

FORAGER INTERNATIONAL SHARES FUND

MONTHLY REPORT JULY 2018

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PERFORMANCE (Net of all fees and expenses)

FORAGER INTERNATIONAL SHARES FUND PERFORMANCE SUMMARY (as at 31 July 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	-0.55%	1.62%	3.18%	9.03%	9.45%	12.94%	15.33%
MSCI ACWI IMI	2.14%	4.14%	6.03%	19.39%	8.67%	13.33%	16.29%

*8 February 2013. Past performance is not a reliable indicator of future performance and the value of your investments can rise or fall.

It's not often a company's share price gets hammered on announcing a 64% increase in sales, but that's what happened to **Just Group** (LSE:JUST). The UK annuities provider is operating in a buoyant market for its products.

Total annuity sales in the first half of 2018 were 64% higher than the previous corresponding period. Margins were healthy and management is saying the buoyant market is allowing it to be "even more selective on pricing".

The share price, though, is down 28% since the middle of May. That's because of a discussion paper released by the UK insurance regulator, the PRA. Just invests roughly 30% of its annuities proceeds in equity release mortgages, loans to older people against the value of their homes. A key feature is that the borrower doesn't ever have to pay interest — it is added to the loan balance for the remainder of their lives. And they never have to pay back more than the value of their houses. While typical loan to value ratios start at around 20%, if a borrower lives for a long time and house prices fall, Just could conceivably lose some of its principal.

Just holds excess capital to protect against this risk but the PRA thinks it and its peers should be holding a lot more. Under the worst case scenario considered in the PRA discussion paper, Just could need to raise a quarter more capital than it has today (on which it will earn very low returns).

Responses are due by 30 September and the PRA will make a final decision by 31 December. We are hoping the proposal gets watered down and are expecting some transitional relief but this is not good news. The shares are still a bargain, but such a large increase in capital would seriously crimp the upside.

Petroleum Geo-Services (OB:PGS) has seen its share price more than double since Christmas. Its second quarter result justified optimism. The company owns vessels that tow streamers around the ocean collecting data for oil and gas exploration. Thanks to an improving oil market, demand is slowly increasing for its vessels and increasingly robust for its historical data. Prices are up 25% in the past few months. With the current global seismic fleet half its peak of a few years ago, there is a high likelihood of further increases.

Even in an improving market, PGS only expects to break even this year and should be "cash flow positive after debt servicing". It needs to do a lot more than that to justify today's significantly higher valuation. While 2019 is shaping up as a much better year, we have reduced the portfolio exposure over recent months.

On to **Alphabet Inc.** (Nasdaq:GOOG). This month the owner of the Google search engine copped the largest ever antitrust fine handed out to a company by Europe's competition watchdog. It's not all bad news though. Alphabet reported its second quarter earnings in late July and the market was pleasantly surprised. Revenue was 26% higher than last year and while the cost of acquiring search traffic has increased over the period, the increase was below expectations.

Meanwhile the "Google of China", **Baidu** (Nasdaq:BIDU), continues to grow rapidly. Second quarter revenue from Baidu Core was up 28% from the same quarter last year. Core operating income increased 30% to RMB6.7bn, an operating profit margin of 34%. Baidu Core excludes the company's stakes in separately listed internet video business **iQiyi** (Nasdaq:IQ) and online travel seller **Ctrip.com** (Nasdaq:CTRP), but still incorporates significant loss-making investments in areas like driverless cars and artificial intelligence initiatives. Baidu's real core, search, generates even more impressive margins.

The good news was offset by credible reports that Google — absent from China since 2010 — has been working on a censored version of its search engine that might be palatable to China's heavy-handed regulators. We're not terribly concerned, Baidu will prove a formidable incumbent. But given the choice between competing with Google and not competing with Google, we'd take the latter.

TOP 5 HOLDINGS (as % of NAV)

Alphabet Inc	(Nasdaq:GOOG)	5.6%
Just Group plc	(LSE:JUST)	5.5%
Auto Trader Group Plc	(LSE:AUTO)	5.4%
Blanco Technology Group Plc	(AIM: BLTG)	5.2%
Gulf Marine Services Plc	(LSE:GMS)	4.7%
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
Distribution	Annual, 30 June
Applications/Redemption	Weekly

UNIT PRICE SUMMARY

As at	31 July 2018
Buy Price	\$1.6393
Redemption Price	\$1.6327
Mid Price	\$1.6360
Portfolio Value	\$182.6m

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

ABOUT FORAGER

With more than \$360 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.

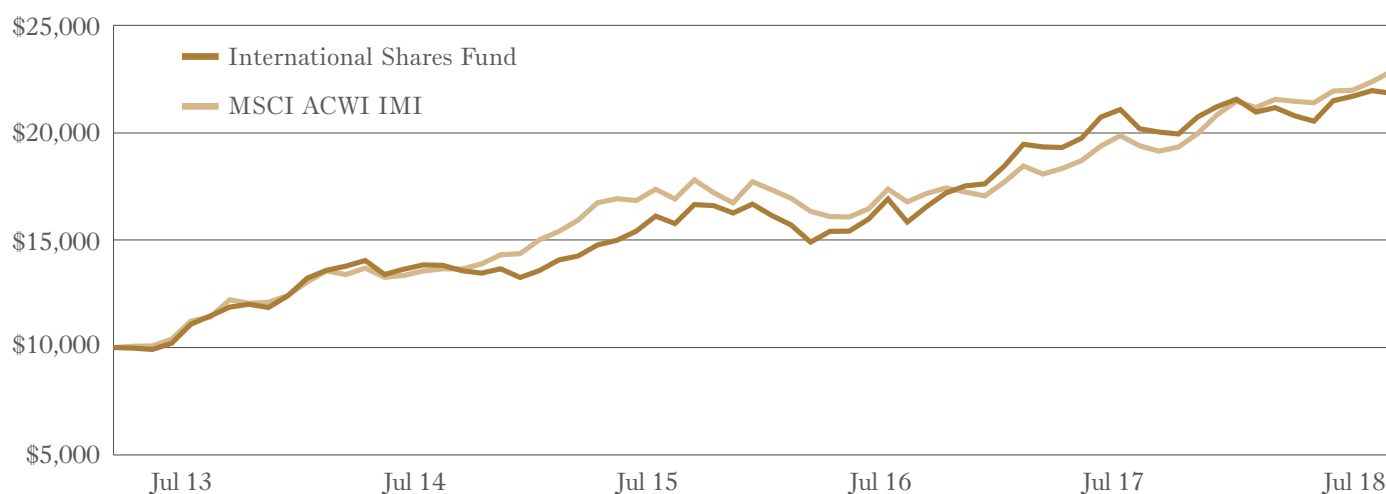
The company is majority owned by staff. Forager's shareholders support the desire to place performance before revenue. That means capping the size of funds before too much money becomes an impediment to performance.

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 managing 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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