

FORAGER INTERNATIONAL SHARES FUND

MONTHLY UPDATE APRIL 2018

www.foragerfunds.com

PERFORMANCE (Net of all fees and expenses)

FORAGER INTERNATIONAL SHARES FUND PERFORMANCE SUMMARY (as at 30 April 2018)

	1 month return	3 month return	6 month return	1 year return	3 year return (p.a.)	5 year return (p.a.)	Since inception* (p.a.)
International Shares Fund	4.64%	1.53%	1.29%	3.67%	11.70%	16.08%	15.77%
MSCI ACWI IMI	2.57%	1.82%	5.29%	13.21%	9.22%	16.14%	16.24%

*8 February 2013. Past performance is not an indicator of future performance.

Oil prices rose rapidly in April and traded above US\$70 a barrel for the first time since 2014. Demand has been robust, with the US Energy Information Administration now forecasting demand growth of 1.8 million barrels per day (roughly 1.8% of current global consumption). Supply has been curtailed by intentional Saudi throttling of output and an unintentional collapse in production out of the failing Venezuelan state, resulting in persistent and meaningful monthly drawdowns in global inventories.

All of this has given a boost to the Fund's oil services stocks, particularly **Petroleum Geo-Services ASA** (OB:PGS). The company operates in the seismic industry, recording and selling data for and to offshore oil and gas players. Seismic spending is the first to suffer in downturns and the first to recover once companies start spending again. Close to bankruptcy just six months ago, PGS allayed investor concerns with a healthy first quarter result and talk of a doubling in demand for its services. The share price is up 80% since the start of this calendar year when the Fund reinstated its position.

Halliburton (NYSE:HAL) also presented a much improved first quarter result but, unlike PGS, no one ever thought this business was going broke. This stock has served its purpose as the safest of our oil services investments but its price already factors in a substantial recovery. Confident the worst of the downturn is behind us, we have sold the Fund's stake in Halliburton and redeployed some of the capital to a smaller opportunity, London-listed **Gulf Marine Services** (LSE:GMS).

The Fund sold its stake in **Rolls Royce** (LSE:RR) for a modest profit. Look for a more complete account in the June quarterly. Our former belief that the stock price was deeply underpriced has been increasingly tested. There have been unexpected problems (they're always unexpected) with the Trent 900 and 1000 engines that have been growing in recent years and, according to industry insiders, there is worse to come. More broadly, the issues reminded us that long life warranties and service contracts are not always a plus. We're also concerned that the management forecast of delivering "about £1bn in free cash flow by around 2020", while achievable, is likely cherry-picking. While cash inflows begin early, maintenance costs on the blockbuster XWB engine programme will still be ramping up after 2020. The combination of small share price gains and disappointing operational progress has resulted in less margin of safety and a decision to move on.

Recent results from **Baidu** (NasdaqGS: BIDU) confirm its turnaround from a healthcare scandal in 2016. In the first quarter of 2018, revenue rose 31% to RMB20.9bn versus the same period last year. Management guided for similar growth in the second quarter. The US listing of video streaming company iQiyi brings light to a part of the company formerly in the dark. Baidu's 66% economic interest has an implied market value of US\$8.4bn, multiples of where Baidu CEO Robin Li and other insiders proposed buying iQiyi two years ago. Importantly, the company has simplified how it reports, splitting iQiyi results from its main operations more completely. The new disclosure confirms our thesis of increasing profitability in the core business. As hoped at the time of purchase in 2016, management has curtailed how much it's prepared to lose on Transaction Services (such as food ordering apps) and has instead been selling these assets. This allows the search business's absurd profitability to shine through. Despite still substantial losses in areas like artificial intelligence and autonomous driving, the core business reported adjusted operating profit margins of 39% in the first quarter.

In further positive news, the company announced its intention to flog off a major stake in its financial services business to several private equity players at a price near book value. While Baidu retains a stake, it will reduce the risk that comes with controlling a fast-growing financial services business in China.

