

FORAGER

AUSTRALIAN SHARES FUND

MONTHLY UPDATE MAY 2018

www.foragerfunds.com

PERFORMANCE (Net of all fees and expenses)

FORAGER AUSTRALIAN SHARES FUND PERFORMANCE SUMMARY (as at 31 May 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)	-0.97%	-0.92%	-0.74%	5.55%	14.68%	15.19%	13.76%
S&P All Ords. Accum. Index	1.40%	1.22%	3.12%	10.79%	6.44%	9.06%	7.78%

*30 October 2009. Past performance is not an indicator of future performance.

It was a momentous month for the Australian Shares Fund. Two of the biggest contributors to the performance of the Fund over the past five years have left the portfolio. Goodbye **Jumbo Interactive (JIN)** and **Service Stream (SSM)**.

Our margin of safety in online lottery reseller Jumbo has been dwindling over the past year. Profit climbed over 50% last half. That is speedy. Investors have recognised its prospects – the stock price is up more than 70% over the last year.

Jumbo's current level of profitability is bang in line with our expectations. The business is likely to keep growing, management's renewed focus on the domestic business is worth applauding and we hope to see further success. But the current share price, roughly 25 times this year's earnings, factors in all of that and ignores some still present risks. Jumbo's dominant supplier Tatts, now part of **Tabcorp (TAH)**, has been more active with its own online offering. Any future turbulence in the relationship will cause big problems.

Things have also been rosy for Service Stream. The most recent half-year period saw earnings per share up 30 times from four years ago. More than 50% of revenue comes from work on the NBN. Building and connecting work will tail off over the next few years but maintenance work will start to pick up. So Service Stream may well hang on to their revenue in a post NBN construction world. But margins, already at high levels, have some way to fall if issues arise. Again, we would love to see this business continue succeeding, but the current price is too good to pass up.

With cash balances increasing, the current focus is on finding new stocks.

One of these is comparison website **iSelect (ISU)**. You may have seen their uninspiring marketing campaign floating around on TV, billboards and buses in April. The campaign didn't catch on, the CEO departed and the board lowered profit guidance for the year by 64%. The share price fell 56%. With a flood of selling Forager's funds were able to buy 7% of the company. We think there are a few valuable assets and a viable ongoing business in the mess. Things have gotten even more interesting since, with major competitor Compare the Market (think meerkats) taking a 20% stake. Watch out for more on this one in the quarterly report.

In other news **3P Learning (3PL)**, provider of education software, sold a stake in another software business, Learnosity.

Bought under the prior CEO for \$49m, it was sold for only \$25m. This was a poor result – 3P paid far too much for the stake two and a half years ago. With this distraction out of the way management can turn their attention to keeping the Australian business dominant and growing the UK and US offshoots.

Also late in the month Radio Rentals owner **Thorn (TGA)** reported its full year profit (it has a 31 March year end). It was a tale of bad and good. Profit from leasing TVs and washing machines fell 27% last year. Bad publicity around Thorn's recent regulatory issues and class action haven't helped. Neither has reducing prices.

Debt was higher as Thorn's other venture, funding vehicles and machinery for small businesses, continued to grow. Profit here was up 50%. But this isn't magic. Returns are not stellar when compared to the amount of capital deployed acquiring the gear.

Next year is not looking bright. Profits could halve. But in the confusion sits a reasonable consumer leasing business and a saleable small business equipment finance operation. New management have some work to do to squeeze profits out of both. With the shares currently trading at half their tangible asset backing, though, there is a margin of safety and plenty of upside if things go well.

TOP 5 HOLDINGS (as % of NAV)

Macmahon Holdings Limited	(ASX:MAH)	9.6%
Freedom Insurance Group Limited	(ASX:FIG)	6.2%
Enero Group Limited	(ASX:EGG)	6.2%
iSelect Limited	(ASX:ISU)	5.7%
MMA Offshore Limited	(ASX:MRM)	5.0%
Cash		27.9%

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
Income distribution	Annual, 30 June

UNIT PRICE SUMMARY

As at	31 May 2018
NAV	\$1.79
Market Price	\$2.03
Portfolio Value	\$163.6m

ABOUT FORAGER

With more than \$370 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.

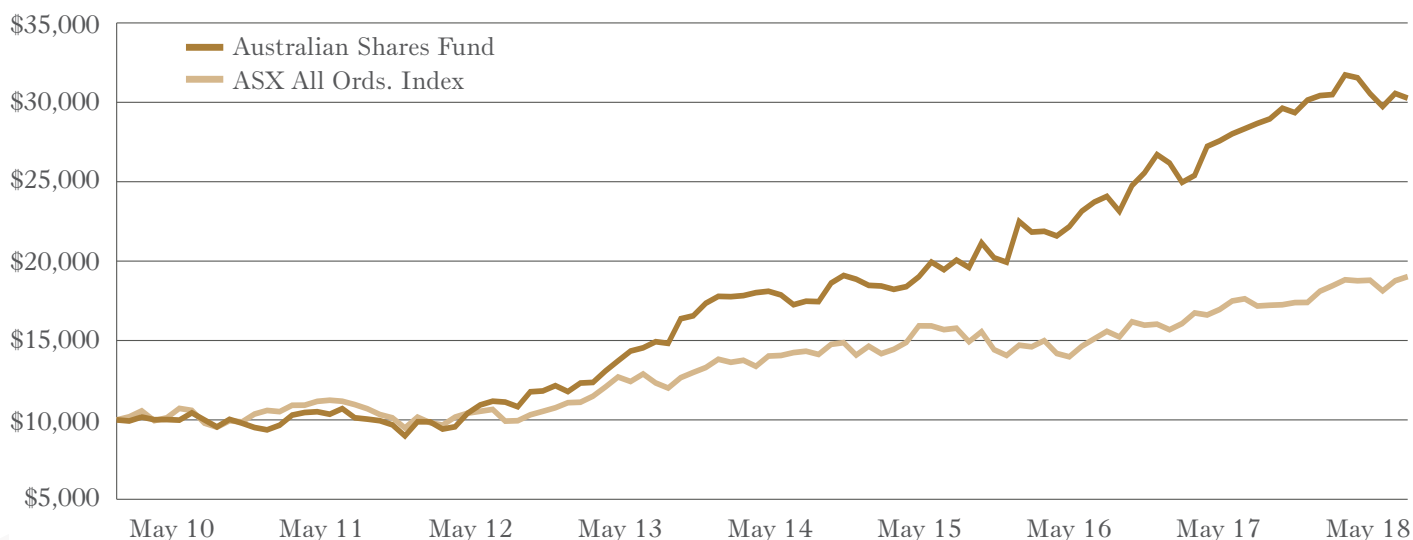
The company is majority owned by staff. Forager's shareholders support the desire to place performance before revenue. That means capping the size of funds before too much money becomes an impediment to performance.

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 minimising portfolio risks
- Listed on ASX as a Listed Investment Trust (LIT)
- Structure offers 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. Past performance is not a reliable indicator of future performance and the value of your investments can rise or fall.

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