Korea, many small and midcap stocks in South Korea have come down from previous levels that were not grotesquely elevated either. I think it's fair to say that the South Korean stocks today -- well, for many years now -- have had a discount due to perceived poor capital allocation and corporate governance. So, yes, small and midcaps in Korea are cheaper now. My sense is that Japan clearly has shown for many years now, maybe going back 20 years, the smaller the company, the less liquid the stock is, the more difficult it is to buy it and possibly to sell it, the bigger discount to larger-cap stocks. So nothing really new there. Unfortunately in Europe, because, on average, smaller companies tend to operate better businesses (in terms of moats, return on capital employed) than larger companies (such as the banks, insurance companies, the regulated utilities or telecoms), smaller companies, because of the free cash flow generation and the ultra-low and negative nominal rates oftentimes seen in Europe, are very expensive today. And in the U.S., we would argue that small-cap stocks are basically as expensive as the larger ones. Chuck did mention that we were able to find a few small-ish names in South America. In fact, some of these names were so small that we were unable to put them in our Worldwide strategy, only in our International strategy. And there's clearly a sense in South America that the smaller the name, the less liquid, the cheaper those stocks might be.
Question:	Do you break down your holdings into small, medium, and large-cap?
Charles de Vaulx:	We do not in our annual or semi-annual report, but we do in-house. I don't have the number in front of me, but I think we have a bigger weighting in smaller cap names now than we had maybe two or three years ago.
Question:	Hi, Charles. You referenced Howard Marks' July memo in your prepared remarks, and I'd like to ask you about something from his follow-up memo this month. On the subject of appropriate investor behavior in today's low return environment, he wrote that he would mostly do things as he has always done but with more caution even at the cost of a reduction in expected return. And knowing you all, it sounds like you're in agreement with that view.

But he went on. And my question concerns his next remark which he said he would emphasize "alpha markets," where hard work and skill might add to returns since there are no beta markets that offer generous returns today. And so, I was curious if you agreed with that view and considering your broad mandate, do you consider yourselves to be among those special investment managers that he's describing who can invest more in special niches that he recommends?

Charles de Vaulx: Yes, definitely. I'd totally agree with Howard Marks. Now you talked about alpha. As you know, our view is that the only remaining active managers should be those special investment managers that Howard Marks talks about. Again, one can get your beta through a lot of these passive strategies. So not only today because of the extreme circumstances, in terms of valuation and disruptions impacting so many industries, but in general, I would argue that only special investment managers should be used at least on the active side, to be possibly complemented by passive strategies if one believes some beta can be achieved.

Now, the one reason why we refuse to be seduced by the Fed model (the belief that low interest rates would argue for us accepting to pay up for stocks and as a result accepting lower returns) is due to the fact that, in light of the really high profit margins that are out there in many sectors around the world, we believe that the visibility of more and more business models is foggier and foggier 5, 10, 13 years out. And so, we believe more than ever that whether the risk-free weight is 1% or 4% or 5%, that if you want to own equities (which as you know are nothing but a piece of the business) one should insist on at least trying to get 8% per annum. It seems to us that investors have been willing to pay up because implicitly they are happy with the idea of only maybe getting prospective returns of 3% or 4%.

I think that multiple things argue for what Howard Marks recommends, which is to reduce risk:

- extreme valuations
- disruptions
- policymakers, including Central Banks, showing how little their understanding of how things work is. I've talked about the Taylor rule. The Fed also had models whereby if people's wealth were to increase because home prices or stock prices would go up, they would have expected consumption to be up by X%. All of these models have failed miserably, so you have policymakers that are lost, confused, models that are not working.

And on your side of the business, you have to be willing to tell your clients to expect very low returns with a 5 to 7-year horizon. If the right expectations are being set, I think it becomes a lot easier to navigate those difficult moments.

Question: As follow-up, just curious about your opinion, there's a lot of people out there that have an opinion that certain markets are so highly efficient that you might as well buy a low-cost index fund and save your active managers for the less

efficient markets. I just am curious about your personal opinion on that.

