

Finding opportunity in unlikely places



General advice only

Forager Funds Management provides general information to help you understand our investment approach. Any financial advice we provide has not considered your personal circumstances and may not be suitable for you.

Product Disclosure Statement

The Trust Company (RE Services) Limited (ABN 45 003 278 831 and AFSL No. 235150) is the Responsible Entity and the issuer of the Forager Australian Shares Fund (ARSN No. 139 641 491). Fundhost Limited (ABN 69 092 517 087 and AFSL No. 233045) is the Responsible Entity and the issuer of the Forager International Shares Fund (ARSN No. 161 843 778). Macro Capital Limited (ABN 14 145 321 928 and AFSL No 392401) is the Responsible Entity and the issuer of the Forager Wholesale Value Fund (ARSN 110 619 488). Before investing you should read the relevant Product Disclosure Statement and seek advice from investment and taxation professionals to determine if the product is appropriate for your needs.

Performance

Past performance is not a reliable indicator of future performance. The Trust Company (RE Services), Fundhost, Macro and Forager Funds Management do not guarantee investment performance or distributions, and the value of your investment may rise or fall. Total returns and estimated valuations have been calculated using the mid-point of unit prices, before taxation, after ongoing fees, and assuming reinvestment of distributions. We encourage you to think of investing as a long-term pursuit.

Disclaimer

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Brief Introduction: Our Business

