

FORAGER

AUSTRALIAN SHARES FUND

MONTHLY REPORT AUGUST 2018

www.foragerfunds.com

PERFORMANCE (Net of all fees and expenses)

FORAGER AUSTRALIAN 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.)
Australian Shares Fund (ASX:FOR)	-1.90%	-0.65%	-1.56%	2.44%	14.16%	12.67%	13.26%
S&P All Ords. Accum. Index	1.71%	5.99%	7.28%	15.96%	11.82%	9.19%	8.26%

*30 October 2009. The value of your investments can rise or fall. Performance is calculated using Net Asset Value (NAV), not the market price. Past performance is not an indicator of future performance.

Most companies reported their last six months of profit in August and gave investors hints about what is to come. Our experience can be summed up in one word: mixed.

Freedom Insurance (FIG), the distributor of funeral insurance products, has had a month of regulatory hell. A day before its results were due Freedom declared that it would be appearing in the next round of Royal Commission hearings. To make matters worse, the Australian Securities and Investments Commission (ASIC) released a report into the direct insurance industry a few days later. It criticised everything from the design of the industry's insurance products to the sales culture. ASIC also suggested restricting outbound phone calls. It now looks like business models based on outbound phone calls, like Freedom's, will need to change. Investor fear about Freedom's future drove the share price down 46%. It's hard to argue.

Enero (EGG) struck a much more positive tone. The marketing services business delivered a year of growth, even after accounting for acquisitions made over the past few years. Net revenue rose 3.5% and net profit was up some 60%. Enero has struggled for years to make the most of its oversized corporate costs which soaked up 30% of the past year's earnings. It may finally be turning the corner.

The bad results weren't over though. **CSG (CSV)** a provider of managed print and technology solutions announced its full year results alongside an entitlement offer to raise \$18m through existing shareholders. The result was in line with guidance but was not a pleasant read. Revenue was down 8% and underlying profit was down 88%. Management are now moving the business towards focusing more on the growing technology segment and less on the declining print business. It is likely to be a long road. We took up our entitlements in the rights issue but have dramatically revised our expectations of the business.

Offshore services vessel owner **MMA Offshore (MRM)** reported an expectedly bland result. Revenue fell 10% as underlying earnings before interest, tax, depreciation and amortisation climbed to \$20.8m, in line with guidance. Under the surface there was a more pleasant undercurrent. Utilisation of MMA's vessels was better in the second half than the first, climbing to 74%. And about 48% of the current financial year is now contracted. This helps, but to start

earning a reasonable rate of return on vessels pricing will need to improve too. It probably won't happen this year, but MMA has time to wait for a recovery.

The traditional media business from across the ditch, **NZME (NZM)** reported revenue numbers pretty much as expected. Total revenue fell 3% as advertising in the print division slid. Online revenue growth of 17% was not enough to compensate. But net profit was down 44% as NZME invested some of the profits into building new online classified sites. The most advanced of these is OneRoof, a real estate portal. The site aims to challenge **Trademe's (TME)** property portal and has recently become the third most visited property site in New Zealand. While the price reaction suggests other investors hate the idea, spending here could make a big difference to NZME's long term value.

Finally mining contractor **Macmahon (MAH)**, the Fund's largest position, announced a good set of results. The company posted revenue of \$710m and net profit of \$31m, of which \$21m came through in the second half. This was no surprise. Three new contracts started during the year with the biggest of these, Batu Hijau, only starting full operation in April. This year should see the full effects of all these contracts fully reflected in the company's profits. With \$1bn of work secured, Macmahon gave guidance of \$70m to \$80m of earnings before interest and tax for the year. A few more contract wins wouldn't hurt, but executing on existing contracts is now the key.

TOP 5 HOLDINGS (as % of NAV)

Macmahon Holdings Limited	(ASX:MAH)	12.2%
iSelect Limited	(ASX:ISU)	8.4%
Enero Group Limited	(ASX:EGG)	7.7%
Thorn Group Limited	(ASX:TGA)	5.8%
MMA Offshore Limited	(ASX:MRM)	5.1%
Cash		23.6%

FUND OBJECTIVE

The Fund targets securities that Forager believes are undervalued and invests predominately in securities listed on the ASX. Its investment objective is to outperform the S&P/ASX All Ordinaries Accumulation Index over a rolling 5-year period and its goal is to produce superior long-term returns from a select number of underlying investments, irrespective of short-term price movements[^].

