

FORAGER INTERNATIONAL SHARES FUND

MONTHLY UPDATE MAY 2018

www.foragerfunds.com

PERFORMANCE (Net of all fees and expenses)

FORAGER INTERNATIONAL SHARES FUND PERFORMANCE SUMMARY (as at 31 May 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	0.97%	4.37%	0.64%	2.93%	10.41%	14.37%	15.71%
MSCI ACWI IMI	0.16%	2.41%	2.40%	10.66%	8.16%	14.37%	15.99%

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

UK annuities provider **Just Group** (LSE:JUST) started 2018 in good form. The company sold £454m worth of annuity products in the first quarter, an increase of 43% on the same period last year. Sales of bulk solutions to corporate customers drove the increase and these are lumpy in nature. But retail sales were also up an encouraging 8%. Growth requires capital in this business and Just's current share price doesn't warrant shareholders tipping in more, so its growth will be constrained. But constrained growth means better margins, with management suggesting they are now "in a position to price even more selectively over the balance of the year."

In the wake of the encouraging announcement, private equity group Permira disposed of its remaining 17% stake in Just. That removes the last of the private equity holdings in the company, which we recently suggested could be keeping a lid on the share price. Whether the share price now rises or not, we are extremely happy with the company's progress and the prospects of a rising stream of dividends. The Fund has recently added to what was already its largest investment.

Fellow UK company **Babcock International** (LSE:BAB) is a newer addition to the Fund but another where we are content with early progress. We will write more about this business in the June quarterly report but, in order to save you some sleep between now and then, rest assured this Babcock has nothing to do with its infamous Australian namesake. In fact, it has a 20-year track record of slow, reliable growth, good cash flow generation and long-term government contracts that suggest the future is unlikely to be dramatically different. Its recently announced results, for the full year to 31 March 2018, showed growth of 2-3% in revenue and earnings and a forecast of 3-5% growth for the 2019 financial year.

This is not an exciting business. But our average purchase price, roughly nine times last year's earnings, is what increases the Forager heartbeat. It is another good business at a very reasonable price to add to our growing list of UK holdings.

Flughafen Wien (WBAG:FLU) owns Vienna Airport and a 50% stake in the smaller Malta International Airport. Its second most important airline customer, AirBerlin, went bankrupt last year. So first quarter passenger growth of 9% across the group was particularly impressive, even if inflated

by an earlier Easter this year. Underlying revenue was flat, chiefly the result of incentive pricing designed to encourage airlines to open new routes. Those incentives are temporary, so we expect Airport segment revenue to broadly follow passenger growth over time. For the second time this year, management upgraded the 2018 financial outlook and we suspect there are more pleasant surprises to come, both this year and next. The Fund has been adding to this position, which now represents 3.5% of assets.

It wasn't all good news in May. The market reaction to growing political turmoil walloped the market prices of our Italian holdings, particularly **UBI Banca** (BIT:UBI). If interested, you can read our recent blog, [Italian Borsa Back on the Radar](#). Italians haven't had a government since March and the recent turmoil was triggered by the prospect of two extreme parties forming a coalition. Their common policies could be very unhelpful for the banking sector.

That's if they successfully make it through Italy's complicated political system. The reason the country has been impossible to reform for the past 60 years is the same reason we are relaxed about the prospects of anything extreme happening: it is almost impossible to get anything done. Still, UBI was managing to reform and merge its way to a decent return on equity and the current turmoil is likely to set that process back.

TOP 5 HOLDINGS (as % of NAV)

Just Group plc	(LSE:JUST)	6.5%
Gulf Marine Services plc	(LSE:GMS)	5.6%
Alphabet Inc	(Nasdaq:GOOG)	5.0%
Babcock International	(LSE:BAB)	4.4%
Auto Trader Group Plc	(AUTO:LSE)	4.2%
Cash		13.9%

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	31 May 2018
Buy Price	\$1.6733
Redemption Price	\$1.6666
Mid Price	\$1.6699
Portfolio Value	\$180.9m

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

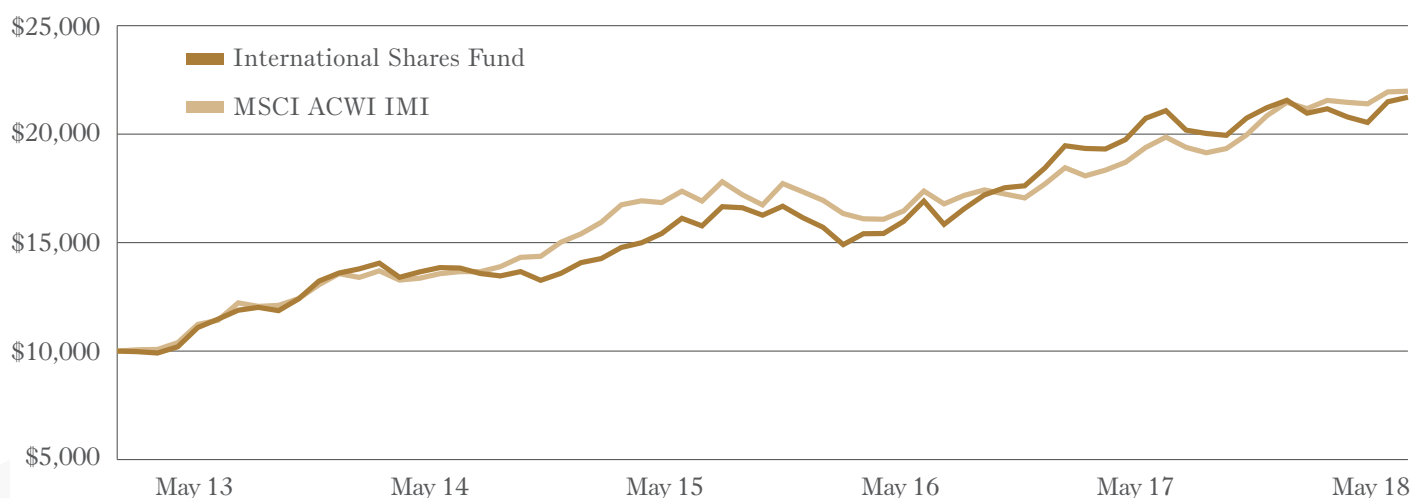
The company is majority owned by staff. Forager's shareholders support the desire to place performance before revenue. That means capping the size of funds before too much money becomes an impediment to performance.

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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