Steve Johnson
Founder and Chief Investment Officer
Forager Funds Management



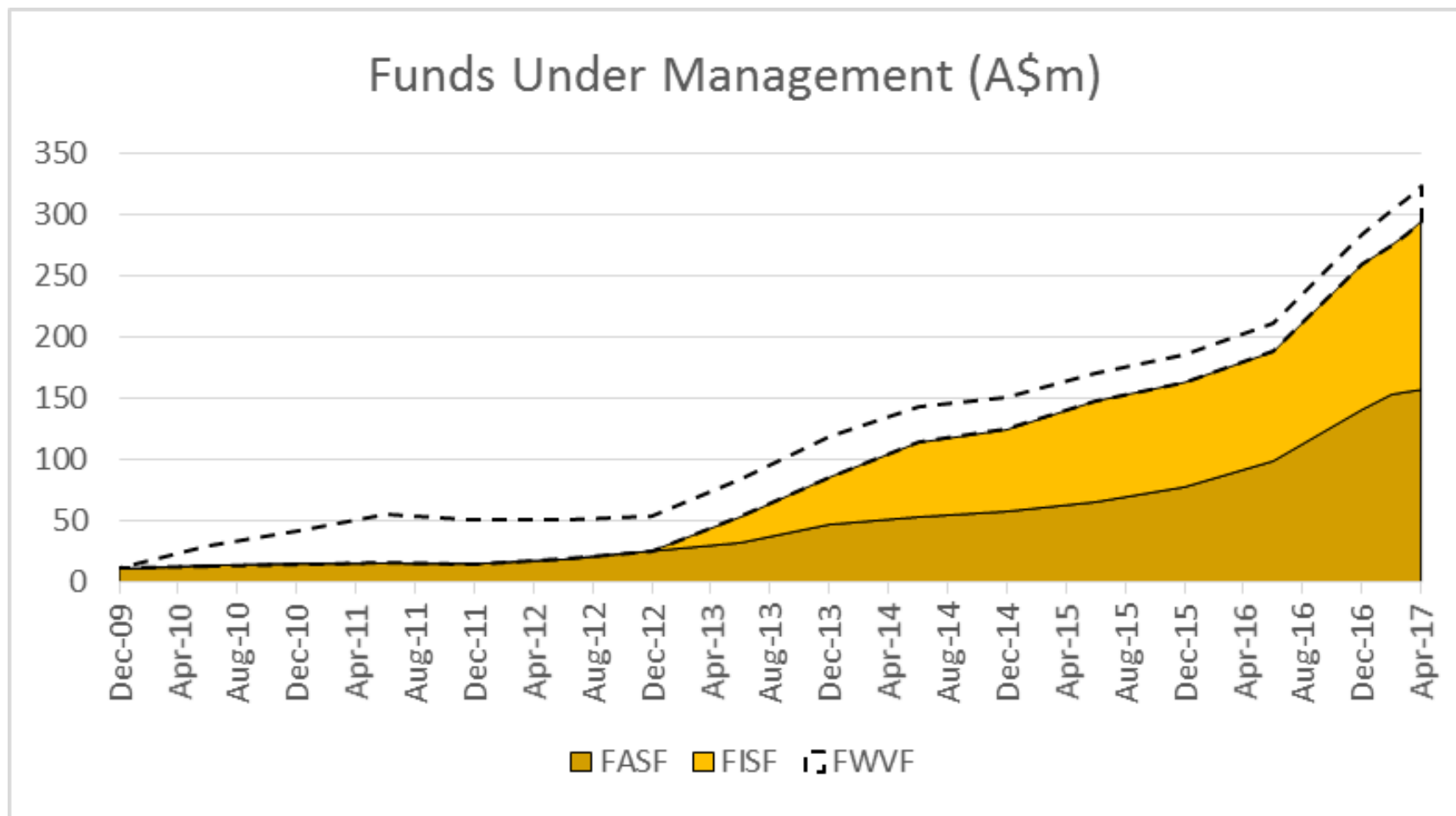
Finding opportunity in unlikely places

	FISF Forager International Shares Fund	FASF Forager Australian Shares Fund	FWVF Forager Wholesale Value Fund
Size	\$138.5m	\$156.8m	\$28.4m
Structure	Open, Unit Trust	Closed, ASX Listed "FOR"	Open, Unit Trust
Performance			
1 year	29.71%	19.49%	20.20%
2 year	15.95%	20.69%	22.90%
3 year (p.a.)	14.95%	17.99%	18.53%
5 year (p.a.)	N/A	20.45%	19.27%
Since inception (p.a.)*	18.84%	14.90%	9.67%
Inception date	8 February 2013	30 October 2009	2 September 2004

As at 30 April, after fees and fund expenses.

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Our business



- 1 Market update:
Opportunity and mitigating risks**
- 2 Basic concepts in value investing:
Our way at looking at the world**
- 3 Growth vs value:
looking beyond trends**
- 4 Questions**

