FORAGER AUSTRALIAN SHARES FUND

MONTHLY REPORT MAY 2019 www.foragerfunds.com

PERFORMANCE (Net of all fees and expenses)

FORAGER AUSTRALIAN SHARES FUND PERFORMANCE SUMMARY (as at 31 May 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)	-3.97%	-6.80%	-5.31%	-16.92%	1.45%	7.55%	10.10%
S&P All Ords. Accum. Index	1.67%	4.99%	15.27%	10.52%	10.51%	7.98%	8.06%

*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 Federal Election results surprised many bookmakers, pollsters and investors. The impact on the Australian Fund portfolio was muted but some investments should be better off under Liberal party rule. **iSelect** (ISU), which earns commissions from comparing health insurance policies, no longer has to worry about premium growth being capped at 2 percent a year. Crane owner **Boom** (BOL) will likely have less industrial relations issues to contend with than it may have. For investors in companies with excess franking credits like **Enero** (EGG) the status quo has been maintained.

Fund administrator **Mainstream Group** (MAI) guided investors to financial results coming in at the low end of its previous expectations for the year.

But Mainstream continues to build a recurring revenue stream, which will grow 20% this year to more than $50m. And, after losing a large client to a merger, the company is considering options for the superannuation business, commencing a strategic review to maximise value for shareholders. While we think it can grow for a few years yet, there are several global consolidators mopping up companies like Mainstream at valuations substantially higher than the current price.

Consumer leasing and equipment finance company **Thorn Group** (TGA) released its results for the 2019 financial year. Cash net loss was $7.9m, down from last year's profit of $18.5m. The result was muddied by a gain from a sold business, write-offs of equipment and software, and a $11.5m default in the business equipment division.

Its Radio Rentals business grew installations by 1%, but after a few slow years the lease book shrunk by 11%. Bad debts rose to 18% from 13% as Thorn struggled to collect payments from clients after a change in collection methods. We continue to engage with the company to realise the value in the business.

MMA Offshore (MRM), the owner of offshore oil and gas service vessels, continues to see its market in the early stages of a recovery, despite oil price fluctuations in recent months. The company confirmed prior earnings guidance, won some recent work for its fleet and will be within debt covenants when these start being tested in June.

The evidence for a recovery is mounting. Utilisation of vessels is improving—the company's own fleet is almost half booked for the rest of the calendar year. And rental rates for vessels in some parts of the world have risen sharply in recent months. When offshore oil and gas producers feel confident enough to start spending again, more of MMA's vessels will go back to work at higher rates.

Skydiving and adventure tourism business **Experience Co** (EXP) reduced expectations for current year's profits. Cairns continues to suffer from low tourist arrivals, affecting the company's suite of skydiving, white-water rafting and Great Barrier Reef trips. The late season arrival of Cyclone Ann also halted operations. Poor performance looks likely to continue into the next financial year in the North.

But Cairns tourist arrivals have grown 2.5% a year over the last decade, despite being down 5% over the last six months. And it looks like the company is not losing market share to other Cairns tourism operators. A return of local and international travellers to the city will benefit Experience Co's activities.

Outside of Far North Queensland it was better news—the number of skydivers is expected to increase by 5% this year. With the company's dominant market share it should benefit from continuing skydiving growth for many years.

Another downgrade to expectations came from tyre distributor **National Tyre** (NTD). The company's premium 4WD tyre brand, Cooper, did not sell as well as expected—it blamed poor consumer demand and increased price competition. Over the last year a lower Australian dollar and higher input prices have been difficult for the company to pass on to customers, damaging profit margins. This year's margins will be around 7%, down from 11% last year.

Over time more rational pricing from competitors should help to recover some of this lost margin and a move into smaller SUV tyres should help to grow revenue. But at a post-downgrade price-to-earnings multiple of just six times, these positives are not factored into the price.

TOP 5 HOLDINGS (as % of NAV)		
Enero Group Limited	**(ASX:EGG)**	10.8%
iSelect Limited	**(ASX:ISU)**	7.9%
Macmahon Holdings Limited	**(ASX:MAH)**	7.4%
MMA Offshore Limited	**(ASX:MRM)**	6.6%
Thorn Group Limited	**(ASX:TGA)**	5.0%
Cash		23.5%

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 May 2019
NAV	$1.32
Market Price	$1.22
Portfolio Value	$149.9m

ABOUT FORAGER

With approximately $315 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.

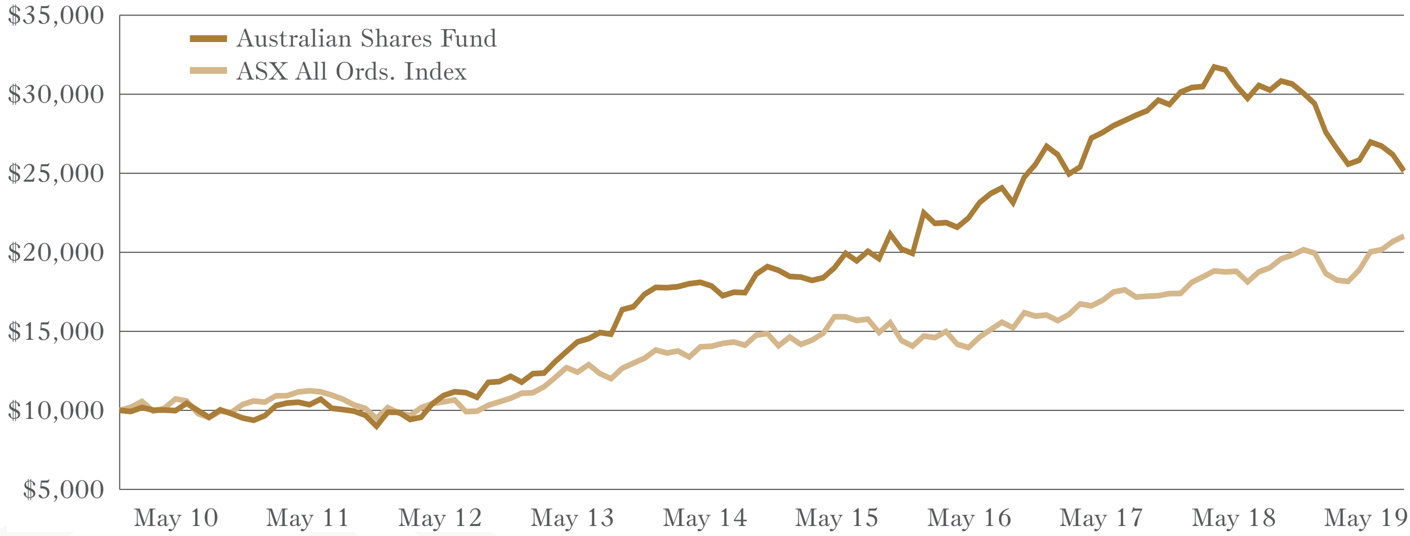
The company is majority owned by staff. Forager's shareholders support the desire to place performance before revenue. That means capping the size of funds before too much money becomes an impediment to performance.

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.