

Finding opportunity in unlikely places



Important information



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). 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 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

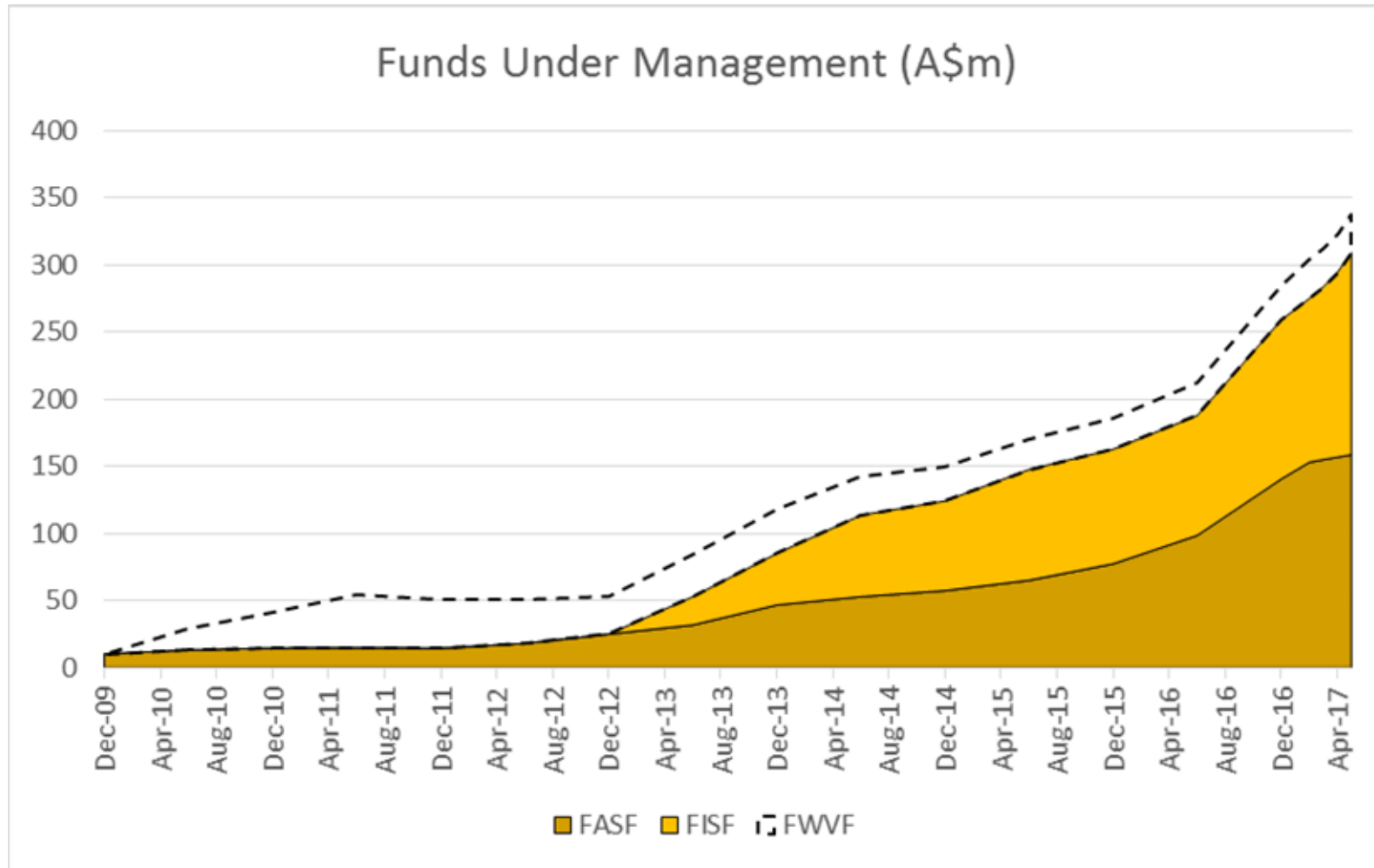


	FISF Forager International Shares Fund	FASF Forager Australian Shares Fund
Size	\$150.6m	\$158.6m
Structure	Open, Unit Trust	Closed, ASX Listed "FOR"
Performance*		
1 year	24.63%	19.07%
2 year (p.a.)	14.36%	19.53%
3 year (p.a.)	15.04%	17.94%
5 year (p.a.)	N/A	20.85%
Since inception (p.a.)	18.89%	14.89%
Inception date	8 February 2013	30 October 2009

As at 31 May 2017, after fees and fund expenses.