Market Update: Opportunity and mitigating risks

1

Brexit / Trump
geopolitical risks

2

Rates / Inflation
Risks

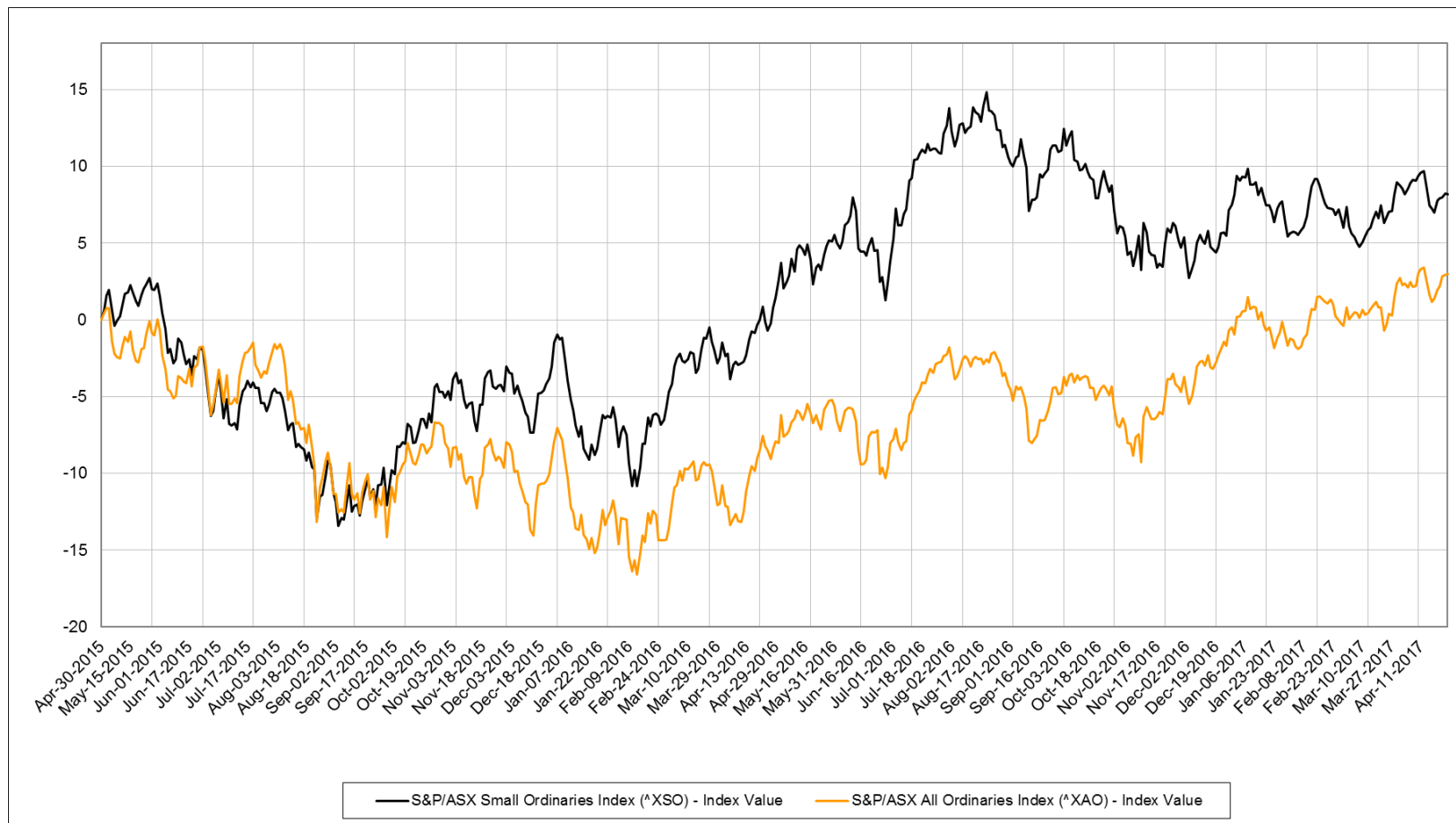
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Equity markets testing highs



- Pocket of distress are hard to find
- Patience has been well rewarded
- Market rout in small caps beginning to present opportunity

