

# FORAGER INTERNATIONAL SHARES FUND

MONTHLY REPORT AUGUST 2018

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## PERFORMANCE (Net of all fees and expenses)

### FORAGER INTERNATIONAL SHARES FUND PERFORMANCE SUMMARY (as at 31 August 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.)
<b>International Shares Fund</b>	1.50%	2.16%	6.63%	11.16%	10.11%	13.03%	15.39%
<b>MSCI ACWI IMI</b>	3.74%	7.86%	10.46%	22.61%	11.27%	14.48%	16.79%

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

Trade wars continued to make headlines in August. US president Donald Trump doubled tariffs on imports of Turkish aluminium and steel to 20% and 50% respectively. The Turkish Lira has depreciated more than 35% against most major currencies this year.

Cement-maker **Cementir** (BIT:CEM) is the only portfolio investment with a Turkish business. When the Fund first purchased shares in Cementir in early 2017, the Euro value of this business had already halved due to the weakening Lira. Since then the Lira has fallen another 50% and Turkey is now a marginal part of Cementir, accounting for 15% of sales and less than 10% of operating profits.

Over the first half of 2018 Cementir sold its Italian operations to **Heidelberg Cement** (DB:HEI) for €315m and invested €87m to purchase an additional 39% stake in a US white cement manufacturer. Excluding the impact of these transactions and adjusting for currency movements, sales increased 6% to €589m and operating profit was up 17% to €60m. Cementir remains attractive, trading at a forecast price to earnings ratio of about 11.

Amongst European banks, German, Spanish and French institutions are the most exposed to Turkey with €120bn worth of assets in the country. Italian bank and portfolio holding **UBI Banca** (BIT:UBI) is not exposed, but its share price has still fallen.

UBI's second-quarter net profit totalled €91m, slightly ahead of expectations. The bank announced that bad loans on its books would fall below its target of 10% of total lending by the middle of next year, earlier than previously expected. The bank's exposure to non-performing loans remains a concern. So is its holding of Italian government debt. The spread between Italian long-dated government bonds and German *Bunds*—the latter considered the least risky in Europe—blew out to more than three percentage points over the past few months. That's the highest level since the Greek-led Euro crisis of 2011. UBI's exposure is lower than peers and has been reduced in recent years. It continues to trade at half the value of its net tangible assets, a level that more than compensates for the risks.

**King's Flair** (SEHK:6822) reported a 27% increase in half-year sales to HK\$781m. Sales of its water bottles in China were particularly strong, growing 70% relative to the previous half. The gross margin fell to 19% from last year's unsustainably high 21%, due to an increase in the price of raw materials.

Trade tensions between the US and China have not affected the business yet but this could change. Nevertheless, the company remains well capitalised with HK\$500m of net cash on its balance sheet. The stock trades on a price to earnings ratio of 7 and sports an 11% dividend yield.

The Fund owns 7% of UK leasing company **Thinksmart** (AIM:TSL). The original investment thesis was that Australian investors were selling their shares for a song due to Thinksmart shifting its listing from the ASX to London's AIM exchange. Eighteen months later, after a share price fall of some 60%, it was the sellers doing the singing.

At the end of August, though, Thinksmart announced a transformative deal with Aussie boom stock **Afterpay Touch** (ASX:APT). Thinksmart has sold most of Clearpay, its UK buy now, pay later business, to Afterpay. The consideration is one million Afterpay shares, worth around £12m. That stacks up pretty well next to its pre-deal £9m market capitalisation. Thinksmart has already sold 750,000 shares and will return the proceeds to shareholders. It still has £10m invested in its original leasing business and has kept a 6.5% stake in what will be Afterpay UK. That could be nothing, or it could be something substantial. Despite a large share price increase since the deal was announced, it still has some interesting upside.

Unfortunately Thinksmart is tiny and illiquid and the Fund's portfolio weighting is only around 1%, even at current prices.

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

<b>Blanco Technology Group Plc</b> (AIM:BLTG)	5.8%
<b>Auto Trader Group Plc</b> (LSE:AUTO)	5.7%
<b>Alphabet Inc</b> (Nasdaq:GOOG)	5.7%
<b>Just Group plc</b> (LSE:JUST)	5.6%
<b>Gulf Marine Services Plc</b> (LSE:GMS)	5.3%
<b>Cash</b>	12.5%

## 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 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>	31 August 2018
<b>Buy Price</b>	\$1.6640
<b>Redemption Price</b>	\$1.6573
<b>Mid Price</b>	\$1.6606
<b>Portfolio Value</b>	\$185.5m

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.

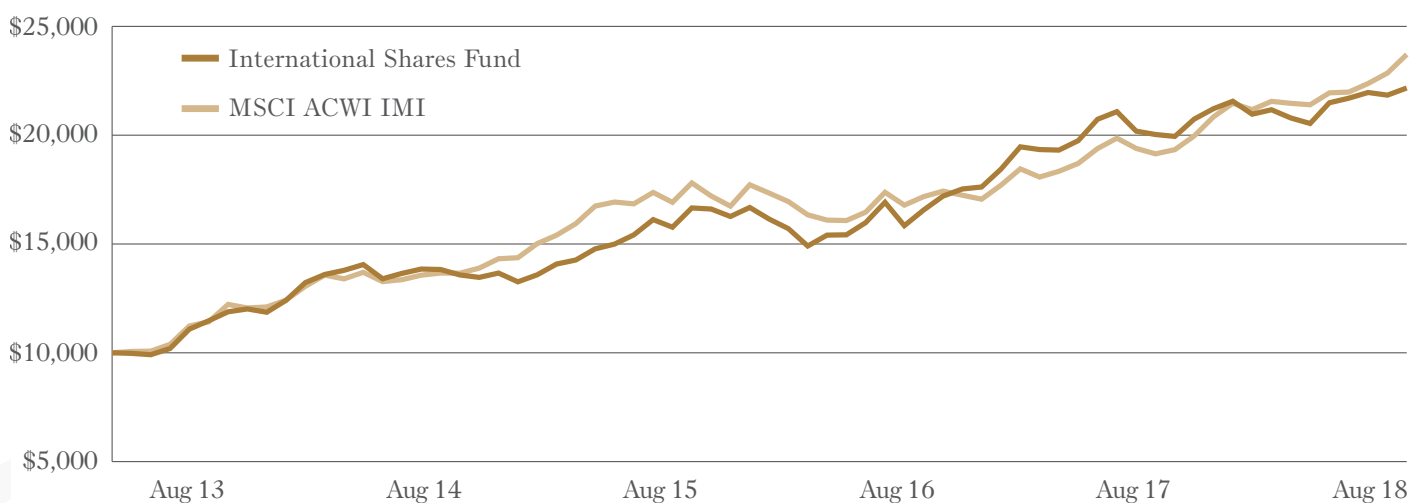
The company is majority owned by staff. Forager's shareholders support the desire to place performance before revenue. That means capping the size of funds before too much money becomes an impediment to performance.

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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