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Our business



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

Market Update: Opportunities

1

Brexit / Trump
/geopolitical risks

2

Rates / Inflation
Risks

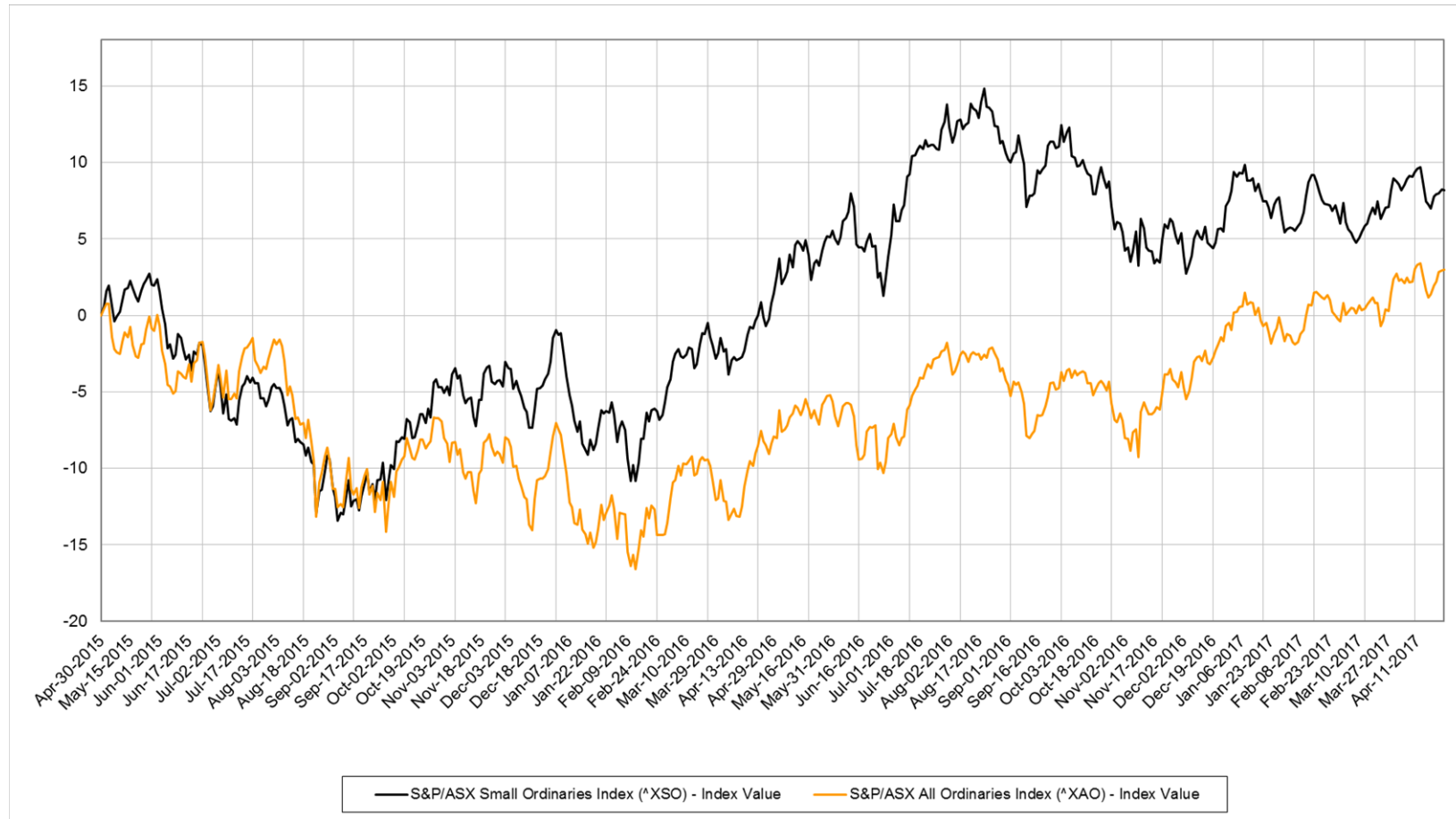
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Equity markets testing highs

