

FORAGER INTERNATIONAL SHARES FUND

MONTHLY REPORT OCTOBER 2018 www.foragerfunds.com

PERFORMANCE (Net of all fees and expenses)

FORAGER INTERNATIONAL SHARES FUND PERFORMANCE SUMMARY (as at 31 October 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.) |
|----------------------------------|----------------|----------------|----------------|---------------|----------------------|----------------------|-------------------------|
| International Shares Fund | -6.62% | -3.11% | -1.54% | -0.27% | 8.26% | 11.27% | 13.98% |
| MSCI ACWI IMI | -5.90% | -2.27% | 1.77% | 7.15% | 8.02% | 12.45% | 15.06% |

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

Global stocks traded down sharply in October. The MSCI World Index fell 6% in Australian dollars, a welcome correction for those looking to deploy capital.

Many of this year's best performing markets and sectors were most affected by the sell-off, with US small caps, global technology stocks and anything oil-related heavily sold. Perhaps more interestingly, companies with exposure to the global economy extended a sell-off which has been going on much longer than the past month.

The global automotive sector, for example, is starting to look particularly prospective. Experience suggests these sectors are best bought when they trade at large multiples of depressed earnings rather than low multiples of peak earnings (where they seemingly trade today). There are, however, some good businesses in the sector that it might be worth making an exception for.

UK annuity provider **Just Group** (LSE:JUST) received some welcome news from the UK's insurance regulator. The company will have until at least 31 December 2019 to implement proposed changes to its capital requirements. Just was previously required to implement the changes by the end of the year, an implausibly short period of time to implement a directive that hasn't yet been finalised.

While the extension is welcome, the amount of capital required is going to be more important. We are hoping to see the final regime sooner rather than later.

All the while Just continues to write a healthy amount of new business, despite increasing its prices to compensate for the likely new regulatory regime. Sales for the three months ended 30 September increased 15% from the previous year. Management expect higher prices to negatively impact sales more in the last quarter of the year, but demand remains robust.

German company **Lotto24** (DB:LO24) is also seeing good demand for its services. The online lottery ticket reseller upgraded its normally conservative guidance for the full year. Sales for 2018 are now expected to be 38-43% higher than 2017 and net profit is expected to be "well above" the break even level. This year has seen a larger than usual number of giant lottery jackpots in Germany, which increases spend from

existing customers and drives significant numbers of new lottery players to sign up. Still, Lotto24 has maintained its dominant position in a growing market and we expect it to continue doing so.

The same can't be said for **Petroleum Geo-Services** (OB:PGS). The share price of this oil services company had more than doubled since the start of the year with investors anticipating a robust recovery in demand for its seismic data services. Its third quarter disappointed them (and us), with the company reporting revenue more than 10% below broker estimates. It is only a three month window and management claimed requested tenders are at levels not seen for more than three years. But the backdrop of falling share markets, a falling oil price and this disappointing update sent the shares tumbling, retracting a good chunk of this year's gains.

Fellow oil services investment **Gulf Marine Services** (LSE:GMS) added another small contract to its order book. Around 70% of GMS's available vessel capacity is now contracted for the first half of 2019 and the company expects a tightening market to start flowing through to higher prices soon. Its long-serving Chief Financial Officer, John Brown, also announced his retirement. Brown won't be leaving until May next year, giving GMS plenty of time to find someone willing to suffer the Abu Dhabi heat.

TOP 5 HOLDINGS (as % of NAV)

| | | |
|------------------------------------|---------------|------|
| Blanco Technology Group Plc | (AIM: BLTG) | 7.6% |
| Just Group plc | (LSE:JUST) | 6.0% |
| Auto Trader Group Plc | (LSE:AUTO) | 5.5% |
| Alphabet Inc | (Nasdaq:GOOG) | 5.4% |
| Gulf Marine Services Plc | (LSE:GMS) | 5.1% |
| Cash | | 9.6% |

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 | 31 October 2018 |
| Buy Price | \$1.5882 |
| Redemption Price | \$1.5819 |
| Mid Price | \$1.5851 |
| Portfolio Value | \$175.9m |

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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