

FORAGER

AUSTRALIAN SHARES FUND

MONTHLY REPORT FEBRUARY 2019 www.foragerfunds.com

PERFORMANCE (Net of all fees and expenses)

FORAGER AUSTRALIAN SHARES FUND PERFORMANCE SUMMARY (as at 28 February 2019)

	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)	4.46%	1.60%	-10.27%	-11.67%	6.76%	8.31%	11.22%
S&P All Ords. Accum. Index	6.05%	9.79%	-0.68%	6.56%	12.74%	7.39%	7.72%

*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 of the Forager Australian Shares Fund's investments released results during February. Pleasingly, given some of the disappointing results of the past 12 months, most companies delivered on our expectations and a few exceeded them.

Marketing services group **Enero** (EGG) was one of the latter. With its tech-centric public relations agency Hotwire firing, the company grew revenue by 15% organically during the half. After a few years struggling to grow at all, this was a very welcome change. Including a recent acquisition, total revenue grew by 33%. Net profit was up 91%.

Growth rates like this are unlikely to be the norm. But they also don't need to be. The valuation of the business remains attractive, trading on a current year price-to-earnings ratio of about 10 times. Thanks to a rising share price, Enero is now the Fund's largest investment.

Another of the Fund's larger holdings, mining services business **Macmahon** (MAH) delivered a half-year result that seemed to set the company up to exceed its full year guidance. Revenue doubled as the company started work on its main Batu Hijau mining contract (Macmahon even scored a small bonus for good performance). Earnings before interest and tax increased fourfold. The company is working on \$4.8bn worth of contracts and may win \$7bn more.

But the detail was disappointing. Macmahon has agreed an employee bonus scheme that means any upside to its guidance will largely accrue to staff. This aligns the employees to achieve the target, but means the company is unlikely to significantly outperform this year. Macmahon should have done a better job of communicating the scheme to shareholders and clearing up what, if any, bonuses to expect in future years.

The last of the Fund's three most significant investments, comparison website **iSelect** (ISU), delivered a strong first half result. New management reduced unproductive marketing spend and 'adjusted' profit was up 79%, despite revenue falling 12%. The company is also chopping away some unprofitable branches: physical kiosks, an underperforming home loans unit and a troubled Cape Town call centre have been scaled down or closed. iMoney, a previously underappreciated South East Asian subsidiary, is performing well and may be sold off.

All of this makes for a stronger business and, if marketing spend can continue to be effectively managed, sets the business up well

for strong performance in the second half of this financial year. With major competitor Compare the Market holding 23% of iSelect's shares, a good year will strengthen iSelect's hand when it comes time for a deal.

There was progress on a long-held and problematic investment in engineering services business **Logicamms** (LCM). The company is pursuing a merger with OSD, a strongly performing private business. Logicamms shareholders would own just 41% of the combined entity but there is lots to like about the deal. The company will now have the scale to operate more efficiently, improving the chances that margins can eventually improve. Adding some much needed alignment of interests, the founder of OSD, Brian O'Sullivan, will own over a third of the combined entity and will continue to be involved in the business. The potential deal also removes the need for loss-making Logicamms to raise more equity from long-suffering shareholders.

The Fund added a new investment in adventure company **Experience Co** (EXP) during the month. Poor weather over the last six months and some tragic fatalities slowed skydiver growth while quickfire investments in adventure tourism seemed to unravel. While the market panicked on an earnings downgrade, we saw a good quality, growing business undergoing some temporary setbacks. There will be more on this one in the upcoming quarterly.

TOP 5 HOLDINGS (as % of NAV)

Enero Group Limited	(ASX:EGG)	10.6%
Macmahon Holdings Limited	(ASX:MAH)	9.3%
iSelect Limited	(ASX:ISU)	8.6%
MMA Offshore Limited	(ASX:MRM)	5.7%
Thorn Group Limited	(ASX:TGA)	5.3%
Cash		21.6%

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 28 February 2019

NAV \$1.41

Market Price \$1.41

Portfolio Value \$160.9m

ABOUT FORAGER

With approximately \$330 million of funds under management and a focus on long-term investing, Forager Funds is a unique Australian asset management company.

Following a strong nine-year track record, Forager is a sustainable business but is nimble enough to invest in smaller listed companies not accessible to many investment managers.

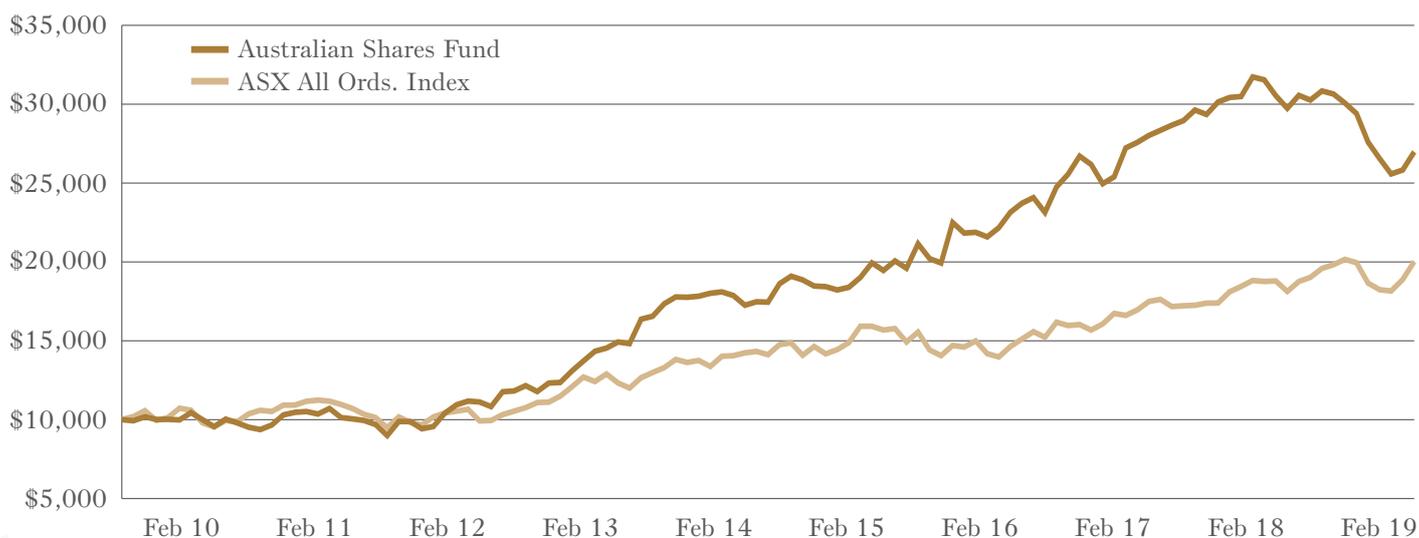
The company is majority owned by staff. Forager's shareholders support the desire to place performance before revenue. That means capping the size of funds before too much money becomes an impediment to performance.

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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