# FORAGER
# AUSTRALIAN SHARES FUND

MONTHLY REPORT APRIL 2019 www.foragerfunds.com

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

**FORAGER AUSTRALIAN SHARES FUND PERFORMANCE SUMMARY** (as at 30 April 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)** | -2.02% | 1.38% | -5.13% | -14.32% | 3.35% | 8.70% | 10.66% |
| **S&P All Ords. Accum. Index** | 2.54% | 9.51% | 10.83% | 10.23% | 11.02% | 7.75% | 7.95% |

*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.

Product comparison website **iSelect** (ISU) confirmed the company was being pursued by the **Australian Competition and Consumer Commission** (ACCC) for poor disclosure in the company's energy comparison service. Allegations centre around the company showing fewer plans from less favoured suppliers while claiming to compare all plans.

Energy is a small segment for iSelect, contributing less than 5% of earnings last financial year, and similar cases suggest the financial penalties should be relatively small. But the risk of iSelect falling short of regulator and customer expectations is heightened.

iSelect's revenue comes from product providers, while its service is supposed to benefit consumers. The resultant conflict is (rightfully) under increased scrutiny in the wake of the Royal Commission into financial services. Like the mortgage broking sector, however, we are yet to see a model without conflicts that consumers are prepared to pay for.

The remuneration might need further tweaking. Perhaps iSelect should charge all providers a flat fee or flat percentage of the policy amount, removing any suggestion of favouring one provider over another.

But iSelect, again like mortgage brokers, provides an important service enabling smaller players to compete with industry behemoths. No one, apart from those behemoths, wants to see a world without it.

Fund administrator **Mainstream Group** (MAI) reported a record level of funds under administration. At the end of March, the company was administering $163bn for fund managers around the world. This was up 11% since December and an impressive 23% from this time last year. The company benefited from higher equity prices during the quarter. But Mainstream also saw inflows into current clients' accounts, beat out competitors to $5.1bn worth of client funds and helped 38 new funds establish operations. Ten of these came from a new beachhead operation in the US, for which Mainstream raised capital in November.

**MSL Solutions** (MPW), a provider of software to clubs and sporting venues, released another disappointing quarterly result. Annual recurring revenue is up 15% from a year ago, but up only 2% from last quarter. And sales of lower margin equipment were down 38% on a year ago. Meanwhile, costs are up over 35%, resulting in the business bleeding cash. MSL sold part of its investment in another software business, Zuuse, for $2.7m to fund the losses. But this is a temporary solution. The company will need to either chart a cash generative course over the next few quarters or be back to investors for more capital to fund a convincing growth story.

Poor weather and bushfires delayed two of **Boom Logistics**' (BOL) wind farm installation projects into the next financial year. Combined with continued impacts from last year's industrial action, the crane operator now expects earnings before interest, tax, depreciation and amortisation of $22m, down from $25m to $27m previously. Importantly, though, management remains focused on how to make the most of its significant asset pool. Boom is flagging the potential sale of its travel towers, has already sold some other assets and reduced depot costs. The company has also bought back more than 6% of its shares since November under an ongoing buyback program.

Traditional media company **NZME** (NZM) announced the long-awaited launch of its 'Premium' digital subscriptions for the company's New Zealand leading masthead, *The New Zealand Herald*. A subscription will include access to leading international publications including *The New York Times*, *The Washington Post* and *Harvard Business Review*.

Management expects a positive contribution to earnings in its second year. Unlike NZME's property classifieds portal Oneroof, it is unlikely to herald a dramatic change in the company's finances.

Oneroof continues to show healthy growth in usage, with data suggesting more than half a million unique visitors in March (excluding referrals from the NZ Herald website), a record month. We think it can replicate Domain's success in Australia and be a worthy competitor to the dominant player, TradeMe Property.

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

| | | |
|---|---|---|
| **Enero Group Limited** | **(ASX:EGG)** | 11.2% |
| **Macmahon Holdings Limited** | **(ASX:MAH)** | 7.8% |
| **iSelect Limited** | **(ASX:ISU)** | 7.4% |
| **MMA Offshore Limited** | **(ASX:MRM)** | 5.7% |
| **Thorn Group Limited** | **(ASX:TGA)** | 5.2% |
| **Cash** | | 26.3% |

## 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 April 2019 |
| **NAV** | $1.37 |
| **Market Price** | $1.26 |
| **Portfolio Value** | $156.1m |

## ABOUT FORAGER

With approximately $330 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.

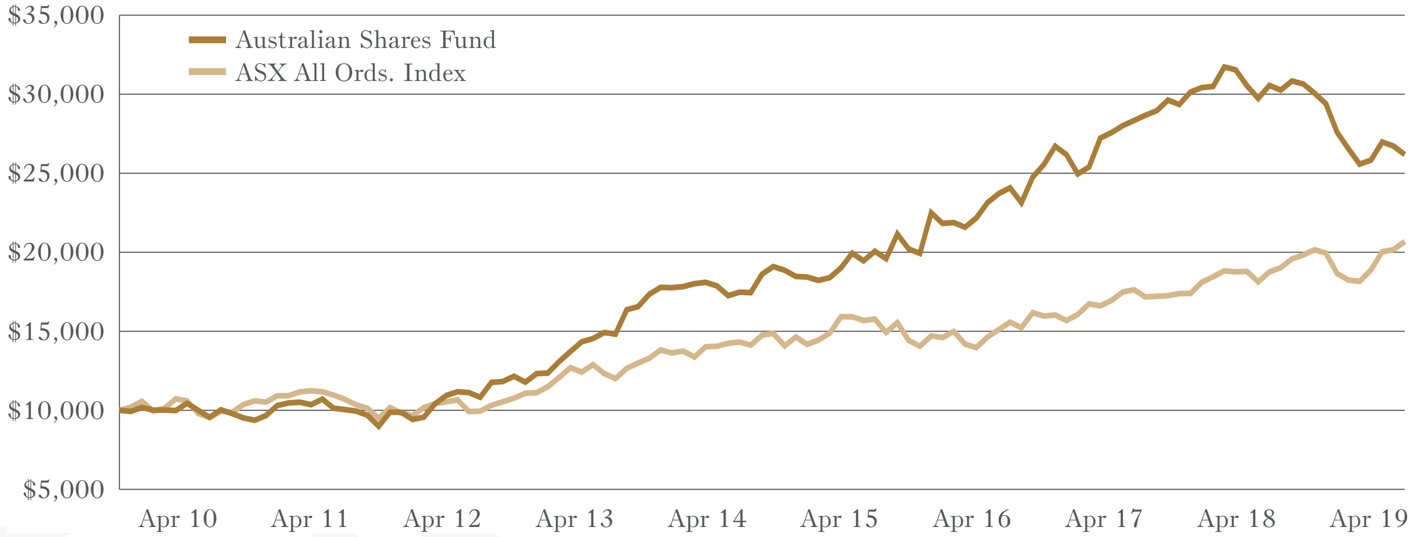
The company is majority owned by staff. Forager's shareholders support the desire to place performance before revenue. That means capping the size of funds before too much money becomes an impediment to performance.

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.