
Keeping the International Shares Fund Portfolio Fresh

In the latest video update Chief Investment Officer, Steve Johnson, talks to portfolio manager, Harvey Migotti, about how despite the recent strong performance of the International Shares Fund, the team continues to actively source new investment opportunities that aim to maximise portfolio returns in the future.

<https://youtu.be/m7JQ1Sv8jpc>

Transcript:

Steve

Hi and welcome its Steve Johnson here, Chief Investment Officer at Forager Funds, and we're talking new ideas into our International Fund with Portfolio Manager, Harvey Migotti. I wrote in our quarterly report about some stocks that have performed very well for us going out of the portfolio, despite us being pretty optimistic about the business's prospects, with share prices run ahead of themselves. We had a great period of performance back in 2017. We sold a lot of stocks and then we sat on a lot of cash for 12 months and it really hampered our returns over that period. I think you've brought a real urgency for us in, 'Ok, these ideas are maturing. We've got to find some new ones' and that's been important over the past 12 months.

Harvey

For me it's all about ideas velocity and making sure the portfolio is fresh, especially when you had the market as volatile as last year. As you know, you've had numerous things up five times, ten times, many have doubled. The broader market from the lowest, certainly had many stocks doubling. So I think in those instances, it's important to constantly be filling the pipeline with new ideas, otherwise things get stale quickly and you have maybe potentially multiple years of consolidation. So I like to try to have a portfolio that's always fresh so that every new investor that comes into the Fund can expect some sort of similar returns rather than just the ones that were there with you 12 months ago. I think it's really important.

Steve

I think that urgency around the portfolio has been really important this time around. Roughly a quarter of the portfolio is actually new ideas that we've found this calendar year alone. I get asked this question all the time around new idea generation, so I'm going to pass the baton to you. What is your process out there for finding your ideas? Because the velocity has been absolutely wonderful over the past 12 months in particular.

Harvey

It could be as random as me reading a magazine or speaking to my mum about something she's gone and done in the US you know, eating in a sushi restaurant, and then it turns out to be a chain. But generally it's a few things that are highlights. It's broker conferences, I try to

attend them, especially virtual it's now much easier, so numerous ones a year. I speak to research houses. Especially some of the guys that cover the smaller cap space, the undiscovered companies, I think that's been a really good source of ideas as well. SPACs and new listings, they've been plentiful over the last year and as we've said it can be a minefield, there's a lot of dogs out there, but a few gems hidden there as well. We've participated in a few that have been really good for us so far. Apart from that, generally reading investment newsletters, blogs, keeping your eye on the Twitter-sphere every once in a while helps. So that's it, you never know where the next idea comes from.

Steve

It's interesting because I give similar answers to people. I think people find it quite underwhelming. They want a, 'this is what I do every day' and I understand it. But it really is a business where just the more rocks you turn and in some ways the more randomly you do it, the better, because you're trying to find things that other people are not looking for or not seeing. If you just do the same things that everyone else is doing, you're going to get the same answers and you're going to be investing in the same stocks. I think a lot of what I see in you is just a mind that is very open to, 'I just want to find the next opportunity and anything that I hear about or anything that anyone's talking about or any suggestion that there's something going on here that people might not see' is what you're looking for when you're reading all this.

Harvey

Ideally, and sometimes it's just in front of you and everyone is talking about it, but the fact is it's just such a good business and there's still some discovery to be had there, but that's generally where you'll find the multi-bagger.

Steve

You talked about conferences a second ago. It's tough from the Sydney time zone. I know you've been doing the midnight till 4:00 AM shift and roped me into a couple of early morning meetings. One of the recent conferences, we had a huge small-cap conference a couple of weeks ago, which was quite interesting. Then last week there was one on the marijuana sector in the US in particular. We were probably the only two value investors attending because it's a pretty hot space at the moment in terms of share prices. Why did you go to start with and did you get anything useful out of it?

Harvey

The starting point for me is to find investments that have some sort of secular growth or, tailwinds. The more tailwinds you have, the more chance there is that you can make some mistakes on the valuation front or some other front, but you will still have a very successful investment that outperforms in the market. So I think you want to see multiple of these things stack up and cannabis is certainly going to be a huge sector in the US as it's being legalized across numerous States. That continued over the past 12 months, we've had some very positive news. There's chatter that in the future it might be legalized federally. So there's no doubt it's going to be huge. Unfortunately, that's kind of obvious to everyone, especially the retail guys out there in the US and a lot of these stocks are trading in astronomical valuations, and many of them will amount to nothing.

That being said, some of the companies that go to these conferences will become the dominant or one of the dominant players and will go up a huge amount from this point onwards even though they're expensive today. And I think it's our job to at least have a look and try to see if we're going to identify which one it is and try to find it. We came out of the conference with some very interesting ideas. There's some really good companies out there many are priced, but you never know when these sectors fall out of favour. Just in the last seven trade trading days since the conference, a lot of these names are down 15%, 20%.

If this continues, you start to see some attractively priced opportunities and the medical uses for cannabis, a lot of people have been reading about them here at home, but they're plentiful whether it's depression or treating other disorders. And that is an area that I quite like. And I think it's very important. I think parts of Australia have legalized cannabis as well for medical usage and that's been proven to work. So I think keeping your eye on these things and just making sure that you're not missing something very obvious is important.

Steve

There's plenty of reasons why this sector goes through the same processes as all these other sectors, there's a land grab and then there'll be consolidation and there'll be some good businesses come out of the other side of it. My experience has been really successful investing is this weird combination of interest and optimism. I think most great investors are actually optimistic about how the world's going to unfold, but then scepticism about whether this business that I'm looking at is going to be taking advantage of that. I think being interested in all of these things, parking that idea of a lot of the time, saying 'that's interesting, and it's an interesting business and I'm interested in what they're doing, but I don't want to pay today's price'. More often than not at some point in time you get one or many of these stocks come back to prices that are very attractive.

Harvey

If you could do that in the dot-com boom, you would have had been very successful. You would have picked the best companies out there, whether it's Amazon or whatever, and as everything is crumbling, and that valuation comes to very attractive levels, at one point Google was trading, I think 11 times PE in the 2000s. So I think if you do that and you keep them on your radar and you've identified the good ones and all of a sudden there's flashing, everyone hates the sector all of a sudden, but yet the fundamentals have continued to improve. That's your value opportunity.

Steve

Great. Thanks a lot Harvey. I hope that's given you a bit of an insight into where those new ideas are coming from. We've been keeping the cards pretty close to our chest in terms of some of these new ideas. They are small cap stocks, and in some cases we're not done on the buying side yet you will read more about them over the coming months and hopefully years though. Thanks for tuning in.

