

FORAGER

AUSTRALIAN SHARES FUND

MONTHLY REPORT JULY 2018

www.foragerfunds.com

PERFORMANCE (Net of all fees and expenses)

FORAGER AUSTRALIAN SHARES FUND PERFORMANCE SUMMARY (as at 31 July 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)	-0.52%	0.39%	-2.74%	3.54%	13.19%	13.38%	13.66%
S&P All Ords. Accum. Index	1.22%	5.67%	5.67%	14.91%	8.42%	9.38%	8.13%

*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.

Mining contractor **Macmahon** (MAH) kicked the month off by announcing its plans to (hopefully) make its senior management team very wealthy. The company could issue 65 million shares to a handful of key employees, accounting for 3% of Macmahon's current shares on issue and worth about \$15m at today's share price. For CEO Mick Finnegan and his team to actually own any of these shares the annual growth in the share price (including any dividends) will need to be at least 17%. And to hit the full 65 million shares the team will have to compound the share price at 25% per year. If they hit all the milestones over the next four years those shares will be worth \$37m.

Those are big targets. But if the team is successful in operating the giant Batu Hijau project, getting its new contracts contributing to earnings and winning more work, management may well get their big paydays. That would be a good outcome for the Fund as well. Macmahon remains our largest investment.

MSL Solutions (MPW) updated the market on its full year performance. The company described their result as being "roughly in-line" with prospectus forecasts. "Adjusted" net profit came in at \$5.7m. That stretches the truth. Including one-off benefits and excluding one-off costs is not a good look. The quarterly cashflow statement showed only \$50k of operating cash from the most recent quarter.

The company blamed increased investment in new geographies and people. Over the next few years the business will need to start delivering on its promise to generate meaningful cash flow.

Thorn (TGA), historically a provider of washing machines and TVs to cash strapped consumers, also released its quarterly cash flow statement. The company's newer small-business equipment finance division continued to grow and has now maxed out its \$250m debt facility. Thorn will be looking at ways to give this business more oxygen, but we continue to believe that it is better off sold.

That would let management focus back on the Radio Rentals business, where new CEO Tim Luce is seeking a turnaround. It's not going to be easy, but the opportunity here is substantial.

Comparison website **iSelect** (ISU) remains in the crosshairs of competitor Compare the Market. Nadine Lennie, the previous

CFO of **Afterpay Touch** (APT), was appointed to join iSelect as CFO in July 2018. However, with the overhang of a potential takeover, she will be taking up a CFO position with **Atlas Arteria** (ALX) instead. Whether iSelect receives a takeover or not, at the current price it represents an appealing proposition. The company confirmed that it was on track to generate earnings before interest and tax of between \$8m and \$12m for the 2018 financial year.

LogiCamms (LCM) CEO Flora Furness resigned in June and departed in early July. Dan Drewe, the current CFO, will step in as interim CEO and Board member Charles Rottier will also provide advisory services. New employment agreements have been struck with both. Half of their additional payments will be made in stock for both, which should allow the business to conserve a bit of much needed cash.

Lastly, IT distribution group **Dicker Data** (DDR) announced a new distribution partnership with Japanese print and technology provider Kyocera. This business continues to be one of the most drama free positions in the portfolio. We initially liked the business for its cash generation, aligned management and steady organic growth. Little has changed, but the price is up.

TOP 5 HOLDINGS (as % of NAV)

Macmahon Holdings Limited	(ASX:MAH)	10.9%
iSelect Limited	(ASX:ISU)	8.3%
Enero Group Limited	(ASX:EGG)	6.4%
MMA Offshore Limited	(ASX:MRM)	6.0%
Freedom Insurance Group Limited	(ASX:FIG)	5.8%
Cash		23.3%

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 July 2018
NAV	\$1.61
Market Price	\$1.85
Portfolio Value	\$159.1m

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.

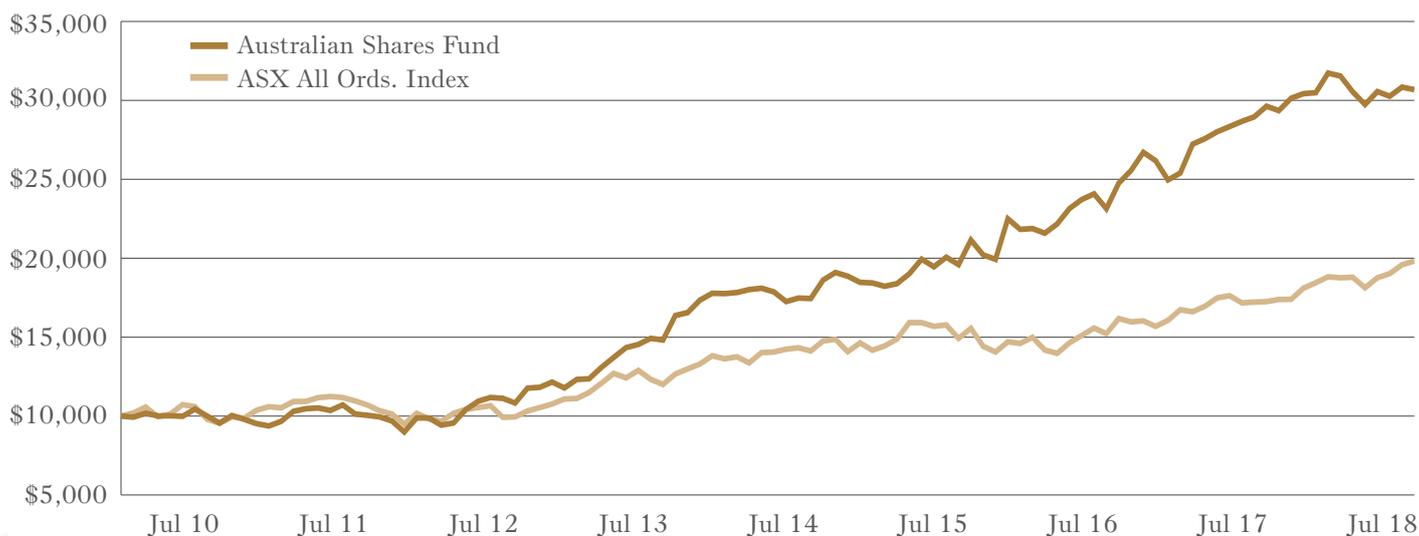
Following a strong eight-year track record, Forager is a sustainable business but is nimble enough to invest in smaller listed companies not accessible to many investment managers.

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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