Evermore Global Value (EVGBX)

A Mutual Fund Observer 'Star in the Shadows' Fund

By David Snowball, Publisher

Mutual Fund Observer

Everyone else wants to be Warren Buffett. They're all about buying "a wonderful company at a fair price." Mr. Marcus is not looking for "great companies selling at a modest price."

Fund name Evermore Global Value (EVGBX).

Objective and Strategy Evermore Global Value Fund seeks capital appreciation by investing in a global portfolio of 30-40 securities. Their focus is on micro to mid-cap. They're willing "to dabble" in larger cap names, but it's not their core. Similarly they may invest beyond the equity market in "less liquid" investments such as distressed debt. They've frequently held short positions to hedge market risk and are willing to hold a lot of cash.

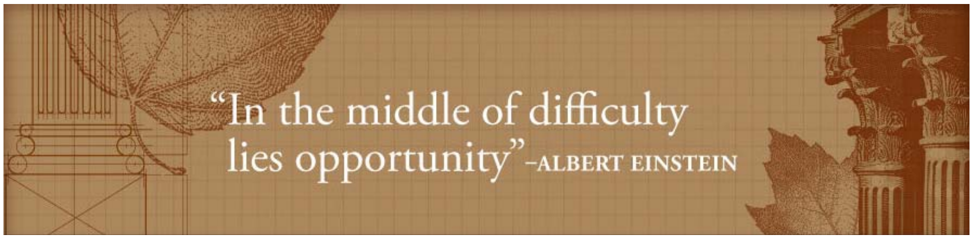
Adviser Evermore Global Advisors, LLC. Evermore was founded by Mutual Series alumni David Marcus and Eric LeGoff in June 2009. David Marcus manages the portfolios. While they manage several products, including their US mutual fund, all of them follow the same "special situations" strategy. They have about $400 million in AUM.

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, 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 $400 million, including some separate accounts which rely on the same discipline. He'll close if he's ever forced into style drift.

Active share 100. "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 100.6, which reflects extreme independence plus the effect of several hedged positions.

Management's stake in the fund Substantial. The fund provides all of Mr. Marcus's equity exposure except for long-held legacy positions that predate the launch of Evermore. He's slowly "migrating assets" from those positions to greater investments in the fund and anticipates that his holdings will grow substantially. His family, business partner and all



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of his employees are invested. In addition, he co-owns the firm to which he and his partner have committed millions of their personal wealth. It's striking that one of his two outside board members, the guy who helped build the Oppenheimer Funds group, has invested more than a million in the fund (despite receiving just a few thousand dollars a year for his work with the fund). That's incredibly rare.

Opening date January 1, 2010.

Minimum investment $5000 for "A" class shares, reduced to $2000 for tax-advantaged accounts. The institutional share class (EVGIX) has a $1 million minimum, no load and a 1.38% expense ratio.

Expense ratio 1.63%, on assets of $235 million. There's a 5% maximum sales load which, because of agreements with advisers and financial intermediaries, is waived for some qualifying investors.

Comments Kermit the Frog famously crooned (or croaked) the song "It's Not Easy Being Green" ("it seems you blend in with so many other ordinary things, And people tend to pass you over"). I suspect that if Mr. Marcus were the lyricist, the song would have been "It's Not Easy Being Independent." As its active share signals, Evermore Global is one of the most independent funds around.

Everyone else wants to be Warren Buffett. They're all about buying "a wonderful company at a fair price." Mr. Marcus is not looking for "great companies selling at a modest price." There are, he notes, a million guys already out their chasing those companies. That sort of growth-at-a-reasonable price focus isn't in his genes and isn't where he can distinguish himself. He does, faithfully and well, what Michael Price taught him to do: find and exploit special situations, often in uncovered or under-covered smaller stocks. That predisposition is reflected in his fund's active share: 100.6 on a scale that normally tops-out at 100.

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 small- and micro-cap stocks as does its peers. It has half of the US exposure and twice the European exposure of the average global fund.[1] And it has zero exposure to three defensive sectors (consumer defensive, healthcare, utilities) that make up a quarter of the average global fund.

The fund focuses on a small number of positions—rarely more than 40—that fall into one of two categories:

> *Cheap with a catalyst*: he describes this as a private-equity mentality where "cheap" is attractive only if there's good reason to believe it's not going to remain cheap. The goal is to find businesses that merely have to stop being awful in order to recruit a profit to their investors, rather than requiring earnings growth to do so. This helps explain why the fund is lightly invested in both Japan (cheap, few catalysts) and the U.S. (lot of catalysts, broadly overpriced).
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> *Compounders*: a term that means different things to different investors. Here he means 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.

Mr. Marcus thinks of himself as an absolute value investor and follows Seth Klarman's adage, "invest when you have the edge; when you don't have the edge, don't invest."

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.

Evermore was substantially out-of-step for its first three years. It posted mid-single digit returns in 2010 and 2012, and crashed in 2011. 2011 was a turbulent year in the markets and Evermore's loss of nearly 20% was among the worst suffered by global stock funds. Mr. Marcus would ask you to keep two considerations in mind before placing too much weight on those returns:

> *Special situations stocks* are, almost by definition, poorly understood, feared or loathed. These are often battered or untested companies with little or no analyst coverage. When markets correct, these stocks often fall fastest and furthest.
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> *Special situations portfolios* take time to mature. By definition, these are firms with unusual challenges. Mr. Marcus invests when there's evidence that the firm is able to overcome their challenges and is moving to do so (i.e., there's a catalyst), but that process might take years to unfold. In consequence, it takes time for the underlying value to be unlocked. He argues that the stocks he purchased in 2010-11 were beginning to pay off in 2012 and, especially, 2013. In baseball terms, he believes he now has a solid line-up of mid- to late-inning names.

The upside of special situations investing is two-fold. First, mispricing in their securities can be severe. There are few corners of the market further from efficient pricing than this. These stocks can't be found or analyzed using standard quantitative measures and there are fewer and fewer seasoned analysts out there capable of understanding them. Second, a lot of the stocks' returns are independent 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 relatively 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.

Bottom Line There's no question that Evermore Global Value is a hard fund to love. It sports a one-star Morningstar rating and bottom-tier three year returns. The question is, does that say more about the fund or more about our ability to understand really independent, distinctive funds? The discipline that Max Heine taught to Michael Price, that Michael Price (who consulted on the launch of this fund) taught to David Marcus, and that David Marcus is teaching to his analysts, is highly-specialized, rarely practiced and—over long cycles—could be 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.

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. With Evermore, there's a nice discussion under "Active Value" of Mr. Marcus's experience as an operating officer and its relevance for his work as an investor.

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 and quarter end may be obtained by calling 866-EVERMORE (866-383-7667) or clicking here.

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. This risk is greater for investments in emerging markets. Investing in smaller companies involve 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. Additional special risks relevant to the fund involves derivatives and hedging. Please refer to the prospectus for further details.

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Investors should carefully consider the investment objectives, risks, charges and expenses of each fund before investing. This and other important information is contained in the statutory and summary prospectuses, which may be obtained by contacting your financial advisor, by calling Evermore Funds Trust at 1-866-EVERMORE (1-866-383-7667) or on this website. Please read the prospectus carefully before investing.

Evermore Global Advisors, LLC is the advisor to the Evermore Funds which are distributed by Quasar Distributors, LLC.

Fund holdings and sector allocations are subject to change at any time and are not recommendations to buy or sell any security. Click here for most recent Evermore Global Value Fund holdings information.

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

[1]Morningstar Direct 3-31-14