Evermore Global Value (EVGBX/EVGIX)

By David Snowball
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David Marcus

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Objective and Strategy Evermore Global Value Fund seeks capital appreciation by investing in a global portfolio of 30-40 securities. The Fund's special situations strategy is to identify companies trading at substantial discounts to their estimates of intrinsic value, and where catalysts exist to close these gaps. Although they are opportunistic investors and can buy securities of any market capitalization, their sweet spot has been in micro to mid-cap opportunities. They also have the ability to invest beyond the equity market in "less liquid" investments, such as distressed debt, can hold short positions in merger/arbitrage situations or to hedge market risk, and are willing to hold a up to 15% in cash.

Adviser Evermore Global Advisors, LLC. Evermore was founded by Mutual Series alumni David Marcus and Eric LeGoff in June 2009. David manages the portfolios, Eric runs the business. They advise five substantial separately managed accounts as well as the Evermore Global Value Fund. All follow the same "special situations" strategy. As of June 30, 2017, they had $950 million of assets under management.

Manager David Marcus. Mr. Marcus co-founded the adviser. He was hired in the late 1980s by Michael Price at the Mutual Series Funds, started there as an intern and describes himself as "a believer" in the discipline pursued by Max Heine and Michael Price. He managed **Mutual European** (MEURX) and co-managed **Mutual Discovery** (MDISX) and **Mutual Shares** (MUTHX), but left in 2000 to establish a Europe-domiciled hedge fund with a Swedish billionaire partner. Marcus liquidated this fund after his partner's passing and spent several years helping manage his partner's family fortune and restructure a number of the public and private companies they controlled. He then went back to investing and started another European-focused hedge fund. In that role he was an activist investor, ending up on corporate boards and gaining additional operational experience. That operational experience "added tools to my tool belt," but did not change the underlying discipline.

Strategy capacity and closure $2–3 billion, which is large for a fund with a strong focus on small firms. Mr. Marcus explains that he's previously managed far larger sums in this style and that he's willing to take "controlling" positions in small firms which raises the size of his potential position in his smallest holdings and raises the manageable cap. He currently manages about $1 billion, including some separate accounts which rely on the same discipline. He'll close if he's ever forced into style drift.

Active share 99.4. "Active share" measures the degree to which a fund's portfolio differs from the holdings of its benchmark portfolio. High active share indicates management which is providing a portfolio that is substantially different from, and independent of, the index. An active share of zero indicates perfect overlap with the index, 100 indicates perfect independence. The active share for Evermore is generally near 100, which reflects extreme independence plus the effect of several hedged positions.

Management's stake in the fund Mr. Marcus has invested between $500,000–1,000,000 in the fund. The fund provides all of Mr. Marcus's equity exposure except for long-held legacy positions that predate the launch of Evermore. In addition, he co-owns the firm to which he and his partner have committed millions of their personal wealth.

Opening date December 31, 2009.

Minimum investment $5,000, reduced to $2000 for tax-advantaged accounts. The institutional share class (EVGIX) has a $1 million minimum, no load and a 1.24% expense ratio.

Expense ratio 1.49%, on assets of $494 million. The fund eliminated the sales load on its retail shares in April 2015, an entirely admirable decision.

Comments Morningstar's last assessment of Evermore occurred in 2010, just eight months after the fund's launch. As Evermore was taking short-term losses from the distressed firms in their portfolio, analyst Michael Breen opined:

> *There's reason to believe. The managers are contrarians who focus on struggling firms where they see catalysts to unlock value, such as management changes or restructurings. Such transformations take time, so the managers are patient.… They have strong track records elsewhere using the same approach.… The fund's recent buys look compelling. Patient investors will be well served here.*

We concur. In 2011, we noted that managers in Mr. Marcus's lineage "embody the best of active management: bold choices, high conviction portfolios, and a willingness to understand and exploit parts of the market that few others approach." Three years later, with Evermore sporting a one-star rating from Morningstar, we argued that the discipline "David Marcus is teaching to his analysts, is highly-specialized, rarely practiced and—over long cycles—very profitable. Mr. Marcus, who has been described as the best and brightest of Price's protégés, has attracted serious money from professional investors. That suggests that looking beyond the stars might well be in order here." After a dozen interviews at this year's Morningstar conference, we noted that Marcus is "consistently among the most engaging and thoughtful people we've met."