TOP 5 HOLDINGS (as % of NAV)

Just Group plc	(LSE:JUST)	5.1%
Alphabet Inc	(Nasdaq:GOOG)	4.6%
Ubi Banca S.p.A.	(BIT:UBI)	4.5%
Gulf Marine Services plc	(LSE:GMS)	4.2%
Cementir Holding S.p.A.	(BIT:CEM)	4.1%
Cash		15.9%

FUND OBJECTIVE

The Fund is an international equities fund, targeting undervalued securities on the world's stock markets. The Fund's investment objective is to outperform the MSCI All Country World Investable Market Index (Net) in Australian dollars (MSCI ACWI IMI) over a rolling 5-year period. The Fund's goal is to produce superior long-term returns from a portfolio of 20–40 businesses, irrespective of short-term share price movements[^].

FACTS

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

UNIT PRICE SUMMARY

As at	30 April 2018
Buy Price	\$1.6572
Redemption Price	\$1.6506
Mid Price	\$1.6539
Portfolio Value	183.0m

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

ABOUT FORAGER

With more than \$370 million of funds under management and a focus on long-term investing, Forager Funds is a unique Australian asset management company.

Following a strong seven-year track record, Forager is a sustainable business but is nimble enough to invest in smaller listed companies not accessible to many investment managers.

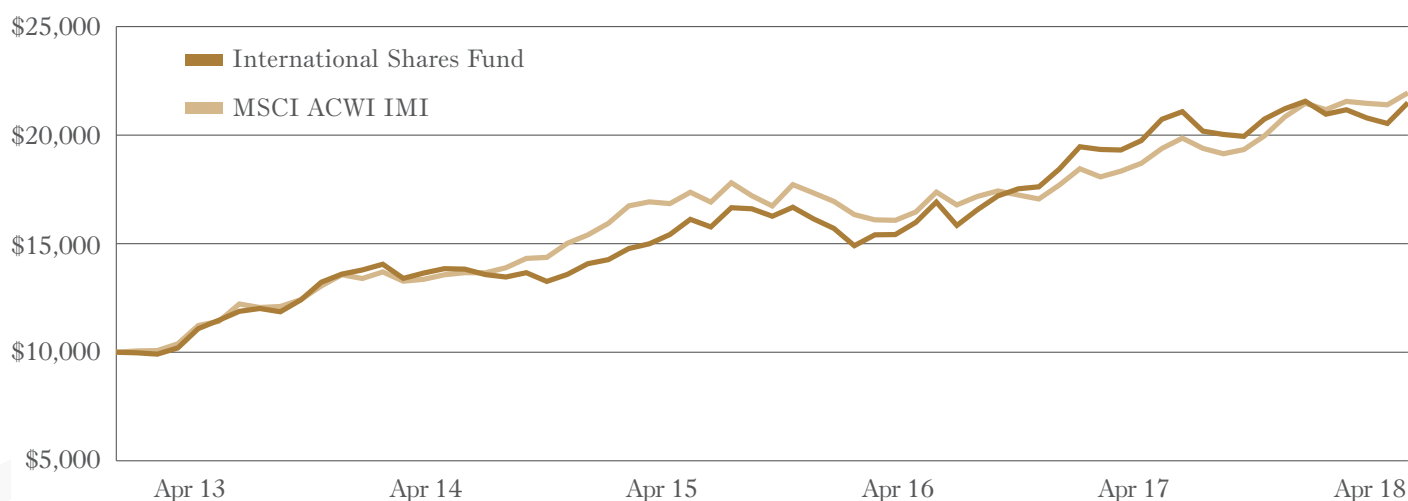
The company is majority owned by staff. Forager's shareholders support the desire to place performance before revenue. That means capping the size of funds before too much money becomes an impediment to performance.

Key investment staff are strongly aligned with investors through co-investment and / or equity in the Forager business.

FUND CHARACTERISTICS

- Concentrated portfolio of global equities
- Investments mainly in small and medium sized businesses
- Flexible mandate allows for a wide range of markets
- Investment team with deep pockets of expertise
- Strong focus on minimising portfolio risks
- Potential complement to index or ETF funds
- Weekly applications and redemptions

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



Source (MSCI ACWI AWD): S&P Capital IQ. The above figures assume that all distributions have been reinvested. Past performance is not a reliable indicator of future performance and the value of your investments can rise or fall.

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