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## A New Journey for the International Fund

In late 2012 one Australian dollar was buying more than one US dollar and all major stock market indices across the world were still significantly below their 2007-highs.

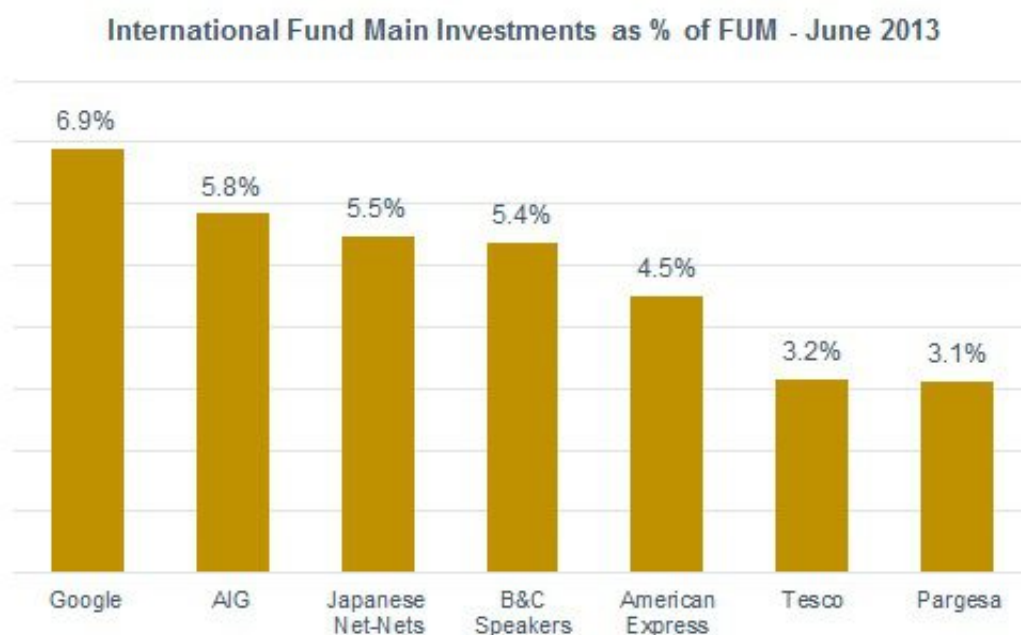
This was a rare opportunity for Australian investors to look abroad. And so the [Forager International Shares Fund](#) was born in February 2013.

Once up and running, our priority was to quickly invest the Fund's capital in foreign currencies and a diversified portfolio of attractively-priced world-class businesses.

At the same time we said that the Fund's investment philosophy was likely to shift over the coming years towards the kind of value investing that has worked so well for the [Australian Shares Fund](#).

Now, three and a half years later it's time to assess where the International Fund is at and what investors should expect in the future from an investment in this Fund.

In June 2013 the International Fund was more than half invested in cash (almost entirely foreign currencies) and, as the accompanying chart shows, its core investments were **Google**, now Alphabet (NASDAQ: GOOGL), **American Express** (NYSE: AXP), **AIG** (NYSE: AIG), **Tesco** (LSE: TSCO) and **Pargesa** (SWX: PARG), which owned stakes in other multinationals such as **Total** (ENXTPA: FP), **Lafarge** (SWX: LHN) and **Pernod Ricard** (ENXTPA: RI).



Only two of those main investments were more typical "Forager style" ones. These were a

