

FORAGER

AUSTRALIAN SHARES FUND

MONTHLY REPORT OCTOBER 2019 www.foragerfunds.com

PERFORMANCE (Net of all fees and expenses)

FORAGER AUSTRALIAN SHARES FUND PERFORMANCE SUMMARY (as at 31 October 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)	1.54%	4.83%	5.82%	0.39%	1.91%	8.44%	10.72%
S&P All Ords. Accum. Index	-0.37%	-0.50%	7.72%	19.39%	12.42%	8.76%	8.33%

*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 newest investment in the Forager Australian Shares Fund doesn't look like much of a value stock. Losses over the past five years total \$12m. It doesn't look like much of a growth stock either. Revenue has only grown 5% per year over the same period. And it's not exactly bombed out: the share price is up by a third in 2019.

So why has the Fund made a significant investment in **RPM Global (RUL)**?

The company is one of the few listed global enterprise software providers in Australia. It operates in a sector well known to Australians: mining. Of all the world's mining software, 60% has been developed in Australia. RPM's software helps clients work out when to mine sections of a deposit, when dump trucks need a service and how to best budget for future mine profitability.

Since software veteran Richard Matthews focussed the company on the software business in 2012, recurring maintenance revenue from installed software has grown by 13% per year. Because the product is difficult to replace, less than 5% of this revenue stream is lost every year.

But increasing revenue hasn't yet translated into profits. Software development spend has more than doubled over the past five years, but is now falling. And the company has changed the way it sells its software, forgoing a perpetual licence sale in favour of annual subscription payments. That means a hole in revenue and profits in the first year of a sale but 80% more revenue over a decade. Adjusting for lower expected software development spend and the move from perpetual licences to subscriptions would make for current earnings at double the reported level.

RPM looks to be a rare find: a growing recurring revenue business at a valuation a value investor can live with. Look out for more in our December quarterly report.

Print and technology services provider **CSG (CSV)** is unlikely to be trading on the ASX for too much longer. The company has received a takeover bid from print giant Fuji Xerox. The \$0.31 offer is double where it was trading in June. The board is supportive. So is the company's largest shareholder. So are we: the Fund owned 7% of CSG's shares at the time of the bid.

Under the stewardship of Mark Bayliss, initially executive chairman and now managing director, CSG is in the midst of executing a turnaround. Culture has improved, new senior

staff have been appointed and costs reduced. Management have forecast growth of more than 10% this year.

These improvements have led Fuji Xerox to make an aggressive play for CSV. The company's current suppliers, including Japanese giant Canon, may feel pressure to respond. Another bid is possible. The Fund purchased more shares after the bid was announced.

Also this month oil and gas equipment supplier **Matrix Composites & Engineering (MCE)** entered into an agreement to sell its manufacturing facility to a Western Australian property investment company. Matrix will receive \$20m upfront and will pay \$1.7m of annual lease payments for the next 20 years. It will need some of the cash to fund increased working capital as the offshore oil and gas market recovers. In the meantime, idle cash can be returned to long-suffering shareholders.

Thorn Group (TGA), the consumer and business equipment funder, had an eventful month. The company completed the retail component of a recent capital raising, paid \$25m on its class action settlement, announced major board changes, and appointed a new CEO. David Foster will retire as chairman of the company while Paul Oneile, current chairman of **A2B Australia (A2B, formerly Cabcharge)**, was announced as a new independent non-executive director. From February next year the company will be led by Peter Lirantzis, formerly chief operating officer at competitor FlexiGroup.

TOP 5 HOLDINGS (as % of NAV)

Enero Group Limited	(ASX:EGG)	9.9%
Thorn Group Limited	(ASX:TGA)	8.2%
Macmahon Holdings Limited	(ASX:MAH)	7.4%
CSG Limited	(ASX:CSV)	6.8%
iSelect Limited	(ASX:ISU)	6.5%
Cash		5.2%

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 October 2019

NAV \$1.43

Market Price \$1.24

Portfolio Value \$162.4m

ABOUT FORAGER

With over \$320 million of funds under management and a focus on long-term investing, Forager Funds is a unique Australian asset management company.

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

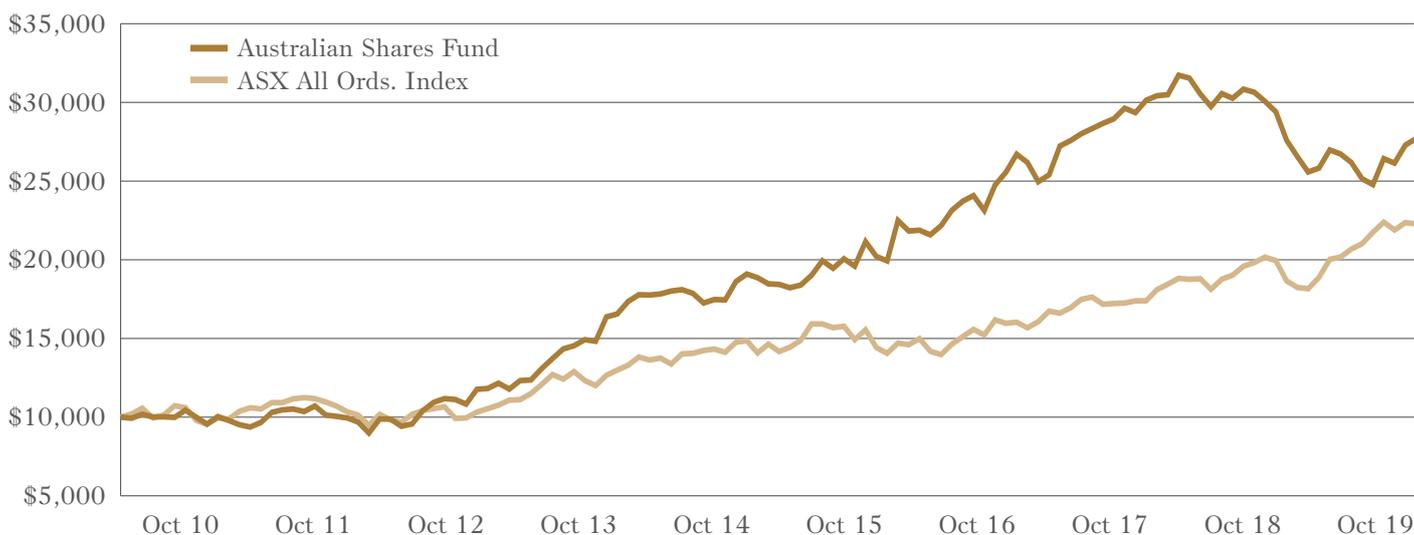
The company is majority owned by staff. Forager's shareholders support the desire to place performance before revenue. That means capping the size of funds before too much money becomes an impediment to performance.

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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