



As markets emerged from the jitters and bargains became fewer, hectic trading over the first few months of 2016 gave way to a more sedate April. We added one new position to the portfolio, a company we hope to own more of, so let's save discussion for a future missive. The search continues — during the month we visited portfolio companies across Europe, prospective new investments in the UK and US and attended a value conference in Spain.

Online lotto ticket seller **Lotto24 AG** (DB:LO24), the Fund's largest holding, released some preliminary figures from the first quarter. It added 106,000 new customers over three months, taking the total to almost 1 million. The customer base spent €41.4m buying lotto tickets online, up 66% on a year earlier and generating €4.4m in revenues for the company, up 85%. The revenue margin of 10.7% (that's €4.4m divided by €41.4m) exceeds our original expectations when first buying the stock a few years ago and management are suggesting it could go higher yet. The company is getting close to break even and the large, established user base provides useful downside protection.

Quarterly results from two of our tech holdings provided a lesson on how expectations drive stockmarkets. **Alphabet** (NasdaqGS:GOOGL) (nee Google) reported a 17% increase in revenue, 23% on a constant currency basis (ie ignoring the appreciation in the US dollar over the year, a better reflection of underlying business performance). The stock fell more than 5% the day after the announcement and further since. In contrast, **eBay** (NasdaqGS:EBAY), reported an unspectacular 4% revenue increase (6% in constant currency), but it was well received by the market.

At eBay, the main story is costs. The company is making some progress. One executive we talked to wasn't happy that his flights are now all economy class. His loss is our gain. But there's a lot more fat that could come out of this business, and we'd like to see more progress.

As for Alphabet, it's quite astonishing that a business as large and dominant as the Google search engine is still able to grow revenues at around 20%. It's a goldmine. But, to repeat past discussions, we're more concerned about how the profit gets spent than its absolute size.

Across the Pacific, China's dominant search engine **Baidu** (NasdaqGS:BIDU) reported a strong first quarter. Underlying revenue rose 31% versus the same period last year, with mobile-derived revenues growing more than 50% and PC-based revenue roughly flat. Guidance for the second quarter already underway looks even stronger. Baidu's Online Marketing business continues to print Renminbi, with operating profit margins around 50%. Meanwhile, it continues to invest heavily (by which we mean 'lose money') in Transaction Services.

Just one of those Transaction Services businesses — Baidu Takeout — recently raised fresh capital at an implied valuation of US\$2.5bn. Some of that money was Baidu's but some was external. It's our broader thesis that the market knows Online Marketing is worth significantly more than Baidu's entire stockmarket valuation but they're assigning a large negative value for the group's various Transaction Services businesses. It's potentially significant, then, that some private

investors believe these assets are worth billions while the wider stockmarket feels they're worth significantly less than nothing. Time will tell.

Our underlying holdings have bounced up significantly since the early-2016 lows, although that has been masked to some extent by the strong appreciation of the Australian dollar. The cash balance sits around 12% and could rise further from here, absent a return of market jitters.

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	30 April 2016
Buy Price	\$1.4465
Redemption Price	\$1.4393
Mid Price	\$1.4429
Portfolio Value	\$87.3m

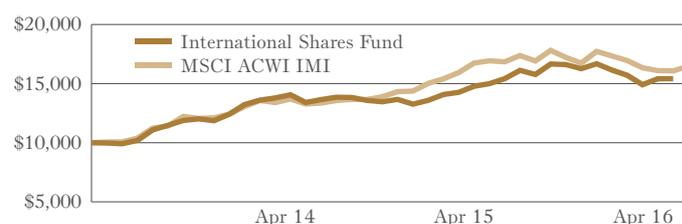
PERFORMANCE

Forager International Shares Fund Performance Summary (as at 30 April 2016)

	International Shares Fund	MSCI ACWI IMI
1 month return	3.64%	2.39%
3 month return	7.22%	0.75%
6 month return	-4.17%	-7.11%
1 year return	3.65%	-2.28%
2 year return	8.21% p.a.	11.01% p.a.
3 year return	16.16% p.a.	16.59% p.a.
Since inception*	15.65% p.a.	16.72% p.a.

*8 February 2013

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



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