

# FORAGER INTERNATIONAL SHARES FUND

MONTHLY REPORT OCTOBER 2019 [www.foragerfunds.com](http://www.foragerfunds.com)

## PERFORMANCE (Net of all fees and expenses)

### FORAGER INTERNATIONAL SHARES FUND PERFORMANCE SUMMARY (as at 31 October 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.)
<b>International Shares Fund</b>	0.95%	2.06%	1.24%	2.49%	7.17%	10.34%	12.20%
<b>MSCI ACWI IMI</b>	0.59%	2.31%	4.85%	15.22%	14.81%	12.36%	15.08%

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

**Zebra Technologies** (NASDAQ:ZBRA) posted strong third quarter results and pleasing fourth quarter guidance. High margin additions including software, services and artificial intelligence are growing in importance. The company is reconfiguring its supply chain to mitigate the impact of trade war tariffs.

Zebra continues to make significant market share gains versus competitors, recently announcing its largest ever contract win with the US Postal Service. This one contract could add more than \$500m to revenue in 2020/2021, about 10% of group sales. The stock reached an all time high price soon after the result and remains an attractive investment.

Auto supplier **Lear Corporation** (NYSE:LEA) reported a decent third quarter in a trying global market. Its seating division, which accounts for 75% of sales, reported a small increase in revenue and a small reduction in underlying margin. The historically higher margin E-Systems business came under more pressure, with sales down 8% to \$1.1bn and adjusted earnings down 42% to \$85m.

Both segments suffered from the strike at largest customer **General Motors** (NYSE:GM), which started mid September and carried on into October. As a result, management cut its full year sales outlook 4% to \$19-19.5bn and adjusted net income by about 13% to \$765-845m. Interestingly, those forecasts were based on the GM strike continuing for at least a few weeks. It ended the same day Lear reported.

## NEW STOCKS

Well known for televisions and audio equipment, that's not where most of the value is found in today's **Sony Corporation** (TYO:6758). Sony owns the world's largest video game platform (PlayStation), the second largest music label and fifth largest Hollywood film studio. It also controls more than 50% of the image sensor market through its semiconductor division. The latter division reported strong growth in the latest quarter due to both market share gains and the proliferation of cameras and visual sensors on newer generation smartphones, tablets, laptops and automobiles. **Xiaomi** (SEHK:1810) and **Oppo**, two of the largest smartphone manufacturers globally, recently announced that they will be using Sony image sensors in their newest handsets.

Another recent investment is **Yum China** (NYSE:YUMC). The US-listed spinoff from **Yum Brands** (NYSE:YUM) owns KFC and Pizza Hut in China. The abridged thesis is

that Yum China has a long runway for new store openings at high incremental returns on capital. That's particularly valuable in a world of miniscule interest rates. In the third quarter, revenue and operating profit increased 5% and 11% respectively, despite a 3% currency headwind. Highlights included the 7% increase in store count to more than 8,900 restaurants. Despite higher wages and chicken prices, the company refined its menu, delivery services, marketing and staffing and thus improved margins. We expect a more challenging quarter ahead. Chicken costs, inflated indirectly by the African swine fever outbreak, remain high. Management is hastening the pace of store expansion and remodelling. This hampers sales and margins but adds value long term.

The Fund participated in its first initial public offering (IPO) in June. We got interested in the Norwegian research-focused company **Norbit** (OB:NORBIT) after it needed to reprice its IPO to attract sufficient investor interest.

Norbit's Oceans division makes integrated sonar units—smaller and easier to use than competing alternatives—that are expanding the sonar market globally. The ITS division produces dedicated short-range communication solutions, chiefly for tolling and tachograph systems. Two new agreements with customers **Continental** (DB:CON) and Toll Collect underwrite substantial revenues over the next five years at unusually high margins, approaching 40%. The recent third quarter result was disappointing from the Oceans division, particularly in Asia. But it was offset by a record quarter of sales and profits from ITS.

## TOP 5 HOLDINGS (as % of NAV)

<b>Blanco Technology Group Plc</b> (AIM: BLTG)	10.5%
<b>Babcock International Group</b> (LSE: BAB)	5.9%
<b>Zebra Technologies Corp</b> (Nasdaq: ZBRA)	5.7%
<b>Flughafen Wien AG</b> (WBAG: FLU)	5.7%
<b>Alphabet Inc</b> (Nasdaq: GOOG)	5.4%
<b>Cash</b>	4.4%

## 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

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

### UNIT PRICE SUMMARY

<b>As at</b>	31 October 2019
<b>Buy Price</b>	\$1.5714
<b>Redemption Price</b>	\$1.5651
<b>Mid Price</b>	\$1.5682
<b>Portfolio Value</b>	\$158.7m

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

## ABOUT FORAGER

With over \$320 million of funds under management and a focus on long-term investing, Forager Funds is a unique Australian asset management company.

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

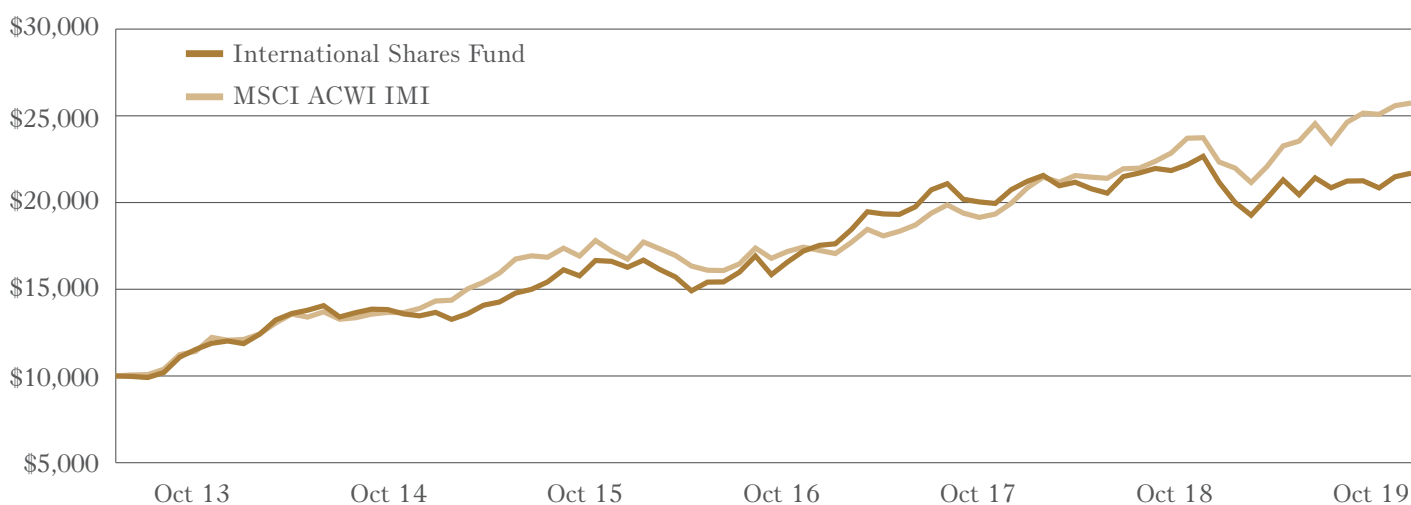
The company is majority owned by staff. Forager's shareholders support the desire to place performance before revenue. That means capping the size of funds before too much money becomes an impediment to performance.

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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