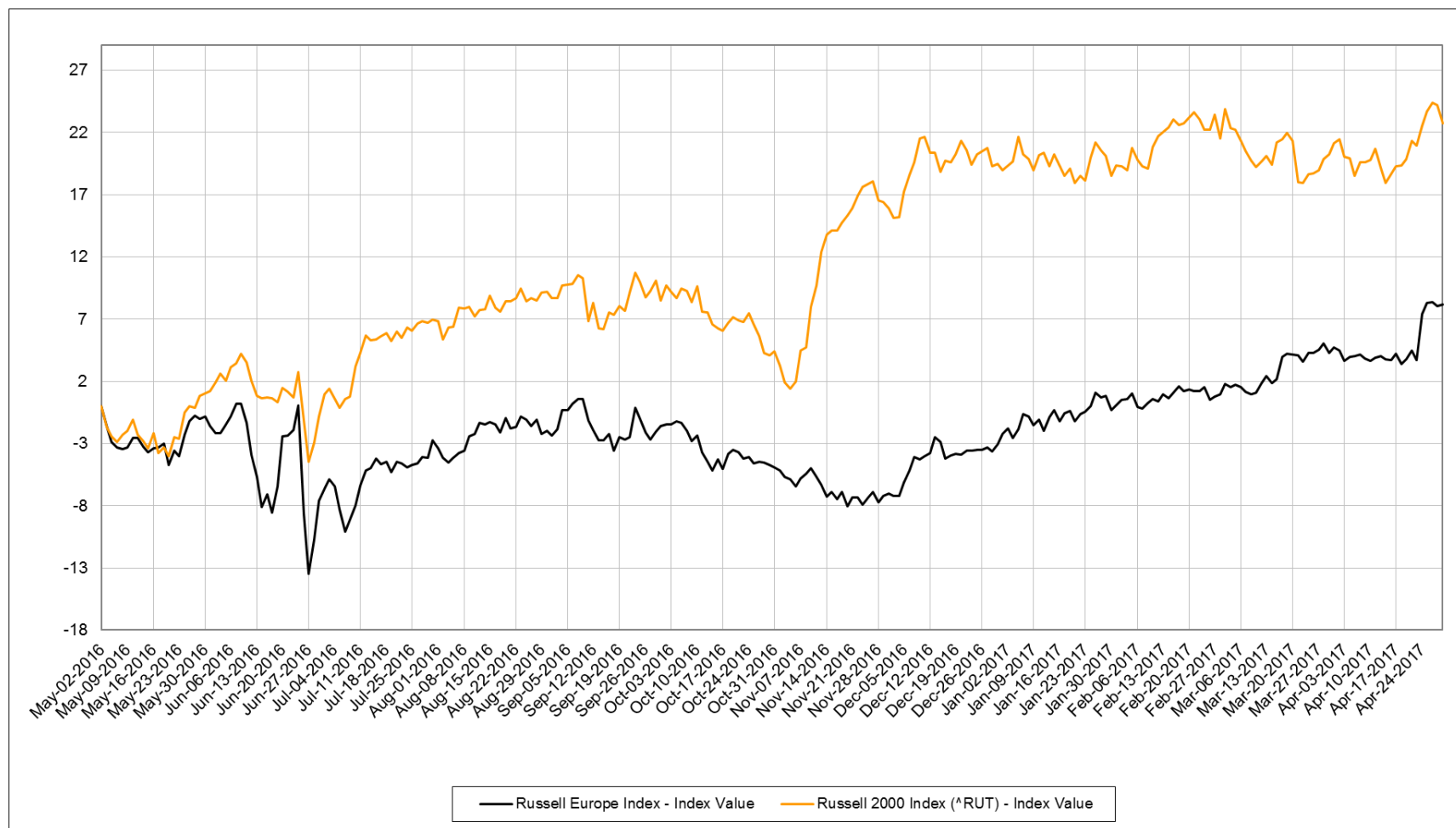
Levelling the playing field



But look at which companies have driven that...

Stock Index		Delta
		-6.8%
TEN	TEN NETWORK HOLDINGS	-83.8%
QIN	QUINTIS	-82.7%
VTG	VITA GROUP	-81.5%
TRS	REJECT SHOP /THE	-76.6%
CSV	CSG	-65.5%
DRM	DORAY MINERALS	-64.4%
SRX	SIRTEX MEDICAL	-61.7%
RCG	RCG CORP	-61.1%
IPD	IMPEDIMED	-58.6%
BAL	BELLAMY'S AUSTRALIA	-57.6%
NTC	NETCOMM WIRELESS	-49.4%
ISD	ISENTIA GROUP	-48.3%
AWE	AWE	-48.3%
BDR	BEADELL RESOURCES	-47.3%
OFX	OFX GROUP	-45.9%
DCN	DACIAN GOLD	-45.8%
MYX	MAYNE PHARMA GROUP	-44.5%
PRU	PERSEUS MINING	-43.6%
BBN	BABY BUNTING GROUP	-43.1%
APO	APN OUTDOOR GROUP	-42.1%
SYR	SYRAH RESOURCES	-42.0%
ACX	ACONEX	-41.3%
RSG	RESOLUTE MINING	-38.1%
EHE	ESTIA HEALTH	-37.0%
AQG	ALACER GOLD CORP-CDI	-36.9%
SAR	SARACEN MINERAL HOLDI	-36.6%
BKL	BLACKMORES	-36.4%
HT1	HERE, THERE AND EVERY	-34.4%
MYR	MYER HOLDINGS	-34.3%
VRL	VILLAGE ROADSHOW	-32.8%
CAB	CABCHARGE AUSTRALIA	-32.3%
GBT	GBST HOLDINGS	-32.2%
HFR	HIGHFIELD RESOURCES	-31.5%
WSA	WESTERN AREAS	-30.3%
SKT	SKY NETWORK TELEVISION	-29.9%
PTM	PLATINUM ASSET MANAG	-29.2%
SIV	SILVER CHEF	-28.8%
SCO	SCOTTISH PACIFIC GROUP	-28.0%

Levelling the playing field



Basic concepts in value investing: Our way at looking at the world

1

How much cash are you going to get?

