

# FORAGER

## AUSTRALIAN SHARES FUND

MONTHLY REPORT JANUARY 2019

www.foragerfunds.com

### PERFORMANCE (Net of all fees and expenses)

#### FORAGER AUSTRALIAN SHARES FUND PERFORMANCE SUMMARY (as at 31 January 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.)
<b>Australian Shares Fund (ASX:FOR)</b>	0.98%	-6.41%	-15.73%	-18.13%	6.16%	7.47%	10.79%
<b>S&amp;P All Ords. Accum. Index</b>	3.99%	1.20%	-4.75%	0.65%	10.01%	7.14%	7.11%

\*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 markets bounced back in January, Australia less so than the rest of the world. Weak house prices and a looming Royal Commission report continued to weigh on some of the largest Australian stocks.

It was an eventful month for **Thorn Group** (TGA). The Senate Economics References Committee held a public hearing on credit and financial services targeted at Australians at risk of financial hardship. Of particular controversy was the use of Centrepay as a payment mechanism for consumer leases. Some 52% of Thorn's customers pay via Centrepay.

The Senate Committee chair seems to be looking for a sensible balance between protecting vulnerable borrowers while still allowing reasonable access to credit if necessary. But the risks for Thorn are even more elevated than usual. The committee recommendations will be available on 22 February.

Thorn also announced a profit downgrade due to lease defaults in the equipment finance business which will require a provision of \$7.4m. This was disappointing given our earlier efforts to persuade the board to sell part of the business. The stock is an important investment for the Fund and we are very focused on ensuring shareholder value is retained as much as possible. Expect more news over the coming months.

**MSL Solutions** (MPW) put out a disappointing update. We can live with a company investing for growth. We can also live with a highly profitable company not growing. MSL is delivering the worst of both worlds. Recurring revenues grew slower than anticipated and overall revenues declined. Expenses grew as the business invested in research and development and marketing which adversely impacted profits. The company is running perilously low on cash.

Management will need to show a serious turnaround to justify shareholders contributing more to this troubled situation.

Finally, some good news.

**Dicker Data** (DDR) grew earnings above management guidance by 8%. It has been a pleasant ride since we first started buying shares in 2015 at \$1.75 per share. The business has paid out 57 cents per share in fully franked dividends during our holding period and the share price is now over \$3. But the business also now trades at a 15 times price to earnings ratio. The margin of safety has diminished.

And marketing services company **Enero** (EGG) has a growth engine on its hands. A few years back Enero acquired Silicon Valley PR company Eastwick communications and merged it with London based Hotwire. The combined business, managed by Eastwick founder Barbara Bates, is now the world's largest tech-centric public relations agency.

We met with Bates and a few of her team on a recent trip to San Francisco and came away impressed. She has built a great culture, is in a growing sector and has a company small and nimble enough to eat away at the industry giants. The business is growing healthily and, given Hotwire is a significant part of total earnings, that bodes well for Enero's results, due in early February.

#### TOP 5 HOLDINGS (as % of NAV)

<b>Macmahon Holdings Limited</b>	<b>(ASX:MAH)</b>	11.0%
<b>iSelect Limited</b>	<b>(ASX:ISU)</b>	9.5%
<b>Enero Group Limited</b>	<b>(ASX:EGG)</b>	9.4%
<b>Thorn Group Limited</b>	<b>(ASX:TGA)</b>	7.2%
<b>MMA Offshore Limited</b>	<b>(ASX:MRM)</b>	4.8%
<b>Cash</b>		25.2%

## 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<sup>^</sup>.

### FACTS

<b>Fund inception</b>	30 October 2009
<b>ASX Code</b>	FOR
<b>Distribution</b>	Annual, 30 June

### UNIT PRICE SUMMARY

<b>As at</b>	31 January 2019
<b>NAV</b>	\$1.35
<b>Market Price</b>	\$1.36
<b>Portfolio Value</b>	\$154.0m

### ABOUT FORAGER

With approximately \$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 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.

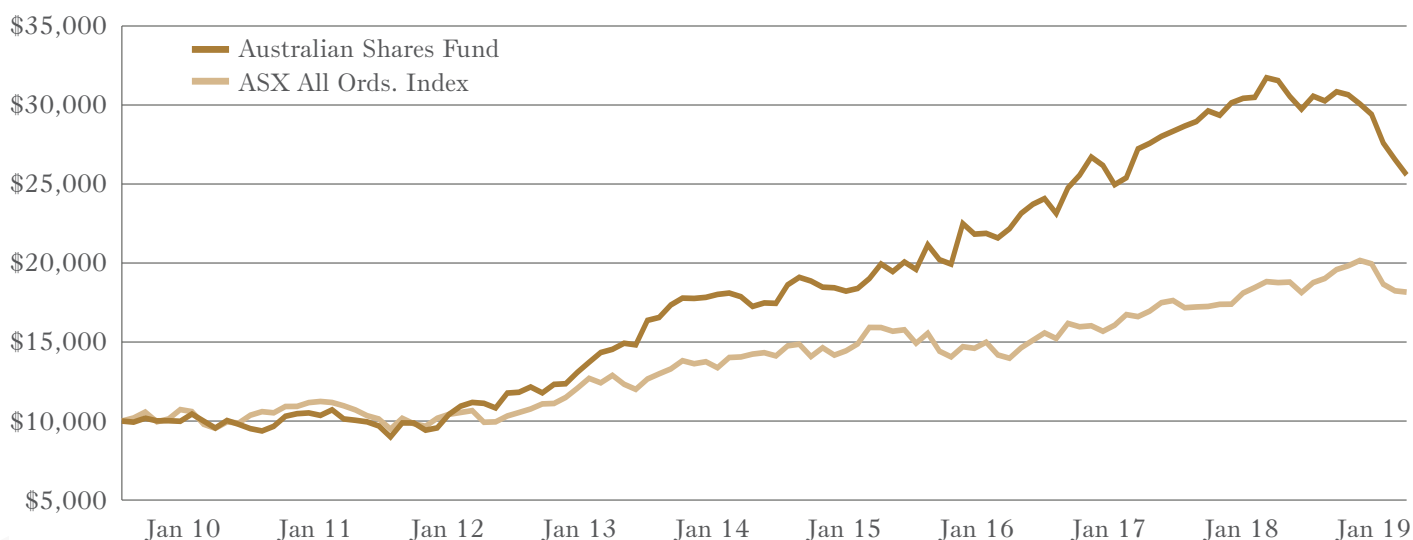
The company is majority owned by staff. Forager's shareholders support the desire to place performance before revenue. That means capping the size of funds before too much money becomes an impediment to performance.

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 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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