



The month of April was dominated by concerns about the financial consequences of another political upset in France's presidential election. Marine Le Pen is the populist candidate threatening to take the country out of the European Union. Emmanuel Macron is the centrist candidate favoured by investors and in favour of an integrated and open Europe.

Polls were predicting a Macron victory but, after Brexit and Donald Trump's US election victory, what would the polls know? As it turned out, they were spot on. Macron clearly won the first round of elections and is now highly likely to win the presidency of his country. The Euro and European stocks, particularly financial ones, rallied strongly as a result.

Whilst we didn't predict any of this, we were confident that US and Australian investors were overstating the risk of a "Trump" happening in Europe. Gareth Brown, our European analyst, observed after his current home country's most recent presidential elections that Trump's victory in the US had actually reduced the chances of the same thing happening in Europe. Austrians love to grumble about their current politicians, but they hate Donald Trump more.

The Forager International Shares Fund has roughly half its portfolio invested in Europe and the UK (although far less currency exposure). We weren't (and aren't) dismissing the risk of severe dislocation. Monetary union without some form of fiscal union remains untenable. But successful investing isn't about avoiding risk. It is about being adequately remunerated for it. Over the past few years, concerns about the European economy have enabled us to purchase several outstanding businesses at attractive prices. We think they can thrive come what may.

Across the channel Lloyds Bank, one of the Fund's largest investments, is showing that it too can thrive despite a difficult economy. The excesses that have come to light since the financial crisis are appalling. And the most recently-revealed scandal sets a new low. A number of executives at HBOS, another UK bank acquired by Lloyds in 2008, have been jailed for intentionally loading small businesses with too much debt before forcing them to use a friend's insolvency company. These executives were rewarded with cash and prostitutes. While the criminal activity predates the HBOS acquisition, Lloyds shareholders are footing the bill. It's hard to imagine the £100m provision for client compensation is going to be anything like enough. While the end bill is likely to be small change relative to the still growing £15bn cost of selling unnecessary payment protection insurance, it is further evidence that these expenses are a permanent aspect of owning a bank in the UK. They need to be included in any conservative valuation.

Fortunately, the management team, led by CEO António Horta-Osório, is doing a wonderful job managing those elements of the business within its control. The company's net interest margin – the gap between the bank's cost on deposits and borrowings and the interest it receives on loans – jumped to 2.80% for the first quarter of this year. Despite the provisions it generated a pre-tax profit of £1.3bn for the quarter. The stock trades at less than 10 times earnings, even assuming the fines and penalties keep coming at a rate of more than £1bn per annum.

The current 4.4% yield should rise significantly this year. Lloyds is cheap and well run. Keep your fingers crossed that rumours Horta-Osório is heading to rival HSBC aren't true.

#### FACTS

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

#### UNIT PRICE SUMMARY

<b>Date</b>	30 April 2017
<b>Buy Price</b>	\$1.7120
<b>Redemption Price</b>	\$1.7051
<b>Mid Price</b>	\$1.7085
<b>Portfolio Value</b>	\$137.8m

\* The Fund is forward-priced; you will receive the price struck subsequent to the receipt of your application/redemption.

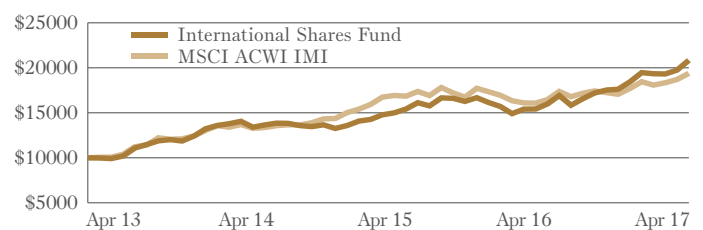
#### PERFORMANCE

##### Forager International Shares Fund Performance Summary (as at 30 April 2017)

	International Shares Fund	MSCI ACWI IMI
1 month return	4.97%	3.64%
3 month return	7.20%	7.24%
6 month return	17.66%	13.63%
1 year return	29.71%	17.76%
2 year return (p.a.)	15.95%	7.28%
3 year return (p.a.)	14.95%	13.21%
Since inception* (p.a.)	18.84%	16.96%

\*8 February 2013

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



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