

FORAGER INTERNATIONAL SHARES FUND

MONTHLY REPORT FEBRUARY 2019 www.foragerfunds.com

PERFORMANCE (Net of all fees and expenses)

FORAGER INTERNATIONAL SHARES FUND PERFORMANCE SUMMARY (as at 28 February 2019)

	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	5.19%	6.52%	-3.91%	2.46%	11.40%	8.67%	13.30%
MSCI ACWI IMI	5.34%	5.83%	-1.87%	8.39%	13.06%	11.17%	14.96%

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

Global stock markets continued to rally in February with the MSCI World Index up 5.3% in Australian dollar terms. That takes the gains this calendar year to more than 10%.

While the performance has been far from uniform, the Fund has roughly matched the index. Many portfolio companies reported results over the month. Here is how some of them fared.

Thanks to some rapid share price appreciation, data erasure software provider **Blancco Technology** (AIM:BLTG) remains the largest investment. The UK-based company reported revenue of €14.6m for the six months to December 2018, 19% higher than the same six month period in 2017. While sales increased more than 10% in each of the company's three divisions, the Enterprise business stood out with sales growing 30% to £4.7m. This part of the business helps large corporates and their IT partners erase data from mountains of used hardware, as well as active servers.

After a calamitous 2017 financial year where the company had to restate its revenue, 2018 was a year of repair and this year is showing clear signs of a return to healthy growth for Blancco. The new management team, led by CEO Matt Jones, is taking a cautious approach to revenue recognition and focusing on building a strong, growing and reliable revenue stream.

He has some assistance. A proliferation in the number of electronic devices and increased cybersecurity concerns will ensure demand for data erasure services continues to increase. Blancco's unique technology and strong customer loyalty leaves it in poll position to benefit. We are anticipating this company will grow for decades and the latest results, outlook and management meetings reiterate our confidence.

Cement-maker **Cementir** (BIT:CEM) reported 2018 sales of €1.1bn, a touch below 2017. Operating profits were barely changed at €131m. The company entered 2019 with net debt of €255m, down by €288m since the start of 2018. Management's priority is to reduce this further. While we would welcome a dividend increase, especially considering the company's 2% cost of debt, we trust management will continue to allocate capital wisely. With the exception of a poor deal in Turkey in the early 2000s, the track record is encouraging.

Cementir's share price almost halved in 2018 on no specific news. We took advantage of this and recently increased the Fund's investment in the company. Since then the price has rallied 20% and Cementir is now a 4.8% holding. On a price-to-earnings of less than 10, Cementir remains attractively priced.

Fire truck manufacturer **Rosenbauer** (WBAG:ROS) posted sales of €900m in 2018, 6% higher than in 2017. Operating profit was €47.9m, more than double the previous year. Management is overcoming the manufacturing issues that plagued profitability in recent years. Importantly, Rosenbauer's order book continued to grow throughout 2018. The current order backlog is more than €1bn, higher than ever before. Record sales are all but guaranteed in 2019, and margins should also improve.

Assuming reasonable growth in sales and a 6% operating margin, Rosenbauer trades at 11-12 times 2019 earnings, with more growth to come in 2020. The stock is a 2.8% portfolio holding.

Alphabet's (Nasdaq:GOOG) 2018 revenues increased 23%, an impressive rate considering the size of the business. Search, especially on mobile, continues to be the main driver of growth. The cost of generating that revenue—such as content acquisition for video portal YouTube and data centres—also increased rapidly at 31%. But what grew the most was capital expenditure, which totalled an astonishing \$25bn. That's almost double the amount spent in 2017.

Adjusting for surplus cash, Alphabet is trading at about 22 times earnings. Given relentless growth it's hard to argue it is expensive. Still, we would prefer management return more of the company's colossal cash balance and annual cash flow to shareholders. The board has recently authorised another \$12.5bn in share repurchases. While good news, the buyback will merely stop the US\$109bn cash pile from growing further this year, rather than making a dent in it. It's a high quality problem to have.

TOP 5 HOLDINGS (as % of NAV)

Blancco Technology Group Plc (AIM: BLTG)	8.4%
Auto Trader Group Plc (LSE:AUTO)	6.7%
Just Group Plc (LSE:JUST)	6.1%
Alphabet Inc (Nasdaq:GOOG)	5.6%
Linamar Corp (TSX:LNR)	5.3%
Cash	8.6%

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	28 February 2019
Buy Price	\$1.5989
Redemption Price	\$1.5925
Mid Price	\$1.5957
Portfolio Value	\$174.8m

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

ABOUT FORAGER

With approximately \$330 million of funds under management and a focus on long-term investing, Forager Funds is a unique Australian asset management company.

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

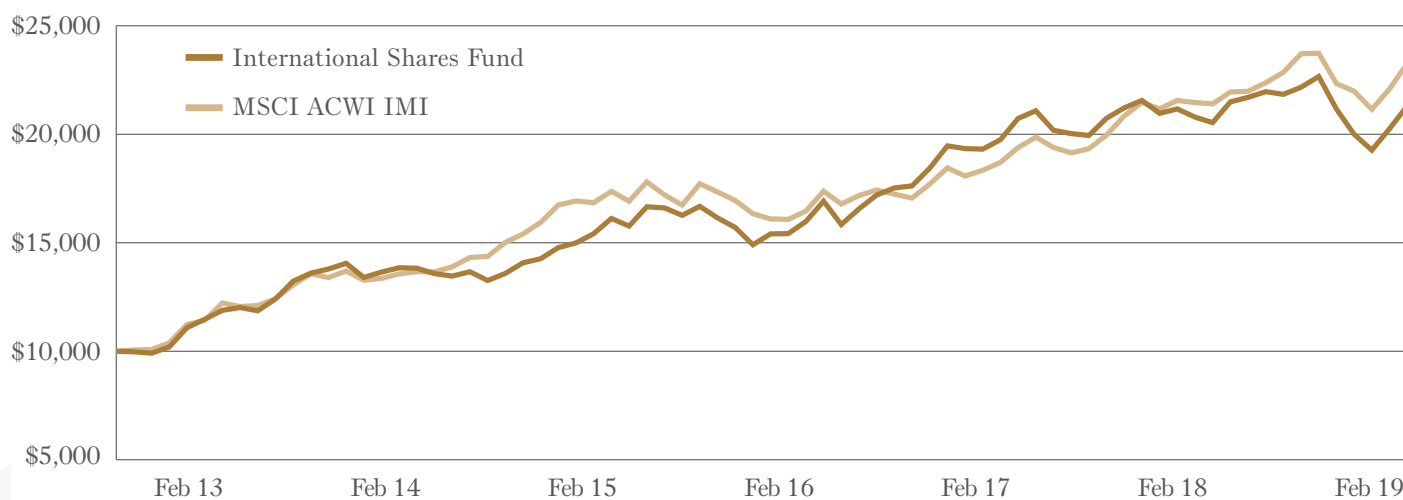
The company is majority owned by staff. Forager's shareholders support the desire to place performance before revenue. That means capping the size of funds before too much money becomes an impediment to performance.

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 AWI): 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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