



New stocks are still finding their way into the portfolio (mainly European and smaller businesses) but the Forager International Shares Fund has done slightly more selling than buying in recent months. The cash weighting sat at 17% at month end.

The most costly acronym for **Lloyds Banking Group** (LSE: LLOY) investors over the past few years has been PPI, short for Payment Protection Insurance. The bank used dodgy sales tactics to flog the product in the boom years. Shareholders have been paying for it since through large compensation payments. Quarter after quarter, Lloyds has set aside additional provisions because payments have been larger than expected. A billion here, a billion there and soon it adds up. The Fund didn't join the party until recent years, but still felt the death-by-a-thousand cuts psychologically, if not financially.

We hope that the recent fourth quarter of 2016 result was an omen. There was no additional provisioning for mis-sold PPI (although there were other provisions relating to 'conduct'). The group continues to make progress on costs, with the cost to income ratio improving to 48.7%. Management is targeting 45% by 2019 with progress every year in between.

Late last year the bank made its first major acquisitions since its government bailout in 2008, snagging Bank of America's UK credit card business MBNA for £1.9bn. It is good asset at a reasonable price. And the board lifted the final dividend, bringing the yearly total to 3.05p. The stock trades on a 4.4% yield, almost as high as Australian banks. But Lloyds has the capacity to lift that distribution meaningfully in the years ahead.

The bank made an underlying return on underlying tangible equity of 14% in 2016, underlying meaning one must ignore the barrage of provisions. We think the bank can and will be earning a fully legitimate ROE of 15% or more in a few years' time. To make the comparison again, that's in the realm of what Aussie banks have been earning in recent years. Australian bank stocks are trading at 1.6-2.4 times book value today. Lloyds trades in line with its book value.

We expected a difficult final quarter of 2016 for dominant Chinese search engine **Baidu** (NYSE: BIDU) and that eventuated. As outlined in the Fund's October 2016 report, the company got caught up in a scandal related to the poor quality of health-related searches. There have been numerous changes, legally mandated and voluntary, to the way it conducts business.

The immediate impact was that fourth quarter revenues which, absent the scandal should have grown by 15% or more versus the same quarter last year, fell 3%.

Encouragingly, the outlook is improving. CFO Jennifer Li said "During the fourth quarter we largely completed our initiative to ensure the new and existing customers meet our stringent quality requirements. We believe that the impact of these initiatives is mostly behind us and we look forward to 2017 as a time of recovery and growth". Us too. The company has forecast Q1 2017 revenue growth of 4.2-7.6% compared with the same quarter last year—which was before the scandal hit. It's an encouraging start.

In next month's quarterly, we were going to tell you all about our recent investment in US real estate investment trust

Silver Bay Realty Trust Corp (NYSE: SBY). Alas, for our story-telling plans at least, Canadian group Tricon has bid for the company at a 28% premium to our average purchase price. Silver Bay's directors plan on accepting in the absence of a higher offer, something we think there is a small chance of achieving.

FACTS

Fund commenced	8 February 2013
Minimum investment	\$20,000
Monthly investment	Min. \$200/mth
Income distribution	Annual, 30 June
Applications/Redemption	Weekly

UNIT PRICE SUMMARY

Date	28 February 2017
Buy Price	\$1.6930
Redemption Price	\$1.6862
Mid Price	\$1.6896
Portfolio Value	\$122.3m

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

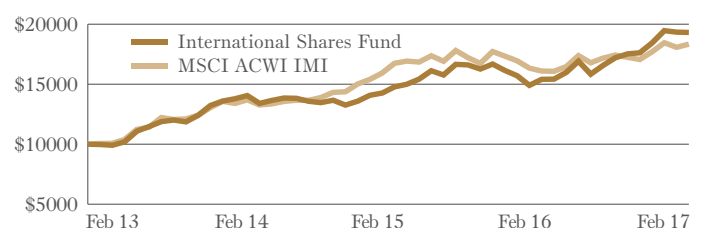
PERFORMANCE

Forager International Shares Fund Performance Summary (as at 28 February 2017)

	International Shares Fund	MSCI ACWI IMI
1 month return	-0.13%	1.46%
3 month return	4.75%	3.61%
6 month return	12.30%	5.23%
1 year return	25.36%	13.94%
2 year return (p.a.)	14.33%	4.67%
3 year return (p.a.)	11.18%	10.22%
Since inception* (p.a.)	17.61%	16.12%

*8 February 2013

COMPARISON OF \$10,000 INVESTED IN INTERNATIONAL SHARES FUND VS MSCI ACWI IMI



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