2

When are you going to get it?

3

How sure are you?



- Investment is most intelligent when it is most business like
- Long-term focus on cashflows
- The value of any security is the cumulative cashflow it returns to its owner, discounted to today

Typical investing pitfalls



Suckers for the narrative fallacy



Overly optimistic growth projections



Failure to understand broader market limitations. Is it physically possible for this business to grow as much as you think?



Failure to understand competitive response. If high returns being earned, what stops the competition?



Liquidity issues

- Impact cost very high
- In some cases compete illiquidity
- Long time investment horizon



Failure to appreciate cultural differences in international markets



Too close to management narrative



We are willing to invest in (and attracted to) opportunities where the narrative is unappealing

- Stock
- Sector
- Whole market or geography

Focus on Forager's own competitive advantage as investors

- Under-researched
- Unloved
- Unique insight
- Our size



Risk Management

Focus on business bankruptcy risk

Avoiding concentration

- Stock weighting
- Sector
- Factor

Disciplined approach to portfolio management

- Position weighting
- Best ideas in

Growth vs value: looking beyond trends



Growth vs value: looking beyond trends

Largest 5 Holdings – Australian Fund

Stock	Weighting	Ticker	Description
Macmahon	9.65%	MAH	Mining contracting
Reckon	7.86%	RKN	Accounting software for retail and practice management
Cardno	7.16%	CDD	Engineering services
NZME	7.15%	NZM	Print and radio media in NZ
Service Stream	6.65%	SSM	Telecommunications and utilities infrastructure contractor

As at 30 April 2017



Australian Fund Idea Summaries



- Telco and utilities contractor recapitalised in 2013
- 7 consecutive halves of revenue and profit growth
- Locked in revenue growth in FY17 and FY18
- Excellent cash flow generation (2x old market cap in past 24 months)
- Tax-friendly capital returns



- Ugly duckling of the accounting software space (roughly one tenth the market cap of MYOB and Xero)
 - Well behind the curve with its cloud-based solution
 - Shareholder angst over cash investment
- BUT**
- Corp business probably worth the current market cap itself
 - Established user base is a huge asset
 - Targeting an interesting niche with Reckon One. We reckon 20% conversion rate makes for a very cheap business



- Mining contractor emerging from near death experience
- \$55m cash and no debt versus \$180m market cap
- Several long-term contracts with profitable gold miners in Australia and Indonesia
- New board and management team
- Significant scope for growth and shareholder returns
- Industry consolidation a necessity

Growth vs value: looking beyond trends

Largest 5 Holdings – International Fund

Stock	Weighting	Ticker	Description
Lotto24	6.07%	LO24 GR	Online retailer of state lottery tickets
Lloyds Banking Group	4.90%	LLOY LN	UK Retail Banking
JRP Group	4.72%	JRP LN	UK provider of medically underwritten annuities
Alphabet	4.66%	GOOG US	Online advertising, cloud storage and autonomous cars
El.En	4.59%	ELN IM	Global leader in surgical and aesthetic laser equipment

As at 30 April 2017



International Fund Idea Summaries



- Germany's largest independent retailer of lottery tickets
- Represents roughly one third of lottery tickets sold online in Germany
- Online growing and Lotto24's share of market growing too
- Marketing costs clouding underlying profitability of business
- Share price has tripled in the past few years, no longer a screaming bargain



- Global leader in medical and aesthetic laser equipment
- Premium brand, high R&D and superior products
- Growing market and growing market share
- Paid dividends, low PE ratio and a decade of consistent growth
- The only reason this business was so cheap was that it was listed in Italy



- UK's largest independent provider of annuities, specialising in medically underwritten
- Huge regulatory changes. Some negative, some positive
- Bought at half embedded value, still trading at a hefty discount
- Growth is capital intensive, mature business will be a cash generation machine
- This business can generate above average returns on capital for a long time to come

Questions