

Phaeacian Accent International Value Ins PPIVX

Mostly smoother sailing.

Morningstar's Take PPIVX

Morningstar Rating ★★★

Morningstar Analyst Rating Silver

Morningstar Pillars

Process	Above Average
Performance	—
People	Above Average
Parent	Above Average
Price	—

Role In Portfolio

Supporting Player

Fund Performance

Year	Total Return (%)	+/- Category
YTD	8.01	0.31
2020	19.64	-8.76
2019	24.05	-3.73
2018	-10.81	7.53
2017	27.12	-9.07

Data through 6-30-21

11-11-20 | by Dan Culloton

Phaeacian Accent International Value has the same high-conviction manager and process, but a new name and a Morningstar Analyst Rating upgrade to Silver.

This strategy changed its name and parent company in October 2020. Since its late-2011 inception it had been FPA International Value, but manager Pierre Py and his team broke from that Los Angeles-based fund family to start Phaeacian Partners with the backing of U.K.-based money manager Polar Capital.

That was a big move in a tumultuous year. The team and strategy, however, pulled it off without diminishing their Above Average People and Process ratings. Py works with the same team of three analysts he recruited and trained at FPA and can call on fellow FPA alum, Phaeacian Global Value co-manager, and firm partner Greg Herr. The

team also still uses the same old-school, iconoclastic, bottom-up stock-picking approach that has produced streaky but strong results since December 2011. Furthermore, the squad set up its own shop while deftly negotiating one of the most treacherous market environments in history.

The overall rating upgrade has more to do with the distribution of ratings among rivals in the fund's current foreign small/mid-blend Morningstar Category, but Py, his team, Polar, and FPA deserve kudos for navigating a fraught environment smoothly. Py and his colleagues demonstrated the discipline required to deliver on their simple yet demanding process. They entered the year worried about valuations with a large cash stake but pounced when global equity markets crashed in 2020's first quarter. They added more than two dozen new holdings, many of which helped the fund compete with peers and relevant benchmarks when equities rebounded. Successful picks ranged from Dutch specialty chemical company Koninklijke DSM NV to British industrial distributor Electrocomponents.

This strategy won't always look this good. Cash has been a drag in the past and can be again in the future. Its off-the-beaten-path stock picks can also take time to pay off. For the hardy, though, it has been worth the wait.

Process Pillar Above Average | Dan Culloton 11/10/2020

This is an old-fashioned, bottom-up, benchmark-ignoring, cash-hoarding, concentrated, value-oriented contrarian approach. It's not for everyone, but manager Pierre Py's adherence to it helps earn the strategy an Above Average Process rating.

Py relies on fundamental research to find 25-35 companies with solid businesses, valuable assets, and promising management teams but with shares trading at 70% of their estimated intrinsic values.

He builds a concentrated portfolio that often strays across market-cap and style boundaries, but it has demonstrated a consistent affinity for small- and mid-cap stocks.

Py primarily depends on extensive travel and company visits with his analysts to build an approved list of companies, the shares of which he'll buy when their prices look right. He bides his time learning about firms, their competitors, suppliers, customers, and managements until valuations fall into his range. He allows cash to build if he cannot find stocks that fit his standards: Cash has averaged more than 30% of assets since inception. The fund will hedge currency exposure once the free cash flow exposure of its underlying holdings to any currency exceeds 10%. Py will concentrate assets in the fund's top holdings and own small, illiquid stocks and securities. He estimates capacity at \$3 billion-\$5 billion.

Manager Pierre Py started 2020 cautious, got aggressive, and grew wary again.

The fund's cash stake grew to more than 40% of assets in the first quarter as Py sold fully valued stocks. When the coronavirus slammed global markets, he bought hand over fist, adding a diverse passel of companies whose share prices had suffered more than their underlying business values. Cash fell below 10% as Py shopped across sectors and market caps, including global consumer products conglomerate Unilever, and specialty chemical company Koninklijke DSM NV, eyeglass seller GrandVision NV, and medical diagnostic company Royal Phillips NV from the Netherlands. Py shed companies whose business models had been upended by the coronavirus shutdown, such as Irish airline Ryanair Holdings, French commercial caterer Sodexo, and Australian daycare provider G8 Education. He also sold Allied Irish Bank and U.K. funeral home chain Dignity PLC at losses, because their businesses had withered under intense regulatory scrutiny. Fundamentals

and valuations drove trades rather than broader region, sector, or market-cap exposures; as a result, the fund had huge overweightings in developed Europe and the tech and communications sectors.