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And still much has changed since then:

✔ In March 2017, Litman Gregory recognized Evermore's strength and distinctiveness when they entrusted part of the **Litman Gregory Master's International Fund** (MSILX) to Mr. Marcus and team.

✔ In March 2017, Morningstar created a new fund category (World Small-Mid) into which they moved Evermore and 41 other funds. Those smaller cap funds have been a far more interesting and successful group than their former large cap brethren; the small-mid cap funds are 16% of the entire world stock group but have 35% of the top five-year performers.

✔ The fund posted 13.9% annual returns for past five years (through 6/30/2017), placing it in the top 25% of its new Morningstar peer group.

✔ In July 2017, the firm crossed the $1 billion in AUM threshold. The fund has seen inflows in 29 of the past 31 months.

Much more has not changed: Mr. Marcus's favorite investments remain few in number, hard to find, difficult to value and prone to violent price movements. Those, oddly, are the things that Mr. Marcus finds most attractive about them.

In broad terms, the Evermore portfolio is divided between The Strange and The Steady. He prefers the former. The Strange are "special situations" or "distressed" securities, often issued by smaller companies. Those are generally firms that have historically stunk through some combination of bad management, bad strategies, bad execution and bad luck. Many firms in this category deserve their impending oblivion, but some will stage dramatic turnarounds. Mr. Marcus's challenge is to identify such firms early when their stock prices are dramatically discounted, but the pieces are falling in place. He refers to them as stocks that are "cheap with a catalyst."

Investing in such stocks has four important characteristics:

1. **It is devilishly difficult.** First, you have to be right in your judgment that the 120-year-old firm that's been staggering around like a drunk for decades, always promising to reform, actually means it this time. Second, you have to have the fortitude to watch one of your holdings fall by 40% because other investors don't yet get it, and to buy more along the way.
2. **It is not replicable with a passive strategy.** That is, you can't construct an index that tracks "firms for whom potential saviors (or life-saving clues) have just arrived."
3. **It is not scalable.** That is, there are relatively few firms poised for a turnaround at any particular time, and these are often small or very small companies. As a result, major investors like Vanguard and Fidelity cannot justify devoting resources for a strategy that might be capped at $2 billion. As a result, there are fewer analysts, less competition for the stock and greater initial mispricing.
4. **It is independent of the general movement of the market.** That is, these firms don't need to grow revenue in order to see sharp share-price gains. If you have a firm that's struggling because its CEO is a dolt and its board is in revolt, you're likely to see the firm's stock rebound once the dolt is removed. If you have a firm that used to be a solidly profitable division of a conglomerate but has been spun-off, you should expect an abnormally low stock price relative to its value until it has a documented operating history. Investors like Mr. Marcus buy them cheap and early, then wait for what are essentially arbitrage gains.

"Evermore does things for you that other funds simply can't: it produces high returns that are independent of its benchmarks and its peers."

As a result, Evermore does things for you that other funds simply can't: it produces high returns that are independent of its benchmarks and its peers. By way of illustration, the five year correlation between Evermore and the **Vanguard Total World Stock Index Fund** (VTWSX) is not only low (0.76), it's also lower than the correlation between VTWSX and **Vanguard Emerging Markets Stock Index** (VEIEX), 0.78. Evermore is simultaneously a strong diversifier for a broad world stock index and a better diversifier than adding emerging markets stocks would be.

Why? An active share of 100 means that it has essentially no overlap with its benchmark. The same applies to its peer group: Evermore has seven-times the exposure to micro-cap stocks as does its global small/mid-cap peer group. It has one-third of the US exposure and four times the developed European exposure of the average global fund. And it sports a market cap only half as high as its peers.

Mr. Marcus believes that there are ample special situations opportunities outside the U.S. He writes, "We would agree that in the U.S. many stocks have lofty valuations. However, we are still finding special situations, mostly in Europe, that are trading at attractive valuations."

