

Forester Value Fund Commentary and Composition September 2016

<u>Total Return</u>	<u>Sep</u>	<u>YTD</u>	<u>Size and Composition of Hedge</u>	
Forester Value Fund	-2.0%	-3.2%	% of Portfolio Protected by Puts	28%
Morningstar Long/Short Cat.	+0.3%	+0.1%	% of Portfolio in Cash	26%
Value Fund's Equities	-1.3%	+6.7%	Downside Stock Outperformance	<u>7%</u>
S&P 500	0.0%	+7.8%	Total Portfolio Protection	62%

Manager Notes:

Performance: For the month of September, the Forester Value fund reported a return of -2.0%, compared to the Morningstar Long/Short Equity category's +0.3% return. The underperformance was from a combination of stock selection and the cost of the put options. Mylan fell 10.0% as they came under political pressure for steep increases in the price of their EpiPens. While the stock may be volatile near-term, we remain optimistic in the long-term potential for Mylan shares. Year-to-date, the fund returned -3.2% compared to +0.1% for the Morningstar Long/Short category. The underperformance is driven by the cost of the puts and an allocation to cash. Although this performance is disappointing, we believe that the equity market is distorted by the unprecedented actions by the world's largest central banks. Throughout the market's history, there are periods in which market fundamentals become disconnected from market prices. We believe now is such a time. This can be a frustrating time to invest based on the fundamentals, but we feel it is important to stick to our disciplines. It is our experience that eventually the market returns to the fundamentals.

Outlook: For our most recent thoughts on the issues driving the market, please see our recently published [quarterly commentary](#). This quarter we discuss 1) equity valuations and the upcoming inflection in earnings growth, 2) a comparison of economic and leverage statistics between now and the 2007 market peak, and 3) Deutsche Bank – how they got into their mess and how they may get out of it.

Size and Composition of Hedge: As the table on the top right illustrates, as of September 30, the puts protected 28% of the portfolio and the fund held 26% 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 10% on down days. As equities are currently ~74% of the fund, this provides another 7% protection. Taken together, the portfolio was 62% hedged (28+26+7). We will maintain our cautious positioning until our fundamental outlook improves or we believe our concerns are priced into the market.