FORAGER INTERNATIONAL SHARES FUND November 2015

It's been a poor month for two of the Fund's UK holdings. Fortunately, relatively modest position sizes and good outcomes elsewhere in the portfolio limited the damage.

Having bought real estate conglomerate **Countrywide plc** (LSE:CWD) in January 2015, hindsight says we should have sold it just four months later for a 40% gain. We didn't. Unfortunately the anticipated post-election recovery never materialised and in the third quarter the volume of house exchanges across the company's broad portfolio of agency brands fell 8% compared with the prior year. Given operating leverage, profits will fall further. The stock gave up all its previous gains, and a little extra.

There's comfort in the company's reliable and growing lettings business and the fact that most of its sales business is outside of London. But we're also cognisant of the boom-bust nature of UK housing and some of the longer-term technological threats to the business model. The Fund added a little more stock recently, but the position size will remain modest.

Yet to even outline our case for **Rolls Royce Holdings plc** (LSE:RR), one-half of a global duopoly in wide-body civil aircraft engines, we'll now fast-forward to what went wrong (we'll outline the investment case more fully in the December quarterly).

Rolls has a near-certain, very substantial increase in sales of civil aircraft engines coming over the next decade, which will also boost its book of very lucrative, locked-in aftermarket services. But it also has businesses creating power systems for other applications, some of which are currently struggling—like oil and gas, defence and business jets. Its commercial aircraft engine business is transitioning from a generation of very profitable older engines to next generation engines that won't be as profitable for at least five years. It has accounting practices that fall somewhere between fancifully aggressive and pure ostrich. And, most importantly, it has a bloated cost structure.

After four profit warnings in 18 months, the Fund first acquired shares a few months ago after the appointment of a new CEO with a reputation for inventiveness and ruthlessness on costs. There is a lot he can do. That was at least one profit warning too soon, with last month's fifth downgrade sending the stock reeling (down 12% over the month). It felt a bit like the proverbial 'kitchen sink' downgrade and we added a little more stock afterwards. Now, we're rechecking and deepening our analysis to determine whether it's time to get greedy.

It was an eventful month for insurance giant **AIG** (NYSE:AIG), attracting the attention of a famous activist investor before releasing an unimpressive quarterly result.

The company's Property Casualty insurance division reported declining revenues and a 40% fall in operating income, with the strong US dollar and a sharp drop in investment income (due to low interest rates) the chief influences. In AIG's Retirement division, lower investment income and poor performance from hedge fund investments led to an 11% decline in revenue and a 42% decline in operating income.

It was an uninspiring result but all is not lost. The listless operating performance has attracted the attention of Carl Icahn, who has acquired a significant stake and is pushing for a breakup of the company's three main businesses. A split would help AIG avoid the burdensome "SIFI" designation (Systemically Important Financial Institution) and would probably free up more capital which could be returned to shareholders. We are hopeful pressure from Icahn and others could lead to change at a company too apathetic about its own mediocrity. There's plenty of value here waiting to be unlocked.

FACTS

Fund commenced	08 February 2013
Minimum investment	$20,000
Monthly Investment	Min. $200/mth
Income distribution	Annual, 30 June
Applications/Redemption	Weekly

UNIT PRICE SUMMARY

Date	30 November 2015
Buy Price	$1.4614
Redemption Price	$1.4541
Mid Price	$1.4577
Portfolio value	$85.5m

PERFORMANCE

Forager International Shares Fund Performance Summary
(as at 30-Nov-15)

	FISF	MSCI ACWI IMI
1 mth return	–3.19%	–2.15%
3 mth return	–2.77%	0.77%
6 mth return	0.17%	–0.17%
1 year return	18.87%	15.47%
2 year return	10.49% p.a.	15.26% p.a.
Since inception*	18.60% p.a.	21.65% p.a.

*8 Feb 2013

COMPARISON OF $10,000 INVESTED IN THE INTERNATIONAL SHARES FUND AND MSCI ACWI IMI