When even he can't find enough Strange stocks, he turns to the Steady. He refers to these as "Compounders," which often translates to family owned or controlled firms that have activist internal management. Some of these folks are "ruthless value creators." The key is to get to know personally the patriarch or matriarch who's behind it all; establish whether they're "on the same side" as their investors, have a record of value creation and are good people.

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Bottom Line There are two real downsides to being independent: you're sometimes disastrously out-of-step with the herd and it's devilishly hard to find an appropriate benchmark for the fund's risk-return profile. That means that both ratings and relative returns are often somewhere between irrelevant and disastrously misleading. Successful investors in the fund need to understand what the team is up to, and to ignore one-star and five-star ratings with equal aplomb. If you're willing to learn why an experienced investor would commit eight times more assets than any other fund to a micro-cap bulk shipping company, then purchase another 400,000 shares when an investor panic drives the share price down by 25%, then you should meet David Marcus. He does remarkable work.

Fund website Evermore Global Value Fund. In general, when a fund is presented as one manifestation of a strategy, it's informative to wander around the site to learn what you can. I rather liked Mr. Marcus's white paper describing developed Europe as "lonely and lumpy." (I so know the feeling.)

Disclosure

References to other mutual funds should not be interpreted as an offer of these securities.

The Evermore Global Value Fund is distributed by Quasar Distributors, LLC.

	Q2 2017	1-Year	3-Year	5-Year	Since Inception
Evermore Global Value Investor Shares	1.84%	31.22%	9.28%	13.91%	6.68%

Inception: 01/01/2010. All periods over one year are average annualized total returns. The current gross expense ratios for the Investor class and Institutional class shares are 1.52% and 1.27% respectively.

The performance data quoted represents past performance and is no guarantee of future results. Current performance may be lower or higher than the performance data quoted. Investment return and principal value will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Performance data current to the most recent month end may be obtained by calling 866-EVERMORE or (866-383-7667). Total return figures include reinvestment, if any, of all dividend and capital gain distributions. Investment performance reflects expense limitations in effect. In the absence of such expense limitations, total return would be reduced. The Fund imposes a 2% redemption fee on shares redeemed within 90 days. Performance data quoted does not reflect the redemption fee. If reflected, total returns would be reduced. While the fund is no-load, management & other expenses still apply. Please refer to the Prospectus for more information.

Diversification does not guarantee a profit or protect from loss in a declining market.

The intrinsic value is the actual value of a company or an asset based on an underlying perception of its true value including all aspects of the business, in terms of both tangible and intangible factors.

Correlation, in the finance and investment industries, is a statistic that measures the degree to which two securities move in relation to each other and is computed into what is known as the correlation coefficient, which has a value that must fall between -1 and 1.

The opinions expressed are those of the author and are subject to change, are not guaranteed and should not be considered investment advice.

Mutual fund investing involves risk. Principal loss is possible. The Fund invests in foreign securities which involve greater volatility and political, economic and currency risks and differences in accounting methods. These risks are greater for emerging markets. Investing in small and mid-sized companies involves additional risks such as limited liquidity and greater volatility. The Fund may make short sales of securities, which involves the risk that losses may exceed the original amount invested. Investments in debt securities typically decrease in value when interest rates rise. This risk is usually greater for longer-term debt securities. Investment in lower-rated, non-rated and distressed securities presents a greater risk of loss to principal and interest than higher-rated securities. Due to the focused portfolio, the fund may have more volatility and more risk than a fund that invests in a greater number of securities. Additional special risks relevant to our Fund involve derivatives and special situations. Please refer to the prospectus for further details.

Investors should carefully consider the investment objectives, risks, charges and expenses of the Fund before investing. This and other important information is contained in the Evermore Funds' statutory and summary prospectuses, which may be obtained by contacting your financial advisor, by calling Evermore Global Advisors at 866-EVERMORE or (866-383-7667) or on our website at ***www.evermoreglobal.com****. Please read it carefully before investing.*