Charles de Vaulx: Yes, obviously some markets, some asset classes (large-cap value stocks in the U.S., large-cap core in the U.S., investment grade bonds, sovereign debt) the more efficient an asset class is, the harder it is to generate alpha. But we take it one step further, which is that therefore active strategies do make more sense, if you will, with smaller cap stocks even in the U.S., outside the U.S., emerging market debt, emerging market equity, distressed high yield, and so forth.

But my question is, do clients always want and need S&P type returns? I mean there may be times when one should not own any large-cap core stocks. And so, I think truly active managers, such as ourselves, should not only focus more on these more opaque or less efficient markets, but they also should be the ones to decide whether to be fully invested or not.

Question: I hear these opinions about passive investing and considering the risks that go along with passive. As a risk manager, I find it difficult to just swallow a passive product in what is considered an inefficient market if, as you say, it didn't make any sense to be there to start with.

Charles de Vaulx: Right, yes. And also, say, for us hypothetically, if we decided to only focus on smaller names around the world and high yield, it would mean no longer following the big-cap stocks. I think that would result in us understanding less and less well the dynamics going on in so many industries. I mean we happen to own Alphabet because we bought it cheaply five years ago. But being able to sometimes own and at least follow many of these companies helps tremendously in our understanding of the industry dynamics going on.

Question: It sounds like you've bought a U.S. energy stock. Do you see relative value there? Any comment on energy stocks in general?

Charles de Lardemelle: We don't do relative. Having said this, obviously, the energy part of the market has been hammered. There are big changes going on in the industry, obviously with shale. Historically, oil has not been a good business. It's difficult, it's a commodity business in which you want to own low cost producers with a great balance sheet.

The problem with oil and gas is that low-cost producers are not listed. They are usually national oil companies in Iran, Iraq, Saudi Arabia. Saudi Aramco may get listed soon. There might be issues with capital allocation and governance, but at least we'll get to understand these numbers. And so, Saudi Aramco, at the right price, might be a candidate.

When you're buying into U.S. oil and gas names, you have to understand that you're not buying into low-cost producers. Having said this, the shale revolution has been massive and it has displaced, I think, offshore. And the shale players have been able to take their costs down very substantially, and

we've identified one of those shale producers that tends to be low cost within shale production. So low cost within the U.S. probably means mid-cost on a global cost curve with extremely good capital allocation and a very strong balance sheet. Recently that name came back substantially, and we were able to add to the name.

We've looked at a number of equipment-related names. I would say that they are not overvalued, they may be fairly valued, they may be full, which as you said on a relative basis, might be better than owning substantially overvalued securities. But they have not come down to a level that we've found attractive, in part because oftentimes an outsized portion of the profits are coming from offshore. And we think it's going to be a reasonably long time before offshore becomes competitive again with shale.

I think we're looking at the productivity improvement of shale players to understand when they stop getting more productive, and that would probably be the start of a rise in the price of oil or at least would establish a bottom in the price of oil. And we do know that service costs are starting to pick up again, which is going to make life a little bit more difficult for the shale players to continue to become more profitable .

But really, the key is when do those huge productivity gains stop in shale. In other words, over the last few years, we had the comment from one of these players saying at $100 oil, we were making less profit than we do today at $45 oil. And that shows how effective the shale producers have been in drilling and getting more oil out of the same well, basically, out of the same CapEx. And we need to see that curve stabilized before we get comfortable with the idea that oil has 1. reached a bottom and 2. before we can start to establish when offshore might be profitable again. It might be longer than people expect.

So our exposure overall in oil and gas is extremely limited in both Funds today.

Question: I just had a quick question about cash. You're sitting on a bunch of cash. I'm not sure how flows are. You might talk about that and whether or not you plan to close any of the funds.

