FORAGER

AUSTRALIAN SHARES FUND

MONTHLY REPORT OCTOBER 2018 www.foragerfunds.com

PERFORMANCE (Net of all fees and expenses)

FORAGER AUSTRALIAN SHARES FUND PERFORMANCE SUMMARY (as at 31 October 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)	-6.16%	-9.96%	-9.69%	-9.29%	7.05%	9.19%	11.93%
S&P All Ords. Accum. Index	-6.47%	-5.88%	-0.55%	3.07%	8.26%	6.19%	7.17%

*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 All Ordinaries Accumulation Index lost 6.5% during October, the worst month for local shares in the past three years. The Australian market was caught up in a global sell-off, with some of 2018's best performing stocks and sectors hardest hit. Many companies also hosted annual general meetings during October and some of the big banks reported results, painting a general picture of a weak housing market and struggling consumers.

We wrote about our investment in comparison website **iSelect** (ISU) in the June 2018 Quarterly Report. Since then the company has been busily rectifying last year's mistakes.

New TV campaigns hit the airwaves last month. While not as catchy as the meerkats of competitor Compare The Market, the Billusionist is a big improvement from the bland ads consumers were being shown earlier this year.

Management has also wound back unproductive marketing spend, spending less on some overly expensive search terms through Google Adwords. First quarter revenue was lower as a result. But earnings before interest and tax was slightly positive this year against a loss last year. And the second quarter is looking better too.

These are all positive signs, but with most of the profit booked in the second half of the financial year we will have to wait to see how successful the turnaround will be.

Enero (EGG), the owner of a portfolio of marketing businesses, also had a good start to the financial year. Trading was described simply as 'strong' at the company's annual general meeting. The recent acquisition of creative marketing agency Orchard is tracking to expectations. And the rest of the business has been growing. But there is more to this picture.

For years high corporate costs have been taking a big cut out of portfolio company profits. Last year 30% of profit disappeared on corporate costs. Enero had a choice. Grow and make better use of corporate costs. Or shrink the business by selling portfolio companies and returning the money to shareholders.

Enero management chose the former.

Scarred by acquisitions of the past the company seems to be progressing cautiously. Paying a small upfront amount and a larger sum after a few years of performance is a sensible way to acquire a business. Orchard cost Enero only $5m upfront. If the business performs well over three years, Orchard's sellers will end up with an extra $22m. This is a better way to deal with businesses where the departure of a senior employee can jeopardise plenty of hard-won work.

A few acquisitions have now been completed and corporate costs have remained stable. That means more of the profit generated by the portfolio companies have ended up in shareholders' pockets. Sensible acquisitions and progress in existing businesses should finally see Enero growing to its potential.

Another company to update investors was **MSL Solutions** (MPW), a provider of software to clubs and sporting venues. Revenue expected from software sold on annual and monthly payment plans grew by 5% in the quarter. But that's where the good news stopped.

Overall revenue was down 16% compared to the same quarter last year. Less revenue from hardware sales and perpetual licenses caused the decline. While some of these sales are lumpy, this was not a good result. Costs also rose, with MSL doubling the spend on research and development and increasing sales and marketing expense by a third. These should result in more revenue over time, but short term profitability will be impacted. Cashflow was also poor. The first quarter's operating cash flow showed an outflow of $1.7m.

This is only one quarter, and MSL is growing an attractive recurring revenue source. The company now needs to show investors that it can collect cash on past sales and build a profitable business over the long term.

With more annual general meeting updates and a result from portfolio investment **Thorn** (TGA), November will be another important month for the portfolio.

TOP 5 HOLDINGS (as % of NAV)

Macmahon Holdings Limited	**(ASX:MAH)**	11.7%
Enero Group Limited	**(ASX:EGG)**	8.8%
iSelect Limited	**(ASX:ISU)**	7.5%
MMA Offshore Limited	**(ASX:MRM)**	5.9%
Thorn Group Limited	**(ASX:TGA)**	5.5%
Cash		25.4%

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	31 October 2018
NAV	$1.45
Market Price	$1.53
Portfolio Value	$164.5m

ABOUT FORAGER

With more than $360 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.

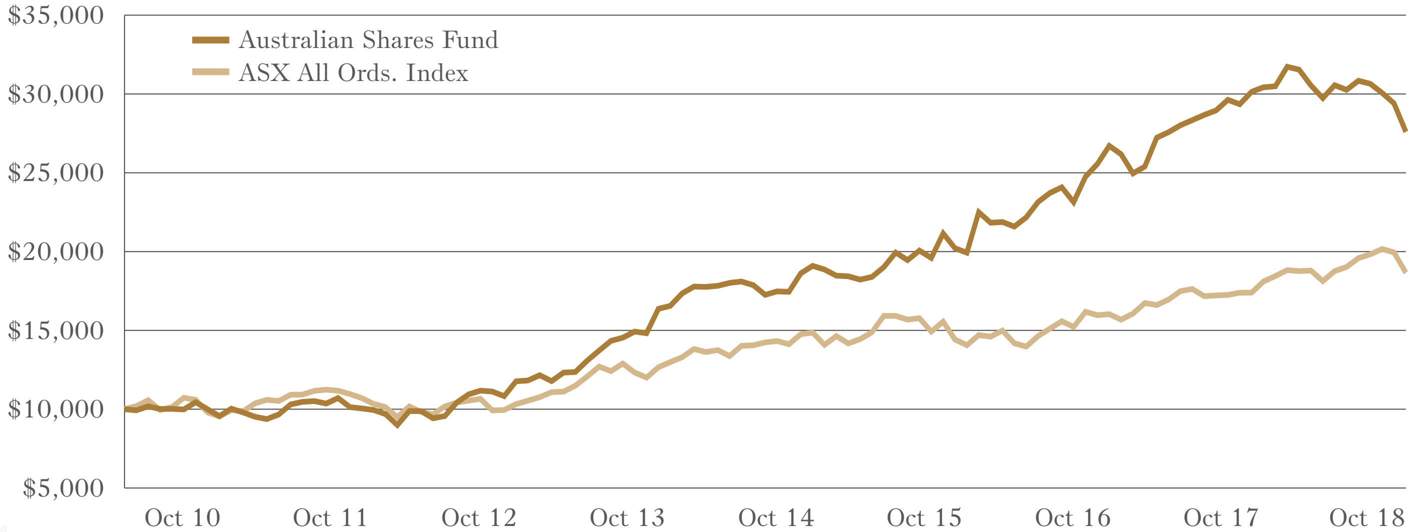
The company is majority owned by staff. Forager's shareholders support the desire to place performance before revenue. That means capping the size of funds before too much money becomes an impediment to performance.

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.