

FORAGER

AUSTRALIAN SHARES FUND

MONTHLY REPORT AUGUST 2019

www.foragerfunds.com

PERFORMANCE (Net of all fees and expenses)

FORAGER AUSTRALIAN SHARES FUND PERFORMANCE SUMMARY (as at 30 August 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)	-1.09%	3.97%	-3.10%	-13.05%	0.74%	6.47%	10.26%
S&P All Ords. Accum. Index	-2.22%	4.13%	9.32%	8.58%	11.10%	8.05%	8.29%

*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.

Reporting season kept the team busy this month with most of the Fund's investments reporting financial results and offering guidance on future performance. Most results were in line with our expectations. A few faltered but were not severely punished by the stock market.

One of the better results came from salary packaging and novated lease provider **Smartgroup** (SIQ). In a half year where new car sales fell by 9% the company proved its resilience, increasing the number of cars under lease by 1.5%. That growth included a small acquisition but also included the loss of a contract in Victoria, a rare occurrence for the company. Revenue for the half year grew by 3% and net profit rose 5%. The share price jumped 21% on the day the result was released.

The company has extended some of its most important client relationships and is busy expanding the number of products it offers clients. In addition to salary packaging, Smartgroup also manages car fleets, processes payroll and administers share plans, and is winning business in all three areas. Multiple IT systems, the result of prior acquisitions, are now being streamlined. It's helping the company do more with less - staff numbers fell by 1% over the year. With growing earnings and a 5.6% fully franked dividend yield (including a recent special dividend), we continue to hold.

Managed technology and print business **CSG** (CSV) also reported pleasing results. The turnaround is going to plan. Technology revenue rose 6% and earnings rose 18% as the company added valuable recurring subscription revenue. Even the troubled print division is improving: Australian equipment sales are up. After a poor first half, sales in New Zealand were stronger in the back half of the year. Costs have been reduced. New management has delivered on turnaround promises so far and expects growth next year. CSG now needs to prove that the technology business can attract clients and grow valuable recurring revenue.

It hasn't been an unblemished reporting season. We had expected a good second half from comparison website **iSelect** (ISU) after a strong first half. It failed to deliver. Most of the weakness came in the company's health insurance comparison segment where profit is down 45% from the peak

two years ago. Health insurance premiums rose less sharply this year than in the recent past, so fewer customers sought out comparison services. More of iSelect's commissions are being delayed rather than paid upfront. This increases the company's trail receivables but has reduced the cash generated this year. As is common when new management takes over, there were plenty of profit adjustments clouding the picture.

But the management team, in place since early last year, has continued to improve the efficiency of iSelect's marketing budget. The cost to acquire a client has dropped by 19%. Technology to track customers across different product categories should be completed next year, helping to sell more products to existing clients. And iMoney, the company's South East Asian business, grew revenue by 39%. Management is considering selling all or part of this loss-making business to highlight its value.

iSelect's largest competitor Compare the Market owns 23% of the company. With plenty of cost savings, the two businesses would be stronger together. Duplicated costs could be removed. Marketing budgets could be trimmed. And the combined group would be a key distribution channel for private health insurers. Now it's up to both companies to forge a deal that satisfies all shareholders.

TOP 5 HOLDINGS (as % of NAV)

Enero Group Limited	(ASX:EGG)	11.2%
Macmahon Holdings Limited	(ASX:MAH)	7.5%
iSelect Limited	(ASX:ISU)	7.2%
MMA Offshore Limited	(ASX:MRM)	6.3%
Smartgroup Corporation	(ASX:SIQ)	5.9%
Cash		14.3%

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 30 August 2019

NAV \$1.35

Market Price \$1.20

Portfolio Value \$153.3m

ABOUT FORAGER

With over \$300 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.

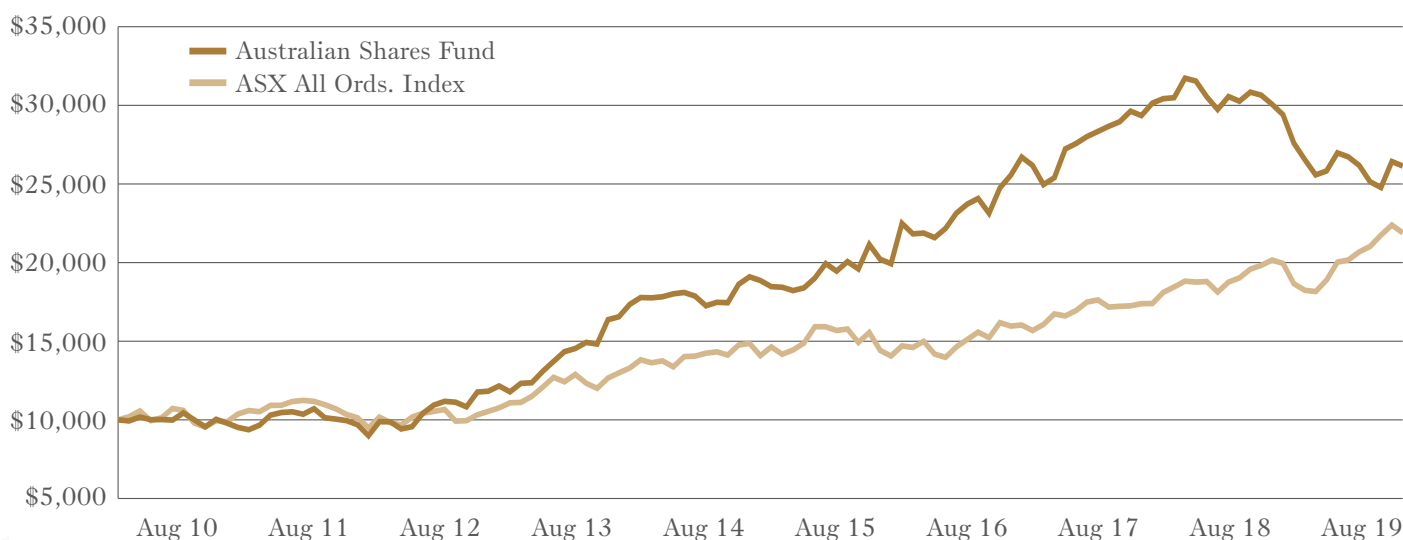
The company is majority owned by staff. Forager's shareholders support the desire to place performance before revenue. That means capping the size of funds before too much money becomes an impediment to performance.

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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