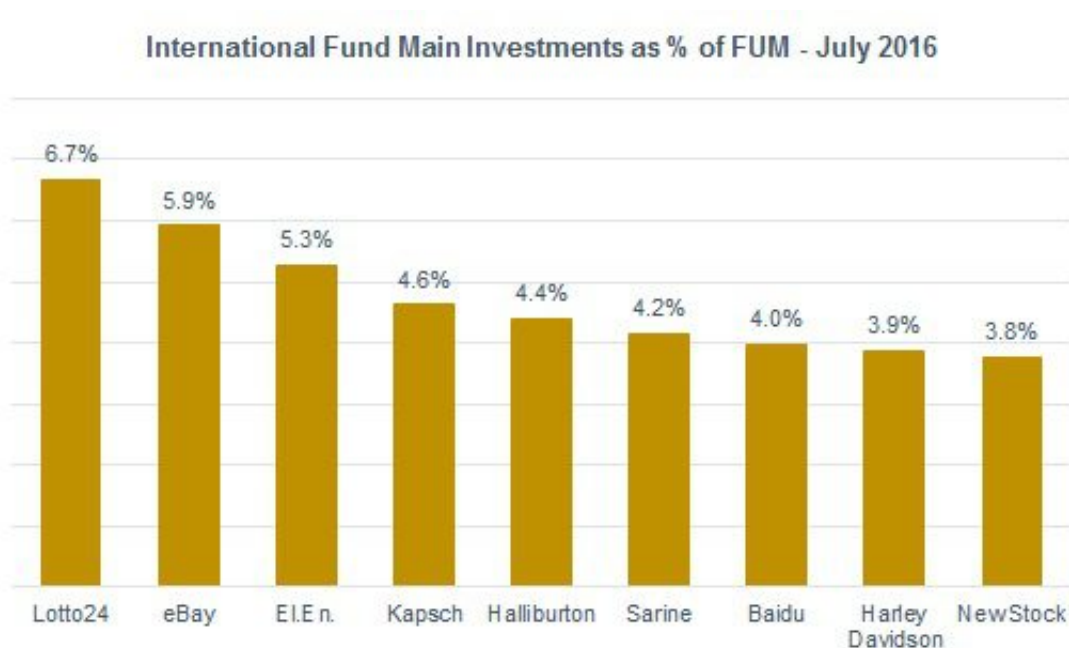
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small Italian manufacturer called **B & C Speakers** (BIT: BEC) and a collection of Japanese stocks (which we viewed as a single position) that were trading below their net working capital – a metric which has served value investors well over the decades.

Since then we have experienced a strong bull market as low interest rates have forced many investors to lower their required rates of return. These core investments performed well. They served their intended purpose of providing the Fund with exposure to global currencies and markets at a reasonable price.

Despite holding significant amounts of cash, the Fund's performance since inception has been a decent 15.8% per annum. A return not to be sneezed at, although 1.5% per annum below the MSCI World Index against which we measure ourselves, which returned 17.3% per annum in Australian dollar terms over the same period.

But, as you may have noticed from our [March 2016](#) and [June 2016](#) Quarterly Reports, the portfolio no longer looks like the initial one. In fact, last week the Fund sold the last one of those legacy core holdings\*, AIG, to make room for a more Forager-like idea which we will disclose in our upcoming July 2016 Monthly report. The Fund's current major investments are outlined in the chart below.



So, while the former strategy has served us well, we want all investors to be aware that the future direction of the Fund is changing.

While the share prices of those large and widely-followed firms can be weighed down from [time to time](#) to levels below their intrinsic values, Forager has no particular edge in *consistently* uncovering value within such stocks.

If you're interested in owning those stocks, a broad index fund may be worth considering. It would provide exposure to this part of the market more effectively than the Fund can thanks to significantly lower management fees.

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On the other hand, Forager's competitive edge revolves around its ability to look for investment opportunities in parts of the market where larger funds aren't, or simply cannot consider because of their large sizes, stricter mandates and shorter investment horizons. From now on, we want to fully focus on such opportunities.

The Forager International Shares Fund is now aiming to provide investors with exposure to a group of stocks more likely to offer extraordinary value. Something you can't get from an index fund, or even one of the giant actively-managed international funds.

Our investment team has now been operating in the international arena for several years and we are confident that the same approach, processes and skills that have led to the [Australian Shares Fund](#)'s impressive performance can be implemented to great effect internationally.

Investments in stocks like **Lotto 24** (DB:LO24), discussed in the [December 2015 Report](#), **Kapsch** (WBAG:KTCG), discussed in the [September 2015 Report](#) and **El.En.** (BIT:ELN), discussed in the [June 2016 Report](#), are indicative of the investment opportunities Forager wants to offer investors exposure to.

In summary, you should expect to see more 'off the radar' types of investments. As a consequence the Fund's return profile is now likely to diverge significantly from its benchmark from time to time.

There is no certainty that we'll make money but the team believes that the current portfolio and investment philosophy gives the Forager International Shares Fund the best chance of both outperforming its benchmark and adding valuable diversification to investors' portfolios over the long term.

\*= The Fund has repurchased some Google shares after the company reorganised under the Alphabet structure, see the [September 2015 Report](#). Google now represents about 2% of the Fund's assets.