FORAGER INTERNATIONAL SHARES FUND

January 2016

Weak and volatile global equity markets have enabled us to add a number of new holdings to the International Shares Fund in recent months. For the first time since it was launched almost three years ago, the Fund is fully invested and is now a portfolio of very attractively priced stocks.

There is little doubt the future contains more severe market routs than the one stockmarkets are currently experiencing, but the current opportunity set is attractive. Retractions of between 10% and 20% for most markets belie significantly higher levels of underlying turmoil. The Hong Kong stockmarket, for example, is down 33% from its peak, but 50% of the exchange's 2,000 constituents are trading at less than half their 52-week highs. That is fertile ground for value investing.

You will read more about the new additions in a future quarterly report but, suffice to say, our view on the prospective returns from this portfolio has improved meaningfully over the past six months.

One of the stocks that was supposed to protect our wealth while we took a cautious stance hasn't done much of a job of it. The share price of **American Express Group** (NYSE:AXP) has fallen 25% in the past year and a further 26% this January. This company owns one of the world's great brands but its value is being eroded on several fronts.

The ability to charge dramatically higher fees than competitors is waning. Merchants weighing up the value of the Amex name against almost-free offers from banks teaming up with **Visa** (NYSE:V) and **Mastercard** (NYSE:MA) are either leaving or forcing Amex to lower its fees.

The threat of new technologies disrupting the existing payments system is starting to weigh on investors' minds (although not yet showing up in the numbers). And, for Amex shareholders, the strong US dollar is eroding the significant portion of revenues earned in Euros and other foreign currencies.

We knew the business had a difficult few years ahead of it, but the risk of a difficult decade has become more apparent. Today's share price reflects that, but last year's didn't.

Ebay's full year results (Nasdaq:EBAY) also disappointed investors, but in this case we struggle to see what the fuss is about. The strong US dollar eroded all of the 5% organic revenue growth in the final quarter of the year, but that was as expected. The company provided more information about online ticket reseller Stubhub, which grew 34% on the previous year, and its Classifieds business (including Australian site Gumtree), which grew 15% before currency impacts.

The core Ebay business is no **Google** (Nasdaq:GOOG), but it is not being priced like Google either. There is plenty of room for costs to come down and any revenue growth would be a bonus. The Fund's Ebay holding was increased by a small amount during the month.

Finally, UK real estate agent **Countrywide** (LSE:CWD) did an about face on a previous downgrade and announced that 2015 wasn't as bad as previously expected, although how much better is impossible to tell from the announcement ("The Group now expects that underlying EBITDA for 2015 will show a modest improvement on our previous expectations"). The company's management are seeing some positive signs for 2016, with "pipe-lines ahead of the previous year", which makes it all the more surprising that the CEO thinks she has enough time to join the Tesco board.

Still, we like the stability of Countrywide's significant lettings business, in what is an otherwise cyclical industry, and are generally happy with management's execution of its growth plans. Trading on a very undemanding multiple, it is a meaningful contributor to our optimism on the overall portfolio.

FACTS

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

UNIT PRICE SUMMARY

Date	29 January 2016
Buy Price	$1.3492
Redemption Price	$1.3424
Mid Price	$1.3458
Portfolio Value	$80.2m

PERFORMANCE

Forager International Shares Fund Performance Summary
(as at 29 January 2016)

	International Shares Fund	MSCI ACWI IMI
1 month return	–5.08%	–3.59%
3 month return	–10.62%	–7.79%
6 month return	–10.50%	–8.24%
1 year return	4.50%	2.53%
2 year return	3.97% p.a.	10.44% p.a.
Since inception*	14.37% p.a.	17.96% p.a.

*8 February 2013

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