

FORAGER

AUSTRALIAN SHARES FUND

MONTHLY REPORT NOVEMBER 2019 www.foragerfunds.com

PERFORMANCE (Net of all fees and expenses)

FORAGER AUSTRALIAN SHARES FUND PERFORMANCE SUMMARY (as at 30 November 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)	-3.22%	2.57%	6.64%	0.98%	2.42%	7.78%	10.27%
S&P All Ords. Accum. Index	3.07%	4.88%	9.21%	25.89%	12.64%	10.13%	8.59%

*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.

While only a few months into the new financial year, AGM season is a chance for management teams to update shareholders on their progress so far. Most of the Fund's investments provided updates in line with our expectations.

Mining services business **Macmahon** (MAH) confirmed it was on track for \$80m to \$90m of earnings before interest and tax this year. As well it should. The company has \$4.7bn of contracted work to perform and expects more than \$1.2bn of revenue this year.

Having put out some time-consuming fires, management is now turning its attention to winning new work. A contract extension and expansion at Byerwen looks likely. An extension at Batu Hijau, the company's largest project, also has a better chance of going ahead. This would be a big win for the company and would secure increased revenue for many more years.

Smartgroup's (SIQ) CEO, Deven Billimoria, announced his resignation following 19 years of service. After many years of acquisitions by Smartgroup and **McMillan Shakespeare** (MMS), the salary packaging industry has now been consolidated and future growth is likely to be less exciting.

But, despite the departure of its well-liked CEO, Smartgroup remains attractively priced. It is hard to dislodge as a service provider and operates in a near duopoly with its rival. Performance has been solid even though new car sales have fallen for 19 consecutive months. Eventually, new car sales will turn around and the business should benefit from rising employment in the health and charity sectors over the long term.

Experience Co's (EXP) new managing director presented the results of the skydiving and adventure operator's strategic review at a well attended annual general meeting in Sydney. The company will sell its helicopter, ballooning and canyoning business, the result of an acquisition binge under old management. The retained Great Barrier Reef trip business and core skydiving operations are delivering better returns on capital, have higher barriers to entry and can grow profitably.

But there is plenty of work to do to turn around the performance of the group. Skydiving revenue fell 10% last quarter and sales from trips to the reef was 21% lower. A new chief revenue officer was appointed, as were general managers for the Great Barrier Reef and Australian skydiving divisions. Cost reductions will mean the business has a \$5m tailwind into next year. With a new team and some sensible capital allocation decisions the company looks set to deliver a more profitable experience to investors.

Thorn Group (TGA), the consumer leasing and equipment finance company, is showing signs of stability after a challenging few years. Installations of leased items like fridges and washing machines have been flat in the consumer-facing Radio Rentals business, and more customers are paying their bills. But the value of future payments due from customers shrunk as leases were repaid faster than new customers were won.

Now in better shape after raising capital and revising its debt facility, the business finance segment is showing signs of growth. New financing was up to \$79m from \$70m last half. A new CEO, due to start in February, will have to work hard to improve the group's return on assets to acceptable levels. He has a sturdier platform to work from.

MMA Offshore (MRM) management continued to talk of improved conditions for its offshore oil and gas vessels at the company's annual general meeting. The company announced three new contracts with Australian producers worth \$38m in total revenue.

But that won't be enough. The company needs to start getting paid more for each day a vessel is working. While this hasn't happened across the portfolio, rates for MMA's specialised ships are improving. With activity returning to the space and fewer high spec vessels available to rent, the company should see day rate increases for the whole fleet over time. With a largely fixed cost base, most of the new revenue should flow through to higher profits.

TOP 5 HOLDINGS (as % of NAV)

Macmahon Holdings Limited	(ASX:MAH)	8.5%
Thorn Group Limited	(ASX:TGA)	7.4%
CSG Limited	(ASX:CSV)	7.0%
iSelect Limited	(ASX:ISU)	6.5%
Enero Group Limited	(ASX:EGG)	6.4%
Cash		5.4%

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 November 2019

NAV \$1.38

Market Price \$1.18

Portfolio Value \$157.2m

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.

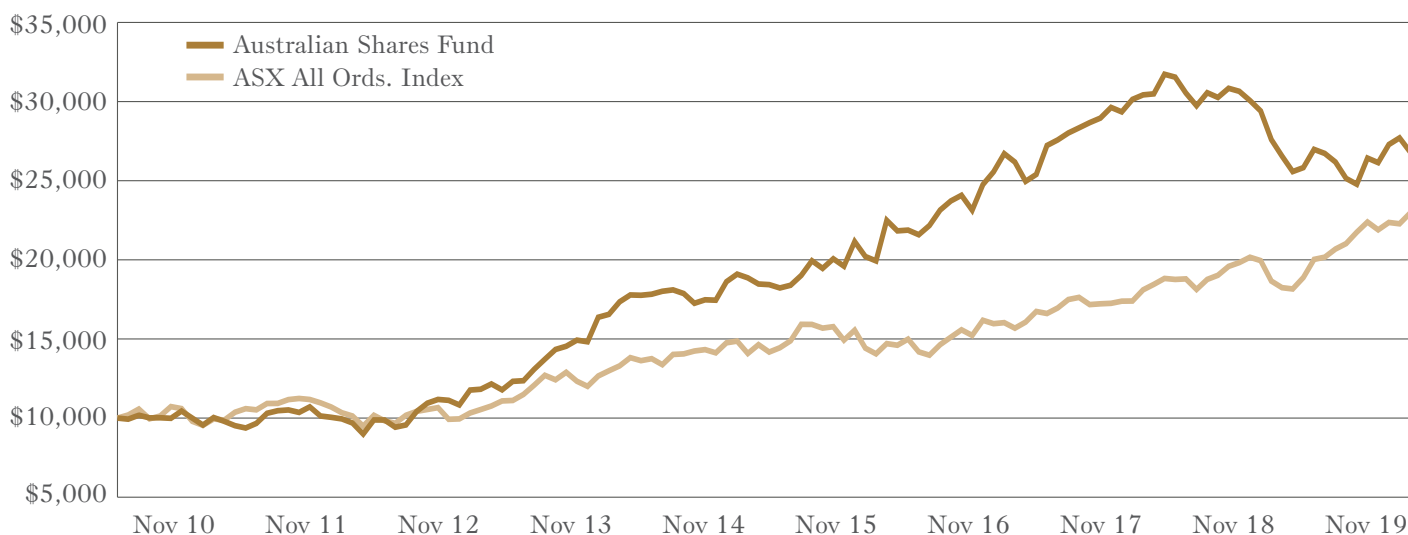
The company is majority owned by staff. Forager's shareholders support the desire to place performance before revenue. That means capping the size of funds before too much money becomes an impediment to performance.

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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