Charles de Vaulx: The funds are soft closed, as you may recall. We had modest outflows less than a year ago. I think year-to-date, between the two Funds, the net outflows have been between $400 million and $500 million- not that much in light of the fact that we manage $18.5 billion. So no plan to change the soft close at this point.

Question: Looking at the top holdings, I noticed Berkshire Hathaway and Mastercard. I know you guys typically target an 8% return from your equities. Those stocks have done pretty well, especially over the last few years. Do you still think you can get there with positions like that? And then specifically with Berkshire, how do you value it? And are you still as sanguine as you've been in the past on it? Do you still think that it can sustain a broad equity market decline and take advantage of it as it has in the past?

Charles de Lardemelle: On Berkshire Hathaway, yes, we believe that Berkshire could take advantage of a pullback. And that's one characteristic I see that's fairly unique. For Berkshire Hathaway, it's one of the very few names that in a recession the intrinsic value sometimes goes up, which is not usually what happens in a recessionary economy. Having said this, we don't expect Berkshire to be able to compound as fast as it has in the past.

And also we do notice that it's been tougher and tougher for Buffett and his lieutenants to find great opportunities in the stock market. It's been tough with IBM. We're holding judgment on the airline investments. We understand the case with Apple, but we do note that the margins there are extremely high, and it all hinges on the stickiness of those handsets. It's a sort of Gillette in reverse, where you buy the handset or the razor for a very, very high price, and then the content, the notes that you create, your contacts, the media, the songs and so on that you buy is under the Apple cloud, and then it becomes very difficult to get rid of the razor. So we understand that. But still these types of industries over time or companies over time have suffered from big changes in the industry.

Charles de Vaulx: On Berkshire Hathaway, let's not forget that a growing portion of the intrinsic value of the firm are no longer those marketable equity securities (some of which Chuck discussed), but the underlying businesses. I think a year or two ago, they bought Precision Castparts. Chuck talked about GEICO, about the reinsurance business. So those great businesses, Burlington Northern, are also helping generate value over time for Berkshire Hathaway.

Charles de Lardemelle: And Berkshire has, over time, allocated more and more of its free cash flow towards taking some companies private.

As for MasterCard, it shows up in the top ten (through appreciation). We were able to buy it a number of years ago when there was a debate over how much debit cards should be allowed to charge and the Fed had to come in. And, Adam Ackerman, our analyst on the name, did some great work and figured out that at that point MasterCard was priced as if debit cards would become a zero profit center. It turned out to be much better than that, and the company has done great.

For MasterCard to compound at 8% [1], it's difficult. And that's one of the rare names that would really benefit from inflation going up; other than that it's going to be penetration of plastic not only in the U.S. but outside the U.S. There is a chance to get there, but it's not a given. It's true it's getting somewhat expensive, but of a terrific quality.

---

[1] This refers to the return on securities in the Fund, not the performance of the Fund.

On average, our discounts would argue for our ability to continue to compound at 6%[1] to 8%[1] probably- who knows, it depends on markets. And obviously, the more volatility we get, the more likely we are to succeed with the long-term goals because of all the cash we have. And having the opportunity to invest that cash at different points when markets pull back obviously helps the returns.

Question: I notice some of these weightings, especially in the Worldwide Fund, are a little bit higher than you normally carry, you know, maybe 430 basis points for Berkshire, 340 for Astellas. Can you comment on that a little bit? Is it that you guys have evolved into being more comfortable holding larger positions? Or is it just the nature of the current environment?

Charles de Vaulx: It's a good question. It's probably a little bit of both. I alluded to all those disruptions affecting so many industries that the visibility of so many businesses 5 to 10 years out is so much foggier. We all know that Kroger's stock has been under pressure, Macy's and so forth. So when we find companies, such as Bureau Veritas, Berkshire Hathaway, Astellas Pharma, where we do not see any evidence of major and possible disruptions, we are probably more willing to have slightly bigger positions than we did before. Now, don't get me wrong. Some parts of Berkshire Hathaway could be disrupted. Warren Buffett does not hide the fact that GEICO would suffer if and when driverless cars are used overwhelmingly in the future.