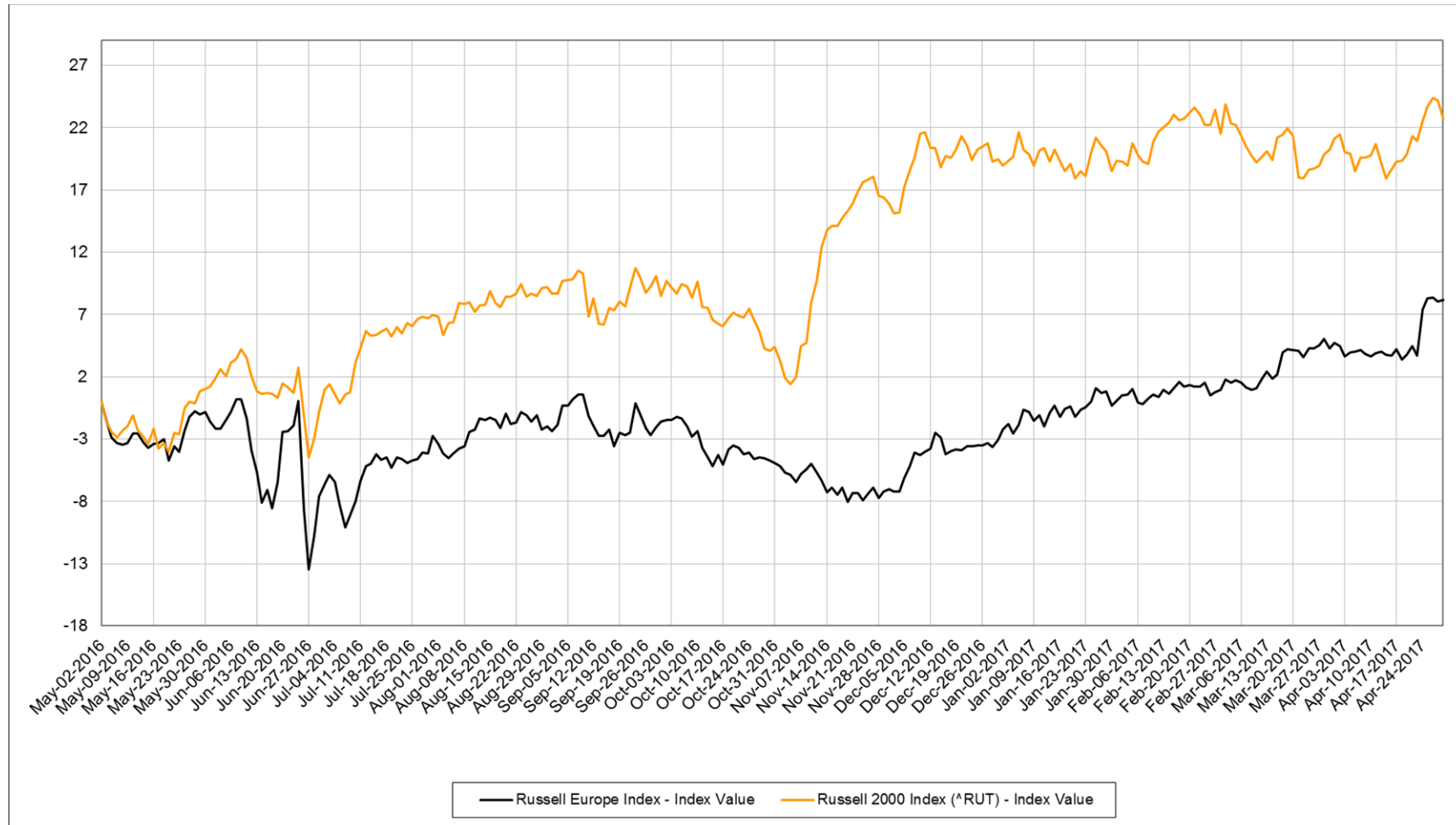


- Pocket of distress are hard to find
- Patience has been well rewarded
- Market rout in small caps beginning to present opportunity

Levelling the playing field



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



Typical small cap value investors



Over reliance on published asset backing



Over reliance on low earnings multiples



“It is hard to pay a low enough price for a business in decline”
– Charlie Munger



Focusing on what is in the company, rather than what is coming out

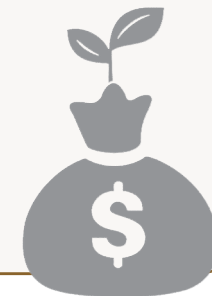


Under appreciation of costs of value realisation



International stocks

- FX
- Cultural differences with regards value realisation



Successful value investing requires a very particular mindset



Do you feel anxious when share prices fall?



Do your emotions cloud your ability to make rational decisions?



Do you struggle to think of a realistic downside when buying a stock?



Do you have the basic skills to understand a business and its financial statements?



A low-cost index fund or sensibly constructed portfolio of blue chip stocks will generate perfectly adequate returns over the long term

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

Focus on Forager's own competitive advantage as investors

- Under-researched
- Unloved
- Unique insight
- Identify the advantages you have and apply those

Risk Management

- Avoiding company bankruptcy
 - assess risk permanent loss of capital
- Disciplined approach to portfolio management



Growth vs value: looking beyond trends



Growth vs value: looking beyond trends

Largest 5 Holdings – Australian Fund

Stock	Weighting	Ticker	Description
Macmahon	9.22%	MAH	Mining contracting
Reckon	8.65%	RKN	Accounting software for retail and practice management
Enero	7.44%	EGG	Marketing and communications
Service Stream	7.21%	SSM	Telecommunications and utilities infrastructure contractor
NZME	6.50%	NZM	Print and radio media in NZ

As at 31 May 2017



Growth vs value: looking beyond trends

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
Just Group	5.85%	JRP LN	UK provider of medically underwritten annuities
Lotto24	5.31%	LO24 GR	Online retailer of state lottery tickets
Lloyds Banking Group	4.94%	LLOY LN	UK Retail banking
Alphabet	4.55%	GOOG US	Online advertising, cloud storage and autonomous cars
Cementir	3.30%	CEM IM	Cement and concrete manufacturer

As at 31 May 2017

JUST.



Alphabet

cementirholding
GRUPPO CALTAGIRONE

Growth vs value: looking beyond trends

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
- Recent profit taking has seen the stock lose its top 5 status



- 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

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Questions
