

# FORAGER

## AUSTRALIAN SHARES FUND

MONTHLY REPORT JULY 2019

www.foragerfunds.com

### PERFORMANCE (Net of all fees and expenses)

#### FORAGER AUSTRALIAN SHARES FUND PERFORMANCE SUMMARY (as at 31 July 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.)
<b>Australian Shares Fund (ASX:FOR)</b>	6.67%	0.94%	2.33%	-13.77%	2.21%	7.26%	10.48%
<b>S&amp;P All Ords. Accum. Index</b>	2.96%	8.27%	18.57%	12.94%	11.44%	8.70%	8.62%

\*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.

The Net Asset Value (NAV) of the Forager Australian Shares Fund rose more than 6% in July, reversing a small portion of recent underperformance. In addition to some good news from **MMA Offshore** (MRM) and **WPP AUNZ** (WPP), a number of portfolio investments experienced share price bounces from their June lows.

MRM announced the acquisition of **Neptune Marine** (NMS) an ASX-listed provider of commercial diving services to inspect and repair offshore oil and gas assets. It is paying \$18.5m, equal to Neptune's net asset value, made up mostly of diving equipment and underwater maintenance robots.

This looks like a sensible price at a low point in the offshore oil and gas cycle. It's been a difficult time to be servicing oil and gas producers. Neptune hasn't been profitable for four years but being part of a bigger group will help. Cost savings of \$2m are expected from removing duplicated head office expenses and Neptune and MMA will now be able to bid on projects together. In addition, pairing MMA's fleet of large service vessels with Neptune's specialised equipment and expertise will make the duo more attractive to clients.

John O'Sullivan, formerly head of Tourism Australia, kicked off his new role as Chief Executive Officer of skydiving and adventure tourism operator **Experience Co** (EXP). He will lead a strategic review to cut costs and exit some of the poor performing adventure acquisitions made by former management. A renewed focus on the company's core skydiving business will be a welcome change.

Tourist arrivals into Cairns, where most of the company's adventure activities are based, have remained low. June airport arrivals were down 4% from the prior year, in line with the decline in arrivals over the last six months. A return to growth in local and international tourists will benefit Experience Co's suite of skydiving, whitewater rafting and Great Barrier Reef activities.

Fund administrator **Mainstream Group** (MAI) reported another record level of funds under administration in June, growing by 24% over the past year and 6% over last quarter to \$17.3bn. New clients and inflows into existing clients' funds accounted for 40% of the growth, with Mainstream continuing to win new work in Australia and the US. The startup US business signed up another 36 private equity funds. Mainstream continues to steadily grow its funds under administration. Greater scale will improve profitability and value to both existing shareholders and potential acquirers.

The Fund made an investment in marketing business WPP in June. It is the largest marketing and communications company in Australia and New Zealand with 1,900 employees across 170 offices. WPP has faced plenty of challenges over the past few years. The role of creative and media buying businesses is changing. But most of the pain for WPP has been self inflicted.

A recent acquisition had turned into a disaster, losing WPP \$8m last year. Market research business Kantar, starved of investment, has also performed badly. High levels of debt have caused plenty of investor concern. An earnings downgrade and CEO departure last October pushed the share price to its lowest levels since the global financial crisis.

In July, WPP's UK parent **WPP PLC** (LON:WPP) announced the sale of Kantar globally. As part of the deal the 62%-owned ASX subsidiary in which we own shares will sell its stake in Kantar for about \$150 million. This will allow the company to rid itself of a poorly performing business and reduce debt.

As WPP finds its place in the new marketing landscape, profitability should improve. Despite the share price rising by a third since the Fund's purchase, WPP still trades at about seven times this year's earnings. Even if the business never grows again, the company could continue paying its current 10% fully franked dividend yield, with the leftover cash from the Kantar sale potentially providing a further yield boost this year.

#### TOP 5 HOLDINGS (as % of NAV)

<b>Enero Group Limited</b>	(ASX:EGG)	11.7%
<b>iSelect Limited</b>	(ASX:ISU)	7.8%
<b>MMA Offshore Limited</b>	(ASX:MRM)	7.1%
<b>Macmahon Holdings Limited</b>	(ASX:MAH)	6.1%
<b>Carsales.com Limited</b>	(ASX:CAR)	5.2%
<b>Cash</b>		16.8%

## 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

<b>Fund inception</b>	30 October 2009
<b>ASX Code</b>	FOR
<b>Distribution</b>	Annual, 30 June

### UNIT PRICE SUMMARY

<b>As at</b>	31 July 2019
<b>NAV</b>	\$1.36
<b>Market Price</b>	\$1.24
<b>Portfolio Value</b>	\$154.9m

### ABOUT FORAGER

With approximately \$315 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.

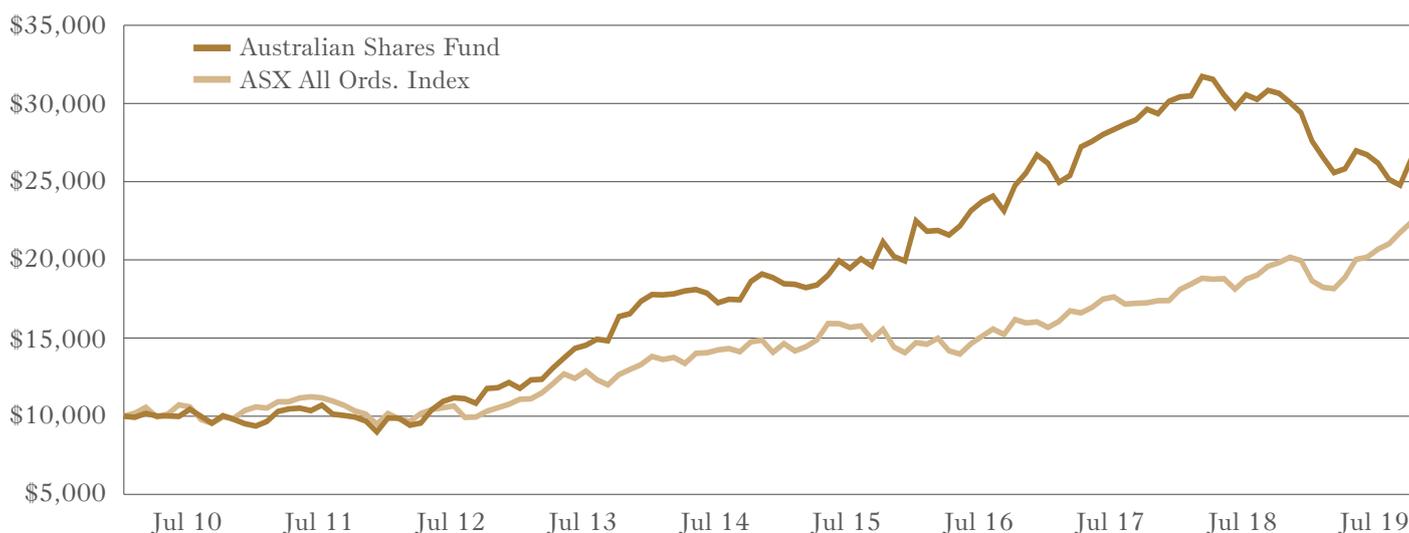
The company is majority owned by staff. Forager's shareholders support the desire to place performance before revenue. That means capping the size of funds before too much money becomes an impediment to performance.

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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