

# FORAGER INTERNATIONAL SHARES FUND

MONTHLY REPORT FEBRUARY 2020 [www.foragerfunds.com](http://www.foragerfunds.com)

## PERFORMANCE (Net of all fees and expenses)

### FORAGER INTERNATIONAL SHARES FUND PERFORMANCE SUMMARY (as at 29 February 2020)

	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>	-6.03%	1.97%	11.23%	8.83%	6.27%	9.42%	12.65%
<b>MSCI ACWI IMI</b>	-4.67%	-1.58%	5.41%	13.65%	12.97%	9.57%	14.77%

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

Global stockmarkets tumbled in February, with the MSCI All Country World Index falling 4.7%. A benign initial response to the emergence of the COVID-19 coronavirus in China gave way to panic as the virus went global.

At the time of writing, the number of people infected outside China was growing exponentially. It's likely to continue doing so. While the range of potential outcomes is wide, this virus is going to have significant human and financial costs.

The Forager International Shares Fund has not been spared. The Fund owns companies directly exposed to travel, including **Skywest** (NYSE:SKYW) and **Hostelworld** (LSE:HSW). But the selling has been widespread, offset to some extent by a good month for the Fund's largest investment, **Blanco Technology Group** (AIM:BLTG). This allowed us to realise some profits and deploy that capital and spare cash into beaten up opportunities. We have added to Skywest and Hostelworld. We bought one new US-listed company and another with a UK listing but US focus. They'll be discussed in future reports.

While volatility is welcome respite from the relentlessly rising markets of recent years, remember it comes after a long bull market. The S&P 500 index of US stocks, for example, is only back where it was in October last year.

CEO Archie Bethel announced his retirement from engineering services provider **Babcock International** (LSE:BAB) after 15 years at the company. Two weeks later, Babcock released a disappointing trading update. Management stuck with its previous 'normalised' guidance for the full year, but investors continue to be slugged with asset impairments and 'exceptional' costs. We invested in this company for its predictable revenue and margins. The exceptional costs have become so unexceptional that we think them likely permanent.

While the order book and pipeline remain at a record high of £34bn, the Fund sold some of its stake recently. More attractive opportunities have become plentiful lately.

Blanco reported a strong first half of its financial year, with sales up 19% to £17.4m. Adjusted operating profit rose 47% to £2.5m—incremental additional sales are highly profitable. The ZroBlack deal in 2019 is paying off, significantly reducing the time it takes for mobile diagnostic and erasure customers to process a phone. As a result, Blanco won new, recurring business from several large phone processors, but this has also created an unusual headwind. A big US telco who used Blanco solutions in-store has now moved its business to a third party processor. While Blanco will still provide the solution, revenue from that one large customer will fall—crimping total revenue by about 5%.

It's a single step down in an otherwise structural growth story. Despite the headwind, management has maintained its prior outlook for full-year growth in revenue and profitability. Blanco is a resilient business with no debt and significant recurring revenues, although it's foreseeable there will be some impact to its sales effort due to virus-related travel bans and customer budget cuts.

**Norbit ASA** (OB:NORBIT) is the Norwegian research-focused manufacturer outlined in our [October 2019 letter](#). The first two results reported after the initial public offering were mildly disappointing. The company turned it around with its recent fourth quarter result. The Oceans division, which makes specialist sonar equipment, increased sales 44%. The high margin ITS business, maker of dedicated short-range communications solutions for tachograph and tolling systems, also delivered good growth. The 2020 outlook for ITS is muted given exposure to the weakening European truck cycle, but Oceans should keep delivering. Nevermind, the stock sold off with everything else. CEO Per Jørgen Weisethaunet, Norbit's second largest shareholder behind its founder, bought US\$280,000 worth of shares in late February.

While coronavirus is only taking off outside Asia now, the impact in China was felt over most of the first quarter of 2020. Some customers of **IPG Photonics** (Nasdaq:IPGP) experienced longer than expected shutdowns which resulted in sales and deliveries being pushed out into future periods. **Zebra Technologies** (Nasdaq:ZBRA) noted that they are seeing disruptions within their manufacturing supply chain in China, impacting earnings guidance. Although recent commentary suggests that things in China are getting back on track, we're watching closely. And the rest of the world can expect similar disruption.

### TOP 5 HOLDINGS (as % of NAV)

<b>Blanco Technology Group Plc</b> (AIM:BLTG)	10.4%
<b>Zebra Technologies Corp</b> (Nasdaq:ZBRA)	5.1%
<b>Motorpoint Group Plc</b> (LSE:MOTR)	4.7%
<b>Yum China Holdings Inc</b> (NYSE:YUMC)	4.4%
<b>Alphabet Inc</b> (Nasdaq:GOOG)	4.4%
<b>Cash</b>	4.5%

## 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 Index 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<sup>^</sup>.

### 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>	29 February 2020
<b>Buy Price</b>	\$1.6797
<b>Redemption Price</b>	\$1.6730
<b>Mid Price</b>	\$1.6763
<b>Portfolio Value</b>	\$165.5m

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

## ABOUT FORAGER

With over \$300 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.

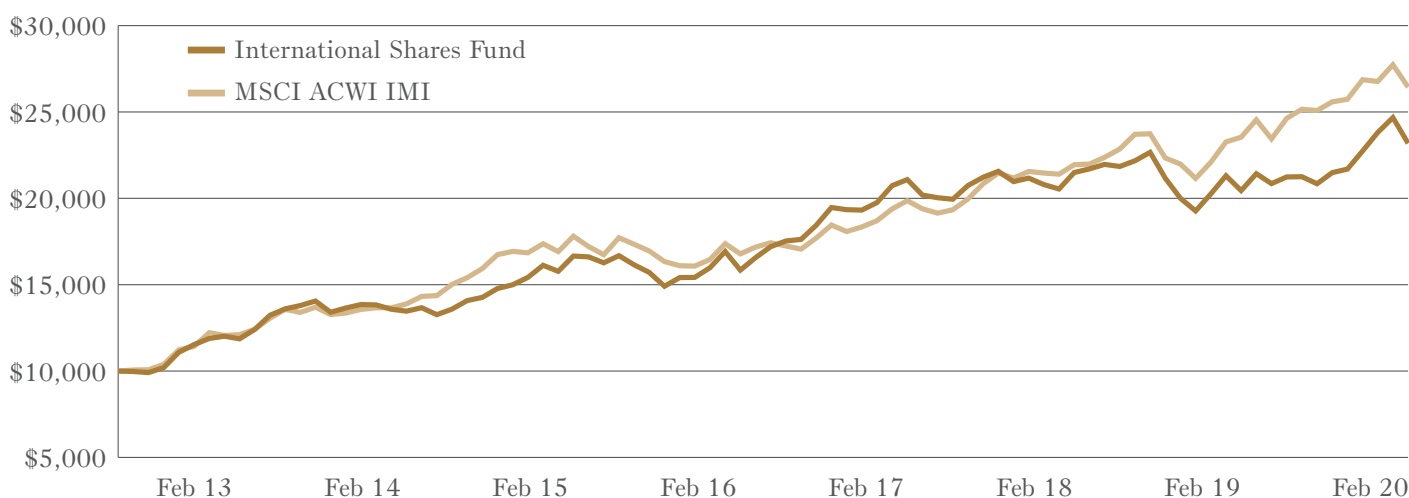
The company is majority owned by staff. Forager's shareholders support the desire to place performance before revenue. That means capping the size of funds before too much money becomes an impediment to performance.

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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