



The Forager International Shares Fund lagged its index meaningfully in July, recording a 1.8% decline for the month compared to a flat MSCI ACWI IMI. Oil services company **Subsea7** (OB:SUBC) did the most damage but **Sberbank** (MICEX:SBER) was the most concerning.

ESCALATING TENSIONS IN RUSSIA

The investment thesis on Russian bank Sberbank was that, for all the huffing and puffing, self-interested western powers were unlikely to inflict unmanageable damage on the Russian economy. As unfortunate as it was for Ukrainians (or at least the majority of Ukrainians who don't want half of the country becoming a part of Russia), that thesis was playing out as expected. Until the tragic downing of Malaysian Airlines flight MH17.

The subsequent escalation of tensions between Russia and the West clearly heightens the risks in this investment. Russian President Vladimir Putin refuses to back down and has apparently been sending even more troops and advanced weaponry to Russian separatists in Ukraine. The United States and Europe are likely to implement dramatically more severe sanctions on Russia, some of which will directly impact the ability of Sberbank to fund itself in European and North American financial markets.

We didn't sign up for this, as the saying goes. Despite its apparent cheapness, all of our Sberbank securities were sold during the month. The sale price represented a relatively modest 6% on this investment, although the price had fallen a painful 17% between the start of July and the date on which it was sold.

The 8% decline during July in much larger holding Subsea 7 had a more significant impact on your investment. We wrote in the June quarterly report of an improvement in sentiment for oil services stocks amongst global investors. It was short-lived.

Both **Dolphin Group** (OB:DOLP) and Subsea7 gave up all of the previous gains and, in the case of Subsea 7, then some. The cause was a 7% fall in the oil price over July, and the second quarter results announcements of French competitor Technip. Although reporting a healthy result, Technip highlighted weakness in the outlook for the industry and management specifically spoke of increased competition for new contracts, causing the share price to fall 9% on the day and Subsea7's to fall 3% in sympathy. While the market is absurdly reactive to each quarter's results and the outlook for the next 12 months, our view here is a long-term one. That is that oil majors will eventually have to spend significantly more in exploration and development to replace dwindling reserves, which means plenty of work for Subsea7 and the rest of the industry (Subsea7 reported its own quarterly results just after month end).

GOOGLE TO THE RESCUE

The Fund's largest holding, **Google** (NASDAQ:GOOG), has been having a much better time of things, although the share price is little changed over the month. Despite its already gigantic size, revenues in the June quarter were 22% higher than the previous year.

Once again the average price received per click fell 6% as more of the advertising dollars came from mobile devices, but growth in the number of clicks accelerated to 25%. Uncertainty around Google's ability to generate returns from mobile advertising that are commensurate with its desktop search advertising revenues are receding.

That's good news. But large splurges on property, data centres and acquisitions mean Google's cash balance hasn't increased over the past 6 months, despite not returning any cash to shareholders. Making profit is wonderful. Spending it wisely is just as important.

FACTS

Fund commenced	8 Feb 2013
Minimum investment	\$20,000
Monthly Investment	Min. \$200/mth
Income distribution	Annual, 30 June
Applications/Redemption	Weekly

UNIT PRICE SUMMARY

Date	31 July 2014
Buy Price	\$1.2955
Redemption Price	\$1.2852
Mid Price	\$1.2903
Portfolio value	\$61.2m

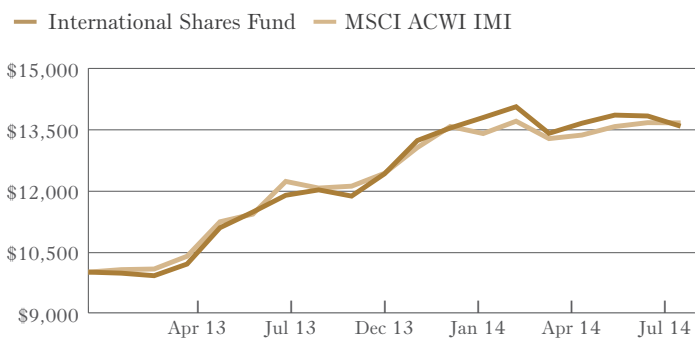
PERFORMANCE

Forager International Shares Fund Performance Summary (as at 31 July 2014)

	International Shares Fund	MSCI ACWI IMI
1 mth return	-1.81%	-0.04%
3 mth return	-0.53%	2.24%
6 mth return	-1.54%	1.96%
1 year return	14.25%	11.74%
Since inception*	23.06%	23.56%

*8 February 2013

COMPARISON OF \$10,000 INVESTED IN INTERNATIONAL SHARES FUND VS MSCI ACWI IMI



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