FACTS

Fund inception 30 October 2009

ASX Code FOR

Distribution Annual, 30 June

UNIT PRICE SUMMARY

As at 31 August 2018

NAV \$1.57

Market Price \$1.73

Portfolio Value \$156.1m

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.

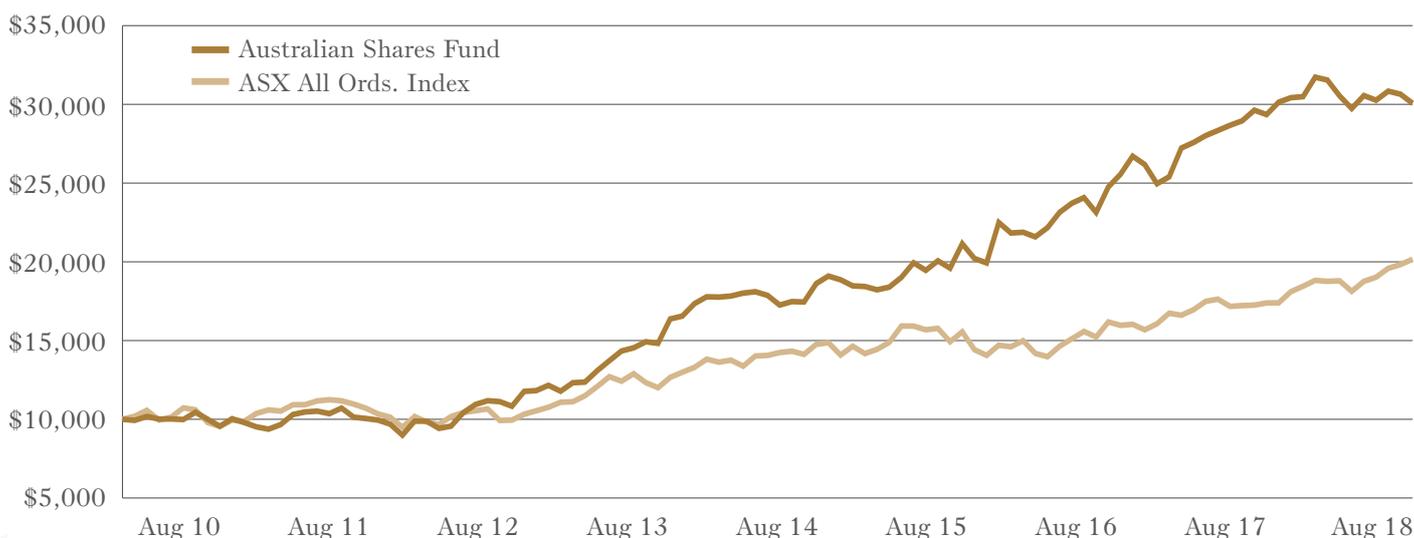
The company is majority owned by staff. Forager's shareholders support the desire to place performance before revenue. That means capping the size of funds before too much money becomes an impediment to performance.

Key investment staff are strongly aligned with investors through co-investment and / or equity in the Forager business.

FUND CHARACTERISTICS

- Concentrated portfolio of ASX-listed stocks
- Long track record in identifying unloved gems
- Restricted fund size allows investment in smaller businesses
- Strong focus on managing portfolio risks
- Listed on ASX as a Listed Investment Trust (LIT)
- Structure offers Forager flexibility in distressed markets

COMPARISON OF \$10,000 INVESTMENT IN THE FORAGER AUSTRALIAN SHARES FUND VS ASX ALL ORDS. INDEX



Source (All Ords): S&P Capital IQ. The above figures assume that all distributions have been reinvested. Performance is calculated using Net Asset Value (NAV), not the market price. Past performance is not a reliable indicator of future performance and the value of your investments can rise or fall.

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