Many of the first- and second-quarter picks rallied with the markets after their March lows, prompting Py to trim again, pushing cash back toward 20% in September 2020.

Performance Pillar | Dan Culloton 11/10/2020

This strategy has delivered lumpy but decent risk-adjusted returns.

Relative to its current foreign small/mid-blend Morningstar Category, this fund looks decent. Its 7.8% gain from January 2012 through October 2020 beat the peer group's 6.8% mean and the MSCI World ex USA SMID Index's 7.1% gain.

The strategy and its manager don't pay much attention to benchmarks or style-based peer groups. In truth, this fund is different. It often has a big cash stake and a distinct portfolio, consistent with manager Pierre Py's intent: achieving competitive absolute returns over a full market cycle with a concentrated, value-oriented, go-anywhere approach. Measured against that goal, results look solid. From January 2012 through October 2020, the fund has beaten its prospectus benchmark, the MSCI All Country World Index ex USA, which has advanced 5.2%. The fund's average market cap since inception has been lower than that of the benchmark, and its results have been closer to small-cap non-U.S. bogies. Its risk-adjusted results are much more competitive with relevant benchmarks and peer groups. It also beats the MSCI ACWI ex USA and MSCI ACWI ex USA SMID when they are coupled with a 30% cash stake. It also lost far less than benchmark and peers in 2020's coronavirus-driven sell-off and participated enough in the rebound to rank at the category's top for the year ended October 2020.

People Pillar  Above Average | Dan

Culloton 11/10/2020

Pierre Py, lead manager here since the fund's inception, has set up his own shop but still has the

skill and support to merit an Above Average People rating.

Py, who joined FPA in 2011 to launch this strategy, started his own firm, Phaeacian Partners, with the help of U.K.-based Polar Capital and FPA in the second half of 2020. He manages this strategy with the same team he built.

Py and his small squad have demonstrated commitment, experience, and skill with this fund's high-conviction process. He is a former analyst at Harris Associates--the subadvisor to Gold-rated Oakmark International OAKIX--and started this strategy with fellow Harris alum Erik Bokota in 2011. Bokota left less than a year later.

There have been other changes since then, but none since 2017. The three-person analyst bench includes Jason Dempsey, who joined in 2013 from Artisan Partners; John Madden, a former analyst at NWQ Investment Management and Tradewinds Global Investors who joined in October 2016; and John Harris, who arrived from Brandes Investment Partners in 2017. Former analyst Victor Liu came from Causeway Capital Partners in 2013 but went back in 2015. Greg Herr, Py's comanager at world-stock fund Phaeacian Global Value PPGVX, helps Py out and is a Phaeacian co-owner. The team averages more than 13 years of experience. Both Py and Herr invest in this fund.

Parent Pillar  Above Average | Samuel

Meakin 07/30/2020

Polar Capital is a specialist asset manager offering a number of different geographical and sector strategies and featuring a strong range of portfolio managers. It was founded in 2001 by former Henderson managers Tim Woolley and Brian Ashford-Russell and has been built out over time via the addition of new teams as well as the development of new strategies internally. Teams within Polar operate as individual units and are given autonomy to apply their respective investment processes as appropriate, while benefitting from central monitoring on the risk side as well as receiving centralised compliance, legal, and distribution services. Retention of investment talent has generally been strong, and succession planning has been managed in a sensible and

orderly fashion, providing consistency for investors. Polar's Technology strategy accounts for a significant proportion of total firm assets (over 40% as of March 2020), which brings concentration risk, but the group acknowledges this and has been mindful of the stability of the Technology team. The firm also continues to diversify its asset base by bringing in experienced teams and developing new strategies within its existing circle of competence in-house. The most recent example of the former was the announcement in February 2020 of the agreement to acquire the International Value and World Value equity team from First Pacific Advisors.

Price Pillar | Dan Culloton 11/10/2020

It's critical to evaluate expenses, as they come directly out of returns. The share class on this report levies a fee that ranks in its Morningstar category's second-costliest quintile. That's poor, but based on our assessment of the fund's People, Process and Parent pillars in the context of these fees, we still think this share class will be able to overcome its high fees and deliver positive alpha relative to the category benchmark index, explaining its Morningstar Analyst Rating of Silver.