Manager Notes:

Performance: For the month of July, the Forester Value fund reported a return of -0.7%, compared to the Morningstar Long/Short Equity category’s +0.8% return. Stock selection was beneficial, but the puts weighed on the fund’s performance, as the fund was heavily hedged heading into the month. The equity portion of the portfolio returned 2.3% compared to the S&P 500’s 2.1%. Year-to-date the fund’s equities maintain their leadership, having appreciated 6.4% compared to the S&P’s 3.4%. Year-to-date the fund is trailing the Morningstar Long/Short Equity category as the cost of the hedges has weighed on the fund’s return. However, given our outlook as outlined below, we believe it is prudent to continue to hedge the portfolio.

Outlook: Currently 90% of companies in the S&P 500 have reported Q2 earnings. The index is on track for a 4.3% decline in revenues and a 2.7% decline in earnings per share. The majority of the decline is driven by the Energy sector, but Industrials and Materials are contributing to the decline as well. The current Price/Earnings multiple on the S&P 500 is 17, above the long-term average of 15.8 (and 14.4 excluding the dot-com bubble). Declining earnings and a high multiple are not a good combination in our opinion, especially in the face of the first interest rate increase from the Federal Reserve in over nine years. In addition, we are concerned that the data out of China continues to look soft. July exports fell 8.3%, much worse than the expected 1.5% decline. China has been the driver of global economic growth for many years, but evidence of a slowdown in China is mounting.

Size and Composition of Hedge: As the table on the top right illustrates, as of July 31, the puts protected 41% of the portfolio and the fund held 23% cash. The lower volatility of our equity holdings plays an important role in the return profile of the fund, and must be taken into account as well. Given our current conservative stance, we are invested in high quality companies with non-cyclical earnings. Therefore, our equity holdings tend to be less volatile than the market overall, and they generally outperform the broader market by approximately 15% on down days. As equities are currently ~77% of the fund, this provides another 12% protection. Taken together, the portfolio was 76% hedged (41+23+12). We will maintain our cautious positioning until our fundamental outlook improves or we believe our concerns are priced into the market.