So, in a way, the universe of investable stocks has shrunk for us- not only temporarily because of valuation, but inherently with our bias towards owning quality and somewhat predictable businesses. That bias means that the actual universe of buyable stocks has shrunk and as a result, we have to be ready to have slightly bigger positions than before. And of course one of the keys for us is to make sure that capital allocation is flawless, whether it's through paying dividends or through buying back shares in a selectively and accretive manner. One thing we like about Astellas Pharma is not only the buybacks at prices that make sense, but also they've been so cautious whenever they've made acquisitions in the past not to overpay.

Question: I was wondering if you could just talk a little bit more about valuations. I know with 2017 getting closer to the end, you're seeing now the S&P 500 forward earnings of about 145, if those are even accurate, which is about 17 times. I know it's not 15 or 14, but was curious in terms of how you look at valuations on your individual equities or the market in general. Just a little more on your vision there.

Charles de Lardemelle: Yes, these multiples get flattered by the fact that obviously on debt, today companies pay very low interest rates, and they are also flattered by the fact that margins today are very high in many industries. Some of that we believe might be sustainable. There is a mix change. The software companies and the new network companies, such as Google or Facebook, have a model that is

somewhat similar to software, where you have a fixed cost base and then your margins can go very, very high. But we think that the cycle is now well advanced, and we're struck by the fact that revenues on the S&P 500 have compounded at a much smaller rate than EBIT. And so companies have really struggled on the revenue line.

And so, is it possible that recessionary earnings would be closer to a hundred on the S&P? It's possible. When you look at market cap to GDP, I think the only time where market cap to GDP (which is a price-to-sales ratio) was higher in the U.S. was in 2000. In 2006, 2007, it was lower than it is now. So there are a number of metrics that show a very, very expensive market.

Now, relative to where interest rates are, some would argue, well, that's great, but think about this: I think the P/E on Bloomberg shows 21 times the S&P 500 right now, and that's the scrubbed P/E without all the charges and so on. So you have a 5% earnings yield. At the top, taking the view that your risk is being down 20%- 25%, or perhaps more in a recession, are you willing to part with your capital for a measly 5% return at the top? You know, I'm not sure it's a great tradeoff.

Question: Is there any new competition coming from some of the bank-to-bank kind of payment service?

Charles de Lardemelle: It's a key question about MasterCard, whether there will be a new technology that allows you to do without MasterCard. Now, I think it helps to understand the history of MasterCard and Visa. They were both companies owned by networks of banks. And the prices were set to cover expenses. They were not set to make money. They were set to cover expenses. And so, as a percentage of transactions, it's extremely low.

Because the volumes went up so much, and because both Visa and MasterCard were IPO'd and were able to take the cost down, now they are extremely profitable. But they are not extremely profitable through the gouging of clients and taking a big share of the transaction. They are very profitable because they set prices at a level that we think will be extremely, if not impossible, to beat. And I think that's a great moat around the business. But there is always the risk of disruption at some point in technology. I think it's going to be very hard, though, for any incumbent to break into that market, but time will tell.

Charles de Vaulx: By the way, I appreciate that none of you had the indecency to ask us about Bitcoin, but I'm sure many of your clients do ask you about Bitcoin. I did reference the recent memo by Howard Marks, "Here We Go Again … Again", where he has two or three pages where he discusses cryptocurrencies. But in my mind, the best analysis work so far on the topic has been made by a fellow by the name of Roy Sebag. He runs a listed company called Goldmoney. And they wrote a piece in March of this year, "The Natural Order of Money and Why Abstract Currencies Fail". It's a great white paper, which I encourage you to

read if you want to understand why, as Howard Marks argues, those cryptocurrencies are bound to fail the way John Law's Mississippi scheme or other Chinese or Roman schemes failed as well.