



For the past two years, small growing companies have been some of the best performing investments on the ASX. 'Don't buy large caps', the theory went, 'there's no growth there'. The theory came a cropper in November as the All Ordinaries Index was dragged higher by the big banks and resources companies, while many expensive growth stocks saw their share prices hammered. Despite holding lots of cash and no expensive growth stocks, the Forager Australian Shares Fund also gave up some of this year's heady gains. While we typically welcome price falls as opportunities, some of the month's announcements were unwelcome.

RNY Property Trust (RNY) announced another decimation of its net tangible assets (NTA). RNY's managers, New York based RXR Realty, had been hacking away at their valuation estimates for the past 18 months. At 30 June 15 it was \$0.55 per unit. That was cut to \$0.35 as of December the same year and then \$0.27 as at 30 June this year.

RXR is liquidating the portfolio and, while you might think halving the NTA provides some margin of safety, the Trust's latest announcement suggests the true market value is even lower. Based on bids from prospective buyers, RXR is now estimating the NTA could be as low as \$0.04 a unit.

That is a disaster for investors, of which we are the second largest. The best hope is \$0.10 per unit, an improvement on the current unit price, but a fraction of our expectations last year.

Enero Group (EGG) has been in the portfolio almost as long as RNY (more than six years). Despite recent signs of progress, that company's issues aren't behind it either. The owner of marketing agencies announced that Naked Communications, one of its most important agencies, had lost important client Virgin Atlantic. The Virgin account is 7% of Enero's revenues and adds to problems in the UK, where currency depreciation and Brexit-induced client timidity were already impacting earnings.

This financial year won't be a good one for Enero. With several strategically valuable agencies in the portfolio, it is a very attractive candidate for one of the global players.

Finally for the bad side of the ledger, new holding **NZME** (NZM) announced that the NZ Competition Commission isn't looking favourably on its merger aspirations. The APN News and Media spinoff, owner of the NZ Herald, other print media assets and a clutch of NZ radio stations, wants to merge with the New Zealand business of **Fairfax** (FXJ). The commissioner thinks otherwise.

We weren't counting on merger benefits in our valuation, which was already substantially higher than the pre-announcement share price. That didn't stop the stock getting whacked. The full investment case will be explained in the next quarterly, but this is at least one piece of bad news that provided an opportunity to increase the Fund's holding.

Jumbo Interactive (JIN) provided some welcome news. The online lotteries company announced it is exiting its business in Germany. This region cost shareholders \$2.6m last year. While it will lose another \$1m this year, the German business will be shut down by Christmas and will not contribute any further losses thereafter.

That should allow its growing Australian business to shine.

Replicating last year's \$12.4m pre-tax profit won't be easy given an exceptional number of high lottery jackpots last year. But next to a market capitalisation of \$75m, anything close to a \$12m profit should look attractive.

FACTS

Fund commenced	31 October 2009
Minimum investment	Closed
Income distribution	Annual, 30 June
Applications	Closed
Redemption	Weekly

UNIT PRICE SUMMARY

Date	30 November 2016
Buy Price	\$1.5719
Redemption Price	\$1.5758
Mid Price	\$138.6m
Portfolio Value	\$146.3m

*The Fund is forward-priced; you will receive the price struck subsequent to the receipt of your application/redemption.

PERFORMANCE

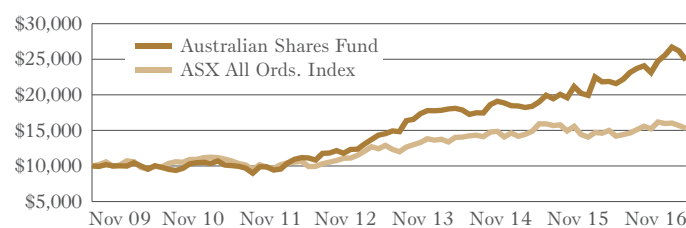
Past performance is not a reliable indicator of future performance.

Forager Australian Shares Fund Performance Summary (as at 31 October 2016)

	Australian Shares Fund	All Ords. Accum. Index
1 month return	-4.65%	2.46%
3 month return	-2.34%	0.63%
6 month return	3.66%	3.13%
1 year return	14.34%	10.01%
3 year return	12.01% p.a.	5.64% p.a.
5 year return	20.37% p.a.	10.33% p.a.
Since inception*	13.77% p.a.	6.92% p.a.

*31 October 2009

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



Source (All Ords): S&P Capital IQ

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